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Tax Evasion in Italy: A God-given right?

Introduction

In 1814, an angry mob stormed Giuseppe Prina's house in Milan.¹ The mob threw Prina out of the first floor window and dragged him heavily injured through the city streets. Outraged people lining the streets stabbed him to death. Prina was the finance minister and first tax collector of the Italian Cisalpine republic, the Napoleonic satellite state in Italy.² In 2012, almost exactly two centuries later, two bombs exploded in front of the Agenzia delle Entrate in Livorno, the state agency responsible for tax collection. Later in the same week an angry mob attacked another Agenzia delle Entrate facility. Building and staff had to be protected by a massive deployment of riot police.³ It was a violent reaction to Mario Monti, the new prime minister, announcing a crack down on tax evaders.

With an estimate of 200 billion Euros evaded in 2013 (27% of GDP) Italy is at the top when it comes to tax evasion in Western Europe.⁴ According to Italians the reason for this outstanding performance lies in the defects of their national character.⁶ Eighty per cent of Italians believe that their fellow citizens evade taxes, a number that is only surpassed by the Greek in Western Europe. In fact, "Italians from all social groups often describe themselves as a people of cynics, extreme individuals who do not care about the public good, opportunistic with clientelistic propensities, untrustworthy if not altogether liars."⁷

We show in a series of experiments on taxation across Italy that Italians do indeed cheat their state more than citizens of other countries but they also cheat one another less. This does not match with the century old ascriptions to the Italian character. If Italians were so untrustworthy, extreme individualist and opportunistic, why would these traits only shine through when they engage with the state but not when dealing with one another?

We argue that the answer can be found in the peculiar way in which Italian society evolved over the past 150 years squeezed between the two most powerful institutions on the peninsula, the state and the Catholic church. Since unification the Catholic church has systematically undermined the authority and legitimacy of the Italian state. While Catholicism works as a cohesive force that prohibits Italians to cheat one another, it legitimizes at the same time to cheat the state.

Whereas it is commonly acknowledged that the church is one of the major players in Italian politics, it is scarcely researched how this influence unfolds. The following study is therefore not only a study about tax evasion but also a contribution to the debate on the role of the Catholic church in the Italian process of state formation. Combining experiments, in which we can hold the environment constant, with historical sociological research also, allows us to give new answers to a century and a half old question about the particularities of the Italian character and how it has been formed through the interaction of church, state and society.

We will first give an insight into the magnitude of tax evasion in Italy and how national discourse connects it to the century old debate about the Italian character. Second, we describe the findings of our experiments. Third, we present our argument that the specificities of Italian evasive behavior can be explained by analyzing the role of the Catholic church on the peninsula. In the fourth part we show how relations between state and church soured during the *Risorgimento* in the late 19th century. In the fifth, sixth and seventh part we follow the relation between church and state through fascism (1922-43), the first (1945-1992) and the second republic (1992-present) and show how the relation impacted on the evasive behavior of Italians.

Tax Evasion in Italy

Yearly tax evasion in Italy varied throughout the 2000s between 170 and 240 Billion Euros. This is ten times higher than the US evasion rate.⁸ In cross country rankings Italy is usually found at the top surpassed in Western Europe only by Greece.⁹ Evasion rates vary within Italy. The Southern regions of Calabria, Puglia and Sicily have the highest evasion rates while evasion becomes lower moving from South to North.

Table 1: Size of Shadow Economy (as % of GDP):
24 Advanced Industrial Countries

| Rank | Country | Average Size of Shadow Economy: 1999-2010 | Rank | Country | Average Size of Shadow Economy: 1999-2010 |
|----------|-------------|---|-----------|--------------|---|
| 1 | Switzerland | 8.3 | 13 | Germany | 15.7 |
| 2 | US | 8.7 | 14 | Ireland | 16.1 |
| 3 | Luxembourg | 9.6 | 15 | Denmark | 17.3 |
| 4 | Austria | 9.8 | 16 | Finland | 17.4 |
| 5 | Japan | 11 | 17 | Norway | 18.6 |
| 6 | New Zealand | 12.2 | 18 | Sweden | 18.6 |
| 7 | UK | 12.5 | 19 | Belgium | 21.5 |
| 8 | Netherlands | 13.2 | 20 | Portugal | 22.7 |
| 9 | Australia | 13.8 | 21 | Spain | 22.8 |
| 10 | France | 14.8 | 22 | South Korea | 26.3 |
| 11 | Iceland | 15.2 | 23 | Italy | 26.9 |
| 12 | Canada | 15.6 | 24 | Greece | 27 |
| | | | | Average | 16.5 |

Source: Schneider and Enste (2013).

Putting tax evasion in Italy into historical perspective is hard. Comprehensive time lines on evasion exist only since the 1980s and the historiography on taxation in Italy is thin.¹⁰ Tax evasion was high during the liberal period (1871-1922) and during fascism (1922-1943). This we can derive from the frequency of tax revolts and tax protests across the peninsula.¹¹ The evasion rates declined at the beginning of the first republic (1945-1992), but started to increase in the 1970s and reached a peak in the 1980s.¹² The rates decreased in the 1990s but fluctuated during the 2000s.¹³

In percentages this means that during the 1970s between 15 and 20 per cent of Italians evaded taxes while the rate climbed to 26 per cent in the 1980s. In the 1990s tax evasion fell again, hovering between 20 and 15 per cent points. Workers employed in manufacturing evade very little, the highest evasion rates can be found among the self-employed.¹⁴ The evasion rates are also different between productive sectors. The highest tax evasion takes place in the agricultural sector, followed by the retail sector and the service sector. Little evasion can be observed in the construction and industrial sectors. The severity of evasion becomes obvious when we consider that the Italian state annually collects only a total of 350 Billion Euros while losing 250 Billion through evasion.¹⁵

Reasons for tax evasion in Italy

What makes tax evasion such a widespread phenomenon in Italy? The debate about Italian tax evasion follows the general debates on the determinants of tax evasion. Economists argue that the reasons lie in the lax controls and the soft legal penalization of evaders in Italy.¹⁶ Psychologists think that Italians evade

because they perceive taxation as unfair since they do not get much in return for their payments to the state.¹⁷ Behavioral economists point to strong social multiplier effects. Italians evade because they think that everyone else evades too.¹⁸

Indeed, if one asks Italians why they evade taxes, they say that they evade because everyone else does so.¹⁹ Only second, and with some distance in the classification, Italians indicate that they would be more likely to pay taxes if they had the feeling that the state would spend their money more wisely. Much later in the ranking come issues like the soft penalization of evasive behavior, the complications of the tax code and the unlikelihood of being caught. 87,1 per cent of all Italians think that their co-nationals evade taxes.²⁰

Cultural approaches have become ever more frequent in the literature on tax evasion in recent years.²¹ Scholars have identified diverging national “tax morals” across countries. Summing up a series of experiments Lewis and his collaborators conclude that “given the similarities between the tax systems of the UK and Italy” the differences can be attributed “at least partly” to cultural factors.²² In the literature on tax evasion it has become ever more commonplace that “culture envelopes attitudes towards tax compliance and evasion”.²³

