

XI ANNUAL NOVA CONFERENCE

COLUMBIA BUSINESS SCHOOL

(New York, November 19-21 2010)

Meeting on: Italy 2020 Inspiring Italian Future

Marco Vitale: An unorthodox view of Italian perspectives

"In the light of the grave socio-moral implications of the present juncture - urging radical reforms - the bewildered historian can only remark that the prevailing debate on the nation's decline, absorbing both energies and resources of the ruling élite, is almost exclusively centred on economy. We are overwhelmed by ephemeral parameters, namely daily reports on market trends, as well as by more lasting ones, such as data on GDP annual growth rate both total and per capita."

*Paul Ginsborg
Salviamo l'Italia (Einaudi 2010)*

I am honored and grateful to stand before you here today, in such a prestigious institution.

I would like to open my speech by quoting an indisputable source, i.e. an excellent report of the Confindustria Research Department, Confindustria being the confederation representing Italian entrepreneurs. The data supporting my views do not refer to Italian economy globally, but to manufacturing companies only. However, though related to a segment, they represent a crucial part of the whole not only because this sector spurs many other economic segments, but also because much know-how and wisdom merge there. The manufacturing sector should actually be seen as an indicator of the country's competencies, and such figures show us, probably more plainly than others, how and to what extent the world has evolved in these years of huge and positive changes. They also indicate what the current ranking of the Italian industry in the NEW WORLD is.

A FEW DATA ABOUT MANUFACTURING ECONOMY IN THE NEW WORLD

Share of 2009 world manufacturing GDP

	2009	2000
China	21,5%	8,3%
USA	15,1%	24,8%
Japan	8,9%	15,8%
Germany	6,5%	same share
Italy	3,9%	same share

China has gained on everyone, yet Germany and Italy have kept their positions and dramatically reduced the gap separating them from the USA and Japan.

2009 per capita manufacturing GDP

Germany	+ 27% over Italy
Italy	
Japan	
USA	- 29% below Italy

In the 14 manufacturing sectors monitored by WTO, Germany ranks averagely first, followed by Italy. Italy ranked either first or second in 7 out of 14 sectors, switching positions with Germany.

Share of manufacturing world exports: over the 2004-2008 period Italy could keep its average share of manufacturing world exports around 4.8%, in line with its 2000-2003 average and despite the great rise of emerging countries. According to Intesa San Paolo Research Department data, the industrial districts that many considered beyond recovery - which I did not - have achieved an

average +13.8% increase in exports in 2010. This same year, 83 out of 104 Italian industrial districts have experienced a considerable average increase in exports, many of them over 20%, which is not only a recovery on the traditional markets since the rise significantly concentrates on new markets such as India, Brazil and South Africa.

The composition of export shares has greatly changed. Segments such as shoes and leather goods, furniture and interior design, textiles and clothing have decreased their share in exports, while others such as capital goods, metallurgic sector and metal products, chemically derived products have grown more relevant. The top five sectors (automotive, metallurgic sector and metal products, cars, chemicals, electrical components) represent 53.4% of manufacturing Italian exports, and if we add rubber, plastic and pharmaceuticals, they reach 60%. The three traditional vertical segments of textiles and clothing, shoes and leather goods, furniture and interior design represent little more than 15%.

Gross operating margin: the effects of the crisis combined with an ever growing competitive pressure did cause considerable profit erosion. Gross operating margin has fallen from 33.2% of added value in 2000 to 27,4% in 2005, and then down again to 18.8% in 2008-2009.

Such figures prove beyond doubt that in the present juncture the Italian manufacturing industry knew how to endure, reorganize and innovate, even as far as products and markets are concerned, bravely facing with its expertise and dignity the tsunami that hit the global economy.

In 2009 the crisis was at full blast and many were alarmed and contagiously alarming. Just then I declared that the Italian manufacturing industry would amaze the country once again. I had no specific data to support my belief, nothing but my familiarity with many smaller companies where people kept reorganizing, enduring and innovating without panicking, without letting misleading information coming from most academic centers of economic thought discourage them. Luckily enough, Italian entrepreneurs do not read the academic economists – particularly from the American school of economic thought – that at least for a decade have been preaching Italy, and any other European country as well, should abandon the manufacturing sector. And just as fortunately *Il Sole 24 Ore*, Italian entrepreneurs' newspaper, has been losing readers since it turned into a sort of press review of American economic journalism and of the (luckily disregarded) recipes that resulted in the crisis.

