

THE LONG MARCH OF ITALIAN COMMUNISTS FROM REVOLUTION TO NEOLIBERALISM: A RETROSPECTIVE ASSESSMENT¹

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My opinions may have changed, but not the fact that I am right.
Ashleigh Brilliant

Now that the main successor of the Italian Communist Party has merged with one of the two main streams of the Italian Post-Christian Democrats to form the *Partito Democratico* it may be time to look back to the post-war history of the Italian Communists, and to the different roles performed by them in the different periods of post-war Italian economic and political life, retracing the path that has led from their original revolutionary ideology to the recent dissolution of their main successor party into a new political identity that is to some extent antithetic to the original political stance.

1. *The Communists in Italy's post-war political and economic life, until the end of the Eighties*

1.1 *The Italian Communist Party as an opposition party, until the end of the sixties*

The Italian Communist Party was born in 1921 as an emanation of the Third International and did follow the fate of the international Communist movement in the pre-war and early post-war years. There are a lot of distinguos by sympathetic historians as to the peculiarities of the party and the distancing itself from the policies of the international Communist movement. However, the emphasized specificity of the party may have amounted more to matters of tactics and to a realistic adaptation to a specific national context rather than to a real differentiation in long-run political objectives. Realism and the directives coming from Moscow alike (as borne out by a number of

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documents made available from Russian archives in the nineties),² prompted the Communist leadership in the post-war period to a policy of sometimes vigorous, but by and large constitutional opposition, while trying to avoid a repetition of the disastrous Greek experience of insurgency³. The legality of the opposition,⁴ and later a good deal of cooperation in the running of the political system,⁵ was instrumental in forestalling the tendencies towards violent extra-constitutional solutions leading to the suppression of the opposition and the instauration of an authoritarian, possibly military, government. This authoritarian option was never ruled out by sections of the political establishment, and their foreign supporters in the NATO alliance, almost until the fall of the Berlin Wall.⁶

In the above we can see instances of two features that have characterized post-war Communist activity in Italy. The first is the shadow of the international experience of other Communist parties outside the Communist block, the other the awareness of the strict limits to the activity of the Party given by the international position of Italy, and the all-present danger to repeat the more tragic aspects of that experience. Togliatti was settling for the least of possible evils, seen from his viewpoint, by accepting the rules of a representative democratic system. He knew quite well what the price for not accepting those rules would have been, as well as that the existing constitutional rules would have not hindered the Party in the least from taking power and establishing a people's democracy along Central European lines, had a favourable historical situation arisen.⁷ Besides Greece, Allende's fate in 1973 provides another paramount experience inducing the Italian Communist Party to a further twist towards cooperation with other political forces, in order to minimize the danger of a similar tragedy on the Italian soil.⁸ The persecution of Communists in a

²See E. AGA-ROSSI, V. ZASLAVSKY, *Togliatti e Stalin: il PCI e la politica estera staliniana negli archivi di Mosca*, Bologna, Il Mulino, 1997.

³For the importance of Greek experience on the stand of the Italian Communist party, see G. GALLI, *Storia del Partito Comunista Italiano*, Milano, Edizioni il Formichiere, 1976, pp. 248-49.

⁴During the period when the organization of the Party was under the leadership of Pietro Secchia (1948-55) some preparation for a possible insurgency was made and a kind of clandestine military organization was put into place, both in a defensive perspective against the possibility of a non-constitutional repression against the PCI, and, presumably, in an offensive one in case the international situation were to change (for instance in case of an European war, or of NATO disintegration). The existence of this organization did not bring about violent extra-constitutional activities; however it could have discouraged any idea of an authoritarian turn against the Communists, as it made the perspective of a repression much more costly.

⁵This cooperation dates back at least to the mid fifties. In the fifties Communist votes were decisive for electing the president of the Republic (Gronchi), and members of the Constitutional Court (1955/56). According to SALVATORE VASSALLO (*Il governo di partito in Italia (1943-1993)*, Bologna, Il Mulino, 1994, pp. 152-153), in the twenty years from 1948 to 1968 on average the PCI voted in favour of 74% of the laws which were approved. Seen from another viewpoint, this means that in all these laws there was something which the Party approved of.

⁶As borne out, among others, by the evidence of the P2 and Gladio affairs, in particular.

⁷The continuous celebration of the model of economic and political organization of the Soviet Union and of people's democracies was compatible with an inner political agenda of this kind.

⁸In the Fall of 1973 Berlinguer, then general secretary of PCI, expressed his reflections on the lessons of the Allende experiment in an essay published in the authoritative ideological journal of the party, "Rinascita" (*Riflessioni sull' Italia dopo i fatti del Cile*). The final section concluded with an explicit reference to the urgency of a political compromise "between the forces which represent the majority of the Italian people", in order to forestall reactionary authoritarian solutions of the Chilean type ("La Repubblica", 11/9/98, p. 41).

number of countries could have had a similar impact, in a period when important sections of the American establishment favoured the instauration of repressive regimes against constitutional legality in countries, such as Greece (1967-1975), with a strong Communist Party and an unstable social and political structure, to which Italy in some ways could be compared.

Otherwise the Communist Party was performing a very important function in organizing and keeping under control the disruptive forces that were pressing, from the underbelly of an inegalitarian and still half-underdeveloped society, towards a revolutionary and violent overturn of the existing social and political order. Its behaviour was in some way contradictory and not devoid of ambiguity. On the one hand the Party was enflaming its supporters with revolutionary slogans and perspectives, enhanced by the exaltation of foreign revolutionary examples (liberation struggles in the Third World, later Vietnam) and the recollection of revolutionary violence in the war against the Northern Fascist regime and the occupying German forces (*Resistenza*). On the other it was realistically taking into consideration the impossibility of fulfilling those slogans and perspectives, in the immediate future, at least. Thus it would subdue to its organization and keep under control potentially revolutionary and violent social forces, which were made unable to disrupt the social and political climate, to the extent they could and would had nobody held them in check through the organizational power of the Party, and the hope and sense of identity bred by a revolutionary eschatological view of the future. In a sense the role of the Party was symmetrical to that of the Catholic Church, which in the whole of the post-war period, in face of the perceived deadly menace of Communism, was very active in conjuring political support for the governing Christian Democrats, and for social and economic discipline.⁹ The latter was also favoured by a strict control of the media (in particular radio and later television), and of public order.