Such a cultural explanation might be especially telling in the Italian case. If we look at the century old debate about the Italian character, we find a certain negative consensus prevailing that describes Italian civic culture as “far from flattering”.²⁴ Italians themselves are convinced that “their character is faulty, and that this faultiness even explains much of their social and political problems of their country today”.²⁵ Already in the 18th century travelers passing through Italy on their *Grand Tour* described the Italian character as “morally corrupt”.²⁶ They were frequently seconded by Italian observers. Carlo Pilatini wrote in 1770 that his people were “lazy, timid, full of vices, and inclined to superstition”.²⁷

This negative framing of the Italian character intensified in the run up to unification in the 19th century. It was adopted by Italians from all political colors. The clerico-nationalist Vincenzo Gioberti wrote in 1846 in *Del Primato Morale E Civile Degli Italiani*, that “[t]he greatest of all evil in Italy, I repeat, is the voluntary decline of national genius, the weakening of patriotic spirits, the excessive love of money and pleasure, the frivolity of customs, the slavery of intellects, the imitation of foreign things, the bad ordering of education, of public and private discipline”.²⁸ Giuseppe Mazzini, the famous leftist national revolutionary, described in 1832 “our mortal plague” as “the innate distrust of leaders, and the perennial suspicion of betrayals”²⁹ and the liberal conservative nationalist icon Massimo D’Azeglio saw his fellow citizens as “a people heavily corrupted” that need to be “reeducated”.³⁰ In 1878, eight years after Italy had been unified, Antonio Reale reflected that “it became fashionable to assert that the Italians [were] a people of little character, indifferent, slothful, skeptical, corrupt, dissimulating”.³¹ The British journalist Tobias Jones

assesses in his popular book *The Dark Heart of Italy* in the 2000s that “[f]ew countries have citizens with such an “each to his own” mentality, or so much *menefreghismo*, I don’t careism (signaled with the back of the fingers thrown forward from the throat to the chin)”.³²

The Willing to Pay experiments

In the European Research Council (ERC) project, Willing to Pay, we combine survey and experimental techniques to find out why countries differ when it comes to the willingness of their citizens to pay taxes. The experiments allow us to hold institutional features constant across countries while we can relate political and cultural attitudes of participants to their behavior through the surveys. Hence, we can investigate the influence of institutions and the influence of tax moral on peoples’ willingness to pay taxes in different countries. We conducted experiments with more than 500 participants across Britain (Oxford, London, Exeter) and Italy (Milan, Bologna, Rome).³³ Both countries have similar tax systems but differ drastically in their tax evasion rates. Britain has an intermediate evasion rate, compared to other OECD countries, while Italy’s evasion rate is extraordinary high (double the British rates). Hence, we expected that Italians would be also less willing to pay taxes in our experiments than their British counterparts.

Surprisingly we found that British participants were more likely to cheat one another than Italian subjects. While Italians cheat the state more in the real world, they cheat each other less in the experiments.³⁴ This finding remained constant even when we varied the institutional incentives of the tax system, the punishment and the auditing rate. It holds across the different locations where our experiments took place and the behavior is not determined by the individual socio-economic and demographic characteristics of the participants (you can find a detailed description of the experiments in the appendix). This finding goes against what the literature on Italian tax morale suggest so far.³⁵ It also goes against the century old foreign and domestic ascriptions to the Italian character. Italians are, in comparison to other European countries, likelier to cheat the state, but they are less likely to cheat one another.

What has tax evasion to do with the Catholic church?

Historians, anthropologists and philosophers, see the reasons for the screwed relation between Italians and their state, in the incomplete national revolution at the end of the 19th century.³⁶ Also the results of our experiments can be understood better if we recur to this period. Our central claim is that the negative attitude the Vatican towards Italian unification legitimized cheating of the state for Italians. At the same time, the communitarian ideology of Catholicism suppresses the cheating of one another in Italy.

Research on tax morale found that religiosity boost compliance rates.³⁷ However, in Italy where religion positioned itself explicitly against the state, religiosity boosts the compliance effect only for the

community and has a negative impact for the compliance with the state. Religion in Italy legitimized cheating on the state while at the same time inhibited cheating one another.

That Catholicism had a tremendous impact in Italy, the seat of the holy see for over a millennia, in the 19th century, is uncontested, but what is the impact of the Catholic church today? Surveys confirm that Italians trust the church in Italy, even after a sharp decline of religious practice since the 1960s, and a series of pedophilia and fiscal scandals, more than most of their state institutions. Throughout the 2000s the church came out in the top group of institutions whom Italians trust most. In 2013 the church claimed the second place surpassed only by the police force.³⁸ In a list of 17 institutions the government occupies place 15, while parliament is on place 14. Political parties are bottom at place 17.³⁹ Since 2013 they also include the pope into their surveys. It came out on top both in 2013 and 2014. 88 and 87 per cent of Italians (2013; 2014) trusted the pope while the highest placed political institution, the President of the Republic, could only land half of the consensus that was given to the Pope (44 and 49 per cent).

That the persuasive power of the church and its historically hostile relation to the state could have an effect on the tax behavior of Italians becomes even more compelling after a look into a special feature of the Italian tax system. It confirms that Italians are more willing to give to what they identify as communitarian institutions (e.g. the Catholic church) than to the state. Since a reform in 1985 (amended in 1998), Italians can indicate on their tax form whether they want to pay the former church tax to another religious community, to the state or continue to pay it to the Catholic church. The so called 'otto per mille' (eighth per thousand) law indicates that the money should be used by state or religious communities for the provision of social services. The sum stemming from the 'otto per mille' tax amounted in 2012 to a total of 1148 million Euros. Despite the newly introduced freedom of choice to whom to allocate this sum, 82,24 per cent of Italian tax payers that made use of the 'otto per mille' option continued to attribute the money to the Catholic church. In contrast, only 13,35 per cent of Italians gave their money to the state. Contributions to the state have fallen (1990: 22,31; 2000: 10,28; 2014: 13,35) while the church share has increased (1990: 76,17; 2000: 87,25; 2014: 82,24) since the early 1990s.⁴⁰

The Vatican and the State in Italy

But why does the strong belief in the Catholic church preclude trust in state institutions? Do not Protestant countries in the North of Europe like, Sweden, Norway or Denmark have state-churches, that boost both the legitimacy of religious and state institutions? After all, tax researchers have shown that religiosity has a positive effect on tax morale.⁴¹

Since the neo-Thomasian turn of the 19th century Catholicism started to develop an organic concept of society that could do without the state.⁴² It did so as a reply to the challenge of the modern nation state that started to emerge in Europe in the 19th century. Catholicism had an intransigent and universal claim for loyalty from its followers. New nation states like France, Italy and Germany challenged this claim. The Napoleons, Cavour and Bismarcks demanded and fostered the loyalty of their citizens towards the new state institutions they were about to build. Thereby they replaced old bonds between the people and their local communities, feudal lords or religious institutions. Catholicism answered to this existential challenge by developing a concept of society that bypassed the state. Neo-Thomasian thought perceives society as a human body, organically grown, where every part has its place and fulfills its role.⁴³ Even the latest Catechism indicates that “[e]xcessive intervention of the state can threaten personal freedom and initiative.”⁴⁴ Much harsher condemnations of the modern state can be found in earlier church documents (e.g. in *Rerum Novarum* from 1891, or in the *Syllabus of Errors* from 1864). Catholics emphasize the role of society at the expense of the role of the state. The Catholic subsidiarity concept was invented in order to help society to regulate itself without state interference.⁴⁵

In Italy, we can observe the reminders of this conflict till today. During the *Tangentopoli* corruption scandals of the early 1990s the journalist Pino Nicotri disguised himself as a corrupt Christian Democratic politician and visited several priests in different parts of Italy in order to ask for advice whether to collaborate with the magistrates and tell them about systematic corruption and tax evasion of politicians. Despite the general call of the Milanese Cardinal Martini to collaborate with the state authorities most priests advised “in terms which emphasized private repentance over public justice, private and family duties over public ones”.⁴⁶ In Naples a priest told the journalist “there is the justice of men, but there is a superior justice! ... And then think of the consequences of what it would mean for your family”.⁴⁷ Tax evasion was a private matter in which the state had no say.

