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RESEARCH ARTICLE

LIBERALISATION AND VALUE EXTRACTION
The Trajectory of Railways in the Neo-Liberal State[1]

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ABSTRACT: The expansion of financial capitalism towards the "lower levels" of economic life (or the *foundational economy* [Bowman *et al.* 2014]) is fostered by the privatisation of utilities and outsourcing of public services, under the encouraging banner of *liberalisation*.
Our paper aims to describe some aspects of this transformation and its implications for social life, referring to the case of Italian railways. The conditions of use of the transport service have radically changed. At least three aspects must be emphasised: 1. The overall volume of services provided is reduced, increasing costs for the community; 2. The less profitable lines are sacrificed, isolating the most marginal areas of the country and exacerbating the socio-economic divide; 3. The services can be accessed only at market rates, and the objective of providing citizens with full mobility is pursued with progressively less vigour.
We argue that the result of the liberalisation of Italian railways is not a competitive market populated by efficient economic actors. Not only has the monopoly been preserved, but the monopolist – i.e. the state: the railways are 100% owned by the Treasury – gets sensational profits without any risk, since the costs of maintenance and investment are borne by public finance.

[1] The research presented in this paper was carried out under the aegis of an international research programme on the foundational economy, involving researchers from UK, Dutch, Spanish and Italian universities. An initial version of the paper was presented at the mini-conference on the foundational economy, as part of the SASE Annual Conference 2015 (LSE). Angelo Salento wrote paragraphs 1, 3, 4 and 5. Giuseppe Pesare wrote paragraph 2 and helped with data research and analysis.

The neo-liberal idea that private players should be free to act in the field of public services actually means that both political and economic fields are subordinated to the goals of maximisation of the return on capital.

KEYWORDS: *foundational economy, Italy, liberalisation, neoliberalism,Railways*

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> Le capitalisme ne triomphe que lorsqu'il s'identifie avec l'État, qu'il est l'État.
> (Braudel 1977, 68)
>
> [Big business] exists and derives its right to exist under, and only under, a tacit social contract. This social contract requires management of big business to assume certain responsibilities. Assumption and fulfilment of them entitles big business to the privileges it receives from the State, and to acquiescence in their existence by the economic community they affect and serve.
> (Berle 1962)

1. Introduction

According to a well-established theory of economic history, the economy (understood as the set of activities of production and reproduction) is not a unitary sphere, governed by a single, ordered and coherent system of rules: in every era, the economy is divided into different orders, responding to different logics and needs. Fernand Braudel (1977) showed that in the Fifteenth century, at the dawn of the modern era, three "layers" of the economy ("floors" of a building, in Braudel's metaphor) were at work: first, the layer of material life; second, the layer of economic life as usually understood, structured by the market; third, the layer of capitalism, which Braudel saw as an *anti-market*, characterised by the production of huge profits, the opacity of transactions, the imposition of prices by means of power, cunning, and the circumvention of both controls and competition.

Nowadays, this heterogeneity of economic life is seriously jeopardised. Aside from the differences between "varieties of capitalism", one trend is common to all the national contexts of Western Europe: the spread of practices and strategies of accumulation based on value extraction and financial valorisation of capital. Indeed, this trend is no longer confined to the industrial sectors, but has expanded into the sectors and networks of the *foundational economy* (Bowman *et al.*, 2014; Barbera *et al.* 2016), specifically those sectors producing the infrastructure of social reproduction and the bases of social citizenship, such as the distribution of water and energy, the production and distribution of food, the management of waste, as well as transport, healthcare, education. In addition, in these sectors – many of which were previously considered as public utilities – the principle of *point-value* applies, becoming a socially accepted driver for corporate conduct: the validity of the economic action is not measured in terms of its usefulness, nor income in the strict sense (i.e. the flow of wealth resulting from processing and sales), but rather its ability to increase the value of capital invested, at any given time, for the benefit of the controlling investor, regardless of the medium-to-long-term implications and the advantages or disadvantages for others. Another aspect of the foundational economy is that the owners of organised capital (pension funds, high-net-worth individuals, private equity funds, hedge funds) exert increasing influence on investments, organisational patterns, employment policy and industrial relations, and the structure of supply chains.

The penetration of "high capitalism" into the "lower levels" of the economy is fuelled by the privatisation of utilities and outsourcing of public services under the banner of liberalisation. There is probably no sector of the foundational economy in which the neo-liberal shift of public policy (Moini 2015; Salento 2014) has not produced significant consequences in terms of the adoption of corporate strategies based on value extraction and the shrinking of social citizenship.

In this paper we describe the characteristics and social implications of this transformation, referring to a specific case: the transformation of Italian railways. Aside from certain specific features, this is by no means an exceptional story, as similar processes have occurred in the rail systems of other European countries. As we shall see, the transformation of rail services in the European Community started with the so-called liberalisation introduced by Directive 440 in 1991.

Railways are not the only sector in which the role of European institutions has been decisive. Since the 1980s, the goal of the single market – established in the Treaty of Rome in 1957 – has gradually turned into a move towards a complete marketisation of European society (and it should be noted that *market* is not meant here in the Braudelian sense of the term, but rather as an expansion of what Braudel called "high capitalism", which can be properly considered the *anti-market*)[2].

As Rod Rhodes noted in 1994, the "reforming" process that began in the 1980s has

[2] Another well-known discussion of the differences between *market* and *capitalism* is to be found in Kenneth Galbraith's *The Economics of Innocent Fraud* (2004).

entailed a *hollowing out* of the state. This can be summarised in four strands: the privatisation of public firms and services and the limitation of state intervention; the loss of functions of local and central government to other agencies; the transfer of functions from national governments to EU institutions; the limitation of the discretion of civil servants via the new pattern of public management, with its emphasis on managerial accountability. Rhodes' arguments, made with reference to the United Kingdom (notoriously less involved in the dynamics of European integration), are all the more applicable to all other Member States.

Since the twenty-first century, however, the impact of European regulations on the foundational economy has been getting stronger. As Judith Clifton (2014) noted, rather than a hollowing out, it represents a *straitjacketing* of the state: the actions of the Commission in particular (often taking their lead from the decisions of the Court of Justice, which are in turn made in response to complaints by private parties), have gradually redefined the concepts of services of public interest and services of general economic interest, thus also redefining the scope of liberalisation. Lastly, no area of public services has been exempted from the penetration of the "market".

It should be stressed that the European dimension of these transformations has sheltered them from political opposition. This is not only because such opposition is still organised along national lines and fails to influence processes on a European scale. It is also due to the ideological strength of so-called *Eurospeak*, in which the transformations of economic regulation are always presented as purely technical operations aiming at the "modernisation" of national economic systems.

