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Technocratic Consensus, Institutional Change and Questionable Ends. Remarks on Italy's Economic Policy

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Abstract

The aim of the paper is to discuss the ends pursued by Italy's Monti Cabinet (2011-2012). Although the Cabinet dealt with the consequences of the crisis in a way that does not significantly differ from other Cabinets, its policies are worth investigating because it was supported by a large majority of parties on the grounds that its policies were the only appropriate ones. This situation allowed it to be particularly consistent and streamlined. The paper focuses less on efficacy, efficiency and equity than with the overall view of the economy - and of society - that Monti and his Cabinet aimed to set up. It begins by providing an outline of the most important economic policies enacted by the Cabinet, those related to the public debt and to the labor market. It then discusses the claimed inevitability of those policies. It suggests that alternative measures were (and are) possible and, sometimes, they didn't even require significant institutional or legal changes. The paper then points out some of the social implications of the Cabinet's policies. In particular, it points out that the Cabinet's economic ends clash with the social and economic ends outlined by the Italian Constitution and by the Universal Declaration of Human Rights. The inconsistency between these two sets of ends is crucial not only on formal grounds - a Cabinet should enact the prescriptions of the Constitution rather than contradict them - but on substantial ones as well. The policies of the Cabinet reflect the neoliberal project of an economy where all agents - workers, consumers, etc. - must act as individuals. With minor exceptions, they forsake social solidarity, i.e. the depiction and enforcement of entitlements - as opposed to personal solidarity, i.e. charity. This approach undermines the capabilities that allow people to choose how to conduct their lives. It also undermines the social cohesion and the forms of deliberation that underlie democracy. Thus, the Monti Cabinet not only reflects a crisis in Italy's democratic institutions but it actually reinforces it Following the above analysis, the paper discusses what an alternative approach to policy should look like. It basically focuses on the relevance of well specified ends and on the need not to confuse economic and social ends with specific goals or with the means to achieve them.

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1. Introduction

The aim of this paper is to discuss some key aspects of the economic policy of Italy's Monti Cabinet. The reason for this assessment lies in the peculiar features of this policy. Although the Cabinet dealt with the consequences of the crisis in a way that does not significantly differ from other Cabinets, it was nonetheless characterized by some unique features which make it particularly streamlined. A proper understanding of the Cabinet's ends may provide insights on the ends of other Italian Cabinets whose strategies are less easy to assess.

Contrary to normal policy makers, who choose what to do and how to do it in relation to a range of political considerations, the Monti Cabinet was less affected by the overall political context. The first reason for this lies in the personal features of the Prime Minister and of the members of his cabinet. Contrary to his predecessor, M. Monti is deemed not only an authoritative personality but an upright person. Both Mr. Monti and many of his economic ministers are distinguished economists. Although most of them were involved in the banking and financial business, they are generally believed not to be subject to conflicts of interest[1].

The second, and most important, reason was the unusual support the Cabinet received from the Parliament. A major issue Mr. Monti was expected to deal with was Italy's involvement in the Eurozone sovereign debt crisis. Despite minor differences, a great majority of the Italian Parliament believed that the economic program he presented on the 16th of November 2011[2] was appropriate[3].

Although the Cabinet was expected to last until early 2013 from the very beginning, the program outlined by M. Monti was in no way focused on the short-term alone. It was definitely forward looking. It was not completely different from those enacted by previous cabinets but, owing to the above circumstances, it was definitely more consistent, thus easier to assess. Based on what Monti stated and on the Cabinet's subsequent action, my aim is to assess the general features of his policy. I will focus on the overall project, thereby disregarding possible discrepancies between planned and actual measures, between policy measures and their theoretical background and also between the Cabinet's implicit account of the present economic and financial crisis and other accounts.

Policies can be assessed in terms of their effectiveness, i.e. the adequateness of the measures taken relative to the goals pursued. They can be assessed in terms of their side effects, e.g. the social consequences of restrictive fiscal policies. They can also be assessed in terms of their relevance, e.g. whether a balanced budget is a priority relative to rising unemployment. My concern is less with these issues than with the overall view of the economy – and of society – that Monti and his Cabinet wish to set up. In this perspective, it is important to distinguish ends – what the paper is basically concerned with – from goals, the understanding of which is merely functional to the discussion of ends. A goal is what a specific policy aims to achieve: a given rate of growth, a fair distribution of income, etc.. An end is the what the whole set of policies a policy maker pursues ultimately aims at. It has to do with the overall economic arrangement that is required to achieve a desirable society. The latter may be defined in different ways – including happiness[4], the freedom to choose how to conduct one's life[5], «the noninvidious re-creation of community»[6], etc. – but it is definitely on different grounds from goals[7]. I will have little to say about the internal inconsistencies or the technical appropriateness of the Monti agenda. Any comments in this regard, and the discussion of the economic goals pursued by his Cabinet will basically aim to point out what the ends of the agenda are.

Given these premises, the paper is structured as follows. The section that follows provides an outline of the policies enacted by the Cabinet on two major issues: the public debt and the labor market. Section 3 discusses

[1] They were a typical case of «revolving doors». In so far as the ministers involved pursued the interests of their previous employers, however, it is most likely that this was not to gain some direct benefit but because they truly believed those policies were what the country actually needs.

[2]http://www.repubblica.it/politica/2011/11/17/news/monti_al_senato_per_la_fiducia_il_testo_integrale_del_discorso-25168289/ (accessed on 02 January 2013).

[3] Monti resigned on the 21st of December 2012. Since, he subsequently chose to head a coalition of parties running for Parliament in the 2013 elections, his profile has somewhat changed. Consequently, the present discussion will refer exclusively to his first cabinet.

[4] Cf. Daniel Kahneman, *Objective happiness*, in Daniel Kahneman, Edward Diener and Norbert Schwarz (eds) *Well-Being: the Foundations of Hedonic Psychology*, New York, Russel Sage Foundation, 1999, pp. 3-25; Richard Layard, *Happiness: Lessons from a New Science*, New York, Penguin, 2005.