Co-Evolution of Church and State

Anti-statism is especially strong in Italian Catholicism because the unification of Italy had not only spiritual but also temporal and territorial implications for the Vatican. Cavour, the great liberal driving force of Italian unification, summoned in 1861 his vision of a “free church in a free state”,⁴⁸ but history unfolded in a very different way. At the beginning of the 19th century, Italy was not much more than a patchwork of fragmented geographic and political entities. The middle of the peninsula was dominated by the papal state, splitting the country in half. It was a theocracy, temporally and spiritually ruled by the pope who had been protected for centuries by the major Catholic continental powers, Austria and France.

When liberal elites started to build a modern Italian nation state in the 19th century they did so against the will and at the expense of the temporal territory and powers of the Catholic church.⁴⁹ Italy was unified by

Piemontese rulers that expanded their territory from the North West onto the whole peninsula. Sooner or later this had to lead to a stand off with the pope. A series of wars between 1860 and 1870 took away ever more territory from the pope.⁵⁰ In 1870 the papal state had shrunk from one third of the Italian peninsula to the city walls of Rome. When territorial unification came to an end in 1871, the pope had lost Rome and found himself confined to the walls of the Vatican city.⁵¹ The traditional protectionist powers of the Vatican, France and Austria did not help. They were themselves weakened by Prussia during the German unification wars. Starting out as a liberal reformer in the papal state in the mid 19th century, the process of Italian unification lead Pope IX to develop a deeply reactionary position against Italian unification and the liberal and national ideas that fueled it.

For his counterstrike the pope crafted powerful weapons. If his temporal powers over Italians had been taken from him, he wanted to firm his grip on the spiritual minds of the Italian people. He aimed at a destabilization of the new nation state. If the church could not have its territory anymore, then the Italian state should not have full control over Italians either. From the 1860s onwards the Catholic church “did all it could to rob the Italian state of its legitimacy”.⁵²

Central was the creation of two myths that endure till today. The new state was framed as an illegitimate usurper state (myth number one) and the pope was portrayed as being held prisoner in the Vatican (myth number two) by the new state.⁵³ The two myths were flanked by a series of doctrinal reforms. Pius IX issued the encyclical *Quanta Cura* in 1864 containing the *Syllabus of Errors* which “upheld the temporal power of his Holiness, denounced liberalism as an anathema, and made Catholicism incompatible with nationalism.”⁵⁴ The syllabus argued fiercely against the abolition of the “temporal power of which the Apostolic See is possessed”⁵⁵ and declared it also as wrong that “[i]n the case of conflicting laws enacted by the two powers, the civil law prevails”.⁵⁶ Pollard comments that “[g]iven the strictures of the Syllabus, ‘Liberal Catholic’ seemed almost a contradiction in terms.”⁵⁷

The second step was the creation of papal infallibility. In an internally highly contested move, the pope strengthened his grip on the church apparatus. This did not only go against the *Zeitgeist* but also against many of the approximately 600 Cardinals that came to Rome. It gave Pius IX unprecedented centralized powers over Catholicism.

A third important doctrinal innovation of Pius IX was the *Non Expedite*.⁵⁸ The pope instructed that Catholics should abstain from any political involvement. Catholics could neither run for public office, nor elect politicians in the Italian state. In a society where Catholic religion encompassed virtually the whole population, which had hosted the power centre of Christianity for over a millennia and where it was still necessary to bring a recommendation letter from the local parish priest in order to get a job, the pope’s

proclamations did not go unnoticed. Pius XI strategy was highly successful. No ordinary Italian, if she did not want to risk excommunication, gave the Italian state her loyalty. Italy witnessed the emergence of mutually exclusive identities and loyalties from which the willingness to pay taxes of its citizen's suffered. In post-risorgimento Italy, approximately "75 per cent of all taxes went unpaid" and the British *charge d'affaires* in Rome concluded in 1893 in a letter to the Foreign Secretary that "tax avoidance 'is not considered in this country to be dishonest action nor even an evasion of a patriotic duty' ".⁵⁹

Mussolini, the man sent by providence

The Lateran Treaties between state and church were enacted in 1929. They guaranteed the church a number of strong prerogatives in religious education, the taxation of church enterprises and estates. The treaties recognized the sovereignty of the Vatican and in return the church accepted the existence of the Italian state.⁶⁰ The coming to terms of fascism and church during fascism did however not lead to a decisive drop in evasive behavior.⁶¹

The relationship between church and state during the fascist period was by no means as linear and good as the signing of the Lateran pacts suggested. Mussolini had never been a big fan of Catholicism. He was not religious, not married and his children were named after two important heretics. He wrote a slightly blasphemic novel in his early days (title: *The Cardinal's Mistress*) and demanded in his first political program the confiscation of church property.⁶² His major Fascist ideologists Gentile, Solmi and Rocco were a bit more affine to Catholicism but only insofar as they saw great potential in exploiting its legitimizing power for the regime.⁶³

Hence, at the beginning, anti-clericalism prevailed within the fascist movement. The Lateran treaties came about because Mussolini realized after 1922 that he could not govern the country against the will of the church.⁶⁴ From that point onwards he did everything to get to terms with the Vatican.⁶⁵ Mussolini got married, baptized his children and started to prepare the Lateran treaties. It ended the 70 years of diplomatic hostility that had continued since unification.

However, when Mussolini dissolved the Catholic scout movement in 1927 against his former promise, and integrated it into the fascist youth movements the Vatican became cautious.⁶⁶ The Lateran pacts were still signed a year later but relations became frosty when Mussolini adapted the German racial laws in Italy in 1938. The Vatican knew now that the regime was drifting towards totalitarianism and following the developments in Germany the pope knew that the effects could become uncontrollable for the church. The Vatican pulled the plug when a series of war defeats weakened Mussolini and led to a disassociation of the conservative Italian establishment. Mussolini was toppled, arrested and with the church pulling

some of the strings in this operation, it positioned itself well for the coming post regime and post war order.