In some contexts – and in Italy in particular – the intervention of the European Union was presented as the only possible remedy for the shortfall of efficiency and legitimacy of the national political class. The transfer of sovereign control of fundamental economic choices from the national parliament and government to the European Commission has usually been perceived as an opportunity to bypass the patronage and inefficiency that has long plagued the Italian economy. Italian technocrats have always considered European integration as the most accessible form of restructuring. Whilst the lack of democracy of European institutions has usually been clear, the prevailing (but unfounded) belief was that European integration would bring more effective economic regulation. In 1991, while the Maastricht Treaty was being prepared, the then Treasury Minister Guido Carli (himself a technocrat, former director of large companies, president of Confindustria and director general of the Bank of Italy) stated that only the "grand reform of power" initiated in Maastricht could save Italy from institutional and economical bankruptcy: only a liberal and technocratic revolution could liberate Italy from the inadequacy of its ruling class, even at the cost of a decline in democracy and welfare (Carli 1993 cit. in Berta 2014, chap. IV). In short, the Europeanisation of economic regulation has been accompanied by its de-politicisation (Burnham 1999; Kettel 2008; Flinders and Wood 2014): basic choices governing social life – including the regulation of public services – have been relegated to a technocratic space in which the political government of the economy is evaded.

Analysis of the transformation of the railway service shows that when the logic of point-value enters the management of the foundational economy, it changes the conditions of use of services for citizens. Using a Polanyian term, what has changed is the form of integration of this economic activity in society.

In the case of the railways, at least three aspects must be highlighted: 1. The overall volume of the service shrinks, while the costs charged to taxpayers and users increase; 2. The less profitable lines are sacrificed, leaving no rail service in the more marginal areas of the country, thus exacerbating socio-economic imbalances; 3. Citizens are obliged to access services at so-called "market" rates[3], in spite of the right to mobility established by the Italian Constitution (art. 16).

One might be tempted to accept the shrinking of public services if this entailed a real improvement in the quality of the service and the economic efficiency of the business. This "exchange" of social security for efficiency of services (a variation of the trade-off between security and freedom) is indeed the official justification of the process of liberalisation: liberalisation supposedly increases competition; competition, in turn, increases the efficiency of economic actors and also facilitates an acceptable (if imperfect) balance between the quality of services and the costs borne by citizens. The symbolic power of liberalisation rests on the centrality of what Bourdieu (2000) called "the holy language of economics". However, the corrosion of the public service is actually not the only effect of so-called "liberalisation". As we will show, the result of liberalisation, in the Italian railway sector is not a competitive market populated by efficient economic actors. In fact, the monopoly has been preserved, and the presence of a few aspiring competitors (such as Arenaways and NTV) has never threatened it. Above all, the monopolist company – which is still 100% owned by the Treasury, but will be listed on the Stock Exchange in 2017[4] – earns extraordinary profits without running any risk, since the costs of maintenance and investment in infrastructure are paid from public finances. Ironically, this is made possible by the (essentially fictitious) separation of rail

[3] The term "market" comes in inverted commas, as railways are still characterized by a substantial (and natural) monopoly, and the monopolist rail company operates on the basis of public funding for investments and maintenance.

[4] The process of privatization started with the issuing of a Decree by the President of the Council of Ministers in November 2015.

infrastructure management from service management, which is usually presented as the measure that in principle should ensure the development of competition.

These perverse results of liberalisation are particularly unsurprising in countries where, as in Italy, the former state company has maintained a *de facto* monopoly. However, even in contexts where services are operated by a number of players, such as the UK, we are witnessing the creation of extra-high profits thanks to state intervention in the maintenance and innovation of railway infrastructure (Bowman *et al.* 2013).

The transformation of rail services is an example of the relationship between the economy and politics in a neo-liberal regime, a relationship that has little to do with the proclaimed autonomy of the economic dimension. It has been noted for some time that large companies and financial potentates can interfere heavily in the political process, seriously putting into question the basic premises of democracy (Crouch 2011). The Italian case is no exception to this trend; indeed, it probably represents its quintessence. Since the fascist era, a class of powerful *commis d'état* – the directors of "state holdings" – has managed to channel substantial public resources and powers in favour of private interests (Scalfari and Turani 1974). The distinction between public and private, which is clearly defined by the Constitution, has in fact always been blurred since the dawn of the Republic. We are now witnessing the (only apparent) paradox of a company 100% owned by the Treasury acting as a giant unscrupulous monopolist, which in twelve years has halved the labour force, dramatically reduced services, increased costs and accumulated vast profits. This is the premise on which the company will be transferred to private shareholders, who will buy an extremely profitable company, whose costs are mostly borne by public finance.

In this business, as in many others, the neo-liberal idea that economic players should be left free to act in reality means that the political sphere and the economic sphere are both bent to the objective of maximising returns on capital.

In what follows we propose an analysis based on a wide range of sources: balance sheet data, official statistics, historiography, regulatory documents and grey literature. The interpretation we propose contrasts sharply with the image of efficiency that the monopolist rail firm likes to project.

The evidence emerging from the empirical analysis is presented in par. 4. This is preceded by a short retrospective on the transformation of rail services in Italy from the unification of Italy to the end of the twentieth century (par. 2) and a reconstruction of the process of "liberalisation" (par. 3). Par. 5 offers some concluding remarks.

2. The trajectory of a common good: railways in Italian social history

For a country lacking a unified national tradition, such as Italy, the construction of a railway network was crucial for the emergence of a national identity (Maggi 2006; Parlato 2006; Sellari 2011). In the later decades of the Nineteenth century, the development of railways, in Italy as elsewhere, changed the common perception of space and time by developing and consolidating a new collective habitus. It stimulated the growth of postal services and the daily distribution of the press throughout the national territory (Maggi 2005).

At the time of the proclamation of the Kingdom of Italy (1861), Italy had 2,189 km of railways (Maggi 2003), inherited from the pre-existing states. Only 18% of the network was owned by the state, while 7% was privately owned but managed by the state. The remaining 75% was owned and operated by 22 private companies (Maggi 2005).

After the unification of the country (1861), the railways continued to grow for about 80 years, until the Second World War. From the beginning, railways were considered essential infrastructure for economic and social progress. Between 1861 and 1870 the existing networks were unified and about 4,000 km of railways were built, tripling the size of the network. Several large stations were built and work started on the construction of tunnels and mountain passes to connect the Italian network to the others beyond the Alps.