[5] Cf. Amartya Sen, *Development as Freedom*, New York, A.A. Knopf, 1999

[6] Cf. Mark Tool *The Discretionary Economy. A Normative Theory of Political Economy*, New Brunswick (N.J.), Transaction Publishers, 2001, p. 293

[7] Drawing on John Dewey, Tool (*ibid.*) distinguishes between «ends» and «ends in view», where the latter are what we refer to as goals.

the claimed inevitability of those policies. It suggests that, despite the generalized consensus surrounding the Monti Cabinet - on the grounds that there was not much else one could do - alternative measures were and are possible and, sometimes, they don't even require significant institutional or legal changes. Section 4 points out some of the social implications of the Cabinet's policies. In particular, it focuses on the discrepancy between the Cabinet's economic ends and the social and economic ends outlined by the Italian Constitution and by the Universal Declaration of Human Rights. Section 5 elaborates on the previous issue by focusing on the implications that those policies have for democracy. In particular, it argues that the institutional changes that the Cabinet pursued tend to undermine not only the principle of collective solidarity but also the social cohesion and the forms of deliberation that underlie democracy. Section 6 provides an outline of what an alternative approach to policy should look like. It basically focuses on the relevance of well specified ends and on the need not to confuse economic and social ends with specific goals, with the means to achieve them or with claimed institutional and technical constraints. The final section provides a few concluding remarks.

2. The Monti Cabinet and its program: the reduction of the public deficit and the reform of the labor market

The Monti Cabinet focused on two key goals: putting Italy's public accounts under control and making the labor market more flexible. The first goal was associated to the dramatically increasing interest rate spread between Italy (and other countries) and Germany. The second goal was less urgent but it was deemed crucial as a means to pursue growth. Let us try to understand the rationale underlying these goals.

Many European countries suffered the immediate consequences of the 2007-8 financial crisis in the US. European banks held junk assets and were financially exposed. They curbed their credits to manufacturing firms, especially when they realized that a great deal of their activities were related to real estate bubbles. European governments were forced to avoid their countries' banks going bankrupt and, in some cases, tried to make up for the drop in income growth. This action determined a sudden increase in public deficits and debt. This raised a crucial question: were those governments able to finance these deficits and renew their debt?

Italy was less involved in the above process. It did not have a real estate bubble and its banks were less involved with junk assets. Apparently there was no reason why Italy should suffer the consequences of the speculation that increased the spread. What did characterize Italy, however, was that, over the past decades, the country's public debt had grown to a relatively high level. So, although for different reasons, Italy was considered at risk of default. The conventional approach to the matter was that Italy's debt was unsustainable. It could be financed by selling bonds either to the public or to the central bank. The latter solution was not possible on institutional grounds. Unlike other central banks – typically the US Fed - the ECB is not only independent of the Eurosystem's governments, so that it is not obliged to buy public bonds; its unique concern is monetary stability[8]. The alternative solution – selling the bonds to the public – was claimed to be possible but only if governments were willing to pay interest rates that would make up for the default risk of their countries. The problem with this solution was that if interest rates were higher than income growth, debt would rise even if the primary deficit was null or even negative: servicing the debt would increase the debt itself, thereby leading to destabilizing cumulative indebtedness.

The only possible solution appeared to be the reduction of Italy's public debt through less expenditure and higher taxes. The immediate goal was to act on expectations. By showing that Italy's government was able to reduce its public debt, its creditworthiness would rise and the spread would be reduced. From a strictly financial perspective, the longer run goal would be to cut the debt to an amount that didn't make it difficult to finance.

We should keep in mind that the plausibility of this policy lies in a range of assumptions. First, the financial dimension of the public debt – whether it is possible to sell government bonds at a reasonable interest rate – must prevail over its real dimension, i.e. whether the reduction of debt may have negative effects on growth and on welfare. Second, the financial dimension must actually reflect the creditworthiness of governments rather than mere speculative movements. The interest rate must not reflect the bets made by financial institutions against those bonds. We will discuss these issues in the next section.

[8] Recently M. Draghi, the ECB president, has argued that failure to finance Cabinets may actually undermine the Euro's stability. This stance was somewhat controversial within the ECB entourage but it eventually prevailed as a consequence of the spread crisis. It led to the establishment of «transactions in secondary sovereign bond markets that aim at safeguarding an appropriate monetary policy transmission and the singleness of the monetary policy» (European Central Bank, *Press release*, 6 September 2012; http://www.ecb.int/press/pr/date/2012/html/pr120906_1.en.html).

Let us now examine the second goal, that of increasing the flexibility of the labor market[9]. The key feature of the reform is that it enables employers to easily dismiss workers. In some cases they can even dismiss them illegitimately, subject to the payment of a fine. Workers are entitled to an unemployment benefit which gets reduced by 15% after six months and, again, by the same amount after twelve months.

The rationale for this reform is that it ought to enhance growth. While this is, in itself, a desired outcome, its financial effect is that it should increase the denominator of the debt/GDP ratio, thereby reinforcing expectations about the government's creditworthiness.

The reason why flexibility ought to enhance income is that it reduces a firm's overhead costs, thereby making it more competitive. Owing to different labor intensities of production, labor costs affect the competitiveness of each industry in different ways but if, for simplicity's sake, we assume this circumstance away, the lower labor cost does not change competitiveness among domestic firms – those located within the country – while it does increase the competitiveness of domestic firms relative to foreign firms. In other terms, it is a measure that is functional to an export-led pattern of growth.

Just as in the case of the measures regarding public finance, this labor market policy is based on some crucial assumptions. First, the increase in exports, and the consequent positive effect on growth that the more flexible labor market allows, must exceed a negative effect of this measure. This negative effect is that more flexibility involves a lower wage bill – either because it is easier to dismiss workers, who therefore do not get their wages anymore or because the threat of dismissal makes workers more willing to accept lower wages – which leads to lower aggregate demand and lower growth.