Pius XI had called Mussolini “the man sent by providence”.⁶⁷ The pope saw in the fascist dictator a man with whom the church could reach beneficial agreements.⁶⁸ However, the relationship between fascism and church did not go beyond a rational trade. Once both sides did not need one another anymore, the relationship broke. Catholicism did not embrace the fascist Italian state. It did not become a clerical dictatorship like Franco’s Spain or Salazar’s Portugal. Even with the Lateran treaties in place the fascist state remained for Catholic thinkers only a *paese legale*, not organically anchored in the Catholic identity of the *paese reale*.⁶⁹ Hence, the Lateran pacts, did not help to bring the Catholic church to terms with the state. Tax morale remained so low that Mussolini himself had to address the issue in a speech in 1928 where he referred to evaders as “the worst parasites of national society”.⁷⁰

The first Republic

The end of fascism and German occupation brought Italy its first long lasting democratic regime. The fascist experience and the World War led in Italy, as in many other continental European countries, to a steep resurgence in religiosity.⁷¹ Having abandoned Mussolini early enough the Catholic church had positioned itself well for the post war era.⁷² The newly formed Christian Democratic party (*Democrazia Cristiana*) became the central reference point in Italian politics. The Christian Democrats stayed in government without interruption for over fifty years, longer than any other party in a democratic state. Tax evasion was comparatively low but from the 1970s onwards evasion rates started to increase again.

The party evolved out of the Catholic subcultures in the Italian North. In the white regions of Lombardy, Piedmont and Veneto over 80 per cent of the population attended mass on a regular basis in the 1950s (in contrast to 50 per cent as the national average. Social and economic life was centered around the local parish and “religion, social life and economic development all seemed closely intertwined”. In the 1950s and 1960s on literally every main square of an Italian village the visitor would find the local office of the Christian Democrats, next to the church, usually boosting an adjunct bar with an alcohol license. Through its strong local roots, facilitated both through Catholic clergy and the local party apparatus, the party was able to create a direct connection to Rome to make sure that local demands were met.⁷³ Thanks to the Christian Democrats, the Italian state was for the first time becoming locally tangible for its citizens and could achieve legitimacy.⁷⁴ This was a very different relationship between citizens’ and state than during the liberal period where liberal political elites were constantly afraid of the catholic masses and therefore never extended the franchise over four per cent. The party ensured that the local Catholic communities had for the first time since Italian unification a reason to pay their taxes. In the 1950s and 1960s tax evasion in Italy remained low, compared to the previous period. Through the DC Catholics could hold

the state accountable for what to do with their money and given the party's coherent Catholic ideology it could even be sure that what the state did was in line with their ethic values and political worldview. However, at the beginning of the 1970s, the evasion rates started to climb again and reached a unprecedented peak in the 1980s. What had happened?

The peaceful coexistence between church and state that the Christian Democratic party had enabled had come to an end. Already during the 1960s the traditional catholic subcultures started to loosen, both through change in society (secularization) and through a turbulent reform process in the Vatican itself (Second Vatican Council).⁷⁵ The DC began to lose votes. To balance this it started to shift its center of electoral gravity from the white catholic zones in the North to Southern Italy. The weak territorial organization of the Italian church in the South meant that the Christian Democrats could here not secure their votes through a clerico-political connection.⁷⁶ Having occupied the state for over two decades they now started to use it as a gigantic spoils machine to distribute resources to their voters in the South. The Christian Democrats changed from being a "church-sponsored party" to a "state-sponsored party".⁷⁷ The party shifted its "political array of choices on offer, increasingly, from the realm of values to the domain of interests", hence, from Catholicism to Clientelism.⁷⁸ The party quickly drifted into rampant corruption which included deals with organized crime in the South.⁷⁹ During the 1970s and 1980s Catholics only continued voting for the Christian Democrats because they saw no alternative to it. Facing the threat of the largest communist party in Western Europe. Catholics voted for Christian Democracy as Italians say "while holding their noses".

In the South, tax evasion started to skyrocket as the Christian Democrats started to turn a blind eye on the evasive behavior of their electorate.⁸⁰ The consequence was a need for heavy fiscal transfers from North to South. Given the traditional resentments of Northerners against the South, it made Northern citizens' ever less prone to pay their taxes. For Northern Italians the Christian Democratic party had become "the party of the centralized state, dedicating its attention primarily to the problems and needs of Southern Italy".⁸¹ In the 1980s the first electoral successes of separatist movements started to manifest in the traditionally white regions of Northern Italy. The increasing political and social power of Northern League accelerated the deligitimization of the central state. As a result tax evasion increased in the 1980s also in the North. It peaked towards the beginning of the 1990s.⁸²

The increase of evasive behavior during the first republic matches with the disassociation of the Catholic church and many Catholics from the Christian Democrats during the 1970s. Whereas in the immediate post war years the Christian Democratic party was strongly connected to the Vatican and strongly rooted in the local Catholic subcultures of Northern Italy, this changed from the 1970s onwards.⁸³ The party

became ever more autonomous from Catholicism and relied increasingly on a Southern electorate, which it attracted through clientelism and a lax stance on tax evasion.

Berlusconi: “Evasion is a God given right”

At the end of the 1980s Italy was heading towards a dramatic political crisis. The Christian Democratic party had lost ever more of its former vote share and its hegemonic position in Italian politics started to vanish. When a series of corrupt and clientelist practices were unveiled by a group of Milanese magistrates in the early 1990s the party imploded. The Bribesville scandal triggered the biggest political earthquake in Italian post WWII history. Two thirds of all MPs found themselves under criminal investigation. The dissolution of the Christian Democratic party, the center of gravity of the Italian political system since WWII, brought systemic change. New political actors gained prominence almost over night. The Northern league could anchor itself in the important electorates in the North and the post fascists eased their tone in order to gain foot in Central and Southern Italy. However, it was Silvio Berlusconi with his new party *Forza Italia*, who was at the epicenter of the transition from the so called first to the second republic.

Berlusconi entered politics as an entrepreneur. With his decisive anti-system rhetoric's he distanced himself successfully from the old political system of the first republic. Berlusconi was not only attractive to voters because of his business success and his image as a self made man but also his negative view on the state and its institutions resonated well with many Italians. Building his enterprise largely on semi-legal bookkeeping practices, tax dodging and tax evasion, hence by fighting the state wherever he could, he now aimed at slimming down the state from the inside. One of his main reasons to enter politics was to curtail the power of the judiciary rigorously.

What made Berlusconi's rapid ascendance to his first electoral victory in 1994 possible was not only the deterioration of the old system of the first republic and his business success but also the way the Catholic church shifted its political alignments. The corruption scandals of the early 1990s had given the final blow to the relationship between church and party. Fearing being sucked into the negative publicity whirl of the corruption scandals the Vatican was quick in disassociating itself from the Christian Democrats.⁸⁴ Having abandoned the uncomfortable Christian Democrats, that had frequently distorted church demands in politics, Berlusconi became the church's privileged political partner.