Thanks to the overall social and political climate Italy's economy enjoyed moderation in the development of money wages. This ensured a long and fruitful period of steady growth, accompanied by monetary stability and fast growth of employment. Thus the Italian economy and civil society were able to progress, consolidating the position of Italy as an industrial power, co-founder in 1957 of the European Economic Community.

Important aspects of social policy, continuing in large measure the social policies of the Fascist period, such as the social insurance system, the value *erga omnes* of collective agreements between representative organizations of employers and employees, and large scale programmes of council house construction, were used to grant to the toiling masses some measure of social protection and to forestall the destabilizing effects of Communist propaganda. The latter was directed at extolling the achievements of Soviet-type economies and societies and to stimulate workers' claims concerning wages and social conditions, as well as the enlargement of the sphere of state intervention. These aspects of the Communists' stand found some echo in the left wings of the ruling parties, and especially, once the centre parties coalition was substituted by a centre-left one in 1962, in the Socialist Party, until then, as an ally of the Communists, at the opposition. Notwithstanding the proclaimed onset of planning (which by and large remained on paper) and some striking measures, such as the nationalization of electricity producing companies and the attribution to the state of the monopoly of electricity production and distribution, the political change did not bring immediate far-reaching consequences. A profound change occurred however at the end of the sixties, when the previous *modus vivendi* broke down. A new generation came to the fore, which had not known the horrors of the war and lacked the vivid recollection of the deprivations of the immediate post-war period, and therefore bred high expectations. On the one hand they wanted to immediately attain the living standards of the better off, and of the masses in

⁹The opposite but symmetric function of the Party and the Church in maintaining public order and organizing consensus is reflected in the contemporary savoury novels of Giovanni Guareschi on the diatribes and opposite schemes of his two main characters, Don Camillo and Peppone.

more advanced and prosperous countries, disrupting with a break-down of industrial relations (*Autunno Caldo*, "Hot Autumn", of 1969) the non-inflationary progress of the Italian economy. On the other some of them wanted to put into practice the revolutionary teaching of the Communist Party. Would-be-revolutionaries or simple trouble seekers got tired of waiting for a revolution that was always proclaimed and celebrated with fervour whenever happened somewhere else, especially if it fostered the geopolitical interests of the big Soviet brother (even bloody and corrupt regimes such as Idi Amin's in Uganda and Mengistu's in Ethiopia were hailed as "revolutionary" in the Communist press) but was postponed, at home, for the indefinite future.

The change of climate at the end of the sixties found its counterpart in disruptive economic measures favoured by the Left in general, and in particular by the Italian Communist Party (which was growing more and more as an important part of the political establishment), such as the abolition of the differentiation of base statutory wage rates set in collective agreements (*gabbie salariali*) in 1969, which contributed to the worsening of the occupational problem of the South.¹⁰ Owing to the changed social and political climate the government often intervened in collective negotiations, in its mediating capability, taking the employees' side against wage moderation. The result was a wage explosion that resulted in increased inflation, lower investment and larger unemployment, but also in a dramatic reshuffling of income distribution, in favour of workers and employees and in an egalitarian direction.

1.2 *The gradual transformation of the Communist Party in the role of a truly constitutional opposition, and its sharing of power*

As far as their political stand is concerned, the Italian Communist leadership was learning from experience. We have seen that Allende's experience was important for understanding the dangers associated with the taking of power in the face of high expectations for demagogic policies by left-wing supporters, and high American hostility and likely destabilization. Moreover there was by then an ingrained tradition in the acceptance of a realistic de-facto *modus vivendi* with other political forces. The de facto repudiation of any tendency towards revolutionary action, and the apparent unreserved acceptance of parliamentary democracy, both in the short as in the long run, was sealed by the uncompromising stand eventually taken (after some initial indulgence) against violent action by extra-parliamentary left-wing groups, and then against the Red Brigades. In this connection the widespread experience of the Communists in administering local authorities in the whole of the post-war period should not be underrated, as providing a contributory factor to their democratic maturation. In the seventies, with the *compromesso storico* ("historical compromise") the Communist Party, notwithstanding some demagogic and populist drives, seemingly accepted to play as a loyal component of the constitutional parliamentary system, and even, in some occasions, declared to accept the international place of Italy in the Western camp.¹¹ However, important

¹⁰Until 1970 the differential in the rate of employment between South and North was diminishing, since 1970 was increasing. (Cf. V. DANIELE, *Divari di sviluppo e convergenza regionale in Italia: un esame per il periodo 1960-1998*, Università degli studi Magna Graecia di Catanzaro. Dipartimento di Diritto dell'organizzazione pubblica, Economia e Società, Working Paper 09/2002, p. 16.)

¹¹The loosening of the ties with the international Communist movement, which had already a significant expression in the critical stand taken by the majority of the party towards the Warsaw pact invasion of Czechoslovakia in 1968, went as far as Berlinguer's statement in a TV transmission, which I watched at the time, that "Socialism could better be built under the NATO umbrella".

forces inside, but also outside, Italy, infiltrating sections of the army, police, and especially secret services and structures of the NATO alliance, were not ready to accept the Communist Party as a national government force. In order to avoid its entry into the government they were ready to destabilize the country through the obscure and bloody means of the *strategia della tensione*, inaugurated in 1969, in the wake of the social disturbances of the late sixties, apparently in order to prepare the way to an authoritarian takeover, which however did not eventually occur. Even the Red Brigades' kidnapping of Moro (1978), the man who was working for the accession of the Communists to the government, which still now presents some unexplained odd circumstances, could have been favoured, or masterminded, according to some interpretation, by the same forces.¹²

Indeed, notwithstanding the important part the Communists were increasingly taking in the running of the political system,¹³ there was a kind of consensus that it would be too dangerous to allow them to take government posts. Even in the times of the *Compromesso Storico* and of national solidarity governments, which were supported by a majority extending to the Communists, no member of the Party did eventually take government responsibility. The first time members of the Party were able to acquire ministerial posts, after they were evicted from the government of the country by De Gasperi in 1947, was briefly in April 1993 with the Ciampi government, but by that date the Party had changed its name.