For the operation of rail services, in 1865, the "Law on large groups", merged the numerous rail companies existing at that time into five combines. Each of them was granted a concession for part of the network. In 1885, the "Law on conventions" entrusted the service to just three enterprises, for an (extendable) period of sixty years.

The private service, however, lasted only until the end of the century, when the nationalisation of the railways became necessary. First, many rail lines had proved unprofitable, leading the three private companies (which had become very powerful) to skimp on investments, thus leaving many communities isolated; second, it became clear that rail transport had a strategic importance in both political and military terms. In addition, nationalising the railways was certainly in the interests of the producers of rolling stock, while reduced freight costs would support both agriculture and manufacturing (Maggi 2003; Maggi 2005).

Between 1905 and 1906 the railways were acquired by the state. The Autonomous Administration of the State Railways was founded, managed first by the Ministry of Public Works (then, from 1924 by the Ministry for Communications, and from 1944 by the Ministry of Transport). The Autonomous Administration ran most of the Italian network, nearly 15,000 km (Maggi 2003). Italy was the second European country to nationalise the rail network, after Switzerland, where the network had been nationalised by referendum in 1898 (Maggi 2005). The railways saw a period of growth that lasted until the Second World War, accompanied by intensive innovation. The network was expanded and electrified, and the fleet was renewed (Maggi 2003). In 1910 the total length of railways was 18,000 km. In 1942 it reached its historic peak of 23,227 km. In 1927 Italy became the country with the highest percentage of electrified railways: 14.6% of the total (Maggi 2005).

In the first half of the twentieth century the railways were the basis of fundamental socio-economic changes in Italian society, the driver of massive regional transformation. They supported the internal migration of workers from the Southern countryside to the industrial cities of the North-West. The construction of stations changed the physiognomy of many cities (Maggi 2003, 81), and favoured their demographic expansion as well as their industrial growth: around the stations new neighbourhoods developed, attracting warehouses, offices, commercial and management activities that intensified social relations (Sellari 2011, 118). Even tourism, which began to spread in Italy during the fascist period, made use of the railways. “Popular” trains, with exceptionally low fares, were introduced by the fascist regime on the routes linking major cities with tourist resorts (Maggi 2003).

During the Second World War, about 7,000 km of railways (nearly one third of the total) and 70% of the rolling stock were destroyed (Maggi 2003; Tiberi 1989). The reconstruction of the network, however, was completed in a very short time, partly thanks to the Marshall Plan.

Although by 1950 the extension of the network was back to 21,550 km, roughly the same as today, after the war, innovation did not resume at the same pace, and new projects were few, though sometimes important. A slow decline began: “the story of the Italian railways in the Fifties is the story of defeat by the motorways”, first locally, then on a long-distance scale (Maggi 2005, 58). In the first ten years after the conflict, the number of travellers continued to increase, thereafter declining to the benefit of car transport: in 1956 there were more than 405 million train journeys, while in 1985 there were fewer than 365 million, although the Italian population increased by 16% (from 48.8 million to 56.6 million in the same period,). There was a similar trend in freight transport. In the same period however, the total volume of the service (passenger-km) grew, mainly due to increased migration.

In the 1950s and 60s trains were used less and less for tourism, especially by the upper classes, who preferred the car. However, they continued, even more than in the past, to transport migrants. Rail transport was no longer associated with modernity and economic development (nor even with holidays). Rather, it was seen as the means of escape from poverty: in the collective imagination – for example in the films of that era – railways were mainly depicted as the "transport of the poor" (Maggi 2003; Maggi 2005).

On the other hand, precisely because it allowed migration and commuting at affordable fares, the train in this period proved its important social function. By supporting mobility and migration, the train unified and transformed Italian society, bringing changes in lifestyles and regional organisation (Giuntini 2001; Sellari 2011). Much more limited has been the contribution of the railways to the economic unification of the country. Although railways have certainly boosted exports of agricultural products from South to North (Sellari 2011), a major cause of the aggravation of the economic gap between North and South (Villani 1989) was (and still is) the huge gap in the development of railways (Schram 1997). The map of the Italian rail network[5] clearly displays this unbalanced distribution and the inadequacy of the links between Southern cities.

Despite their limitations, the Italian railways played a key role in the twentieth century. Certainly, they were the main instrument for implementing the citizens' right to mobility, which in Italy is recognised by the Constitution (art. 16).

3. An imperfect liberalisation?

As elsewhere in Europe, the liberalisation and privatisation of railways were launched in Italy about twenty-five years ago. Regardless of the details, the justification of these processes has been roughly the same: the need for efficiency. The issue was systematically pursued, driven by the idea that increased competition would foster competitiveness (see Boitani 2004) and efficiency (which in the railway sector had appeared particularly poor since the 1980s). Hence the syllogism: as the liberalisation of a sector (supposedly) produces an increase in competition, and competition (supposedly) stimulates efficiency, liberalisation produces efficiency. Firmly embodied in the neoliberal ideology, such an argument is ubiquitous in the media, regardless of even the clearest falsifications.

The key moment in the EU's intervention in railway legislation was the launch of Directive 91/440/EEC, the first of a series of measures pursuing the liberalisation of national railway services and the subsequent creation of a single European rail market. As stated in the preamble, the objective of the Directive is to adapt the railways to the needs of the single market and to improve network efficiency through liberalisation.

[5] Downloadable at: http://www.rfi.it/cms-file/immagini/rfi_2014/visore/RETE_A3.pdf.

In principle, the aim of Directive 440 is to remove state monopolies in railways, preparing the field for a plurality of enterprises to compete with each other, being managed "according to the principles which apply to commercial companies" (art. 5). In other words, states must recognise the legal status of railway companies as independent enterprises behaving in accordance with commercial rules and adapting their policies to market forces. It is therefore required that railway undertakings «hold, in particular, assets, budgets and accounts which are separate from those of the State» (art. 4). In addition to the railway companies' autonomy from the state, Directive 440 requires a separation (at least for accounting purposes) of railway operation and infrastructure from the provision of railway transport services (arts. 1 and 6).

Directive 440 was transposed into Italian law by two acts: Presidential Decree 277/1998 established that the operator of the infrastructure must be independent, for accounting purposes, from companies providing services (Art. 4). Parliamentary Act 388/2000 determined that in order to provide rail transport it is not necessary to obtain a license, but only authorisation (Art. 131).