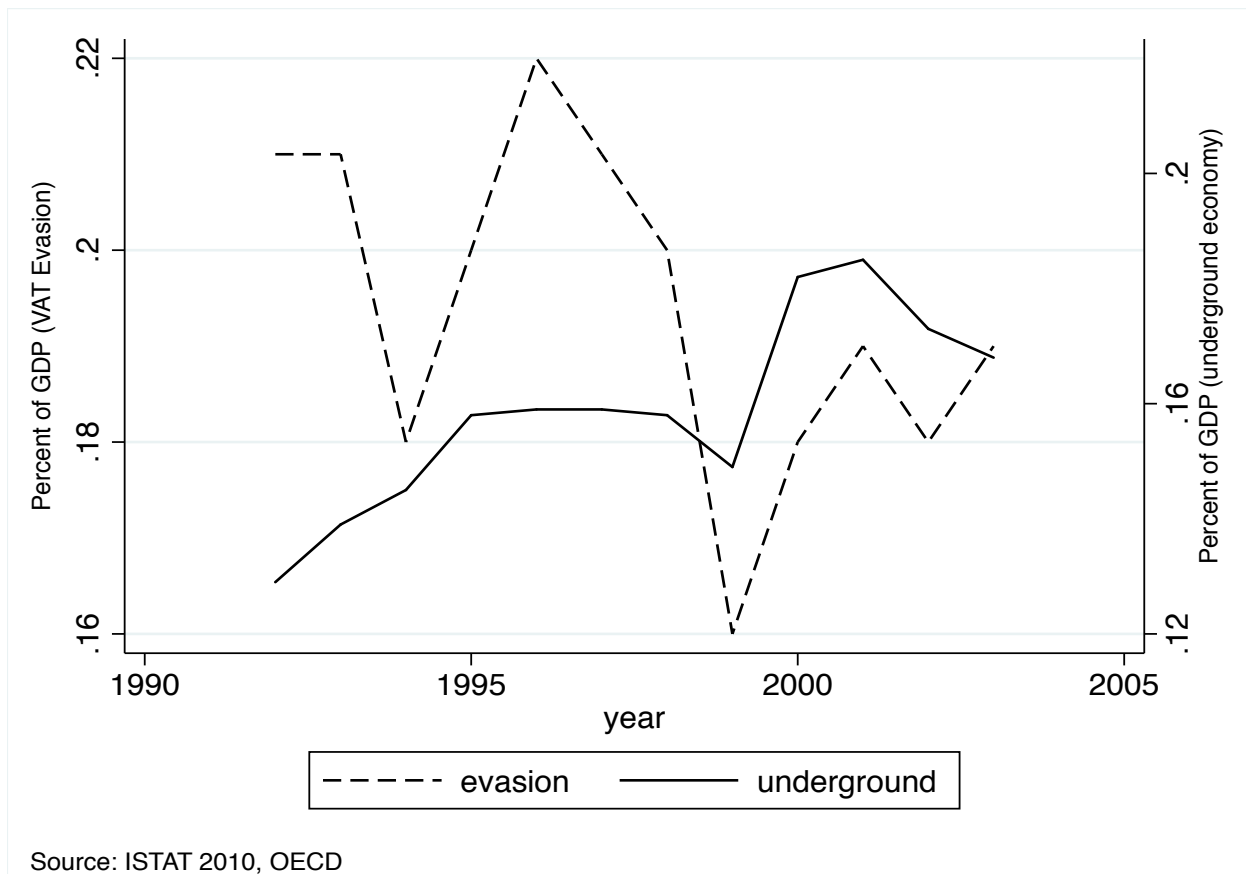
At the same time the church changed its political program. It started to focus less on socio-economic issues and more on questions of moral and value.⁸⁵ This was a belated conservative backlash to the second Vatican council. The new head of the Italian business conference, Cardinal Rudini, wanted to pull the

church back into the easier to control realm of moral, ethic and spiritual politics. The church was no longer interested in how the state should function, how sound its institutions should be or how it should raise revenues and redistribute them in society. The church was only interested in retaining the upper hand on some key ethical aspects (especially in bio-politics). This led to a shift of the Catholic church towards the conservative right when it came to domestic Italian politics and made Silvio Berlusconi its preferred partner.

Becoming Prime Minister for the second time in the 2000s, Silvio Berlusconi made an agreement with the church.⁸⁶ The church would get a number of favorable decisions on bio-politics from the center right government and Berlusconi and his electorate were not condemned by the Catholic church for evasive behavior.⁸⁷ This pact turned out to be highly successful for the Catholic church but was very costly for the state.

The 1990s and 2000s are marked by a series of victories in bio-politics.⁸⁸ These victories included a stalling of the legal equalization of cohabitating couples, the ban on assisted suicide, same sex marriage and a series of important tax exemptions for the church's real estate empire and catholic profit and non-profit organizations (roughly 20 per cent of all Italian real estate belongs to the Catholic church).⁸⁹

The flipside was that evasive behavior in the 2000s increased whenever the center right under the prime minister-ship of Silvio Berlusconi was in office (after 1994, 2001 and 2008).



That the collaboration between church and right wing governments coincided with increasing levels of tax evasion during the 2000s does not mean that the Vatican actively supported or lobbied for tax evasion. It also does not mean that it legitimized the evasive behavior of Catholic believers. The Vatican refrained only from condemning evasive behavior. The Vatican had condemned the corrupt practices of politicians during Tangetopoli corruption scandal during the early 1990s in the papal document *Educate to Legality (educare alla legalita)* but remained silent on the malign practices of the Berlusconi governments. Whereas the church was in dissonance with the clientelist and evasive behavior that the late Christian Democratic government style of the 1980s produced, it seems that the post-Christian democratic church did not care about such practices at all. It seems that it has lost its interest in everything in Italian politics except bio-politics.⁹¹

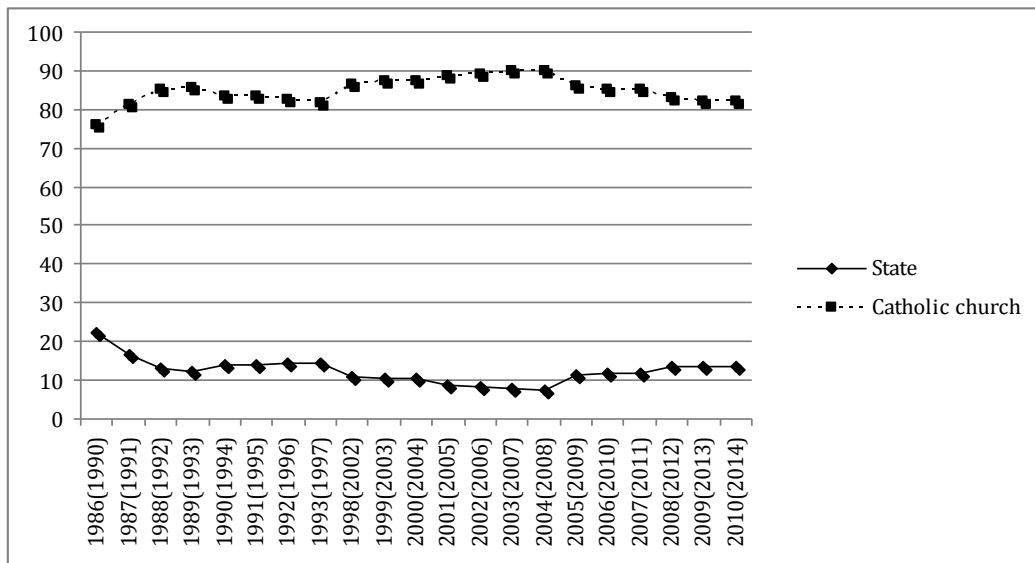
Conclusion

When the journalist Baldassare Conicello interviewed the superintendent of the Archeological site in Pompei in the 1980s, he asked him why he kept such a huge Italian flag next to his desk. The superintendent replied:

I am not afflicted by an excessive sense of nationalism. I have had to put it there to make it understood that this office is not my personal market, my stall [*bancarella*]. I am not here to buy and sell. I represent the state. But since no one here has any sense of the state, but only of the family, of the clan, of the political party or of the criminal band [*cosca*] everyone firmly believes that a superintendent must use his post for his own exclusive advantage, to make money.⁹²

The superintendent did not mention the Vatican in his numeration of all things that undermine the loyalty of the Italian state. Maybe because he was himself a practicing Catholic. In our story instead, the church took a central role.