Nevertheless, the same growing awareness of the new risks and opportunities brought about by the crisis is now prompting many companies, local professional associations, Confindustria members, professionals and enterprise consultants to pursue a new phase for the Italian manufacturing enterprise in order to enhance its competitiveness.

It is widely thought that the Italian manufacturing enterprise and service industry should:

- recover profitability
- expand
- engage in association processes whenever suitable
- support capitalization
- speed up the processes of internationalization

These should be the goals shaping the new stage, and within them it is necessary to seek and find (just as a number of high-quality Italian companies already have) a new and more mature balance between entrepreneurial individualism and a reliable family presence in the company, which are, in my opinion, two indisputable strong points of the Italian industry, and a corporate governance more in line with the best international standards, and such to prevent a decline into familism, something which corrupts the family's commitment to the company – in itself a major value – turning it into a dangerous disvalue.

Our Minister of Economy and Finance, Giulio Tremonti, does share this view and that is why he strongly promoted and urged the founding of the Fondo Italiano di Investimento I chair, as an instrument of economic policy to foster the above-mentioned process of development and growth of the Italian enterprise.

We do have moderately reassuring data, but we should never forget that the manufacturing sector represents only 27% of the Italian added value and that most of the match for the national progress will, accordingly, be played on the field of services in any case.

Still there is a hazardous dissonance between the relatively optimistic figures I have just quoted – and, consequently, the encouragement they express – and the dominating pulse of our country. I have recently reported and discussed such data with several entrepreneurial groups and their local or sectorial controlling bodies, and then again with two groups of young graduates and final year students. What actually stroke me was that these data were greeted with surprise and skepticism, in many cases even with hostility. The shared mood was against any encouraging message, dismissing any moderately positive sign as if it were a fraud. The basic feeling was that nothing can work in Italy and therefore nothing does. However cautiously one tries to draw attention to the existing promising factors, one runs the risk to be seen as either an idealist or a charlatan.

Well, I firmly believe that the real evil of the Italian society, and therefore of the Italian economy, is this appalling discouragement. Though excessive, it stems from actual, grave and relentless evils that justify such a widespread lack of confidence. Hence I claim that we should stop talking about the world economic crisis as if it were the cause of our problems, because they were originated elsewhere and are far more rooted and difficult to face. Nevertheless, the crisis has been telling us loud and clear to take this chance to face, cure and solve our biblical plagues once and for all, otherwise we will be doomed. Straightforwardness is something we should all be grateful for.

Our biblical plagues are:

- the abnormal weight and macroeconomic consequence of the Italian organized crime and undeclared criminal economy. Although our excellent judiciary and police forces are getting outstanding results in this field, thanks to Government support, just think that Calabrian mafia's annual revenue is twice as much as Finmeccanica's;
- a massive diffusion of corruption, which is incompatible with any modern industrialized country's market economy, (though it is tolerated and even fed by the Government)¹;

¹ According to Transparency International's statistics, Italy dropped from 31st to 63rd place in the Corruption Perception Index over seven years (2002-2009). Much of the legislation that passed in the last decade was rewarding for corruption: from a partial decriminalization of false statement in account to amnesty for infringement of local building regulations, from fiscal shield to the new regulations on major public works and contracts.

- a largely ineffective judicial system, which adds to a feeling of growing resignation to criminal supremacy;
- a burdening and unfair tax system, fueling the constant growth of grey economy;
- a frozen job market and an obsolete main trade union (CGIL), although I put my trust in the new female leadership;
- alarming demographic trend and birth rate, along with inadequate – when not definitely hostile – family policies;
- a bureaucratic system that is plethoric, exceedingly expensive, inefficient, corrupt and obscure in too many fields, though by no means in any;
- a dual economy, widening the chasm that separates the north from the south of the country despite the fact that a few business leaders are trying hard to shake and wake Southern Italy from the apathy caused by decades of corrupting and passive welfare dependency;
- flawed political institutions, starting from our electoral legislation to our absurdly numerous Members of Parliament, from ordinary political patronage to an unsustainable cost of politics which is irreconcilable with any significant economic growth.