The new rules led to some changes in the structure of the State Railways. In 1992 the firm was transformed into a joint stock company, 100% owned by the Ministry of Economy and Finance, and the internal organisation of the company was restructured several times in the following years. In order to implement the accounting separation of infrastructure management from the operation of transport services, in 1996 the Railways were divided into seven Strategic Business Areas with independent accounts, one of which managed infrastructure. After Presidential Decree 277 however, the company was compelled to separate the management of infrastructure. Thus, in 1999 an Infrastructure Division was created, and in 2000 the State Railway company was split into two separate entities: the Infrastructure Division became *Rete Ferroviaria Itaiana SpA* (RFI), managing the national railway infrastructure under a sixty-year concession. The other three divisions (Passengers, Cargo and Regional Transport) were transformed into a separate company, *Trenitalia SpA*, in charge of transport services. The two companies, however, are controlled by a single holding company, currently named *Ferrovie dello Stato Italiane SpA* (FSI). As in many other member states, the separation of infrastructure management and the provision of transport services is currently incomplete[6].

[6] For example, in Germany the main railway company, Deutsche Bahn AG, wholly owned by the state, controls DB Bahn (passengers), DB Schenker (freight) and DB Netze (infrastructure management); in Greece TrainOSE S.A. is the leading railway company, fully owned by the state, and controls the infrastructure manager EDISY SA. In other countries (e.g. France, Spain and Finland), the main railway company and the infrastructure manager are both state-owned, albeit not controlled by a holding company.

In the twenty-first century, three new "packages" of EU directives pushed forward with liberalisation. The first, approved in 2001, establishes the principle of non-discrimination in railway companies' access to infrastructure, and liberalises the market for freight transport. This package was transposed into Italian law by Legislative Decree. N. 188/2003, which also gave foreign operators free access to domestic routes. The second package, approved in 2004 and transposed in Italy in 2007, contained measures concerning safety, interoperability, and the full liberalisation of freight transport in the EU. Specifically, Directive 2004/51/EC gave all European railway companies the right to access, as of 1 January 2007, the infrastructure of all Member States for the exercise of all kinds of freight transport. The third railway package, enacted in 2007 and implemented in Italy in 2009 and 2010, sought to begin the opening up of the international passenger market, enabling European railway companies to provide services in EU member countries other than their own. A fourth railway package is now being drafted. According to the Commission's original proposal, it aims to establish the unambiguous separation between railway service providers and infrastructure management. The European Parliament, however, has changed the wording, maintaining the possibility for them to belong to the same group.

The liberalisation of railways has been achieved during a period of hegemony for neo-liberal culture. In this context, it was widely accepted that setting rail services free from the state monopoly was necessary and sufficient to increase the efficiency of railways. The validity of the liberalisation-competition-efficiency sequence was rarely questioned. However, this does not mean that the results of this process are widely appreciated.

Railways, like many other services in Italy, are currently heavily criticised. Even the most enthusiastic supporter of liberalisation in Italy could not claim to be satisfied with the outcomes of this process. Nevertheless, few of them would ever acknowledge that liberalisation has been a fiasco, nor would they acknowledge that this failure is actually the direct result of the implementation of neo-liberal policies (Schmidt and Thatcher [2014] have showed how important the "benefits of non implementation" are for the resilience of neo-liberalism). On the contrary, most of them would maintain that liberalisation must be the driver of any future reform. In spite of the irony, this is quite obvious when one considers that neo-liberalism is an «obsessive-compulsive experiment»: «within this imaginary, anomalies and disappointments are recognised only to be explained away as problems arising from incomplete implementation rather than defective treatment» (Bowman *et al.* 2014, 1-2). In this perspective, the Italian railway system, far from being considered an example of the failure of liberalisation, is described as an area «suffering from a lack of real liberalisation», as the main operator is protected by a combination of public subsidies and barriers to entry (Asquer 2011).

In fact, especially in the field of passenger transport, competition is almost non-existent: the sector is dominated by Trenitalia, fully owned by the Treasury and belonging to the same group as the infrastructure operator (RFI). Between Trenitalia and RFI there is an obvious coincidence of interests (Bozzi 2009). RFI's lack of impartiality in giving companies outside the Group access to the infrastructure has been repeatedly criticised; on several occasions since 2008, the Authority for Competition and the Market has opened investigations against RFI, on its own initiative or acting on complaints from Trenitalia's aspiring competitors (NTV and Arenaways), who have reported facing unfair obstructions to infrastructure.

Unsurprisingly, the close relationship between FSI and the state administration has also been fiercely criticised: on many occasions FSI and its subsidiaries have been privileged by the state, through direct contracts, postponement of tenders, and extensions of service contracts for regional transportation (Sebastiani 2013). Italian law (Legislative Decree no. 422/1997) requires public tenders for providing regional transport, but in almost all regions pre-existing agreements with Trenitalia have been extended. Parliamentary Act 99 of 2009 cancelled mandatory tenders for these services.

Moreover, nothing was done to stimulate competition. The rail services market still has many barriers to entry. The high cost of rolling stock, for example, inhibits the participation of potential competitors in regional transportation. Several scholars, as well as antitrust authorities, have made proposals, such as the obligation for the previous operator to sell the rolling stock to the winner of the tender (Sebastiani 2013), the purchase of trains by the general contractor, or the creation of third-party companies possessing and renting out rolling stock to service operators, as in the case of the British ROSCOs (AGCM 2004; Cambini 2009). Since one barrier to participation in tenders for regional rail services is the size of the lots to be awarded, splitting the service into small lots[7] would facilitate the entry of new players (Beria and Ponti, 2009). However, none of these solutions has been adopted so far.

Another ostensible violation of the principles of free competition is the lack of separation between "market" activities and public service activities (which are subsidised). Law no. 287 of 1990 imposed such a separation, in order to prevent so-called "cross-subsidisation". Nonetheless, many observers have noted that Trenitalia uses the benefits from its monopoly in public services to strengthen its "market" activities (Boitani 2004; Beria and Ponti 2009; Sebastiani 2013).

Ultimately, the criticism of Italian rail services is mainly founded on the idea that lib-

[7] Such a measure was tried by the Lombardy Region in 2004.

eralisation has been "imperfect" (compared with abstract liberal models). In accordance with the liberal creed, the ultimate cause of the disappointment is believed to be state intervention: even patronage in the management of contracts is alleged to be a consequence of public intervention, because «the state continues to plug the gap, taking on the debts, and to swell the coffers of the group» (Gatti 2009, 16). In this perspective, the problem is claimed to be the «generosity» of the state in financing transport services, which supposedly reflects «a mentality [...] that historically conceived transport services as social services to be provided to all, independently of economic, financial and external costs» (Sebastiani 2013, 14-15). This «"generosity" [...] is a primary cause of the extension of subsidised transport services, and their low efficiency» (Sebastiani 2013, 5).