Second, the increased freedom that firms have to dismiss their workers must not reduce the involvement of those same workers. What is at issue, here, is not whether workers will remain disciplined and will carry out their tasks. It is that innovation and qualitative – as opposed to mere cost-based - competitiveness requires that workers feel they are part of a cohesive team. Obviously this feeling tends to fade away when one realizes that – maybe because of a wrong entrepreneurial strategy – s/he can be dismissed any moment.

Third, flexible labor markets must not provide an incentive to pursue competitiveness by cutting costs rather than through innovation. Innovation involves a risk associated to change that cost-cutting does not involve, so that the incentive to rely on cost shredding is most likely to be strong, especially in an economy that historically relied on low costs and/or competitive devaluations to increase its hold on foreign markets. A cost-shedding strategy, however, does not allow to outcompete firms from countries where the standard of living is definitely lower than in Italy.

Fourth, the export-led model requires that net exports be positive. In turn, this means that other countries must support Italy's growth through a trade balance deficit. It is reasonable to believe that these countries are not going to be willing to accept this «beggar my neighbor» policy. If they were to accept it, they would have to finance their imports somehow. Greece is a typical example of a country who paid its imports from Germany by getting into debt with German banks. As a result, Greece is in trouble because it has to pay its debts back while German banks are also in trouble because Greece may default. Needless to say, these events are of no minor consequence for the Eurosystem as a whole.

3. The claimed inevitability of the policies enacted by the Monti Cabinet

The Cabinet that Monti formed in November 2011 was termed a «technical» Cabinet. Such a qualification is ambiguous and needs to be explained. The Cabinet was expected to carry out a policy that transcended the political views of most parties. Indeed, both center of right and center of left parties considered that what the new Cabinet had to do was to solve an economic emergency and that there was basically just one way to do it. These parties were unable to agree on a common program so they chose to support the Monti Cabinet provided that it would not include any party member or member of Parliament.

These circumstances allow us to point out two important features of the Monti Cabinet. First, it was appointed because of a stalemate in the Italian Parliament that prevented a party-centered majority to emerge and to decide what the priorities were. This situation reflected a crisis of (democratic) representative institutions which led to the establishment of a Cabinet that did not have to account to the electorate for what it was going to do. It was not directly accountable, since its members were not professional politicians who had to be re-

[9] The reform is in the law no. 92 of 28 June 2012 (available at: http://www.lavoro.gov.it/Lavoro/PrimoPiano/20120627_riforma_mercato_lavoro.htm, accessed on 02 January 2013). A description – in Italian - of the main features of the law is available at http://www.cliclavoro.gov.it/primo-piano/Pagine/Speciale-riforma-le-novita-del-mercato-del-lavoro.aspx, (accessed on 02 January 2013).

elected. It was not indirectly accountable because, even though the parties that supported it were sensitive to the reactions of their voters, they were nevertheless unable to provide any alternative. A detailed discussion of the shortcomings in Italy's democratic institutions lies beyond the scope of this paper. We will nonetheless return to this issue in Section 5.

The second feature is that there appeared to be only one solution to the economic emergency. The Cabinet was «technical» because its policies were deemed not to involve any value judgment. Since this point is rather important, it may be worthwhile to recall what happened little before Monti became prime minister. On September 29th, 2011 the president of the European Central Bank, Jean-Claude Trichet, and the governor of the Bank of Italy, Mario Draghi - who was about to take Trichet's place - wrote a letter to Italy's prime minister, Silvio Berlusconi. The letter, which was supposed to be confidential but was eventually published on the web[10], provided a list of economic actions that the two central bankers deemed necessary. Although the depicted policy measures had redistributive effects that were not central to the goals outlined, and that – as we shall see - alternative policies could be envisaged, Trichet and Draghi explicitly stated that «we consider the following measures as essential», i.e. beyond whatever dispute.

The two central bankers had no doubt about their authority to tell a democratically elected policymaker what he should do. They were not expressing the – undoubtedly authoritative – opinions of two key actors of monetary policy. Rather, they were telling the prime minister that the measures listed in the letter were the only possible ones. Since no political or government authority commented on the formal regularity of two civil servants telling a Cabinet what to do, it was apparently taken for granted that there was only one (scientific) way to look at economic issues. Consequently, there was no need for democratic deliberation over how the economy should be arranged. This same cultural and ideological background supported the economic strategy of the Monti Cabinet and accounts for the political support that it was granted.

Let us focus on this claimed inevitability of the Cabinet's economic policy. The reduction of the public debt was pursued by cutting expenditure. Obviously, anyone who undertakes such a policy will justify it on the grounds that it is reducing whatever wasteful use of available resources there is. The fact remains that welfare provisions were cut or kept at very low levels, along with other relevant expenditures (such as those for education and research). Let us assume for the sake of argument that an expenditure cut is necessary. There is no a priori reason why the cuts should not be centered on other items, such as military expenditure. As for taxes, choice of a more or less progressive taxation is also a matter of value judgment.

But do we really need to cut the debt? Can't we think of a more active role of the ECB as a lender of last resort, quite independently of the «emergency-led» measures outlined in footnote 6? Paradoxically, it has often been the case that the ECB would lend money to banks which would then buy government bonds. It is questionable that this intermediation should be necessary and appropriate instead of the ECB directly financing governments. The dramatic effects that public debt seems to have on financial markets determine extremely high social costs. Can't we think of bypassing financial markets in order to avoid the rising spread? Even if we believe that these markets are competitive and reflect actual riskiness of financial assets, it is legitimate to ask whether their efficient behavior should jeopardize social welfare. Such a question turns out to be even more important if we acknowledge that markets where firms are «too big to fail» can hardly be competitive, that the actors in such markets do not just react to the riskiness of financial assets but actually affect it, thereby increasing systemic risk rather than just reflecting it.