To take a close look at our actual evils will not feed defeatism, but on the contrary it will show us the only rigorous way to get over it with courage, clarity and determination, and the allegedly marvelous macroeconomic and financial strategies do not apply to most cases, which proves them wrong.

The Italian Republic is not respected and its institutions are not loved: only 18.3% of the population trusts the Parliament and only 8.6% the political parties. The President alone is still trusted by 70.3% of the people as the last bulwark against the collapse of the State.

The situation has so deteriorated that a new school of thought has been flourishing these days, doubting Italy's survival both as a state and as a nation².

And on this same issue I find guidance and reassurance in the wonderful lessons that an eminent Italian, Giuseppe Prezzolini, gave to his Columbia University students in 1948³. Prezzolini explained to his American students the difference between Italy as a state (*"parentesi unitaria di questo disunito paese"*, i.e. a phase of national unity in this disunited country, meaning a short period full of negative episodes) and the millenary Italian civilization. Prezzolini did not preach the rhetoric of Romanity, considering the *comuni* and the break from Rome and the Roman legacy as the origin of the Italian civilization. The Italian culture has a universal dimension and is a permanent world heritage spanning from San Francesco to Dante, the Renaissance, Galilei, Colombo, the *Commedia dell'Arte*, the invention of the Opera, the Counter-Reformation. In contrast with a contemporary theory, Prezzolini stated that: *"Per secoli vi sono stati Italiani, ma non l'Italia e*

² Cf. Emilio Gentile, *Né Stato, né nazione. Italiani senza meta*, Editori Laterza, 2010; Paul Ginsborg, *Salviamo l'Italia*, Einaudi, 2010.

³ The original English transcripts of these extraordinarily deep and brilliant lessons were published in 1948 as *The Legacy of Italy* (Ed. Vanni, New York). They were later translated into French by Payot (1951) and into Spanish by Pegaso (1956), though the Italian translation appeared only in 1958 (Vallecchi). A new Italian edition, including Prezzolini's foreword, was issued in 1994 for Rusconi Libri.

per secoli gli Italiani, fatte poche eccezioni, continuarono a macchinare e a lottare per impedire l'unità del Paese". "Per secoli gli Italiani non ebbero organizzazione statale, non classe dirigente, non esercito nazionale, ma diedero origine a migliaia di artisti, statisti, sacerdoti, santi, filosofi, eroi che hanno in Italia ma ancor più all'estero costruito la civiltà italiana, come civiltà universale". "Con questo libro l'autore si sforza di mostrare che i caratteri della più alta civiltà italiana furono di tipo universale e non nazionale, ossia capaci di soddisfare le aspirazioni umane dei popoli nati nella civiltà greco-latina, ma non specificatamente italiani. Insomma la civiltà italiana viene considerata tutta quanta dal 1200 al 1800 come un grande rinascimento che ha formato le basi della civiltà d'oggi in tutti i paesi di cultura europea". [...] "Altra tesi fondamentale è che l'unità d'Italia ha occupato appena un secolo (1860-1960) di una storia durata circa dieci secoli (1000-2000). Mi pare che la traduzione di questo libro arrivi nel momento opportuno per capirlo quando l'Italia, partecipando allo sforzo di molte altre nazioni desiderose giustamente di non diventare asiatiche per opera della Russia, si unisce ad esse per fondersi in un'Europa capace di resistere. L'Italia fa benissimo. E' il solo modo che ha di salvare quel poco che salvò nel secolo XVII e XVIII, quando la sua soggezione politica ai paesi europei più forti fu quasi completa, ma l'Italia restò diversa di cultura. Ciò vuol dir riconoscere che il suo tentativo di formare uno Stato nazionale è fallito."