Nobody demands complete abolition of public funding, because it is well known that rail transport is a capital-intensive sector, suffering competition from other transport modes, and that eliminating public support would result in further decline of the business. However, a reduced presence of the state is sought, for instance by means of a stricter definition of the unprofitable yet socially useful routes to be subsidised (Cambini, Catalano, and Savoldi 2009). Some commentators question in particular the suitability of subsidies for long-haul passenger trains. Unlike other European countries, in Italy some long-haul trains are funded by the state, as they are considered public utilities. These services, now regulated by Legislative Decree 159 of 2007, have been awarded directly to Trenitalia. Those who call for further liberalisation of the service consider the subsidisation of long-haul trains to be an unfair advantage granted to Trenitalia. Similarly, the subsidies given to Trenitalia Cargo are alleged to have helped this player to maintain a dominant position in the freight sector (Bozzi 2009).

In summary, although liberalisation is still widely supported, it has not lived up to its promises. The role of the state (understood as a democratic institution aiming at the implementation of full citizenship for all its members) has been reduced – as has the volume of public service, as we shall see – but there has been no significant increase in competition. What has increased however, as shown in the next section, are the profits of the dominant player.

There are fewer and fewer advocates of a universal idea of public service: nowadays, in Italy, few scholars and columnists would argue that the rail service must unconditionally implement the constitutional principle of freedom of movement. In contrast, the liberal message is still resonating: liberalisation produces competition, hence efficiency. But this is a counterfactual utopia, because the reality is different: in a neoliberal framework, the more the state (apparently) abdicates its regulatory role, the stronger the dominance of economic potentates. Moreover, although a tendency to regulative minimalism is professed, the state has not renounced its regulatory role. As the literature on "roll-out neo-liberalism" has explained (see Peck, Tickell 2002), liberalisation is brought about precisely through regulation, at both the national and European scale.

Liberal critics – who still blame the "generosity" of the welfare state – stubbornly fail to consider the clear evidence: far from being a generous parent refusing to give up its role of public regulator, the state is the main actor in this story: it completely controls FSI (whose president and CEO are appointed by the only shareholder of the company, the Treasury). When it comes to understanding trends in public services in Italy as well as in other European countries, it should be considered that the states and the European Union are no longer promoting the idea of a universal public service. Indeed, they have not played this role since the early 1980s. The European Union and its member states are now the main actors in a radical reorganisation of the foundational economy, based on value extraction and the maximisation of return on capital. Like it or not, this reorganisation has little to do with the liberal idea of market competition.

4. From liberalisation to appropriation

While liberal discourse continues to preach the mantra of liberalisation as the best road to market competition and efficiency, the actual outcome of liberalisation seems to be the expansion of value extraction, rather than an improvement of the market. What once was a state company, designed to implement the universal right to mobility, is now a monopolist corporation producing impressive profit margins, while imposing risks and externalities on public finances. The notion that the state continues to exert excessive intervention and regulation, maintaining its twentieth-century role, is totally unfounded. Within the framework defined by the rules of the European Single Market, the state is the instigator and facilitator of a radical transformation, erasing the idea of public service.

This is not to be considered a specifically Italian phenomenon. As Perry Anderson (2014) points out, Italy is no exception; rather it is a microcosm of Europe's malaises), since other experiences of liberalisation considered valuable by Italian scholars, such as the British (see Arrigo and Ferri 2012), are not very different. As the CRESC report on British railways explains, «rail privatisation created a situation whereby risk and investment averse private companies positioned themselves as value extractors, thanks to high public subsidies. Government effectively took the operating risk, covering operating deficits and supplying investment funds» (Bowman *et al.* 2013, 14).

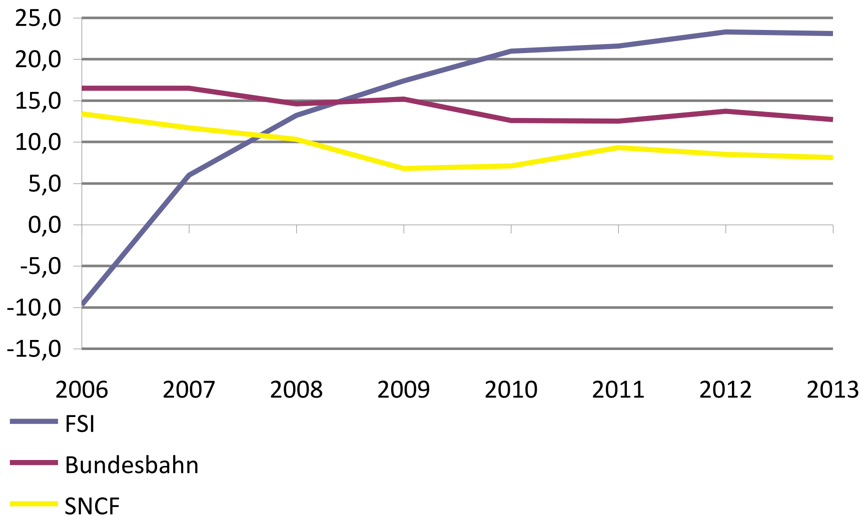
If the liberalisation of Italian railways does not meet the liberal ideal, it is because *real* liberalisation – which has little to do with fostering market competition – can have only one outcome. As Colin Crouch points out, «contracting out or selling services to private companies is justified on the ground that it encourages competition, a key condition for the functioning of the market, but the competition is usually very limited» (2011, 12).

Using official statistics and FSI's financial statements, in what follows we shall seek to forensically analyse the actual outcomes of the liberalisation of Italian railways, providing a de-mystifying narrative of the transformation of this sector of the foundational economy. We shall refer in particular to the period starting from 2006. At that time, engineer Mauro Moretti, a former leader of the train workers' union Filt-Cgil, became the CEO of FSI, remaining in office until 2014 (with an average yearly salary in excess of 800,000 euros). In this period a company on the verge of bankruptcy – as Moretti himself described it in 2006 – was transformed into an extraordinarily profitable corporation, changing the face of rail transportation in Italy.

Let us start with contemporary Italian railways' most celebrated result: the astonishing increase in profitability recorded in the last decade. In just eight years, between 2006 and 2014, EBITDA rose from -650 to 2,113 million euros and net profit from -2115 to 303 million euros. Comparison of the profitability of Italian State Railways with that of the French and German railway companies leaves no doubt. In 2006, FSI's EBITDA margin was about -10%, while in 2007 it was already positive (6%), reaching 23.3% by 2012. In the same period, Deutsche Bundesbahn's margin fell from 16.5% to 12.7% and that of the French Railways (SNCF) from 13.4% to 8.1% (Fig. 1).