The process of learning from experience went far enough to eventually understand the negative consequences of state ownership and direct intervention under Italian conditions, and of the negative consequences of the populist policies originally advocated by the Italian Communist Party itself. By then the Wall had fallen, the Iron Curtain had melted away, and the bulk of the former Communist Party, transformed into the Post-Communist PDS¹⁴ in 1990, was ready to play an active role in government. Its support for the austerity policy of the Prodi government allowed the fulfilment of the economic conditions (in particular the reduction of the official budget deficit below 3% in 1997) that allowed Italy to join the European single currency system from its start in January 1999.¹⁵

1.3 *The crisis of the Italian welfare state and of Italian public finances.*

¹²This does not mean that Red Brigade leaders were themselves knowing agents of some obscure reactionary agenda (as was pretended, adhering to the traditional habits of double-talk and disinformation, by the Communist Party propaganda at the time). Had they been, they would have been killed or remained free. In reality most of them endured long prison sentences.

¹³From 1971 to 1987 no law could in practice be approved against the strong will of the opposition. According to Lower Chamber regulations introduced in 1971 as a guarantee to the opposition (but sanctioning previous modes of behaviour), the agenda of the Chamber had to be approved unanimously by all parliamentary groups. In theory, in case of disagreement the matter could have been referred to the general assembly. In practice, however, any strong group was put in the position to effectively paralyze the work of the Chamber. In 1987 the system was changed, after a bitter confrontation, attributing the decisive say to the chairman of the Chamber. It should be added that from 1972 to 1994 the elected chairman of the lower Chamber was a member of the Communist party.

¹⁴*Partito Democratico della Sinistra* ("Democratic Party of the Left"), DS ("Left Democrats" since 1998). An important minority group choose to continue to call themselves Communists, founding the *Partito di Rifondazione Comunista*.

¹⁵The finance minister of the Prodi government, Vincenzo Visco, a PDS member, was particularly successful in achieving a marked increase of the overall fiscal revenues.

Facing the social turbulence and instability of the late sixties and of the seventies, political forces resorted to the usual actions of weak governments facing irreconcilable social demands and incompatible claims on the distribution of national income, leading to inflation of nominal incomes, as well as of nominal wealth as a consequence of the massive increase of the public debt. This development was conjured by the discarding of the economic views dominating the action of the centrist governments of the first post-war period, that development should at best take place in a framework of “sound” finance and stability of the currency, and that government should keep its hands off from the daily running of industry in general, and of state industry in particular. The new view, which took shape in the sixties, was advocating Keynesian management of aggregate demand and direct intervention in the running of industry, in the framework of national and regional planning, as well as the implementation of industrial policies.¹⁶ It is obvious that this view was also closer to the ideological viewpoint of the Communist Party and could have favoured its organic insertion in the national political process. The outcome was a set of policies focused at creating consensus by giving in to the different claims coming from different sections of society. Rank and file workers and employees, through the introduction of the *punto unico di contingenza* (according to which the reintegration of nominal wages to offset inflation was equal in absolute terms for everybody: a powerful egalitarian mechanism), and political support in industrial disputes. State employees, through wage raises and increases in their number and in their privileges, such as, in particular, the possibility of (very) early retirement. The ruling parties apparatuses, through appointments in state industries and various quasi-state bureaucracies. Local interests, through the implementation of regional self-government, and of the corresponding bureaucracies, as well as through the political direction of the state industry, often leading to initiatives, especially in the South, that were unviable in the long-run. The ultimate folly of building a great steelworks factory in Gioia Tauro, in the name of import substitution and job creation, in a period in which the world crisis of the steel industry was already looming,¹⁷ was averted at the very last minute, after the devastation of the Gioia Tauro plain, a prosperous agricultural area, notwithstanding the vocal opposition of powerful political forces, the Communist Party included, that wanted the plant to be completed at all costs.

Many a waste and folly were accomplished in the South, through the de facto alliance of various political forces. The Christian Democrats and the Socialists in particular were viewing direct state, or state subsidized, industrial investments as a way to gratify and enlarge local clienteles, and as a source of influence and illegal financial support. The Communists were ideologically much in favour of direct state investments and intervention anyway. Moreover they would see industrial investment leading to increased industrial employment as a means to enlarge their own constituency.

The generous distribution of fake disability pensions was both a system of facing the social problems of unemployment and destitution in the South, as well as a means of building up personal support for intervening politicians. This applied also to the enlargement of public employment, in particular in the railways and postal services (one of the most sought after ministerial posts was always the Post and Telecommunications Ministry). The costs of inflation were supported mainly

¹⁶For an eloquent representation of the new view at the time see for instance Francesco Forte's influential book of 1964 (*Introduzione alla politica economica. Il mercato e i piani*, Torino: Einaudi, 1964).

