



## Italian Political Chaos: Situation Normal

*Angel Ubide sees a technocratic government likely to rise again in Rome, fiscal consolidation to remain on track, and structural reforms to stay iffy.*

*Transcript of interview recorded April 2, 2013. © Peterson Institute for International Economics.*

Steve Weisman: Italy remains uncertain, even chaotic, in terms of its politics and therefore its economic outlook. Angel Ubide is a senior fellow at the Peterson Institute for International Economics and is here with me, Steve Weisman, to look at Italy's chaotic situation -- which you and some others find utterly par for the course for Italy, even over the decades. What is the likelihood of a government forming and taking Italy out of this chaos?

Angel Ubide: I think that we are going to have new government soon. The question is the shape of that government, but there will be a government. It is true that the recent history of Italy shows an abundance of governments that have been short-lived. In fact the government of [former Prime Minister Silvio] Berlusconi was the exception on the ruling in times in the amount of years that it was able to stay in charge.

President [Giorgio] Napolitano, a day or two ago, decided to form a group of ten experts who are going to propose specific policy actions or reforms over which he, as the President of the Republic, could try to form a government and have some support from Parliament, probably or perhaps while under the leadership of some technocrat -- which could be [former Prime Minister Mario] Monti. It could be somebody else. But the whole idea being, "Let's figure out altogether what the country needs, let's see if we agree on that and then we figure out the politics."

Steve Weisman: Does this mean that the possibility of a center left government under Berlusconi has receded?

Angel Ubide: I would think so. I think Berlusconi had his opportunity in the last week. It didn't work out and that is why now Napolitano is taking over. There were reports in *Il Corriere della Sera* yesterday that [European Central Bank president] Mario Draghi called Napolitano and asked him to persevere, not to resign now, that it was very important to send a message to the world about the governability of Italy. I will take that as a signal that probably this is what's going to happen. The Berlusconi government probably now is a low probability event and we are going to have something a little bit more technocratic.

Steve Weisman: What was the cause of the failure of [Pier Luigi] Bersani [head of the center left Democratic Party]? Was he unable just to bring in enough of the movement from the new Five Star Movement under Beppe Grillo?

Angel Ubide: I think the problem comes a little bit before that. There has been, I think, a misreading of the outcome of the Italian elections. Many people felt this was a vote against austerity, and I don't think that was correct. This was a vote against the political establishment that has been running the country for the last several decades. Beppe Grillo and the Five Star Movement came as the anti-establishment party. There was a very critical moment

during the primaries of the Partito Democratico [Democratic Party], or the left party in November, when Bersani was running against Matteo Renzi. Renzi, being the mayor of Florence, 37 years old, represented the new generation. That new generation was defeated in the primaries. Bersani represented the establishment, and that allowed Berlusconi to run essentially as more of the same. Voters were tired of having more of the same.

Steve Weisman: I think you said before that Berlusconi decided to run because he thought he could do well against Bersani, but not against the younger generation.

Angel Ubide: Exactly. That was the discussion at the time in their debate and in the media, that Berlusconi was not going to run. Then he changed his mind. Very likely, an important element of that changed mind was the fact that Renzi lost and Bersani won. He thought he could compete against Bersani because they were both part of the old establishment.

Steve Weisman: What do we mean by economic reforms? I haven't seen these reforms proposed by the President. Are they known?

Angel Ubide: No. At least I haven't seen anything today.

Steve Weisman: Fiscally Italy has made a lot of progress in fiscal consolidation, but everybody says it's never going to get growth unless it has the economic reforms. We've been hearing this for years. What are the prospects?

Angel Ubide: Italy, as you say, the fiscal situation, taking into account that it has a high level of public debt, but that is less of a worry because the level of private debt is smaller than in other countries. But it has a deficit situation which is reasonably good, it has a primary surplus. And essentially the fiscal outlook for the next two or three years is already legislated. So there is no need to do more on the fiscal side. They need to boost growth.

Growth has been very weak because productivity growth has been incredibly weak. What Italy needs is essentially an overhaul of the economic infrastructure. It's an economic structure that is very heavy. It has many difficulties to doing business. It has a very elevated level of difficulty of achieving things, of improving infrastructure, of doing things and that is what needs to change.

Steve Weisman: Are we talking about government bureaucracy, labor regulations, what?

Angel Ubide: I think it's a bit of everything. You can take for example, the case of labor market reform where last year they were debating about this Article 18. Article 18 is an article of their labor legislation that makes it very difficult to fire employees for companies that are both -- I'm guessing because I don't remember correctly -- I think it's about 50 employees. That creates a situation where the country has an incentive to have companies that are very small because if you have more than 50 employees, then it becomes terribly difficult to manage your labor force.

Changing that Article has many complications, many of them being constitutional jurisprudence. It's not as easy as it sounds from a drawing board.

Steve Weisman: It doesn't even sound easy.

Angel Ubide: But you put two macro economists to discuss this, and they say get rid of that and then you talk to labor economists and labor lawyers and they tell you no. It's very difficult to do because there are issues of equality of treatment and many other things. But that is the kind of thing that Italy, like other countries in Europe, need to think about how to make progress in a way that is equitable, but at the same time is effective.

Steve Weisman: Do these things get debated in Italian elections? In the United States we're also in a kind of impasse. Everybody knows what the problem is, they still can't do it, but at least the public knows the nature of the problem. In Italy, if you're an Italian voter are you getting exposed to the debate about the issues that you just discussed?

Angel Ubide: A little bit, but not as much as you might be in the U.S. If anything, because there is a less of a tradition in Europe of think tanks—I'm not trying to make easy publicity here—but it is difficult to have a debate on the merits that doesn't become politicized very quickly. When you get into these kind of discussions, it becomes very quickly one party versus the other one, and then you don't really get the issues.

Steve Weisman: So it's not so much think tanks, but it's the tradition of the independent objective analysis?

Angel Ubide: Yes, maybe, but there is less debate. You don't have as much debate on the issues. You have much more debate on the political points and I think here in the U.S. you get both. If you want to understand both you can, you can choose not to.

Steve Weisman: Thanks Angel.

Angel Ubide: Thank you.