The extraordinary trend in FSI's economic performance has had various (and sometimes controversial) interpretations. Specifically, some commentators have focused on the dubious improvement in the accounts during Moretti's first year in office, that is between 2006 and 2007: Trenitalia's 2006 statements are said to have been deliberately worsened (by hundreds of millions) in order to make the following year's accounts look better (Gatti 2009; Bicotti 2011).

Figure 1 - EBITDA margin trends of FSI, Bundesbahn, SNCF



Source: FSI

A decade after the beginning of the restructuring, it can be said that the surge in profitability – aside from some occasional and more or less questionable transactions – is the result of an overall transformation of the enterprise and its role in Italian society. The company became profitable thanks to a steep fall in the volume and characteristics of the service, and a very special relationship with the public finances.

The turnaround of Italian railways' can be summarised as the result of three strategic moves.

Downsizing is the first keyword. The very core of the change is the gradual but major reduction in the volume of transport services. With the exception of brief periods, between the end of World War II and the early twenty-first century, the volume of service – measured in passenger-kilometres (pax-km, i.e. the number of passengers multiplied by the length of the journeys) – grew constantly. In 2006 it began to decline. In that year it amounted to about 46.5 billion pax-km, but by 2013 it had declined by almost 20%, to 37.7 billion.

In freight transport, the reduction was even more striking. In this area, the volume of service (train-km) fell by over 50% between 2006 and 2013. The amount of goods transported by Trenitalia, expressed in tonne-km, went from around 23 billion to less than 12 billion in the same period.

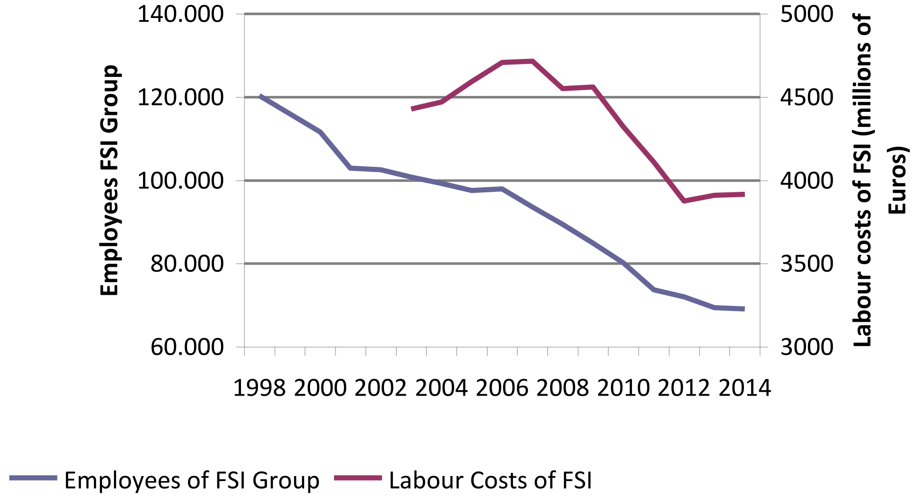
According to the company's own account, the driver of this retreat from freight transportation was not the pursuit of operational effectiveness, but the quest for the maximisation of profitability. It was a "strategic decision aimed at rightsizing the number of stations and focusing resources on the most profitable trades" (FSI 2011, 40). Moreover, competition is more pronounced in freight than passenger transport: although Trenitalia is the dominant player (the volume of Trenitalia's service [train-km] exceeds the total of competitors), in 2013 twenty other firms were operating in Italy. According to data from the Ministry of Infrastructure and Transportation, Trenitalia accounts for 64.6% of freight transport (train-km); the largest competitors are RailTractionCompany (5.1%), Nord Cargo (4.0%) and Captrain (3.7%). Increased competition has led companies (including Trenitalia, which also has a profitable service contract with the state) to abandon less profitable routes (Sebastiani 2013).

A further indicator of the downsizing of FSI's transport service is the reduction in rolling stock. In the late 2000s, curtailing rolling stock was a strategic option. Between 2006 and 2013, the fleet was almost halved: in 2006 FSI had about 56,000 units (coaches and traction); in 2013 they were less than 30,000.

Staff reduction, particularly after 2007, was one of the most important ways of enhancing profitability. In 1998, the FSI group employed 120,000 workers; in 2006 there were 98,000; in 2014 less than 70,000. This yielded consistent savings: from 2006 to 2014, labour costs decreased by 17% (from 4,717 to 3,917 million) (Fig. 2), and the ratio of labour costs to operating revenues fell from more than 70% to less than 47%. Besides savings on labour costs, the improvement of accounts from 2007 on was also due to the downsizing of cleaning services for trains; according to the Court of Auditors, this saved more than 41 million (Gatti 2009). Overall, the policy of cost reduction yielded a fall of more than 14% in operating costs (from 7,353 to 6,312 millions).

Maintaining a special connection with public finances was the second strategic move fostering the company's profitability. As a "natural monopoly", RFI has a concession for the use of railway infrastructure for 60 years. It earns revenues from use of the network, while maintenance and innovation of infrastructure remain the responsibility of the state. The Program Contract for Services provides for public spending in excess of 5 billion euros for the period 2012-2014. As for innovation of the network, the Program Contract for Investments financed projects worth about 94 billion euros in 2007-2011, while for the period 2012-2016 about 99 billion has been allocated. A large part of the staff reduction may reasonably be assumed to be a direct result of the massive automation of the infrastructure, funded by public finance.