But the Italian civilization did not fail: "La fama dell'Italia è oggi grande nel mondo per la seduzione del suo sistema di vita, che non è codificato in nessun libro ed aspetta uno scrittore che lo raccolga dagli esempi di molte vite, antiche e contemporanee. Chi ha formato questa fama? Non i retori, non i letterati, non gli uomini politici, non certo i generali e gli ammiragli, non gli amministratori e nemmeno i preti cattolici, che pur certamente son un prodotto genuino della civiltà italiana. La fama si deve ai narratori, ai poeti, ai pittori e scultori ed architetti, agli attori, ai cuochi, ed ai sarti, agli sportivi, ai sommozzatori ed agli aviatori, alle donne innamorate ed agli amanti italiani, alle belle donne del cinematografo ed ai guaglioni della strada... L'Italia del Risorgimento, la parentesi unitaria di questo disunito paese, appare finita. Ma l'Italia universale - quella che importa di più - continua ad occupar e preoccupar le nostre menti per opera dei singoli individui italiani, sempre mirabili nel cavarsi d'imbarazzo e nel corregger le situazioni penose e gravose nelle quali i loro capitani li conducono".

Walking in these footsteps we will be able to pull through, if we renew the bounds to our history without looking for a consolatory transfer, but in order to draw strength, ideas, and examples from it. The crisis demands a great effort on our part, which is principally cultural and moral, before being technical and operative. We must truly innovate, and, in order to do that, it is in our history that we must rediscover the roots of the new economy and enterprise in the new world of the third millennium. We must get rid of the pestering economic models based only on business and profit, those same culturally and morally devastating models that we have been palming off on many young people for almost fifty years and that the crisis has eventually - though brutally - called into question. We must instead go back to the paradigms of Tuscan, Lombard, Genoese, Venetian enterprise, when the Italian entrepreneur was the excellence and, along with his business, he created urban models of actual prosperity and human society. Let's visit Siena and ponder over how its wool weavers and merchants did at the same time generate great wealth and a great cathedral, a great civic palace, a great bank, the great hospital of Santa Maria della Scala - a standard of excellence on a European scale - and the most beautiful *piazza* in the world. Siena is the living proof that there is no conflict between a healthy business economy and civil humanism when they join to bring economy, finance, good governance, arts, spirituality and social institutions together. Let us ponder over the frescoes by Ambrogio Lorenzetti in the Palazzo del

Popolo depicting the civil effects of good governance, as well as over the frescoes of the impressive hospital of Santa Maria della Scala portraying scenes of social welfare. The welfare project did not begin in the 19th or 20th centuries as the story goes, but it originated there and then, when productive institutions (i.e. the enterprises), social welfare associations and culture made a virtuous deal and achieved the wonderful goals we still benefit from today. Our primary responsibility now is to favor the exit from an economistic conception that is an end into itself, and that has got hopelessly trapped in a blind alley. If we are to rebuild a new model of economic, social and cultural progress, we must revive and update the countless examples, motivations and lessons our history is so rich of.

I do not think that the unity of Italy as a state is in danger, even if it needs to be radically redesigned as a federal state. I agree with Guido Piovene, who in the last pages of his memorable *Viaggio in Italia* (1956) wrote: *"This explains why Italian unity, though constantly declared precarious, has never been threatened. Not even a catastrophic war threw it into serious crisis"*. Still, he went on to say, its is a sort of physical unity that is mostly passive, while we should commit ourselves to a moral unity, getting together in pursuit of a common goal. That is why the present crisis is constructive, if it drives us to question ourselves – as we should – about our common goals as a group of people participating in a great, millenary culture that unites us all: the Italian culture, a key constituent of European and world civilization.

Therefore we should be more concerned with good living rather than with economy in itself, because that is the premise of a healthy economy and one of the strong points of Italian culture we must safeguard, fighting off the present demolition strategy against them.

