The Five Star Movement’s Luigi Di Maio and founder Beppe Grillo won big in the March 4 elections. AP Photo/Andrew Medichini

**Italy’s economy has ‘cronyism disease,’ but will its next government treat it?**

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**https://theconversation.com/italys-economy-has-cronyism-disease-but-will-its-next-government-treat-it-92807**

1. [**[](https://theconversation.com/profiles/bruno-pellegrino-417669)Bruno Pellegrino**](https://theconversation.com/profiles/bruno-pellegrino-417669)

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On March 4, Italy went to the polls in one of the most chaotic and unpredictable elections in recent memory. [The result](https://theconversation.com/in-italy-fake-news-helps-populists-and-far-right-triumph-92271) was in line with expectations: None of the three competing coalitions attained an outright majority.

Under the mediation of the country’s president, Italy’s political parties will now try to form a coalition government with an agreed framework of policies. I believe a top priority should be addressing how to revive Italy’s economy, [which has been stagnant](https://tradingeconomics.com/italy/gdp-growth) for more than two decades.

Unfortunately, it probably won’t be on the top of the agenda. That’s because the issue was largely absent from the campaign, [overshadowed by concerns](https://www.cnn.com/2018/03/05/europe/italy-elections-intl/index.html) about immigration and anti-European sentiment. So it’s hard to know if the soon-to-be-formed government has a solution or even understands the problem. With [Italy’s debt at over 130 percent of GDP](https://www.bloomberg.com/news/articles/2017-11-09/italian-debt-load-up-this-year-above-130-in-2018-eu-says) and a [third of 20- to 34-year-olds](https://www.thelocal.it/20170718/italy-european-union-most-highest-percentage-neet-unemployed-young-people-millennials) unemployed, it’s vital that the country solve this issue.

University of Chicago’s [Luigi Zingales](https://scholar.google.com/citations?user=dd-5oP4AAAAJ&hl=en&oi=ao) and [I](https://scholar.google.com/citations?user=02AMk1kAAAAJ&hl=en&oi=ao) have sought to pinpoint the source of Italy’s woes in [new research we published](https://research.chicagobooth.edu/-/media/research/stigler/pdfs/workingpapers/14diagnosingtheitaliandisease.pdf?la=en&hash=FB3054008103B1E0E24E3F7E1D307523B0B2AD5F)in October as a [National Bureau of Economic Research](http://www.nber.org) [working paper](http://www.nber.org/papers/w23964). If we had to sum up our findings in one word, it would be “cronyism.” But that isn’t the end of the story.

**Italy’s ‘productivity disease’**

Italy’s economic malaise can be traced to the lack of gains in business productivity, which, as [economic research shows](https://voxeu.org/article/what-determines-productivity), is the most important determinant of an economy’s long-term performance. Simply put, it means more is being accomplished with less.

As Italian – and some [non-Italian](https://krugman.blogs.nytimes.com/2012/11/26/whats-the-matter-with-italy/) – economists know far too well, productivity as measured by GDP per hour worked stopped growing in the country around 1995.

Identifying the cause of this “productivity disease” is a [puzzle](https://www.wsj.com/articles/the-real-italian-job-make-the-economy-more-productive-1519756469)that has [intrigued economists for years](https://voxeu.org/article/diagnosing-italian-disease). Zingales and I tried a fresh way to find an answer to this conundrum by systematically exploring two different, massive data sets.

The first data set combined corporate financial information with a [survey of manufacturing companies](http://bruegel.org/publications/datasets/efige/) in seven European countries, including Germany, Spain and Italy. The [second contained detailed sector-level economic data](http://www.euklems.net) on 29 countries, including those seven. Our analysis focused on data from the mid-1990s, when Italy’s growth began to stagnate, until 2006, a few years before the Great Recession hit.

What emerged from our data dissection was a strong link between country growth patterns and companies’ adoption of [information and communication technology](https://en.wikipedia.org/wiki/Information_and_communications_technology#ICT_sector_in_the_OECD), such as computers, which became cheap and widespread in the 1990s. That is, countries in which businesses were quick to adopt these groundbreaking new technologies grew at a faster pace.

What might drive the difference in rates of technology adoption? [Research](https://voxeu.org/epubs/cepr-reports/why-some-do-it-better) has found that it comes down to having managers that are focused on performance and workplaces agile enough to reorganize when needed.

This is precisely where Italian companies fell short, according to our investigation.

**Corporate cronyism**

In particular, using several measures of corporate cronyism, we found that Italian businesses were dramatically more likely than their peers in other countries to hire friends or others to managerial positions rather than merit-based applicants.

In fact, on a 0-5 point scale, with the high score signaling a strong meritocracy that rewards performance, almost half of the Italian companies in the manufacturing survey got a zero.

We then compared these results with the data that measured adoption of information technologies and found a correlation: Companies and countries where cronyism was high and management failed to reward merit, such as Italy, were also much slower to adopt the new technologies, leading to stagnant productivity growth.

In contrast, countries with more meritocratic companies, such as Finland and Sweden, were quick to adopt the technologies, leading to stronger growth. The differences were largest in industries that use computers and other information technologies more intensely, such as financial and communication services.

**Unaware of the problem**

So if cronyism was the root cause of Italy’s lack of productivity growth, what can policymakers do to reverse this trend?

Unfortunately, only two of Italy’s parties – both members of the center-left coalition that governed Italy before suffering major defeats in the elections – even [acknowledged](https://www.cnbc.com/2018/01/17/italy-election-whos-leading-with-taxes-debt-and-more-on-the-line.html) this problem in their political platforms. Perhaps this is because the Italian public itself is barely aware it exists.

Even more discouraging is that no party has offered a concrete proposal to address it.

This is bad news for Italy. Its debt load is the [third-largest in the world](https://www.reuters.com/article/us-italy-election-markets/italian-banks-bonds-bear-brunt-of-election-fallout-idUSKBN1GH28R) at US$2.3 trillion and will eventually become unsustainable if the country is unable to revive economic growth. At the same time, more than a third of Italians aged 20-34 are unemployed.

Boosting productivity is essential to resolving both problems. If the new government fails to address it, Italy risks another two decades of stagnant growth and more “[lost generations](https://www.thedailybeast.com/italys-lost-generation-youth-unemployment-hits-nearly-50-percent).”