

## **ALFREDO MACCHIATI**

### **Two speed Europe and institutional weakness - The case of Italy**

One possible explanation of two speed Europe are the deep differences in economic institutions of European countries. Actually, the causes of the prolonged crisis of the Italian economy can be found in certain aspects of the Italian institutional system. First, there is the weakness and, at the same time, the omnipresence, of the State. And the political system that emerged after 1992 has not solved the economic problems it inherited - in some cases, it has aggravated them for the lack of cohesion between political forces - nor has it proven capable of facing new ones.

This institutional weakness is a historical feature, repeatedly evoked in interpretations of the history of the Italian economy, but with unclear implications. The fact that there 'have always been' weak and omnipresent public institutions has meant that, for a long time, the economic effects of this have been underestimated; there has been no cultivation of awareness that the economy cannot grow steadily if is not accompanied by a 'capable' State; and it has been forgotten that exceptional growth in the first two decades of the post-war period were achieved in a unique context (reconstruction, opening trade with foreign countries, large supply of cheap labour). Once that context began to change, the inadequacy of Italy's institutional structure started to be felt more markedly, and initially caused an inflation crisis and very high public deficit, leading to the political and institutional earthquake of 1992-93. Nor did the next attempt at institutional change have the desired effect. Indeed, two new negative characteristics have been added: the strengthening power of interest groups; and an 'excess of government changes', which has produced a sharp instability in- announced, but not always realised - economic policy choices.

The radical change of scenery in the 1990s - in technology, in world trade, in the balance of international politics, in the European monetary regime - left Italy with a totally inadequate institutional and economic structure. Italy's ability to react and remain competitive has affected some parts of the economy, such as manufacturing, but has been too limited to drive the country's growth: the miracle experienced in the transition from an agricultural to an industrial society was not repeated in the face of great transformation at the end of the last millennium.