Preface

Italy and Japan achieved miraculous economic growth in the 1950s and 1960s. Italy expanded its exports greatly by joining the European Community (EC), and Japan invented the so-called convoy system in which the bureaucracy, banks and the manufacturing sector cooperated with each other in maintaining international competitiveness. However, the two countries’ growth models were caught in a heavy slump at the beginning of the 1990s, and both fell into a political and economic stalemate.

The 1992 crisis in Italy took the shape of both a fiscal crisis and a crisis of the political system that had emerged after World War II. The Italian lira was withdrawn from the European Exchange Rate Mechanism and devaluated as a consequence of speculative attacks following the rejection of the Maastricht Treaty in the Danish referendum and the restrictive monetary policy stance taken by the Bundesbank to keep at bay inflationary pressures stemming from German reunification. In the same year, the government, led by Giuliano Amato, implemented a budget correction worth 6 percent of the gross domestic product (GDP). Inflation pursuant to the devaluation did not soar, mainly because of the depressive impact of the fiscal correction on internal demand, but income inequality fell back to what it had been in the early 1970s, before a 20-year-long cycle of marked reduction.

The technocratic governments of the early 1990s helped Italy out of the crisis. A wide-ranging cycle of structural reforms started with the Amato and Ciampi governments, through privatizations of previously state-owned banks, insurance companies, telecommunications and energy utilities and industrial conglomerates.

At the same time, the party system collapsed. With the fall of the Berlin Wall, Italy had lost its strategic position on the geopolitical map, making it possible for the old parties to be swept away by judicial exposure of a widespread system of political corruption. A period of intense renovation of the Italian political system ensued. A new mixed electoral law was introduced, with a large portion of seats allocated through plurality rule. In the 1994 elections, a newcomer to the Italian electoral arena, media tycoon Silvio Berlusconi, defeated the center-left coalition, starting a 20-year-long period during which, for better or worse, he would be the
main character on the Italian political stage. His first government lasted for only a year and was followed by yet another technocratic government led by Lamberto Dini in 1995, but after 1995, there were 15 years of bipolar competition between center-left and center-right coalitions and alternation in government between the two, as no coalition ever won two elections in a row.

However, the ‘normalization’ of Italian politics has not resulted in good economic performance. Between 1992 and 2000, Italy grew at the same rate as Germany (1.6 percent per year), which at the time was ‘the sick man of Europe’, and at a slower pace than France (over 2 percent per year). This situation worsened further in the 2000s, Italy’s true ‘lost decade.’ Even before the onset of the current financial crisis, in the period 2001–07, Italy’s growth rates were lower than those of France or Germany (1.1 percent per year in Italy, 1.4 percent in Germany, 1.8 percent in France), while the situation has grown much worse with the financial crisis.

As shown in this volume, many structural reforms have been introduced over the past 20 years. However, Italian competitiveness has declined. Inequalities have not been tackled, productivity has stagnated and disaffection toward the political system has grown, also fueled by recurrent political scandals and the uncovering of still pervasive corruption. Although the most fundamental reasons for Italy’s competitiveness problems probably date back to the 1980s, the watershed can be established with its membership in the Economic and Monetary Union (EMU) in 1998.

In 1996, under the center-left Prodi government, the lira regained its position within the European Monetary System (EMS). In May 1998, Italy successfully joined the EMU, having satisfied the Maastricht criteria (the changeover to the common currency, the euro, took place in 2002). The constraints imposed by prospective, and then actual, membership in the EMU initially acted as powerful stimuli for the government to push through a variety of rationalization and modernization reforms in the 1990s. Between 1990 and 2000, public deficit as a percentage of GDP fell from 11.4 percent to 0.8 percent, while the public debt/GDP ratio progressively, albeit slowly, declined (after peaking at 121.8 percent in 1994, the ratio fell to 108.5 percent in 2000).

In the 2000s (a period in which Berlusconi governed for two-thirds of the time), however, the climate changed. Although Italy’s membership in the EMU has brought about great advantages to the Italian economic system in terms of price stability and low interest rates (first and foremost on Italy’s large public debt), in the period between the completion of the EMU and the beginning of the financial crisis in 2007–08, Italy was not able to fully exploit the opportunities offered by the EMU. Governments,
firms and families perceived Italy’s entry into the EMU as a loosening of fiscal constraints. Low interest rates made possible by sharing the same currency with low-debt countries weakened the need for adjustment. Primary budget balance (that is, prior to expenditure on interest on the public debt) fell from over 5 percent in 2000 to nil in 2005. The public debt/GDP ratio was reduced at a much slower pace than earlier until 2004 (103 percent), to rise again even before the financial crisis (106 percent in 2007), reaching more than 120 percent in the wake of the crisis.