¹⁷The formal decision by CIPE (the Inter-ministerial Committee for Economic Planning) to build the steelworks was taken in April 1974, after the first oil shock.

by savers through negative real rates of interest. A set of strict exchange controls and stiff penalties for capital exporters were set in place, which however could not avoid massive capital flights.¹⁸

The eighties were marked by two important developments. The first was the end of the *Compromesso Storico*. The position of the Socialists with Craxi secretary (since 1976) was of complete disenfranchisement from Communist influence, reversing the ambiguous and somewhat subordinate position, marked by a kind of inferiority complex towards the Communists, in the years before. During the period of *Compromesso Storico* Craxi kept clearly distinct his political stand from that of the Communists, in particular during Moro's kidnapping, when he was in favour of bargaining with the Red Brigades, while the Communists were staunchly against. After the poor show of the Communist Party at the general elections of 1979, the new government was not supported by the Communists any more. With the pronouncement of the Christian Democrats at their national conference of 1980, excluding any future alliance with the Communists, the period of *Compromesso Storico* was finally over.¹⁹ However, the insertion of the Communists in the political establishment and in the structure of political power, especially at the local level, did continue.

Another important development was the continuance of the budget deficit policy of the seventies, in a profoundly changed international context which did not allow the maintenance of negative real interest rates any more. Of great importance was also the so-called "divorce" between the Bank of Italy (which had previously de facto guaranteed the financing of budgetary deficits through direct or indirect money creation, if the need arose) and the Treasury. In the new institutional set-up (which dates back to 1981, but which was eventually perfected in 1993, adopting in full the European Union regulations²⁰) this type of subordination was discontinued. As a consequence, deficit financing did not result in the rate of inflation getting out of control (in the years 1979-1990 the average rate of inflation was 10.6%, down from the 16.1% of the period 1973-1979), notwithstanding budget deficits to the tune of more than 6% of GDP (in fact they were higher than in the seventies because of the cumulative effects of debt service), but the real rate of interest shot to positive levels (the short-run real interest rate was 3.5% on average in the period 1981-90)²¹, making the policy of persistent deficit spending unsustainable in the long run. At the same time political corruption, which had developed in the sixties and seventies, involving more or less all parties, but in particular the Christian Democrats and the Socialists, reached its acme in the eighties. The Socialists under Craxi had developed a conception of political life according to which votes could be wooed through expenditure in party organization and propaganda, and in its turn votes, through corruption and political influence, would result in acquisition of financial resources. Paraphrasing the title of a famous book by an Italian economist, we may synthesize this conception as "production of votes through money and production of money through votes". The model was applied to an increasing unsustainable extent, in particular both by the Socialists and Christian Democrats. The minor parties of the so-called *arco costituzionale*²² were also part of the system, with a degree of connivance, and participation at the level of local administrations, by the Communists. Apparently the only ones left out in the cold were the neo-Fascists, and, in the initial

¹⁸Capital flights allegedly included assets of those who had imposed the penalties in the first place (ruling political elite and political parties) as is borne out from the "lista dei cinquecento" affair (a secret list of five-hundred VIPs receiving specially favourable treatment with the complicity of Italian monetary authorities).

¹⁹Cfr. S. ROSSI, *La politica economica italiana 1968-1998*, Bari, Laterza 1998, p. 166.

²⁰Ibidem, p. 111.

²¹*Enciclopedia dell' Economia Garzanti*, Milano, Garzanti, 1992, pp. 1253-1254.

²²"Constitutional arc", the set of parties that were recognizing themselves in constitutional values; the neo-Fascists, obviously, were excluded.

phase of its activity, the Northern League, which later on, having got some levers of local power, became also embroiled in corruption episodes. In many cases, especially involving government parties, corruption money was used not only for financing the party but also for personal enrichment. Particularly blatant was in this respect the behaviour of some Socialist leaders and their co-workers. A backlash had to develop sooner or later, and eventually led to the fall of the system.

In order to understand the change of Italian public opinion, which had de facto been tolerant of political corruption for a long time, one should take into consideration that political corruption is not only a matter of distribution of political influence and wealth. It is also wasteful for what we may dub the corruption multiplier, by which the social damages of corruption are a multiple of the sum acquired through it. First of all there are the transaction costs, the secrecy, the risk premium to be paid to accomplices. Secondly, the efficacy of administrative and political action is hampered, as are the rules of competition. The thriving competitors are not the most effective in production, but the most effective in oiling politicians and bureaucrats. Thirdly, if the main objective of political and administrative action becomes the revenue of corruption, as to some extent seemed to be the case in Italy towards the end of the eighties, the nature of public expenditure is affected. The quality and efficacy of interventions are not given the attention they require, moreover the interventions that are privileged are those that produce the highest corruption revenue, independently of their merits. There were many anecdotes of public works, especially in the South, and especially in the period of high corruption of the second half of the eighties, resulting in bridges without roads, in roads leading nowhere, in unfinished hospitals, etc. Corruption money was not simply an instrument of power, but had become an end in itself. According to common opinion, towards the end of the eighties corruption had reached levels never experienced before.

2 Crisis and reconstruction: the role of the Post-Communists as a government force

2.1 The forced end of a political regime and of a consensus system.

The fall of the Wall was not of fundamental importance in this respect, since the building up of the crisis was already ripe, even if it was probably of fundamental importance in allowing the Communists (however post-) to acquire eventually government responsibilities.

The crisis exploded in 1992, as the determination of the Milan judiciary and the support of public opinion, which had become sick and tired of the extent of corruption, nullified the usual system of displacing the proceedings in cases of political corruption, as well as all politically sensitive proceedings, to Rome through various callous means, with the complicity of the high echelons of the judiciary, and in particular of the Supreme Court (*Corte di Cassazione*). In Rome a corrupt judiciary, colluded with political power, was taking care of stopping them, until eventually the crimes could not be prosecuted any more because of the statute of limitations.