If we look at another dimension of sovereign debt – a nation's overall debt, which includes its foreign trade deficit – it is fairly clear that the establishment of the Eurosystem did not avoid the asymmetry between creditor and debtor countries. It is well known that if a country has a trade deficit, some other country must have a surplus. This applies to the countries within the Eurozone owing to the latter's overall current account balance. As the founding members of the IMF knew very well – even though their successors forgot – a deficit occurs if a surplus country does not import from the deficit country. They knew that a persistent surplus was functional to export-led growth, so they introduced rules that penalized such strategies, thereby allowing debtor countries to reduce their external debt.

Policies that are alternative to those of the Monti Cabinet are not impossible. They are outlined in specific scholarly contributions such as those of Sawyer[11], Cesaratto and Pivetti[12], and Varoufakis and Holland[13],

[10]http://www.corriere.it/economia/11_settembre_29/trichet_draghi_inglese_304a5f1e-ea59-11e0-ae06-4da866778017.shtml (accessed on 11 May 2012)

[11] Cf. Malcolm Sawyer, *Alternative Economic Policies for the Economic and Monetary Union*, in «Contributions to Political Economy», vol. 32, 2013, pp. 11-27.

[12] Cf. Sergio Cesaratto and Massimo Pivetti, (eds.) *Oltre l'austerità*, Gli eBook di MicroMega / 1 (http://temi.repubblica.it/micromega-online/oltre-lausterita-un-ebook-gratuito-per-capire-la-crisi/) 2012.

occasional proposals by networks of economists such as the *Five Proposals for Another Road for Europe*[14]or the *Letter from the Economists*[15] and yearly documents such as the *Euromemorandum* provided by the «European Economists for an Alternative Economic Policy in Europe»[16] or the alternative public budget policy suggested by the «Sbilanciamoci» network[17]. It is often difficult to pursue them, however, because of the institutional constraints that frame the action of European governments[18]. Any reasonable assessment of the social costs that the present policies are causing might suggest that these constraints should be removed. There are three explanations for neglecting these possible changes and concluding that present policies are inevitable. The first one is technical: any attempt to change how the economy is arranged would disrupt it. The second one is distinct, although similar to the first one: any attempt to change how the economy is arranged would negatively affect growth. The third one is political: other actors – governments, political parties, vested interests - would not be willing to accept these changes. Neither one of these explanations is satisfactory.

The first one clashes with the existence of a variety of economic arrangements, across history but also within present capitalism. We might argue that one setup – e.g. the individualistic American one - is preferable to another – e.g. the solidaristic continental European one - but this is a matter of value judgment, not one of technical constraints.

The second explanation differs from the first one because, while it acknowledges that different institutional arrangements are possible, it claims that they can be ordered according to how they affect growth: growth prevails over other goals. The argument in favor of this view is that growth provides the resources that are required to achieve other goals. Assuming that this is true, the problem with this account is that present policies - typically cuts in public expenditure that reduce aggregate demand - actually constrain growth and the availability of resources. Those who are in favor of such policies contend that they favor growth in the long run. Leaving aside Keynes' well known remark, whereby in the long run we will all be dead, the point is that forsaking the present quality of life in order to achieve a better one in the future is a matter of value judgment. There is no reason to take such a choice for granted.

It is doubtful, nonetheless, that growth is a prerequisite for all other goals. Many countries forbid some economic activities – e.g. the production and distribution of some drugs – or regulate how other activities are arranged, for instance by setting health and safety requirements that may well reduce profitability, investment and growth. The rationale for this specific type of regulation is that what matters about output is not just its quantity but also what it consists of and how it is produced. Again, we are faced here with a value judgment, not with a technical argument.

Let us now consider the third reason. Political constraints do exist, but there is no reason to believe that they should never change. The balance of power among social and economic interests changes over time, views of the world evolve and eventually affect the outcome of elections. The balance of power among governments is also subject to change. In order for this to happen, political constraints should be identified and pointed out, not internalized and taken for granted. The latter behavior simply reinforces those constraints.

The above discussion does not aim to show which policy would be better than the present one: this issue will be discussed further on. What it does attempt to do is to show that it is misleading to claim that present policies are inevitable. It argued that there are different ways to conceive of inevitability but none are convincing. The conclusion it leads to is that it is certainly possible and legitimate to formulate the value judgment that the policies carried out by the Monti Cabinet are the best possible ones. It is however detrimental to democracy that they should be presented as the only possible choice: a choiceless democracy can hardly be considered a democracy.

4. Socio-political implications of the Monti Cabinet's economic policies

We already discussed the policy guidelines of the Monti Cabinet. Let us examine some of their implications. The new regulation of the labor market has a twofold dimension. On the one hand it is supposed to allow firms to hire and dismiss workers more easily than before. We already discussed this goal and the shortcomings it can

[13] Cf. Yanis Varoufakis and Stuart Holland, *A Modest Proposal for Overcoming the Euro Crisis*, in «Levy Economic Institute Policy Note 2011/3», 2011 http://www.levyinstitute.org/pubs/pn_11_03.pdf.

[14] http://www.anotherroadforeurope.org/index.php/en/five-proposals (accessed on 02 January 2013).

[15] http://www.letteradeglieconomisti.it/english.htm (accessed on 02 January 2013).

[16] http://www.euromemo.eu/ (accessed on 02 January 2013).

[17] http://www.sbilanciamoci.org/controfinanziaria/ (accessed on 02 January 2013).

[18] It is nonetheless noteworthy that the proposal put forward by Varoufakis and Holland «is radical, yet modest, since it does not require new institutions». (*ibid.*: 3).

lead to. On the other, it forces workers to be more respondent to labor market requirements. They should not sink into idleness, not to speak of shirking, so they must live under the threat of losing their job. Much like the goods market is supposed to discipline firms by driving them out when they do not meet the needs of their customers, the rationale of the new regulation is that the labor market must drive out those workers that do not meet the needs of their customers, the firms. A corollary of the above regulation is that unemployed workers should be enhanced to find a new job as soon as possible rather than taking advantage of welfare provisions.

