

Roman Holiday From Reforms

di Carlo Stagnaro

All power to the soviets? That seems to be the way Italian politicians are trying to achieve their purported free-market reforms.

Earlier this month the government and public-sector trade unions agreed on a plan to make the country's notoriously bloated civil service more efficient. They aim to do this in part by introducing "a method to set targets and measure the achievement" of state employees. Today, civil servants' pay and advancement depend largely on seniority, rather than on their actual performance. So such a change would be most welcome -- except for the fact that, under the current proposal, the criteria and any subsequent decisions must be "concerted with" (read: made by) the trade unions themselves.

Indeed, it's widely believed that the unions themselves are one of the key reasons the public sector is so inefficient. A 2003 European Central Bank study of the public sectors of 23 OECD countries found that Italy is among the worst performers: Only Greece and Portugal rank lower. Likewise, the Italian government itself has estimated that state employees spend as much as 46.1% of their time simply keeping their respective offices running, rather than producing some sort of output for the public. In other words, nearly half of the public employees take care of the other half, as if everyone had a personal assistant.

However, it's not just the public sector that turns off potential investors from Italy. Contrary to his pledges during last year's election campaign, Prime Minister Romano Prodi and his government are intervening more and more in the private sector.

Take the privatization of Alitalia, the largely state-owned airline that has lived for years on the edge of bankruptcy. The sale of at least 30.1% of the company -- which, under Italian law, requires the buyer to bid for the remaining shares, including a 19.8% stake held by the Treasury -- is being pursued in a way that is questionable to say the least. Instead of calling for an auction, the government has decided to sell the group through private negotiations with the 11 potential buyers that declared interest in the company by Monday's deadline. That means that the company won't necessarily go to the highest bidder; instead, it could be taken over by whoever offers the best combination of price and a willingness to accept Mr. Prodi's political goals, namely the protection of Alitalia's current work force.

Yet most analysts agree that Alitalia's worst problems stem from its excessive number of workers, coupled with overly strong trade unions that stand in the way of much-needed changes in the company's operations. To sweeten the deal, the Prodi government last month announced a "reform" of air transportation rules that would actually create further barriers to entry into the market. Among the proposed changes are a limit on the number of Italian airports that can host international flights, reducing competition for Alitalia, as well as advertising limits for low-fare carriers. Specifically, the new law would forbid airlines from emphasizing prices that exclude taxes and other fees -- a tactic that low-fare carriers frequently use to drive traffic to their Web sites, since taxes and fees often make up at least half of the final cost of their tickets. So in this case privatization might not lead to a more open market -- quite the opposite.

The government, and Mr. Prodi in particular, has also been at the center of two financial scandals. The first is the "regulatory mobbing" against Autostrade and Abertis, the Italian and Spanish motorway operators that last year unsuccessfully tried to merge. After a number of statements and failed attempts to block the tie-up outright, the government resorted to changing the way motorway operators are paid, negating the business reasons for the merger. Experts say the new mechanism is very complex and makes it virtually impossible for firms to predict their future flow of profits. As a consequence, not just Autostrade but all the motorway operators in Italy find themselves in big trouble. Aiscat, the association of Italian motorways and tunnels concessionaires, has filed a legal appeal against the change.

Another example of Mr. Prodi's interventionism is the way he handled the Telecom Italia affair. The prime minister waged political war against TI's chairman and majority shareholder, Marco Tronchetti Provera. Mr. Prodi openly criticized Mr. Tronchetti Provera for not informing him of internal changes that ultimately would have led the company to sell TIM, TI's mobile-phone operator.

What Autostrade and Telecom Italia have in common is that they did not pay tribute to the prime minister by informing him of their plans beforehand. Critics argue that Mr. Prodi just wants to directly manage the Italian economy, as a feudal lord. Whether or not things are truly that bad, it's clear that an interventionist philosophy underlies a number of the government's other decisions and policies. One of the first things that the economy minister, Tommaso Padoa Schioppa, did upon his appointment was to say that the government would not privatize Enel and Eni, the former state electricity and gas monopolies, despite the lack of strategic reasons for keeping them in public hands.

The so-called reform of the television sector is likewise an attempt to micromanage it, rather than a move toward a more open market. A new financial law, supposedly aimed at fixing the public budget and spurring the country's competitiveness, is in fact all about increasing both the tax burden and public spending. Even the government's broader liberalization effort is ambiguous, as it mixes true free-market changes -- as, perhaps, in the case of pharmacies, professionals such as engineers and lawyers, and possibly a few others -- with thinly veiled government interventionism. The latter is the case for many of the "liberalizations" announced last week, including new regulations on telephone bills, the ban on exclusive contracts between insurance companies and independent agents, and the mandate for road operators like Autostrade to advertise the price of gasoline at nearby petrol stations. And despite the Prodi government's loud insistence that it is acting to make the market freer, it so far has made no serious efforts toward the "unbundling" of ownership in the telecom and natural gas sectors. In these sectors, the ownership of services and transmission systems is still bundled together in former monopolists that maintain dominant positions.

During the electoral campaign, Mr. Prodi remarked that his goal was to open the market. Apparently, the only market the government is opening is that of political favor, for which businesses have to bid for in order to work in this country.

Mr. Stagnaro is environment and energy director for Istituto Bruno Leoni, a think tank in Italy