At the same time, because of the explosion of public debt, the system of using large budget deficits for providing the means for maintaining consensus through public expenditure was not available any more, as an increasingly larger chunk of public expenditure was needed for servicing the debt. The crunch came in the Summer 1992, when the Lira went under attack and was eventually compelled to float, leaving the European exchange mechanism; the rate of interest on state bonds exceeded 16%, in presence of an inflation rate of about 5%²³. Only the draconian

²³The implicit deflator of GNP for 1992 was 4.7%. (Cf. M. ARCELLI, S. MICOSI, *La politica economica negli anni ottanta (e nei primi anni novanta)*, in "Economia Italiana", n. 1/2, 1997, special issue on "Storia, Economia e Società in Italia 1947-1997", p. 352) while the rate of interest

financial measures taken by the Amato government (supported by the traditional Centre-Left coalition, but opposed by the Left, and in particular by the Post-Communists of PDS) in September saved the day and avoided financial collapse.

Already at the beginning of the nineties it could be understood that the state could not honour in the long run the claims of its creditors and at the same time the ingrained expectations of the public. Now, the claimants were mainly of two kinds: 1. the holders of the state financial debt; 2. those entitled to pension claims, according to then existing legislation. There were also some additional implicit claims, or expectations, such as to the continuance of the especially favourable treatment of specific categories of the population: surplus employment of loss-making state enterprises, lax working conditions of state employees, specific social measures (*cassa integrazione guadagni, indennità di disoccupazione speciale*) in favour of workers affected by layoffs of big firms, leading to a replacement rate of up to 80% for quite a number of years, fake invalidity pensions, widespread especially in the South. Calls were advanced for repudiating the state debt, in one form or another, proposals that obviously contributed to make more onerous servicing the debt in the short run. These proposals were not heeded, however, because of the likely consequences for the credit-worthiness of the Italian state in the subsequent period, for social peace, owing to the widespread holding of bonds by Italian families, and because they would have gone against the basic tenets of the economic constitution of contemporary industrial democracies, making of Italy a pariah among them and putting Italy's membership of the European Union at risk. The inevitable outcome of this decision was the need to create a primary budgetary surplus on the one hand and to deceive some of the expectations mentioned before, as well as to revise the rather extravagant pension rules, on the other. The formation of those rules in the previous years was prompted by trade union pressure, left-wing demagogy and search for electoral support by government parties (in particular by the Christian Democrats). At the time a rather curious viewpoint prevailed, according to which the number of jobs was in some way given. (This viewpoint seems to have been left as a distinctive heritage from the old PCI to the *Rifondazione* Communists, who were making of the reduction of the working week to 35 hours, with unchanged remuneration, supposed to increase employment through work-sharing, a crucial point in their economic programme. They even succeeded to force this measure as a commitment on the Prodi government in 1997, as a condition for supporting the law of the budget.) Retirement by active workers was encouraged, especially in public employment, since their jobs were supposed to be passed over to somebody else, correspondingly reducing the number of the unemployed. It was a specific instance of the fixed quantity fallacy, often held in the left-wing circles, according to which quantities (in particular the number of jobs) are fixed irrespective of price (wages, in the labour market) and of other relevant circumstances.²⁴ The so called "baby pensions" system of public employment allowed

on state bonds with a year maturity reached 17.79% in October 1992 (source: http://www.bancaditalia.it/pol_mon_merc/tit_stato/tassi_int/bot_ann).

²⁴Such as those affecting supply of entrepreneurship. In a sense demand for labour is tantamount to supply of entrepreneurship, which by no means can be taken as given. One can be born rich, but to become an entrepreneur, instead of a rentier or an employee, is a specific choice. If conditions are made too strict for entrepreneurs, in the name of class struggle, and the position of entrepreneurs in society worsens, because "profit" is assimilated to "speculation" as a source of unclean incomes in the eyes of public opinion, as it became the case in Italy, this may eventually turn to the disadvantage of workers, unless the state supplies the missing entrepreneurship. But experience has shown that the state on the whole is a poor entrepreneur. Another tragic instance of the fallacy of the independence of quantity on price is the belief that the supply of rented dwellings is independent of the legally imposed conditions of tenancy. This belief has led in many a country (Italy in particular) to unrealistic rent control regulations, bringing about the rarefaction or disappearance of

retirement after sixteen years and six months of service only (even less for women). Retired state employees would then receive a pension for life. At difference with private savers, who could sell their bonds and send their money abroad, pensioners or even prospective pensioners could not emigrate for getting paid better pensions elsewhere. However, they could retire, before the new intended legislation restricting the rights of would-be pensioners came into effect. Lack of resolution in implementing a realistic and long run sustainable pension reform led to a worsening of the problem of financing the pension system, since scores of workers (and especially of state employees) accelerated their retirement every time a reform of the pension system that involved a postponement of the minimum retirement age was in sight. A first attempt by Amato (1992) to reduce prospective pension claims and increase retirement age failed to be decisive, in particular because of the stubborn defence of the privileges of state employees by the Christian Democrat Minister of Labour Cristofori (of the Andreotti fraction). A far-reaching pension reform was attempted by the Berlusconi government in 1994, but failed because of widespread opposition by trade unions, who organized a successful general strike, and widespread opposition by political forces (the Post-Communists in particular), which eventually led, with the defection of the Northern League, to the fall of the government.²⁵

The reform eventually approved under the Dini government, which succeeded Berlusconi's and was supported by the Post-Communists, brought about a restriction of pension rights and an increase in the retirement age so as to curb the expansion of pension expenditures and the brake it constituted for the economy. It somewhat redressed the situation, but was still far away, according to experts, from what was needed, considering the state of public finances and prospective demographic trends.

2.2 The change in Italian society and in the support for the Left

Partly the change in policy and ideology by the Communists and then by the Post-Communists was the outcome, not only of past experience, but of a drastic change in Italian society. The relative importance of industrial employment, which formed traditionally the basic source of support for the parties of the Left, did gradually shrink, while employment in the services did greatly increase. The traditional "working class", the class of manual labourers, in whose name Marxist parties have claimed power in the past, has become a relatively unimportant minority section of Italian society. The same applies to "proletarians", destitute workers with no significant wealth. Partly these changes have been the natural outcome of economic development, partly however were accelerated by the policies once vigorously advocated by the Left, and thanks to the advocacy and support of the Left (the Communist Party and the Italian Trade Union movement in

dwelling put to rent, as well as the degradation of rented urban spaces. The consequences have been great suffering for the class of (especially would be) tenants, and hindrance to geographic labour mobility, with adverse consequences on productivity and employment.