What the above rules imply is that workers are responsible for their position in the labor market: with the possible exception of people who have special – physical or mental – problems, whoever is unemployed is a person who chooses not to work. This claim, aside from other considerations, would make some sense if the condition of being employed or not did not depend on circumstances that lie well beyond a worker's choice, such as the level of aggregate demand, technological change or the entrepreneurial strategies carried out by company managements. The main issue, however, is that this regulation conceives of workers as labor power rather than as human beings, the difference being that the former is a commodity like any other whereas the latter are people entitled to basic human rights. More precisely, we refer here not only to the generally accepted first generation human rights, those related to an individual's civil and political rights, but also to second generation – social - human rights, such as the right to work and the right to a decent quality of life[19]. It is obviously possible to argue that there is a trade-off between economic requirements and human rights. This suggestion, however, lacks a specification of what the economy should do other than comply with human rights, i.e. what is so important that it may justify the failure to meet this fundamental commitment. We shall return to this issue further on.

Let us now examine fiscal policy. The basic principle underlying it is that people have to resort to market criteria even when it is a government agency that provides a service. Thus, if they want a decent pension when they retire, they must capitalize their savings[20]. If they want appropriate medical aid despite the cuts in expenditure on health[21], they should subscribe an insurance policy; etc.. Let us assume, for the sake of argument, that resources are given and that public expenditure has no expansionary effect. What difference does it make whether one pays for a private physician or pays taxes that finance the national health service? The conventional wisdom would suggest that, since the private sector can provide the same services as the public sector, it is better for people to pay directly for what they need. They will have to choose whether it is actually worthwhile to do so, thereby avoiding unnecessary expenditure.

Such a claim makes sense only if a range of important conditions holds. First, the prices charged for those services should reflect the actual use of resources available to a community, which would at the very least require the existence of competitive markets. Second, what people pay for should be «private» services, i.e. services that affect them alone. This is not the case with most services provided by the welfare state. A person may think she has tuberculosis. Her decision whether to spend her money in order to ascertain her illness or not will affect her community, not only her. It is in the interest of her community to prevent contagion by facilitating the diagnosis and the cure. Third, it is often the case that welfare provisions do not meet the profitability requirements of the private sector. For instance, it is generally the case that curing a disease – e.g. lung cancer - is more profitable than finding the appropriate ways to prevent it. Fourth, income distribution may affect the decision to go to a private doctor. All of these circumstances point to a distinctive feature of public pension and health systems, that is, they substitute individual insurance for collective insurance (risk sharing).

The absence of these conditions is typically pointed out by public policy textbooks[22] under the general heading of «market failures» and, more specifically, imperfect competition, externalities and public goods[23]. These standard and definitely important arguments should not overshadow a major issue, however. What we are dealing with is a basic human right. Can it be subject to individual or public budget constraints? To the extent that this human right is acknowledged, what sense does it make to claim that no resources are available? Shouldn't the issue be turned the other way round: how should resources be used in order to meet these

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[19] See the the Italian Constitution (http://www.senato.it/documenti/repository/istituzione/costituzione_inglese.pdf, accessed on 27 November 2012) especially articles 2, 4, 35-38 and 41, and the Universal Declaration of Human Rights, (http://www.un.org/en/documents/udhr/index.shtml, accessed on 27 November 2012), especially articles 23 to 25.

[20] The pension reform extends the capitalization principle to all pensions. See http://www.lavoro.gov.it/Lavoro/PrimoPiano/20120309_Riforma_Pensioni.htm (accessed on 02 January 2012).

[21] See Ministero dell'Economia e delle Finanze, *Documento di Economia e Finanza. Sezione III: Programma Nazionale di Riforma*), 2012, p. 32-32

[22] e.g. Nicola Acocella, *The Foundations of Economic Policy: Values and Techniques*, Cambridge (U.K.), Cambridge University Press; translated by Brendan Jones, 1998.

[23] A more detailed discussion of pensions and of their insurance-related features is in Rojhat B. Avsar, *On the Pro-Social Security Rhetoric*, in «Forum for Social Economics», Vol. XLI, No. 2-3, 2012, pp.187-205.

fundamental requirements? What consumption that is unrelated to these basic rights should we forsake in order to establish a more humane society? How should we devise the legal-economic nexus[24] – thus, laws concerning not only property rights, contracts and patents but also money, banks and financial institutions, dismissals, basic income, welfare state provisions, European agreements – in order to fulfill these rights?

The idea that welfare services can be provided by the market implicitly leads to the conclusion that they are «private» goods and that their recipients are individual consumers who should choose between education and health – or any other public and/or merit good - much like they choose between apples and pears. According to this view, it is up to single individuals to decide which commodities they want. They should formulate their choices through their willingness to pay.

A similar type of reasoning applies when decisions pertaining to public action are devolved to private – usually not for-profit – agencies. This is the case, for instance, with funding of medical research. In the absence of adequate public action, single agencies compete to receive financial help from households. As a result, they use resources to advertise and they get funded according to how successful their campaigns are, quite independently of any social priority criterion. Furthermore, funding of research – thus the pursuit of a solution to dramatic health issues – is conceived of as a charity issue. Undoubtedly, altruism and doing good are praiseworthy behaviors but they have nothing to do with entitlements, i.e. with a community's decision to assign and/or acknowledge legally binding rights. Whatever success these behaviors lead to ultimately depends on individual choices, not on a collective obligation. This denial of human rights, which underlies most socially relevant – thus also economic – activities, reveals the presumed irrelevance of the solidaristic project that underlies the welfare state.

Since the project that the Monti Cabinet carried out is more consistent than that of its predecessors, it is easier to depict its main features. Based on the above discussion these consist in isolating economic relations from any interference by extra-economic societal values. Insofar as people are workers or consumers, they are stripped of any social dimension. They are turned into isolated individuals who confront markets according to the principle of contracted exchange[25].

Just as in the case of the regulated labor market, consumers are considered budget-constrained automata whose only decision criteria is their willingness to pay. What they earn determines not only what goods they can afford to buy but also their health, their personal and their children's education and, more generally, the possibility to achieve the «full development of the human person» and their «effective participation … in the political, economic and social organization of the country». (*Italian Constitution*, art. 3).