- The Italian civilization has been great when, as Prezzolini said, it could be universal – while today we are inclined to give more credit to political parties, like the Lega, tending to narrow us down to a hyperlocalist inculture.
- The Italian civilization has been great when it could spread humanity, joy, beauty, serenity – while we do not rebel against those who drag us in the mire of situations and behaviors getting increasingly despicable, contemptible, grotesque, offensive and devoid of all humanity. Interviewed by *Corriere della Sera*, a French intellectual of great stature, Marc Fumaroli, prods us to restore these basic factors of the Italian civilization. *"I think no other country in the whole world enjoys such fondness. I guess it depends on the fact that Italy has always spread joy and beauty"*. Something which, according to Fumaroli, is still in the Italian DNA: *"It would be no surprise if Italy led the way to save Europe from the quicksand of mass culture"*.
- From history the Italian civilization inherited one of the most prestigious cultural and natural legacies, a cultural and economic heritage at the same time, the first to get an Heritage Recognition in the Constitution (art.9) thanks to a farsighted project – while we have been dissipating it, as Antonio Puri Purini wrote (*"Il Bel Paese destinato a scomparire"*, *Corriere della Sera*, October 30, 2010): *"Basta girare per l'Italia per toccare con mano che la gestione del patrimonio culturale e paesaggistico attraversa un momento drammatico. Questo è il risultato, accumulatosi per decenni ma acceleratosi negli ultimi anni, della negligenza politica e dell'indifferenza di molti italiani. Si fa finta d'ignorare che, quando si distrugge*

l'immagine di un paese, questa non si ricostruisce più. Tutti gli ammonimenti – Maria Giulia Crespi, Ernesto Galli della Loggia, Salvatore Settis, Gioacchino Lanza Tomasi, per citare solo alcuni – cadono nel vuoto. In piena crisi politica ed economica accentuata dal secessionismo della Lega Nord sarebbe ingenuo attendersi una correzione di rotta del governo e una presa di coscienza del Parlamento. Il disdegno dei movimenti populistici – dal Belgio all'Italia, dai Paesi Bassi all'Ungheria, dalla Svezia all'Austria – verso i pilastri tradizionali della cultura europea, coltiva, a sua volta, il menefreghismo. Così facendo, un nostro storico primato e un'ineguagliata eredità vengono fatte allegramente a pezzi con danno per la nostra identità di nazione e con beffa per le generazioni future. Inutile dire che l'immagine dell'Italia ha un valore unico al mondo. In realtà, già da tempo, la marginalizzazione del nostro patrimonio culturale avrebbe dovuto diventare un'emergenza nazionale anche perché ha un'incidenza diretta sul prestigio, sull'economia, sul turismo. Troppe persone sottovalutano le aspettative, che non ci meritiamo, esistenti nei confronti dell'Italia: per gli stranieri, l'attrazione del made in Italy e dei grandi marchi è strettamente legato al radicamento nel circostante paesaggio urbano e naturale. Saranno dolori quando ci si accorgerà che non è più così. Già adesso l'opinione pubblica internazionale si domanda se il nostro Paese non abbia abdicato alla responsabilità d'ospitare il più grande patrimonio culturale mondiale e rinunciato ad essere una voce partecipe nella cultura europea dove avremmo il compito, davvero storico, di portare la voce della cultura mediterranea nel cuore dell'Europa continentale”.

- The Italian civilization has flourished economically when it could participate, with prestige and respect, in the process of European integration playing one of the key roles – while we have now slid to the margins of this crucial process because of different factors, such as our Prime Minister's objectionable demeanor, the Lega's political strategies and other reasons. On November 4, the *Financial Times* defined “a lurid scandal” the last berlusconian performance, and on November 6 General Fabio Mini stated to *Il Sole 24 Ore*: “Italy has been losing its political weight inside EU and towards America. We have lost credibility and the magic that our culture and tradition bequeathed us. Endless scandals have been hammering down our international prominence: we are no longer influential and our politicians are seen merely as individuals, rather than as representatives of our country. They rule themselves out of international meetings, leaving us voiceless. In South America I have recently been pitied by the person I was conversing with, who told me it was such a shame I lived in such a country...”
- “So much time have we lost”, wrote Mario Monti in a bitter, but always constructive article, because “for years we have been tackling false goals instead of the causes of Italian troubles” (*Corriere della Sera*, October 31 2010).

There is still time to walk the right path once again, but we must hurry.