²⁵Italian Trade Unions strongly resisted proposals of reforming the pension system, and any redistributive measure aiming to reduce the privileges (such as undiminished cumulative treatments) of pensioners. Their reluctant acceptance of the Dini government pension reform was due to the insertion of discriminatory clauses (such as the maintenance of the more favourable pay-as-you-go system) for workers with 18 years seniority and more, who were making up the bulk of trade union membership, as well as to the different political basis of the Dini government, involving left-wing support.

particular) adopted by governments and the legislature.²⁶ Indeed, some of the policies of the Left, which were implemented under the impact of the progressive weakening of Centre and Centre-Right forces, and then, in the seventies, in the framework of the *Compromesso Storico*, have been self-defeating in the long run for the political interests of their advocates.²⁷ The exceedingly myopic and demagogic measures of rent control nearly destroyed (in particular since the approval of the *equo canone*, in 1978) the market for rented dwellings, contributing to the attainment of a particularly high home ownership rate (only 22,8% of families were living in a rented home by 1995).²⁸ Real estate ownership in turn does not seem to be particularly favourable as a contributing factor for being ideologically oriented to, and voting for, the Left. The measures leading to a marked increase in workers' rights, and in the cost of labour for large enterprises in the official economy, from which very small enterprises were exempt (*Statuto dei Lavoratori*, May 1970), resulted in a reduction of the employment provided by large firms, and in an increase of the relative weight of small firms and of self-employment in the Italian productive structure, much above that in other industrialized countries. Owners and managers of small firms, as well as the self-employed, are in turn much less likely than workers and employees of big firms to hold left views and to vote for the Left. This process has also been favoured by the short-sighted defence of employment in loss-making and doomed state enterprises, at the cost of huge public subsidies, policy that did subtract resources from the development of viable public and private enterprises and brought the whole state industrial ownership system into disrepute. The fate of the loss-making Bagnoli steelworks, where huge investments were made in order to maintain employment, only to be scrapped somewhat later, is in this respect a good case in point. The same applies to the plants built by private firms in the South, heavily subsidized by the public purse but aborted in a number of cases after the subsidies were over.²⁹ The increasing labour costs in the official economy, following the wage push and normative changes of the late sixties and seventies, in the industrial sector in particular, contributed to the decline in the relative importance of industrial employment (a big reserve of votes for the Left), through both scale and substitution effects (robotization by Fiat following the dramatic increase in labour costs in the early seventies is an emblematic instance of the latter).³⁰ The egalitarian policies of the seventies (of which an important component was the *punto unico di contingenza*, according to which wage indexation was not proportional to the wage, but equal in absolute terms for all employees) aroused the resentment of the intermediate cadres against the egalitarian push.³¹ All these social transformations, which were objectively accelerated by the policies favoured by the Left, made up the breeding ground for the shift of Italian society

²⁶ More recently however, after Italy has turned from an emigration into an immigration countries the Left has found in the immigrants a substitute for the disappearing national proletariat as a class of underdogs to represent and to defend. But, unlike national proletarians, immigrants have not the right to vote, and their interest is often antagonistic with that of the national working class.

²⁷ This is not meant to belittle the present political impact of Berlusconi's dominant position in the control of the media, and its electoral consequences, but may contribute to explain its efficacy.

²⁸ ISTAT, *Rapporto sull' Italia*. Bologna, Il Mulino, 1996, p. 134.

²⁹ Such as notably in the case of Nino Rovelli's SIR whose petrochemical plants were eventually left void and rusting under the Sardinian sun.

³⁰ "In 1976 Fiat's Torino Mirafiori factory adopted the first automated system for bringing car bodies and their mechanical parts together." "In 1978 production methods were revolutionised with the introduction of Robogate, the world's first flexible robotised body assembly system in Fiat's Rivalta and Cassino factories." (<http://www.Fiat.com/e/default.htm>).

³¹ This found its expression in the *marcia dei quarantamila* in Turin (a march by Fiat cadres in October 1980 in protest against trade unions' activities, a turning point in the social climate of those years).

towards the Right, which in 1994 led to the first centre-right majority government from the onset of the Republic,³² with the participation and support of former neofascists.

Another contributing factor was the overall social impact of some of the policies that were pursued. The persistent large scale financial transfers to the South for implementing policies of, by and large ineffective, industrialization, which eventually had to be discontinued, and of straightforward social support through transfers, at the expense of Northern taxpayers, as well as the lax attitude towards immigration and petty crime, alienated popular support in previously left-wing voting strata, to the advantage of such forces as, in the North, the Northern League and, in the South, the Neofascists. Mass illegal immigration in particular has been associated in the popular opinion, as well as in statistical data, to increased criminality.³³ Moreover the low income beneficiaries of public social expenditure were not particularly happy to share its diminished resources (as a consequence of the primary surplus needed to keep the service of the public debt under control) with an increasing wave of illegal immigrants, as by and large advocated by the Left in the name of social solidarity. At the same time the attitudes of the Left towards immigration did progressively change. After the signature of the Schengen protocols a new, stricter, immigration law, proposed by the PDS member and veteran Communist Interior minister Napolitano, together with Livia Turco, minister of Social Solidarity, another former Communist and PDS member, was passed in March 1998, but this hardening was viewed as too little and too late by some of the disaffected urban masses that in the past would have voted for the Left. Moreover the law was accompanied by still another mass regularization for illegal immigrants. In the immigration issue, as in other matters, the Left did gradually learn, but not fast enough to avoid not to be taken aback by otherwise foreseeable developments. The Turco-Napolitano law, with the introduction of administrative detention of illegal immigrants pending expulsion, would have sounded anathema to left-wing parties, and not only left-wings ones, some years before, when the much milder Martelli law was passed (in 1990) among uproar by left-wing and catholic critics. Two years only after the previous comprehensive immigration law, another one was passed, under the Amato government, in December 2000, modifying the previous one in a repressive sense.³⁴ On the whole the immigration issue was quite tricky for the Left, in Italy as elsewhere. Industrialization, public education and social expenditure alike, together with the egalitarian wage push of the seventies, had succeeded in markedly reducing the inequalities of postwar Italy.³⁵ Immigration provides in Italy a supply of relatively unskilled labour force endowed on the whole with lower levels of human capital (considering also the specificity of the latter for the social and economic environment). Thus immigration has the potential to increase the dichotomization of the labour force (aside from the persisting dichotomy between official and underground workers, and between temporary and