The rationale of this program is fairly straightforward. The functioning of the economy clashes with basic human rights. Since it is not possible to change how the economy is arranged, it is necessary to forsake those rights[26]. This subordination of societal values - such as the human rights put forth by the charters cited above - to the contended priorities of the economy is questionable on strictly economic grounds: as we saw above, there is nothing inevitable about the policies enacted by the Monti Cabinet. They reflect a - legitimate - political choice and Monti, along with his entourage, had the right to present it as the only appropriate choice. Its implications should be made as clear as possible, however.

First, as A. Sen[27] has often pointed out, income growth is not an end in itself. It is only a means to achieve some of the goals of society. Important as these goals may be, they cannot prevail over the fundamental ends that our societies have outlined in the Universal Declaration of Human Rights and that Italians have outlined in their Constitution. Human rights are not commodities, they cannot be equated to the generic availability of goods and services. Their violation cannot be justified by some sort of trade-off with income growth.

Second, the organization of a - national - community is based on a range of basic principles – which are listed in the above mentioned charters – that enhance social inclusion and social cohesion. They underlie the formation

[24] Cf. Warren J. Samuels, Steven G. Medema and A. Allen Schmid, *The Economy as a Process of Valuation*, Cheltenham, Elgar, 1997.

[25] Little matters that such an exchange is only formally on equal terms: the bargaining power of firms relative to workers is such that whoever is unwilling to comply with their requirements can be dismissed. Truly, firms may have to pay some money to get rid of such workers, but it is the price they pay to ensure the discipline of the remaining workers. Under these circumstances even respect of the law is subordinated to market priorities, since workers who pretend that firms abide by it are likely to be the first ones to lose their jobs.

[26] Such a harsh statement will, most likely, never be made explicit. A more palatable way to justify the program is to point out the supposedly opportunistic behavior of workers – who only wish to make the least effort they can – and of consumers – who carelessly waste a society's publicly administered resources. Little matters, apparently, that action to deal with this contended opportunism throws away the baby with the bath water.

[27] Amartya Sen, *Goods and People*, in id. *Resources, Values and Development*, Oxford, Blackwell, 1984, pp. 509-532; id. *Development as Freedom*, op. cit..

and persistence of social capital, i.e. a set of not strictly economic relationships the absence of which would prevent social consensus and economic interaction. Violations of these principles, on the grounds that they preclude economic growth, are likely to disrupt the very foundations of the community. They negatively feed back on economic performance in so far as it undermines the involvement of workers, a major feature of competitiveness, in an industrial structure dominated by small and medium-sized firms such as in the Italian case[28]. Historically, they have accounted for the social and political stalemates which eventually led to Fascism and Nazism[29]. They are now determining inter-ethnic and inter-regional tensions within the country, as people demonize social minorities in a confused attempt to deal with undermined solidarity and forced individualism[30]. It is also leading to widespread detachment from democratic deliberation, given the emphasis on individualistic, rather than collective, solutions.

5. Implications for democracy

Although the economy can provide the means to satisfy a great many needs, it has been generally acknowledged that it cannot satisfy all needs. Pigou[31] distinguished economic from general welfare and assumed that it was possible to deal with the former independently of non-economic welfare. Based on this assumption, welfare economics discussed the features of the economy in relation to an ideal setup, thereby identifying all those circumstances where the market interfered with social requirements. Economic policy was concerned with adjusting the market in order to make it more efficient, i.e. more capable to satisfy economic needs. It went without saying that non-economic needs and issues were based on different grounds and lied beyond the scope of the economist.

The neo-liberal tradition provided an altogether different approach. It contended that not only specifically economic relations but all social relations, such as criminality, marriage, etc., are based on the same type of behavior[32]. This strand of economic thought does not merely aim to provide insights from economic analysis which may be eventually integrated with non-economic considerations, thereby providing a more composite picture. It consists in claiming that, since the «economic approach» leads to efficiency, whenever this does not happen there must be some impediment, something that precludes the achievement of an efficient outcome. Economic policy, in this case, must remove all such impediments.

The neo-liberal implications for public policy would seem to be the same as those of the previous tradition. Apparently, the difference would only lie in the extent of the intervention. Traditional economic policy consisted in making the economy work as efficiently as possible but also in making up for whatever inefficiency remained. The welfare state was therefore necessary because of unemployment and externalities. The neo-liberal approach argues that these circumstances do not depend on market failures but on constrained markets. The policy issue therefore is to extend the rationale of the market to those domains that the previous tradition deemed non-economic. Thus, if «normal» people are persistently unemployed, that is because they do not have an incentive to look for a job, presumably because of welfare provisions. This is the contention that underlies «welfare to work» policies and the recent labor market reform of the Monti Cabinet. As for externalities, the issue is not to neutralize them through public action – typically taxes - but to internalize them by assigning property rights.

The neo-liberal approach appears to be a case of scientific progress in that it explains how the «economic approach» can provide solutions to hitherto unsolved problems. Such a progress, however, is made possible by assuming that a range of non-economic features of life can be monetized and commodified. As we saw in the previous section, this approach does not consider that health, education, a decent job and decent living

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[28] Cf. Paolo Ramazzotti, *Industrial Districts and Economic Decline in Italy*, in «Cambridge Journal of Economics», vol. 34, n. 6, 2010, pp. 955-974.

[29] Cf. Karl Polanyi, *The Great Transformation*, New York, Holt, Rinehart & Winston, 1944.

[30] «Demonization is specified scapegoating: it is a means by which individuals can feel better about themselves and take satisfaction in their superiority» (Mary V. Wrenn, *Agency, Identity, and the Great Crisis: A Veblenian Perspective*, «Journal of Economic Issues», Vol. XLVI, No. 2, 2012, p. 408).