What is to be done is neither mysterious, nor complicated to understand, as the German economist Bert Rürup wrote in the extensive, meaningful and objective report that *Handelsblatt* dedicated to Italy on November 1: “Everybody knows what is to be done in terms of economic policy. Italy does not need elaborated strategies to get back on the track to growth, it needs statesmen”⁴. And the headline of the

⁴ “Was wirtschaftspolitisch zu tun ist, ist bekannt. Italien braucht keine elaborierte Strategie für mehr Wachstum, sondern Staatsmänner.“

report still focused on the same theme, stressing the urgency of the situation: *“Real statesmen urgently wanted”*⁵. The opening lines of the report by Katharina Kort and Norbert Häring deserve to be shared: *“Governments consuming themselves in intestine quarrels, obscure bureaucracy, deficient infrastructures, high taxes: Italy is a very strange country, surprisingly still working good enough despite such obstacles. What the Italian people and businesses have to face every day is so hard that it is amazing to think this Mediterranean country still is a G8 member, and reasonably so for the time being. Yet Italy must roll up its sleeves and stop falling behind as usual. In the last decade the Italian economy with its 0.5% average annual rate has always been the European tail-end when it comes to growth.”*

Let us also share this additional comment by Bert Rürup: *“Italy’s key problem is not the state of public finance. Since 1995 they have reduced the national debt from 120% to 106% of GDP, managing to get a surplus in the state balance despite a weak growth. More accurately, Italy’s chronic economic weakness derives from the crisis of its political system. Success smiles on politicians who, like Berlusconi, tell the tale of a rosy future to be achieved without sober reforms. Both the economy and the people have got used to these rhetorical harangues, and consequently scrape along on what they have. Unemployment is still low even with a weak growth and grey economy reaching one-fourth of GDP, and that should be seen as a sign of the ability of private businessmen to devise their own way to get by, as well as of the failure of Italian politics”*.

What is to be done is not hard to understand, just as Rürup wrote, but it is hard to do:

- we must support the processes of development, stabilization and internationalization of our manufacturing enterprises (which is so far the one sector moving the right way, though it still needs encouragement);
- we must enhance competitiveness and productivity in the huge field of services (where a fierce and uncompromising battle against the mighty web of connections contrasting them is yet to be fought);
- we must plan an agricultural policy to connect Italian wine and food to other top-quality farm products, fostering the internationalization of these sectors (and in this case I think there are no hostile lobbies, but it is rather a matter of competence, strategic vision and know-how);
- we must build the necessary public works applying for international funding to finance them whenever possible. Speeding up the realization of major public works was supposed to be an answer to the crisis, whereas they decreased 6% in 2008, 7% in 2009, 4% in 2010 and will probably lose 3% according to 2011 estimates. This situation was aptly defined “reverse keynesism” and attests the failure of Government policies which proved to be only empty words (and that concerns not only the Government, whose evident failure in this field is a hopeless case, but local administrations as well).
- we must lower taxes on both natural persons and corporate entities, basically lowering tax wedge to support expenditure (and that will require a real fiscal revolution in the structure

⁵ “Dringend gesucht: echte Staatsmänner.”

of public expenditure, one that should be based on the British model, but such a change calls for a deep cultural and political renovation and a resolute Government).

There are many other causes to commit ourselves to in the long run, the same ones that have repeatedly been listed (education, research, a brave alliance between workers and entrepreneurs to get more and more competitive, social mobility based on meritocracy, policies for youth, family policies to stop the decline in our birth rate). And just as the Bank of Italy Governor Mario Draghi accurately stated at a recent meeting in Ancona, celebrating the memory of a true master of economy as Giorgio Fuà, our present and future challenge is to *“build an institutional, legislative and civil context to cultivate such values fostering growth and progress, while at the same time strengthening social cohesion”*.

It is a challenge for each and every one of us. I do trust that thanks to the constructive prodding of the crisis which reminded us of forgotten truths, like the Gospel message *“Let your statement be, 'Yes, yes ' or 'No, no'; anything beyond these is of evil”*; remembering our history and the many inspiring talents Italy brought to light; following in the encouraging footsteps of the noble fathers of our nation, even among politicians, we – and above all the younger generations – will be able to contrast defeatism and react against this phase of moral obscurantism, proving worthy heirs of that *“Legacy of Italy”* Prezzolini admirably illustrated to his American students at Columbia University in 1948.

Marco Vitale

www.marcovitale.it

Milan, November 14, 2010