³²The centre governments of the post-war period had a left-wing component in the more socialist oriented fractions of the Christian Democrats and in the Social-Democrats, which was lacking in the Berlusconi government. The populist components of the latter, such as in particular the Northern League, does not have by any definition a left-wing connotation.

³³Cf. M. BARBAGLI, *Sul rapporto fra immigrazione e criminalità in Italia e negli altri paesi occidentali* (excerpt from his book *Immigrazione e criminalità in Italia*, Bologna, Il Mulino, 1998), <http://www.comune.torino.it/cultura/intercultura/12/12c1-5.html>

³⁴An overall review of Italian immigration policies at the time can be found in H. KOFF, *Immigrazione o integrazione? Dibattito pubblico e sviluppi concreti*, in M. CACIAGLI AND A. ZUCKERMAN (eds.), "Politica in Italia: I fatti dell' anno e le interpretazioni. Edizione 2001", Bologna, Il Mulino, 2001, pp. 185-203.

³⁵Cf. A. BRANDOLINI, *The distribution of personal income in postwar Italy: source description, data quality, and the time pattern of income inequality*, in "Temi di Discussione", Rome, Bank of Italy, no. 350, 1999.

permanent workers), and the creation of a structure of inequality based on stratification along ethnic lines. The intrinsic inequality of society is bound to increase as long as immigration is not restricted, no matter what are the redistributive policies pursued, as the amount of resources which could be commanded for redistribution is limited, and the potential supply of immigrants from the poorer countries of the world is practically unlimited: no feasible amount of redistribution can create a relatively equal multiethnic country if the worse off from abroad are free to immigrate, or if controls are kept lax.

2.3 The Post-Communists' role in government. Financial stabilization and institutional change

Before handing power to the victorious Right in 2001, the governments that ruled with Communist (or rather Post-Communist) support, but first of all the Prodi government that followed the electoral victory of the Left in 1996, were able to set a few landmarks that could not be easily overturned. With the Bassanini³⁶ laws of 1997 the rules presiding the functioning of Italian bureaucracy were made more reasonable, and its discipline was strengthened. Secondly, a number of privatizations were made, notwithstanding the brakes put by Rifondazione Comunista, as well as by the Right opposition, reducing substantially the extent of the state sector and in particular of loss making state industries, and contributing to redress state finances. But most of all the entry from the start into the European Monetary Union presented Italy with the straightjacket of a budget constraint that puts a limit to the resources available for the renewed pursuit of populist and kleptocratic policies, since it makes unavailable the resources obtainable in disguised form through excessive state deficits and inflation.³⁷ The historical merit of the governments backed by the Post-Communists has been to bring about this development under very difficult conditions, making almost impossible for the future the return to the inflationary populist policies of the seventies that the Communists themselves had, at the time, contributed to form and support.

2.4 The neo-liberal policies of the Post-Communists: necessity or choice?

It is not too easy to apportion the responsibilities as well as the merits for the policies pursued by the governments sustained by the main Post-Communist party, namely Ciampi (1993-1994), Dini (1995-96), Prodi (1996-98), D' Alema (1998-2000), Amato (2000-2001), even if it is obvious that the policies of the governments Prodi, D' Alema and Amato can be more definitely ascribed to the Post-Communists, since the PDS (later DS) not only was the main supporting party but also had the strongest delegation in the government. On the whole it is striking that by no means can the policies of the governments supported by the Post-Communists be identified as the traditional policies of the Left; rather they correspond to a great extent to the policies which in many countries are ascribed to the liberal or neo-liberal Right. Instead to the Keynesian expansion of public expenditure and deficit spending, we have here both containment of public expenditure and of the budget deficit.³⁸ Instead of an expansion of social expenditure, a curbing of social

³⁶Himself a Pds minister.

³⁷The second Berlusconi government (2001-2006) appeared to resent gravely this limit and tried to get away with it, especially through forms of "creative accounting" engineered by Finance Minister Tremonti, such as, for instance, the sale of public buildings, immediately leasing them from the new owners afterwards. But even these moves had their limitations.

³⁸However the successful action of PDS Vincenzo Visco (who served as Minister of Finances, with Prodi and D' Alema) in fighting tax evasion can be seen as a kind of left-wing policy as well as

expenditure, while some monitoring of its efficiency was attempted. Instead of nationalization we had large scale privatization.³⁹ Instead of dirigism and limitation of private initiative, we had liberalization and enhancement of competition.⁴⁰ Instead of increasing workers' protection in the labour market, measures of labour market liberalization were undertaken.⁴¹ To this it must be added some liberalization of the market for rented dwellings, attenuating the regime of rent control (December 1998). Finally we may mention the streamlining of the bureaucracy and some reduction in the privileges of state employees following the Bassanini laws mentioned above. In part these policies, as we have seen, were compelled by the constraints which the Left inherited, in part were the result of the choice to join the Monetary Union with the first group of countries (itself clearly not a traditional left-wing decision, taking into account the dominant free-market ideology of the Union).⁴² But this is only a partial explanation. In reality the mainstream Post-Communists, albeit

good administration. Moreover the great reduction of the real interest rate, following the curbing of the size of the debt relatively to National Income first, and the abolition of the exchange risk following the participation in the EMU later, had greatly reduced the share of financial rents in disposable national income, much more than the taxation of financial rents originally proposed by *Rifondazione* Communists would have done, and this could certainly be seen as a welcome progressive by-product of overall macroeconomic policies.