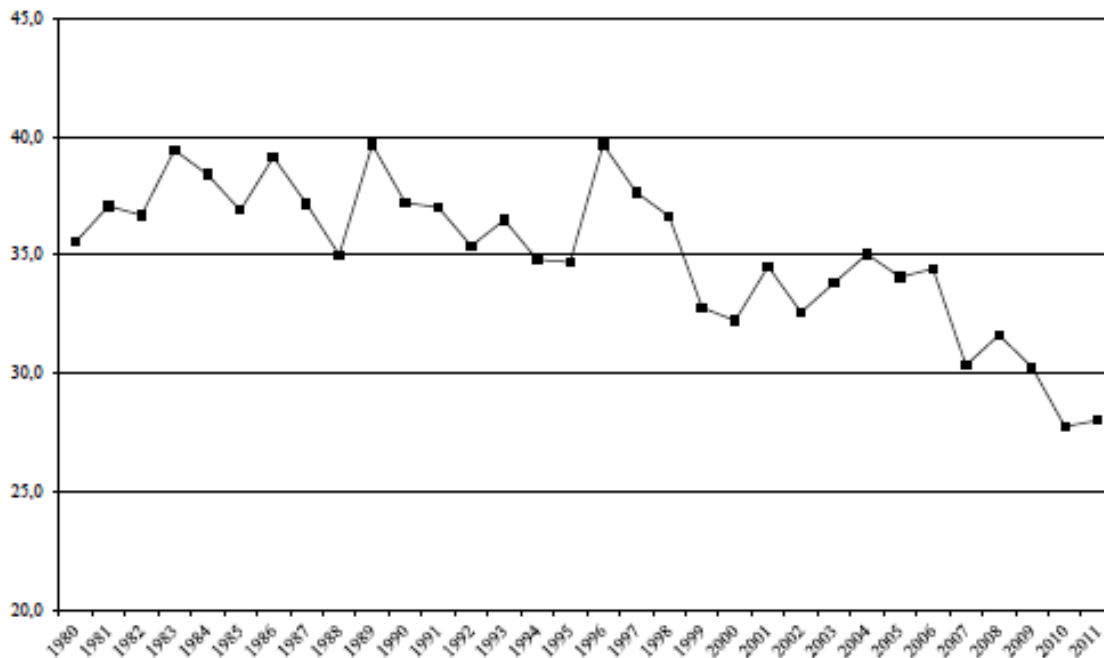
We wanted to explain why Italians cheat their state more than other citizens their nations but cheat each other less. We found that the answer can be found in the co-evolution of the Italian state, the Catholic church and Italian society. The deep hostility that the unification of Italy created between state and church led to a legitimization of cheating the state for Catholics. This explains the comparatively high evasion rates in Italy and also why Italians cheat each other less than citizens of other nations. Catholicism with its organic concept of society blocks certain individualist tendencies. We showed that this pattern unfolds during all periods of Italian historic development since unification. Only during the immediate post-war phase, during which a relatively close association between state and church was granted through the Christian Democratic party, evasion declined.



L'Otto Per Mille (1990-2014); Data from: Governo italiano. L'Otto Per Mille Origine Storiche. Evoluzione Giuridica. Come Funziona. Accessed on the 23.7.2014 at: http://www.governo.it/Presidenza/USRI/confessioni/doc/Otto_per_mille.pdf; Dipartimento Delle Finanze. Otto Per Mille. Anni di Erogazione 2008-2014. Accessed on the 23.7.2014 at: http://www1.finanze.gov.it/pagina_dichiarazioni/ottoxmille.html

Figura 1

La propensione a evadere l'IVA (in percentuale del gettito potenziale)



Fonte: Corte dei Conti (2013), Sezioni riunite in sede di controllo, *Elementi per l'audizione del presidente della Corte dei Conti presso le Commissioni Bilancio V e Finanze VI della Camera dei Deputati, Considerazioni in merito alle strategie e agli strumenti per il contrasto dell'evasione fiscale*, Roma, 19 giugno 2013.

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[notte-alla-sede-equitalia-2112114208054.shtml](http://corrieredelveneto.corriere.it/veneto/notizie/cronaca/2012/5-ottobre-2012/bomba-esplode-notte-alla-sede-equitalia-2112114208054.shtml); "Tre Ordigni Scoppiano Davanti Alla Sede Di Equitalia a

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[ordigni-sede-equitalia-napoli_df7dbf88-4096-11e1-a5d2-75a8a88b1277.shtml](http://www.corriere.it/cronache/12_gennaio_17/tre-ordigni-sede-equitalia-napoli_df7dbf88-4096-11e1-a5d2-75a8a88b1277.shtml); "Perugia, Allarme Bomba a Sede Equitalia," *Corriere Della Sera*, January 4, 2012,

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[11e1-9e16-04ae59d99677.shtml](http://www.corriere.it/cronache/12_gennaio_04/perugia-allarme-bomba-sede-equitalia_b5fc291e-36c9-11e1-9e16-04ae59d99677.shtml); Guido Ruotolo, "Livorno, Molotov Contro EquitaliaGli Inquirenti:

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⁶ The historical continuity of the tax revolts of the 19th and the 21st century described above shake arguments that see the evasive behavior of Italians solely rooted in contemporary causes, such as the high fiscal pressure (Chiarini et al. 2013: 273), the soft legal penalization of tax evaders (Manestra 2010), the lax controls (Santoro/Fiorio 2011: 103), or the feeling of most Italians that they do not get much in return for their taxes (Banca D'Italia 2007: 31). A series of reforms of the tax code and a tightening of control in the recent decade have not led to a decrease in evasive behavior.

⁷ Silvana Patriarca, *Italian Vices: Nation and Character from the Risorgimento to the Republic* (Cambridge University Press, 2010), 4.

⁸ Charles W. Bame-Aldred et al., "National Culture and Firm-Level Tax Evasion," *Journal of Business*

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Research in Latin America Studies, 66, no. 3 (March 2013): 390; Bruno Chiarini, Elisabetta Marzano, and

Friedrich Schneider, "Tax Rates and Tax Evasion: An Empirical Analysis of the Structural Aspects and

Long-Run Characteristics in Italy," *Eur J Law Econ* 35 (January 1, 2009): 279.

⁹ Nan Zhang et al., "Willing to Pay? An Experimental Analysis of Tax Compliance in Britain and Italy," 2014.

¹⁰ A problem for anyone wanting to study tax evasion in Italy is that a comprehensive historiography is absent. As common as tax evasion is among Italians as scarce is the scientific discourse on it. So does for

example Paul Ginsbourg's book from 1990, arguably the most important popular science contribution on Italian post war history, mention the words taxes and taxation only on nine of its 586 pages (Ginsbourg 1990: 584). It took Italian scholars till the 1970s to build timelines on evasive behavior based on standardized statistical estimates (Santorno 2010: 31) and only in the 1980s the state started to monitor tax evasion comprehensively after strong pressure from the European Union. Before that period we have to rely on estimates scattered in different government documents, based on very different estimation techniques which are incomplete in their timeline and territorial coverage (Manestra 2010: 57). Alessandro Santoro, *L'evasione Fiscale* (Bologna: Il Mulino, 2010), 31.