[31] Cf. Arthur C. Pigou, *The Economics of Welfare*, London, Macmillan and Co., 1920

[32] «My research uses the economic approach to analyze social issues that range beyond those usually considered by economists. […] The analysis assumes that individuals maximize welfare as they conceive it, whether they be selfish, altruistic, loyal, spiteful, or masochistic. Their behavior is forward-looking, and it is also assumed to be consistent over time». (Gary Becker, *The Economic Way of Looking at Behavior. The Nobel Lecture*, «Hoover Institution on War, Revolution and Peace. Stanford University. Essays in Public Policy», No. 69, 1996, pp., 1-2). Becker contends that the «economic approach» applies to irrational behavior as well, i.e. to agents who do not maximize utility or profit (cf. Gary Becker, *Irrational Behavior and Economic Theory*, in «The Journal of Political Economy», Vol. 70, No. 1, 1962).

conditions are basic rights that all members of a community are entitled to. It does not consider them as the essential requirements that allow people to choose how to conduct their lives, thus as key conditions for actual freedom[33]. Although they may have a public good nature – in relation to the externalities they produce and the pricing issues they involve – unless their availability to individuals is under a minimum threshold, they generally are considered private goods that each single individual must pay for if s/he wants them. Payments may consist in spending money as well as in relinquishing their human rights according to personal trade-offs.

Compensating public action, such as welfare policies, turns out to be inappropriate, in this perspective. The neo-liberal approach contrasts direct government choice on the grounds that it substitutes individual choice. Similarly, secondary income distribution is thought to distort primary distribution, i.e. what individuals actually achieve through their individual action. Ultimately, government action does not need to ensure that all individuals enjoy the same social human rights in order to be free.

The neo-liberal approach does not reject public policy, however. Quite to the contrary, it is explicitly interventionist[34]. The policies the neo-liberal approach purports consist in determining the institutional setup whereby people do not view themselves as members of a community but as isolated individuals. Workers do not merely sell their labor force, given some generally accepted rights. The institutional setup establishes the conditions for a trade-off between those rights. For instance, workfare policies, which aim to force unemployed workers to accept any job, almost independently of one's qualifications, indirectly force employed workers not to uphold their rights if they wish not to lose their jobs. This means that these workers will be willing to forsake job safety or other health prescriptions in exchange for their wage. The commodity workers end up selling in the labor market is not just their labor force but their own bodies and lives.

Similarly, people are forced not to rely on the formally recognized and established support of the community, e.g. through public education or through the national health system. They are also prevented from seeking community-wide solutions to society's problems. They have no way to collectively act – e.g. through trade unions – in order to achieve better working conditions - in terms of stability, health and safety - and a better quality of life, not only in terms of their money wage but also in terms of their non-monetary income (social services). Societal solidarity – i.e. solidarity based on entitlements rather than on charity - is substituted by explicit market transactions or personal trade-offs between constitutional rights.

This change in the institutional setup of society has important consequences for collective freedom and democracy. If people are encouraged – and forced - to rely on themselves as individuals, there is little point in conceiving of collective goals. By renouncing social human rights, the institutional setup of society not only prejudges individual freedom. Since it denies that there is anything other than individuals, so that social inclusion and social cohesion merely consist in avoiding social tensions, the institutional setup precludes collective action. Thus, neo-liberalism purports an institutional change that undermines the principle of democratic deliberation and the very opportunity to choose how to redefine the institutional setup of society.

Summing up, the neo-liberal policy project considers that social human rights are irrelevant as far as individual freedom is concerned. It believes that attempts to ensure those rights ultimately prevent individuals from pursuing efficiency. It purports the establishment of an institutional setup that reduces collective solidarity and social human rights. In so doing, it precludes the achievement of the freedom to choose how to conduct one's life. It also reduces the relevance of democratic deliberation, at the expense of collective freedom[35]. In so far as the Monti Cabinet pursued these ends, it reinforced the democratic decline that justified its appointment.

6. What alternative?

The above discussion raises the question: is there an alternative to the overall vision of the economy that the Monti Cabinet has? Is there another way to frame economic policy? Section 3 provided a list of programs put forward by economists who believe that alternative policies are technically possible. The issues raised so far, however, suggest that before we discuss any technical issue, we need to deal with a key question: what are the ends we wish to pursue? It is fairly clear that Monti's approach is centered on economic growth. Most of the ends pointed out by the charters mentioned above are set aside or viewed as constraints to growth-oriented

[33] Cf. Amartya Sen, *Development as Freedom*, op. cit..

[34] Cf. Michel Foucault, *Naissance de la biopolitique. Cours au Collège de France 1978-1979*, Paris, Seuil/Gallimard, 2004; Wendy Brown, *Neoliberalism and the end of liberal democracy*, in id. *Edgework: Critical Essays on Knowledge and Power*, Princeton, Princeton University Press, 2005, pp. 37-59

[35] Michele Cangiani, *A crisis of freedom*, in Paolo Ramazzotti, Pietro Frigato e Wolfram Elsner (eds) *Social Costs Today: Institutional Analyses of the Present Crises*, London, Routledge, 2012, pp. 269-289

policy. This is not to say that they are not deemed important. The claim is that they can be achieved only insofar as growth provides the required resources.

An alternative approach consists in claiming that growth should be pursued only subject to the establishment of basic human rights. Consider child labor. We may argue that it should be subordinated to the achievement of economic growth or, quite to the contrary, that whatever growth is possible should be pursued subject to the banishment of child labor. Similarly, since the elderly who cannot work may be considered as an impediment to growth, in that pensions supposedly prevent a more productive use of available resources, they might be left to starve to death unless some loving relative or charitable organization devolves some resources to take care of them. Alternatively, based on a principle of social solidarity, they can be considered a priority in choosing what resources should be produced and how they should be shared.

Economic and social goals may be more or less important. In some cases they can be assigned appropriate weights. In other cases, some of them may be considered so important that they prevail over any other goal. Decisions concerning these issues involve moral value judgments, i.e. an ethical assessment of what is most appropriate.