³⁹An important step towards the privatization of public utilities was taken through the approval of the rules for the establishment of the authorities controlling privatized public utilities, notwithstanding the hostility of the Right that wanted to hamper the privatizations of the Left. This paved the way to the most financially successful privatization of the Prodi government, that of Italian Telecom. Other notable privatization engineered by Post-Communist supported governments have been those of state-owned banks, and of part of ENI. However the desire to go further was hindered by the opposition of the *Rifondazione* Communists towards relinquishing the state majority holding of ENI and the privatization of ENEL (the state monopoly for electricity production and distribution), until the exit of *Rifondazione* from the majority made the privatization of a good chunk of ENEL possible (34.5% in November 1999).

⁴⁰The liberalization of retail trade, reducing the constraints to business activity to the detriment of the vested interests of incumbents, was brought about by a decree proposed by the Pds minister responsible for trade and industry Bersani in March 1998. Further liberalization measures along the same lines relating to various protected categories were introduced by Bersani in the second government Prodi 2006-2008. It is interesting to note that the measures towards market liberalization and enhancement of competition were opposed by the Right in the defence of specific interests, such as those of shopkeepers or taxi drivers.

⁴¹All this did not go without hefty contrasts. For instance at the February 1997 National Pds Conference D' Alema's position, favourable to increasing flexibility and mobility in the labour market, was clashing with Cofferrati's opposite views (L. BARDI AND M. RHODES (eds.), *Politica in Italia: I fatti dell' anno e le interpretazioni. Edizione 98*, Bologna, Il Mulino, 1998, pp. 10, 91). Similar contrasts between the Pds leadership and the Party's trade-unionist wing occurred later in the same year (*ibidem*, p. 19), and on other matters, such, in particular that of the reduction and rationalization of welfare expenditures (*ibidem*, pp. 90-91). It goes without saying that positions similar to those of Pds' internal opposition were held by the *Rifondazione* Communists. All this was of particular relevance in a year where crucial economic decisions were taken, leading to the decision of Italy's admission in the EMU the following year.

⁴² Some elements of dirigism, albeit under the garb of decentralization and concertation, in the name of the subsidiarity principle, resurfaced in the so-called *programmazione negoziata*, leading to institutional arrangements akin to the European Employment Pacts, which in practice have performed as a vehicle for conveying investment subsidies (partly of European origin), up to 80%

not all of them, had learned a good deal from the past and had realized that some traditional left-wing policies were not really in the interest, at least in a long-run perspective, even of the classes that the old-time Communists claimed to represent. Moreover, as we have seen, the social constituency of the party had changed.⁴³ The process of cultural maturation, in particular the maturation of economic experience and the understanding of economic constraints, had borne its fruits. This can be seen most clearly if we look at the economists of the main Post-Communist party, who had nothing in common with the Marxist ideologically oriented economic experts that the PCI had in the past. On the whole in Italy there has been a great evolution in economic studies and research, marked by the effort towards bridging the gap with the level of economic knowledge of the Anglo-Saxon world. For many years a number of Italian banks would use some small part of their profits for setting up scholarships, sending young Italian economists to specialize in the best American and English universities. A number of offsprings of old time prominent Communist leaders (such as Barca, Cossutta or Reichlin) went to specialize in the most reputed American or Western European graduate schools, while a number of left-wing oriented economists trained in American or British Universities and with some international research experience have become involved with the Italian Post-Communists. Indeed, it could be disputed whether, as a consequence of their changed attitudes, the Post-Communists (the *Rifondazione* splinter party and the internal left wing opposition excepted) could be still considered a part of the traditional Left any more, or rather a progressive liberal centre-left party, in the same mould, say, as Tony Blair's Labour. The Communist roots were even symbolically erased by substituting the hammer and sickle with a rose in the Party symbol at the time of its change of name from PDS to DS (*Democratici di Sinistra*) in 1998. The merger with the Centre-Left Catholic party of the *Margherita* to form the *Partito Democratico* in October 2007, and the electoral divorce from the remaining self-styled splinter Communist parties (*Rifondazione Comunista* and *Partito dei Comunisti Italiani*) after the recent troublesome experience of the second Prodi government have been the natural final outcome of the evolution of the main political movement of Italian Post-Communists, and the completion of their divorce from their Communist past.

of the actual investment, to the South and the relatively more depressed areas of the North. But its actual practical relevance has been limited. For a synthetic review see V. DELLA SALA, *Il «nuovo sud» nella nuova Europa: il caso di Sviluppo Italia*, in M. GILBERT AND G. PASQUINO (eds.), "Politica in Italia: I fatti dell' anno e le interpretazioni. Edizione 2000", Bologna, Il Mulino, 2000, pp. 223-244.

⁴³ For the changes in the attitudes of the rank and file party members see R. VIGNATI, *Il leader e il partito. Il Pds dopo il II congresso*, in L. BARDI AND M. RHODES (eds.), "Politica in Italia", cit., pp. 87-108. Not only the constituency of the main Post-Communist party did change, but also that of *Rifondazione Comunista*. The latter, "unlike the old PCI, appears as a party of state employees, with guaranteed employment, rather than of workers" (O. MASSARI AND S. PARKER, *Le due sinistre tra rotture e ricomposizioni*, in D. HINE AND S. VASSALLO (eds.), "Politica in Italia: I fatti dell' anno e le interpretazioni. Edizione 99", Bologna, Il Mulino, 1999, p. 68).