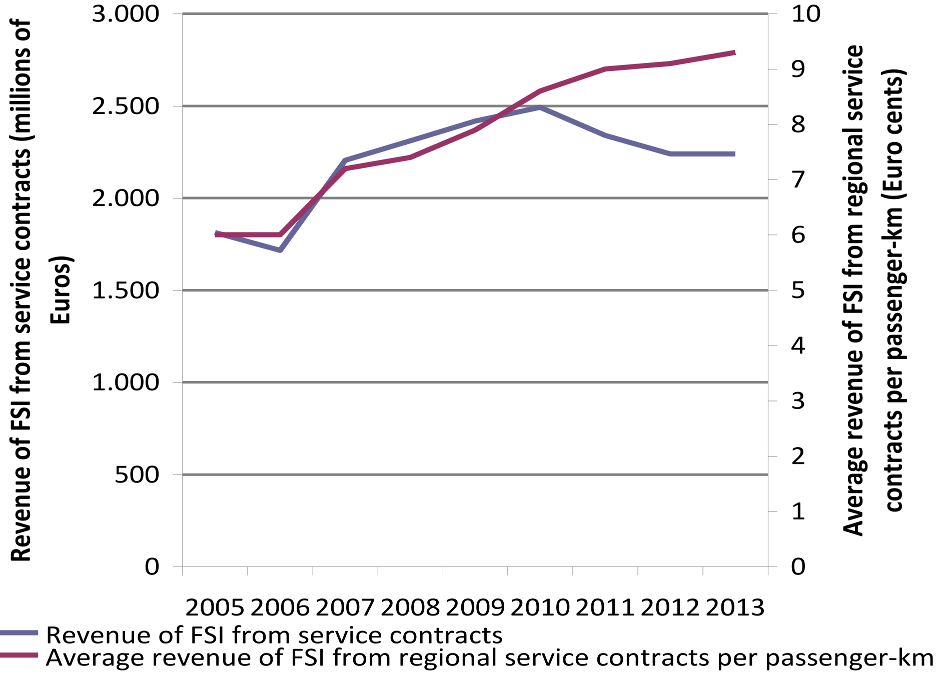
Figure 2 - Employees of FSI Group and labour costs of FSI trends



Sources: FSI; CNIT from FSI

Overall, the relationship between the railway company and the public administration was reversed: whereas the company was originally supposed to serve the public interest, today it attracts public resources in its own favour, and implements restructuring measures damaging to both rail workers and users. Not only does the company use public resources to reduce operating costs, but it regards the government as a customer from which the highest possible return should be obtained. A (shrinking) share of transport services are still operated in the public interest, that is, at controlled fares. Since 2006, the subsidies that FSI receives from the state and the regions for providing such services have increased significantly. FSI received around 1.7 billion euros from service contracts in 2006, almost 2.5 in 2010 and around 2.3 in 2014. For regional transportation, the average revenue from service contracts rose by 6 cents per passenger-km in 2006 to 9.3 cents in 2013 (Fig. 3).

Figure 3 - Total revenue of FSI from service contracts and average revenue of FSI from regional service contracts per passenger-km



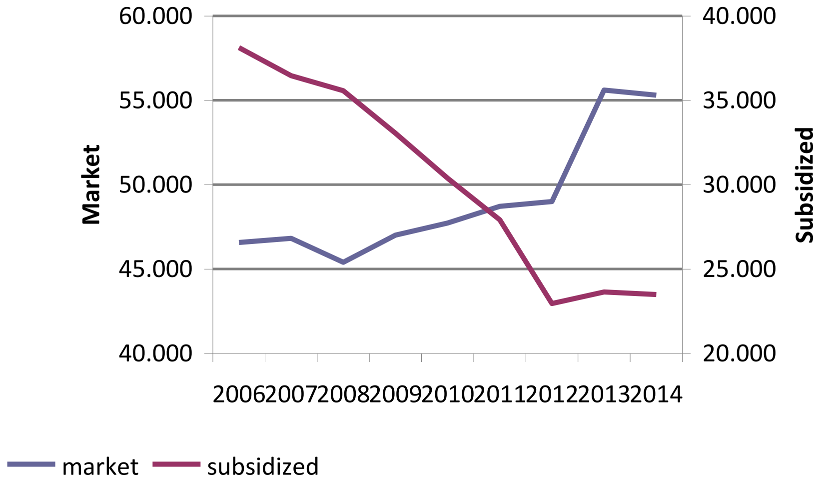
Sources: FSI; NIT from FSI

The third move for restructuring the business was the shift towards so-called "market" services, i.e. unsubsidised trains, whose share of the total grew. Unsurprisingly, "market" services are now FSI's most profitable business. Its revenues rose from 2.25 billion euros in 2003 to 2.4 billion in 2006, and to more than 3 billion in 2014.

Summarising, between 2006 and 2014, FSI reduced operating costs by 1,077 million euros, raised earnings from service contracts (regional and state) by 552 million euros, and increased "market" revenues by 652 million euros.

The very concept of a rail service has thus changed: the "market" service has become extremely profitable, while the universal service – that is the proper public service – has declined, both in quantity and quality: subsidised medium-long distance trains have been almost entirely suppressed, while the remainder are very slow and – according to many – uncomfortable. The volume (train-km) of medium-long distance services decreased by 7% between 2006 and 2014, but this figure is actually the result of two changes: the growth of "market" services (+18.7%) and the reduction of subsidised trains (-38.4%) (Fig. 4).

Figure 4 - Train-kms in the medium-long distance trends, broken down by "market" and subsidized services

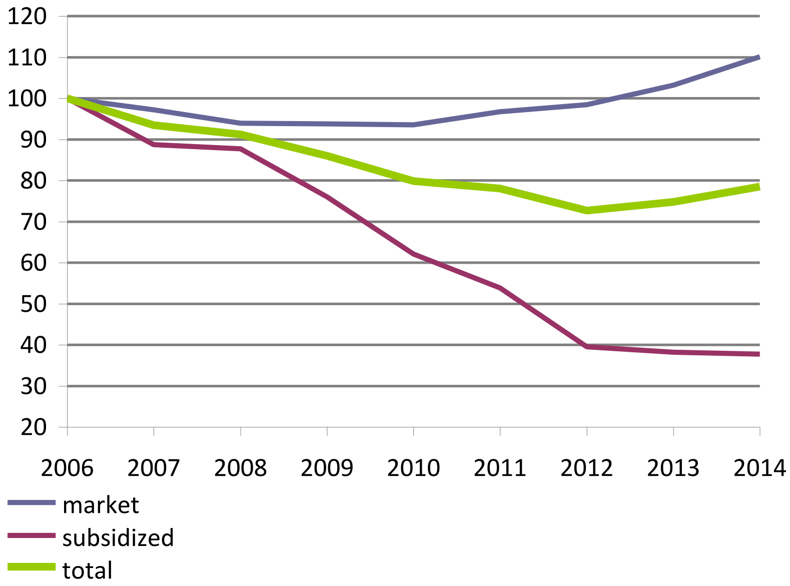


Source: Consolidated financial statements FSI

Ultimately, the largest Italian railway company is no longer a means for the achievement of public utility. The state is both the body granting the concession and a client with whom the corporation deals in a pseudo-market regime. The subsidised universal service – as declared in FSI's consolidated financial statements for 2011 – has been reduced «in quality and quantity, *in application of the requirements of the public client*» (FSI 2012, 49, emphasis added).

