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Italy Is Fighting COVID-19 — and Capitalism

By **ALBERTO MINGARDI** | April 20, 2020 5:08 PM

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Tourists wear protective masks at a souvenir shop as the Italian government prepares to adopt new measures to contain the coronavirus in Venice, Italy, March 8, 2020. (Manuel Silvestri/Reuters) could well end up as a massive expansion of the state's power to run business and finance.

In the 1920s, the three major Italian banks had a substantial stake in the largest Italian listed companies. Roughly two years after Wall Street's crash, Italy also experienced a great crash, with stock valuations dropping an average of 30 percent. Those banks found themselves in dire straits: If they sold assets at market prices, their capital would be swept away.

For this reason, in 1933 the Italian Institute for Industrial Reconstruction (IRI) was established by the fascist regime. The government nationalized the banks and placed the shares of businesses it owned in a dedicated holding, to be managed by a few capable technocrats. Mussolini himself thought it was a "convalescent home" for Italian businesses, aimed at a quick recovery. IRI would later be held by Franklin Roosevelt as a model for his NRA. It was not until the holding was liquidated in 2000. In other words, it took nearly 70 years for Italy to get its state-controlled businesses out of the convalescent home.

It is generally agreed that COVID-19 could be as serious a crisis as 1929. It is possible that this predicament will yield an even greater state ownership of formerly private companies. In most countries this would be an unintended consequence of prolonged lockdowns, but in Italy, it may well happen by design.

Since the COVID-19 outbreak, the Italian stock market has lost something like 20 percent of its value. As happens in times of crisis, otherwise very sound companies, such as Fiat Chrysler or ENI and Tenaris, have lost something in the neighborhood of 45 percent in their stock value from last year. Fears of hostile takeovers by foreign “predators” have proliferated.

range of measures aimed at supplying liquidity to Italian businesses by offering state guarantees to lenders, the Italian government has engineered an extension of its "golden power." The consequences of this expansion will be far-reaching.

Golden power is the Italian version of the British "golden share." It is a set of rules established 2012 that enables the government to dictate conditions in the procedure of purchasing shares by foreign parties and even to stop a share-purchasing operation. This was, at the beginning, meant for so-called "strategic sectors": businesses related to national defense, telecommunications, transport, and energy. Certainly it is difficult to know what is "strategic" before you need it: Who would have considered "strategic" the production of face masks before COVID-19 hit us?

The government responded not by redefining the concept but by enlarging it. First, it began to include business "at high intensity of technology": a definition extended its golden power to banks and insurers, to “critical infrastructure,” to nanotechnology and biotech companies, to artificial intelligence, robotics and cybersecurity, to companies that deal with “sensible information, including personal data,” and to the food supply chain. It will not matter if new shareholders are European companies; thus, this is another nail in the coffin of the European single market. If any business wants to enroll a new shareholder from outside the boundaries of the EU, possessing a stake higher than 10 percent or worth more than a million euros, it must seek the government’s explicit permission. Let me stress: If *any* business. All of the above applies to private, non-listed companies as well. The boundaries of all the mentioned business sectors can be stretched to include their suppliers too (all of them, explicitly, in the case of telecom companies) — which, in an interconnected world, means we are talking about a substantial chunk of the Italian economy and virtually all of Italy’s listed companies.

December 31, but could of course be renewed) is inflicting another blow to Italian small investors. If they can sell their stocks only to fellow Italians, the value of these stocks is unlikely to increase.

For another, it is likely to create trouble for Italian start-ups, particularly in new technology. If they seek international angel investors or private-equity funds, eager to connect them with their Silicon Valley equivalents, their life is going to be more difficult. If every country produces a certain number of good ideas, money will move to finance them when it is least hampered.

But more important, in order to "protect" Italian entrepreneurs from international predators, this measure is de facto dispossessing them, including founders and owners of medium-size businesses, from their own property. A country such as Italy should mind its geopolitical alliances, but this has little to ability to alienate it if you wish. If you cannot sell it, it is not yours.

There is a question that should haunt the dreams of Italian rulers: Once the lockdown is over, how many of the country's entrepreneurs will decide not to go back to business? A high regulator burden and a byzantine bureaucracy are typical features of the Italian business environment, and its capitalists know how to handle them. But if their property rights are seized in the pandemic or if they feel they are not the owners of the companies they build, they may be tempted to throw in the towel.

Italian banks may end up owning companies because the owners preferred not to pay their debt and quit instead. Extensive shareholding on the part of banks may make them even more vulnerable, after COVID-19 and 0 percent interest rates. Nationalization, or a new IRI, will then be the only option for the Italian eagerly seek the opportunity.

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