¹¹ Lucy Riall, *Risorgimento: The History of Italy from Napoleon to Nation State* (Basingstoke, UK: Palgrave Macmillan, 2008), 9, <http://www.palgrave.com/products/title.aspx?PID=296661>.

¹² Marigliani and Pisani, *Le Basi Imponibili IVA. Aspetti Generali Principali Risultati per Il Periodo 1982-2002*, Documenti Di Lavoro Dell Ufficio Studi. (Agenzia Delle Entrate., 2006), 13;16.

¹³ Santoro, *L'evasione Fiscale*, 31.

¹⁴ M. Marino and Roberta Zizza, "The Personal Income Tax Evasion in Italy: An Estimate by Taxpayer's Type," *Banca d'Italia*, 2010; Chiri and Sestito, *Audizione Nell'ambito Dell'indagine Conoscitiva Sugli Organismi Della Fiscalita E Sul Rapporto Tra Contribuenti E Fisco, 6e Commissione Dell Senato Della Repubblica* (Roma, March 5, 2014), 38; 41.

¹⁵ John D'Attoma, "Italian Tax Morale: A Comparative Study Assessing the Regional Effects of Civic Culture and Social Capital on Tax Morale," 2014, 4.

¹⁶ Alessandro Santoro and Carlo V. Fiorio, "Taxpayer Behavior When Audit Rules Are Known: Evidence from Italy," *Public Finance Review* 39, no. 1 (2011): 103; Stefano Manestra, "A Short History of Tax Compliance in Italy," *Bank of Italy Occasional Paper*, no. 81 (2010), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1825982.

¹⁷ Luigi Cannari and Giovanni D'Alessio, *Le Opinioni Degli Italiani Sull'evasione Fiscale* (Banca d'Italia, 2007), 31; Bruno Chiarini, Elisabetta Marzano, and Friedrich Schneider, "Tax Rates and Tax Evasion: An Empirical Analysis of the Structural Aspects and Long-Run Characteristics in Italy," *Eur J Law Econ* 35 (January 1, 2009): 275.

¹⁸ Roberto Galbiati and Giulio Zanella, "The Tax Evasion Social Multiplier: Evidence from Italy," *Journal of Public Economics* 96, no. 5 (2012): 485-94.

¹⁹ Cannari and D'Alessio, *Le Opinioni Degli Italiani Sull'evasione Fiscale*, 31; Galbiati and Zanella, "The Tax Evasion Social Multiplier."

²⁰ Cannari and D'Alessio, *Le Opinioni Degli Italiani Sull'evasione Fiscale*, 37.

²¹ Benno Torgler, "The Importance of Faith: Tax Morale and Religiosity," *Journal of Economic Behavior & Organization* 61, no. 1 (2006): 81-109.

²² Alan Lewis et al., "Individual, Cognitive and Cultural Differences in Tax Compliance: UK and Italy Compared," *Journal of Economic Psychology* 30, no. 3 (2009): 438.

²³ Charles W. Bame-Aldred et al., "National Culture and Firm-Level Tax Evasion," *Journal of Business Research*, (1)Reconceptualizing Cross-Cultural Research in the Digital Age (2)Advances in Business Research in Latin America Studies, 66, no. 3 (March 2013): 434, doi:10.1016/j.jbusres.2011.08.020.

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²⁵ Patriarca, *Italian Vices*, 5.

²⁶ *Ibid.*, 20.

²⁷ cited in *ibid.*, 21.

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³¹ cited in *ibid.*, 67.

³² Tobias Jones, *The Dark Heart of Italy: Travel through Time and Space Across Italy* (London: Faber and Faber, 2003), 17. Can we connect these stereotypical self and outside ascriptions to the Italian tax morale? If it is true that "[n]ational culture creates a context that encourages or discourages different rates of tax evasion"³² then we can find the reasons for the high evasion rates in the country in the Italian character.

³³ We had conducted one experiment in Salerno, south of Naples, but it was impossible to implement the strict experimental guidelines. We had to discharge all data generated from this experiment.

³⁴ Here should be placed an explanation of how this manifested in the experiment – I need Sven's help for this.

³⁵ Lewis et al., "Individual, Cognitive and Cultural Differences in Tax Compliance."

³⁶ Antonio Gramsci, *Il Risorgimento E L'Unita D'Italia* (Rome: donzelli editore, 2010); Carlo Tullio Altan, *La Nostra Italia: Clientelismo, Trasformismo E Ribellismo Dall'unità Al 2000* (Milano: Universita Bocconi Editore, 2000); Benedetto Croce, *Storia d'Italia Dal 1871 Al 1915*, vol. 16 (Bibliopolis, 2004).

³⁷ Torgler, "The Importance of Faith."

³⁸ Rapporto Demos, "Rapporto Demos, Gli Italiani E Lo Stato 2013-2014," accessed January 30, 2015, <http://www.demos.it/rapporto.php>; Rapporto Demos/La Repubblica, "Gli Italiani E Lo Stato 1998-2005," accessed January 30, 2015, <http://www.uniurb.it/lapolis/ricerca/ricerca1.php>.

³⁹ Rapporto Demos/La Repubblica, "Gli Italiani E Lo Stato 1998-2005."

⁴⁰ The payment of the 'otto per mille' is mandatory. However, it is not mandatory to indicate to whom it should go. Around 50 per cent of Italians allocate the money. The money from the 50 per cent who do not allocate is paid out automatically in accordance with the 50 per cent that chose to allocate it.

⁴¹ Torgler, "The Importance of Faith."

⁴² Stefano Solari, "The Contribution of Neo-Thomistic Thought to 'Roman Catholic' social Economy," *American Review of Political Economy* 5, no. 2 (2007): 39–40.

⁴³ Kees Van Kersbergen, *Social Capitalism. A Study of Christian Democracy and the Welfare State* (Routledge (London and New York), 1995).

⁴⁴ Pope Paul II, "Catechism of the Catholic Church. Part 3. Life in Christ. Section One. Man's Vocation Life in Spirit. The Human Communion. Article 1. The Person and Society. The Communal Character of the Human Vocation," 1992, 1883.

⁴⁵ Ibid.

⁴⁶ Paul Ginsborg, *Italy and Its Discontents 1980-2001* (Penguin UK, 2001), 134.

⁴⁷ Ibid.

⁴⁸ John Pollard, *Catholicism in Modern Italy: Religion, Society and Politics since 1861*, 1 edition (London ; New York: Routledge, 2008).

⁴⁹ For summaries of the most recent historiographic debates on the risorgimento see Alberto Mario Banti and Paul Ginsborg, "Per Una Nuova Storia Del Risorgimento," in *Il Risorgimento*, ed. Alberto Mario Banti and Paul Ginsborg, vol. 22, *Storia D'Italia, Annali 22* (Torino: Einaudi, 2007); Alberto Mario Banti, *Il Risorgimento Italiano* (Roma-Bari: Laterza, 2004); Maurizio Isabella, "Review Article Rethinking Italy's Nation-Building 150 Years Afterwards: The New Risorgimento Historiography*," *Past & Present* 217, no. 1 (November 1, 2012): 247–68; Riall, *Risorgimento*; Lucy Riall, *The Italian Risorgimento: State, Society, and National Unification* (Routledge, 1994); John Anthony Davis, *Italy in the Nineteenth Century: 1796-1900* (Oxford University Press, 2000); For a review of the historiography on the church in Italy see David I. Kertzer, *Prisoner of the Vatican: The Popes' Secret Plot to Capture Rome from the New Italian State* (Houghton Mifflin Harcourt, 2004); David I. Kertzer, "Religion and Society," in *Italy in the Nineteenth Century*, ed. John Anthony Davis (Oxford: Oxford University Press, 2000); Pollard, *Catholicism in Modern Italy*.