Italy’s economic system did not adjust to the new situation, in which competitive devaluations are no longer possible. The current account balance, which was positive after the 1992 devaluation and up until 2000, progressively deteriorated during the 2000s. Productivity has fallen and, despite only modest real wage growth, unit labour costs have soared.

When the crisis hit, Italy had been on a path marked by low growth, low productivity and deteriorating economic fundamentals for approximately a decade. Italy has thus far been the country most affected by the economic crisis, losing more than 7 percent of its GDP over the period 2008–12 (in contrast to a cumulated GDP loss of 4.1 percent in Spain, virtual stagnation in France and Japan and a growth of 3.9 percent in Germany). Berlusconi’s government initially minimized the impact of the crisis, and then proved completely unable to act, despite having a huge majority in parliament, when the crisis escalated to a sovereign debt crisis in the Eurozone, with Italy being under attack. In November 2011, Berlusconi resigned and a technocratic government was formed yet again, led by former European Commissioner Mario Monti. A new wave of structural reforms ensued, most notably a wide-ranging labour market reform (together with the umpteenth – and harshest – pension reform since 1992), coupled with an increase in taxation that now exceeds 45 percent of GDP, one of the highest levels in the world. Despite the widespread use of short-time work (a scheme that keeps workers on the firm’s payroll by reducing their working hours while compensating their foregone wages), the unemployment rate now well exceeds 11 percent, with four young people in ten being unable to find a job. Austerity may well be necessary and bound to be effective in the future, but it exacts a very heavy toll on families in the meantime.

At the same time, as Italian families and firms were undergoing severe hardships, new incidents of political corruption and misappropriation emerged, involving, as in 1992, members from the major parties, although mostly at the local level. In the February 2013 elections, the protest party Movimento 5 Stelle, led by former comedian Beppe Grillo, won a quarter of the votes on a political platform based on anti-establishment issues, roughly the same share of votes as the Democratic Party on the left and Berlusconi’s People of Freedom Party on the right. While the Democratic
Party enjoyed a large majority of seats in the Lower House, as manufactured by the proportional-cum-majority-bonus electoral law introduced by the Berlusconi government in 2005, no clear majority has emerged in the Upper House – where the majority bonus is allocated on a regional rather than national level as in the Lower House – which has led to political stalemate at the time of writing.

How many times have Japanese citizens been forced to fluctuate between hope and disappointment in the last two decades? After the economic bubble burst in 1991, Japan’s growth model, which had once been called a ‘miracle,’ collapsed and Japan entered into a phase of unprecedented instability. In 1993, the Liberal Democratic Party (LDP)-predominant regime broke up and the first non-LDP coalition government was formed. The electorate looked forward to a new form of politics. However, the non-LDP coalition government split shortly thereafter because of internal frictions, which soon allowed the LDP to come back to office again.

Despite returning to power, the LDP was unable to promote drastic industrial and social reforms necessary for Japan’s economic recovery. It failed to respond to citizens’ demands and was temporarily on the verge of a breakdown, just like Italy’s Christian Democratic Party.

Surprisingly, however, the emergence of a new leader, Junichiro Koizumi, suddenly changed the LDP so that it became a totally new entity around which citizens’ interests converged. Under the mantra of ‘No growth without reform,’ Koizumi promoted neoliberal reforms. The Japanese voters again believed that Japan could establish a new economic model to get the economy back on the right track and resume economic growth. However, such a fever gradually died down. The severe reforms that forced voters to make sacrifices continued, but the economy did not recover easily. The low-growth economy went on and economic inequality worsened. A series of painful reforms advocated by Koizumi only exhausted citizens. Most voters finally came to feel that Koizumi’s neoliberal policies were excessive.

In this situation, Japan was hit by the global financial crisis triggered by the Lehman Brothers’ collapse of 2008. Japan plunged into the world economic crisis without recovering from the bubble burst of 1991. Japanese voters turned their backs on the LDP, which had idly spent the so-called ‘lost two decades.’ In the historic election of August 2009, the Democratic Party of Japan (DPJ) finally came to power. Japanese voters had immense expectations. Everyone believed that the new government could change Japan’s archaic political economy drastically. However, the DPJ was not able to govern effectively because of internal conflicts. Without resulting in any visible policy outcomes, it suffered a devastating defeat in the December 2012 election, allowing the LDP to return to office again.
Why were Italy and Japan unsuccessful in preventing these hardships from occurring? This book casts light on this matter by comparatively analysing the structural reforms in corporate governance, party politics, the labour market and social policy in the 1990s and 2000s.

It reveals what Italy and Japan gained and lost through this series of (mostly neoliberal) social and industrial reforms, and why these changes have not helped in cushioning the crisis.

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Hideko Magara and Stefano Sacchi
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