As the examples concerning child labor and pensions suggest, we need to acknowledge that the economy is based on principles other than the mere pursuit of one's own goals. When the former complement the latter there may be no problem but the case is that they often clash. The neo-liberal approach consists in arranging the economy in order to allow individual goals to prevail. An alternative approach conceives of an economy where the above principles underlie the institutional setup.

It is important, in this respect, to distinguish between two issues. The above discussion expressly chose not to discuss the actual performance of the Monti Cabinet, i.e. whether its measures were successful or not. Similarly, the aim of the present discussion is not to suggest that alternative measures would be better in terms of some predefined goal. The aim of the present discussion is to focus on the ends. Different ends involve different goals and technical tools which may or may not turn out to be successful. Failure to achieve given ends may require more appropriate tools, possibly revised goals, surely not revised ends. Thus, if growth is the only or the primary goal, the government may neglect or subordinate all other issues to growth. If, on the contrary, issues such as human rights are deemed a priority, the government will need to resort to technical tools that take account of this broader perspective. It will have to conceive of the economy – the set of relations that a society establishes with nature in order to achieve its material reproduction – in relation to those values.

Let us discuss some of the issues underlying different conceptions of the economy. We mentioned above that it is important to choose what the economic and social priorities are, which involves a moral value judgment. Deciding how to conceive of the economy also involves value judgments: cognitive value judgments. In general they have to do with how we try to make sense of the world we live in, thus what we think is important and what we think is not, what is potentially subject to purposive action and what is not. With regard to the economy, the same questions apply. They relate to what we think the economy consists of and how we think it should be. Ultimately, they involve deciding what the relevant questions are and how we should frame the answers.

Since the above arguments may appear to be rather abstract, it may be worthwhile to return to the issue of policy constraints. It is obviously not possible to change the economy by an act of will. A range of circumstances may prevent this from occurring. They differ in terms of their causes and of how strongly they resist change. Although they are often interdependent, it is appropriate to distinguish them.

The first group of constraints is ideological. Different ideologies provide different views of the world: how it is and how it should be. Thus, it should be of no surprise that, for instance, some people believe that freedom consists in the absence of most legal bounds and in the establishment of a minimal state rather than in the availability of all those opportunities – or, more specifically, capabilities - that allow people to choose how to conduct their lives. In our attempt to direct change towards our ends, we must take account of this diversity and deal with it: this is what politics is about. It has to do with the power to convince people and with the ability to reach some compromise where necessary. While political constraints undoubtedly exist, there is no reason to deny that our pursued goal is potentially achievable. Failure to achieve it has less to do with economic thought than with political struggle. Economic thought need not be restricted to managing the *status quo*. It can – it should – envisage a better world to live in.

The second group of constraints consists in vested interests. Economic change hardly is to the advantage of everybody. Even when it is a positive-sum game, somebody gains more than, if not at the expense of, someone else. For instance, the welfare state generally provides services to everybody but its expenditure is financed through progressive taxation, so that some people pay more than others for the same service. It is no wonder that the richer sections of society may be in favor of private services. Vested interests contrast change in order not to lose their relative position. Much like in the case of ideology, the issue is political. It has to do with devising the social alliances and the political consensus that will eventually allow the enactment of change. Economic thought cannot assume away social conflict and the value judgments it involves.

The third group of constraints is structural. It has to do with how the economy is arranged in terms of the legal system, of entitlements and property rights and of organizations. Thus, after a multi-decade long process of international economic integration, it is not possible to carry out expansionary macroeconomic policies independently of the implications this will have both on the trade balance and on speculative capital movements. It is nonetheless the case that the structural features mentioned above did not exist before and need not be eternal. Economic thought should conceive of the economy as embedded in a historical process.

Since these three groups of constraints are interconnected, change may require a complex and time-demanding process. This need not exclude a step by step process that goes in that direction. It may involve different views concerning how to proceed. But these different views should not deter attention from the key issue this paper has tried to point out, i.e. that first and foremost it is important to make clear what ends need to be pursued.

7. Concluding remarks

The aim of the paper was to assess the ends pursued by the Monti Cabinet. It argued that there was no reason to consider the policies enacted by the Cabinet as inevitable. Proposals for an alternative to those policies existed. This is not to say that these alternatives were a priori preferable. It does suggest that a discussion concerning the value judgments underlying the policy-choices would have been appropriate. Democratic deliberation requires open discussions over what the issues are. It is precluded by attempts to conceal ethical issues with arguments based on supposed technical, institutional or political constraints. This issue is not important in merely formal terms. The paper showed that there was a major inconsistency between the goals pursued by the Monti Cabinet and the basic rights singled out by the Italian Constitution and by the Universal Declaration of Human Rights.

A proper assessment of the policies of the Monti Cabinet suggests that the inconsistency relates not only to the specific goals of the Cabinet but to its very ends. The fiscal policies and the changes in the labor market reflect the attempt to determine a radical institutional change in the Italian economy. This change consists in the individualization and monetization of social relations. In order to ensure a more efficient economic system, the Cabinet pursued a reorganization of the economy so that workers and citizens would be forced to adapt to supposedly objective market constraints. This reorganization applies a money-centered metric not only to businesses but to individuals, households and society as a whole. Intriguing as it may be – in that it provides a unifying rule for everything that matters – this policy perspective aims at a society that clashes with the principles of social solidarity outlined by the Constitution and with individual social rights. In such a society there is little scope for collective goals and for deliberation. Consequently, there is little scope for democracy, i.e. for a decision mechanism based on the «one head one vote» principle rather than on willingness to pay. Ultimately, it is a project for a society that is completely embedded in the economy rather than the other way round.

Ironical as it may be, the Monti Cabinet came to office because of a crisis in the country's democratic institutions but the institutional setup that its policies pursue is bound to exacerbate this crisis. This suggests that discussions concerning Italy's economic outlook should probably shift their emphasis from the technical appropriateness or overall consistency of the Cabinet's policies to the correspondence between these policies and the society foreseen by the Italian Constitution.

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