⁵⁰ Simultaneously the liberal state builders tried to break the soft power of the church by stripping it of many of its former prerogatives in the welfare and educational sector (Ferrera 1993).

⁵¹ Cavour, Garibaldi, Vittorio Emanuele and other Italian unifiers were not only a territorial threat to the Church but also threatened its divine powers over Italian Catholics. Italian unification was a liberal anti-clerical project driven by ideas of the enlightenment, including the separation of church and state. It ultimately aimed at curbing the Vatican's influence in Italy.

⁵² Kertzer, "Religion and Society," 205.

⁵³ Ibid., 410.

⁵⁴ Alice Kelikian, "The Church and Catholicism," in *Liberal and Fascist Italy*, ed. Adrian Lyttelton (Oxford: Oxford University Press, 2002), 46.

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⁵⁶ Ibid., 42.

⁵⁷ Pollard, *Catholicism in Modern Italy*, 28.

⁵⁸ Kertzer, "Religion and Society," 193; Pollard, *Catholicism in Modern Italy*, 22.

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- ⁶⁰ Denis Mack-Smith, *Modern Italy: A Political History* (University of Michigan Press, 1997), 379.
- ⁶¹ Santoro, *L'evasione Fiscale*, 35.
- ⁶² Mack-Smith, *Modern Italy*, 378.
- ⁶³ Oliver Logan, "Italian Identity: Catholic Responses to Secularist Definitions, C. 1910–48," *Modern Italy* 2, no. 1 (1997): 57–58.
- ⁶⁴ Christopher Duggan, *A Concise History of Italy* (Cambridge University Press, 2013), 207–208.
- ⁶⁵ Mack-Smith, *Modern Italy*, 378.
- ⁶⁶ *Ibid.*, 372.
- ⁶⁷ M. Clark, *Modern Italy, 1870–1995* (London: Longmans, 1996), 255.
- ⁶⁸ The pope had even sacrificed the catholic People's Party (*Partito Popolare*) in order to come to terms with Mussolini and had therefore a fair share in putting an end to the short experience of Italian interwar democracy.
- ⁶⁹ Logan, "Italian Identity," 55.
- ⁷⁰ Cited in: Martina Selmi, *How Did We Get Here? A Brief History of Tax Compliance in Italy* (Fiesole: European University Institute, 2013), 9.
- ⁷¹ G. Mammarella, *L'Italia Dalla Caduta Del Fascismo a Oggi* (Bologna: Il Mulino, 1978).
- ⁷² It could present itself as one of the major driving forces of the resistance. Once it became obvious that the Allies would not tolerate another authoritarian regime on the Italian peninsula, the church had to grudgingly accept that their preferred option, a Franco or Salazar like autocratic regime with strong clerical ties like in Spain and Portugal, was no longer available.⁷² The Vatican therefore took the second best option and agreed to the creation of a Christian Democratic party in 1944.
- ⁷³ Paul Ginsborg, *Italy and Its Discontents 1980-2001* (Penguin UK, 2001), 134.
- ⁷⁴ *Ibid.*
- ⁷⁵ Alberto Melloni, "The Politics of the 'Church' in the Italy of Pope Wojtyła," *Journal of Modern Italian Studies* 12, no. 1 (2007): 60–85.
- ⁷⁶ Franco Garelli, "The Public Relevance of the Church and Catholicism in Italy," *Journal of Modern Italian Studies* 12, no. 1 (2007): 21.
- ⁷⁷ Ilvo Diamanti and Luigi Ceccarini, "Catholics and Politics after the Christian Democrats: The Influential Minority," *Journal of Modern Italian Studies* 12, no. 1 (2007): 41; Richard S. Katz and Peter Mair, "Changing Models of Party Organization and Party Democracy the Emergence of the Cartel Party," *Party Politics* 1, no. 1 (1995): 5–28.
- ⁷⁸ Diamanti and Ceccarini, "Catholics and Politics after the Christian Democrats," 41.
- ⁷⁹ Stefano Guzzini, "The 'long Night of the First Republic': Years of Clientelistic Implosion in Italy," *Review of International Political Economy* 2, no. 1 (1995): 27–61.
- ⁸⁰ *Ibid.*
- ⁸¹ Diamanti and Ceccarini, "Catholics and Politics after the Christian Democrats," 43.
- ⁸² Santoro, *L'evasione Fiscale*, 34.

⁸³ Galli, *Storia Della Democrazia Cristiana*.

⁸⁴ Cardinal Rudini, the new head of the powerful Italian Bishops congregation (CEI), had since long been convinced that the filtering of Church demands through the party had led to a distortion of the church's interests and powers since the 1970s. It was ultimately to blame for the secularization that had gripped Italian society and politics (Santagata 2014: 441). Rudini pinned especially the lost referendums on divorce and abortion in the 1980s to the soft stance of Christian Democratic politicians. According to Rudini the secularization of Italian society had to be reversed through a *Reconquista* of Italian politics (Santagata 2014: 439). Central was to influence politics directly, without the Christian Democratic party which immediately increased the church's political blackmailing potential. "Now it would be up to the political parties to take a stance and win the support of the Catholic church" (Santagata 2014: 444).

⁸⁵ Interview with Chiara Saraceno January, 2013.

⁸⁶ John Pollard, "A State within a State: The Role of the Church in Two Italian Political Transitions," *Modern Italy* 16, no. 4 (2011): 452.

⁸⁷ Alessandro Santagata, "Ruinismo: The Catholic Church in Italy from 'mediation Culture' to the Cultural Project," *Journal of Modern Italian Studies* 19, no. 4 (2014): 445.

⁸⁸ Trudie Knijn and Chiara Saraceno, "Changes in the Regulation of Responsibilities towards Childcare Needs in Italy and the Netherlands: Different Timing, Increasingly Different Approaches," *Journal of European Social Policy* 20, no. 5 (2010): 444-55.

⁸⁹ Pollard, "A State within a State," 453. Santagata, "Ruinismo," 446.

⁹¹ This might change, due to the exit of Berlusconi from the frontline of Italian politics and the dismissal of Rudini as head of the Bishops congregation (Pollard 2011: 453). The new pope seems to increasingly shift the church's attention towards essential socio economic issues. After the world financial crisis of 2008 welfare seems to be at the heart of the church's attention and to enact welfare policies the state needs sound revenues and for sound revenues it needs to limit evasive behavior. It will be interesting how church state relations will develop now that with Matteo Renzi has come to power who is not only a former Christian Democrat but whose role model is Giuseppe Dossetti, the great Christian Democratic Christian Socialist of the 1950s and 1960s .

⁹² Paul Ginsborg, *A History of Contemporary Italy: Society and Politics, 1943-1988* (Palgrave Macmillan, 2003), 422.