The serious social effects of this new conception of rail services emerge when one considers the reduction of volume (pax-km) in detail. The medium-long distance service has certainly been affected by competition from low-cost air transport, which means many travellers now prefer to fly (Danielis 2012). However, figures clearly show that the reduction of travellers has affected only subsidised trains. As illustrated in Fig. 5, transport in medium-long trains shrank by 21.5% between 2006 and 2014, but disaggregating the data shows that over 62% of this is accounted for by subsidised trains, while unsubsidised trains, after a period of slight decline, rose after 2011. This clearly shows that the trend in demand largely depends on the structure of supply, i.e. on FSI's choice of the kind of service to supply.

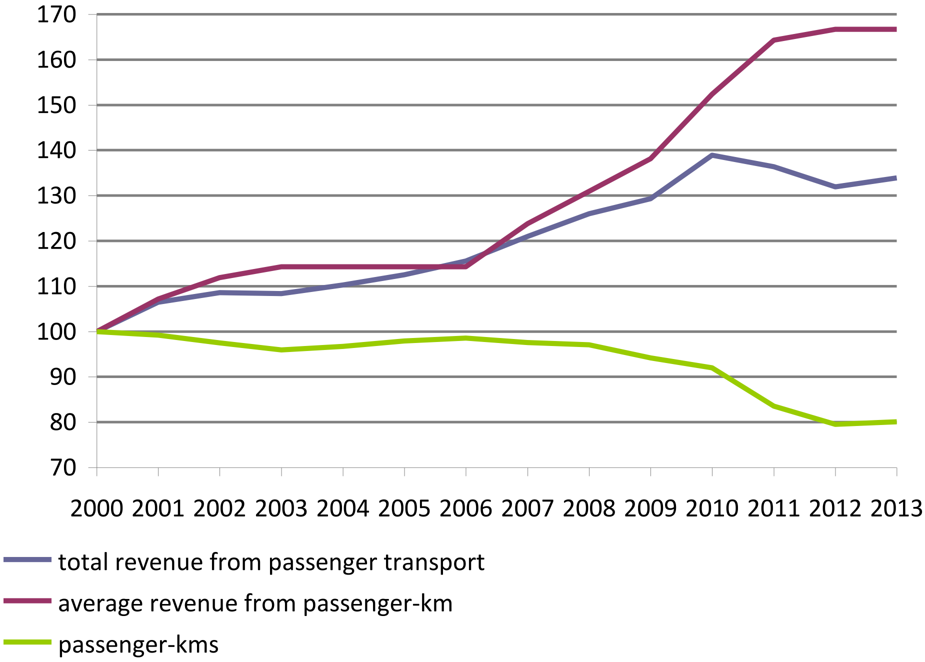
Figure 5 - Passengers-kms in medium-long trains (market, subsidized, total) (2006=100)



Source: Consolidated financial statements FSI

By virtue of such redistribution – which includes pricing policies and growth in "market" service fares – returns from passenger traffic grew by almost 16% between 2006 and 2013. Fig. 6 shows that between 2000 and 2013, against a reduction in the number of passengers, there was an increase in revenues, and especially in the average revenue per pax-km, especially from 2007 (see also Danielis 2012).

Figure 6 - FSI Revenue from passenger transport (total and average per passenger-km) and passenger-kms trends (2000=100)



Source: CNIT from FSI

Unfortunately, reorganising railways on the principle of profitability maximisation has produced a perverse redistribution of resources. When the supply of such services is founded on this principle, it is directed where it finds the highest revenues: that is towards the richest possible contexts. Thus, while railways are still operated on the basis of public finances, Italy is increasingly becoming a "two-speed" country (Legambiente 2014): modern and fast trains run on "market" routes; old and slow trains on all other lines; the number of trains for universal service is drastically reduced; many routes are decommissioned.

In this perspective, regional transport deserves special attention because it is for many people a basic means of daily mobility. As we have seen, it has become increasingly expensive for regional administrations. Many areas of Italy, especially inland, have been completely deprived of rail transport. Between 2006 and 2014, 1,187 km of rail network were closed (Legambiente 2014). In fifteen of twenty regions, between 2010 and 2014, trains and routes were reduced; in fourteen regions regional transport fares were increased (in the other six regions they remained unchanged) (Legambiente

2014). Until 2012, the number of regional rail passengers grew annually, mostly due to the increasing difficulty of accessing large cities by car (Danielis 2012), but from 2013 it fell, mainly due to the reduction in passengers in the regions most affected by the downsizing of services: Campania, Piedmont, Liguria and Abruzzo (Legambiente 2014)[8].

All this is (only apparently) paradoxical, considering that FSI is a group of companies wholly owned by the Treasury. A part of the state administration has abandoned a logic of action based on the idea of public utility, and has incorporated the logic of maximising profitability and extracting value. Although disconcerting, this is not entirely surprising, considering that the trend towards privatisation of public services is widespread across Europe in the neo-liberal era. It is even less surprising when one considers that 40% of the capital of FSI will be listed on the stock exchange very soon[9]. It is an established custom for neo-liberal states to restructure companies before transferring them to private owners.

5. Conclusions

A part is not the whole. The history of Italian railways is not the history of economic regulation in Italy. The trajectory of the Italian rail service, however, is a clear example of the neo-liberal reorganisation of foundational services. It epitomises the neo-liberal relationship between politics and the economy. An overlap between the two spheres is a traditional characteristic of Italian capitalism, deriving from both the heritage of "state holdings" and the elitist structure of Italian financial capitalism (Barca 1997). However, in the last twenty-five years a new "reformism" – which can more properly be considered a *counter-reformism* (Favilli 2009; Mattei 2013) – has paved the way for the transformation of public services into devices of accumulation. This has little to do with the promotion of competition and efficiency, which are the banners of neo-liberal campaigns on a European scale.

In Italian railways there is no lack of technological innovation. The high-speed rail infrastructure, funded with a huge amount of public money, is now the pride of the monopolist company and its main source of profits. But the company might not be so

[8] Between 2008 and 2012, the number of regional rail passengers increased each year by at least 1% over the previous year (with a peak of 8.7% in 2009 and 4.8% in 2011), while in 2013 it fell by 1.4% compared to 2012 and in 2014 by 3.1% compared to 2013.

[9] This operation should have been completed by the end of 2015, but it was postponed by the Parliament (Chamber of Deputies, 3 December 2015) following a request from the Left to defer the listing until its social and industrial implications were clarified.

profitable if it were not sustained by public finances. From public finances the company draws both resources for maintenance and innovation, and remuneration for universal services, concerning which, the regional and state administrations are treated as customers, required to pay the highest possible price. Thus, the relationship between state and economic actors changes: from a regulator (often compliant), the state is converted into a reservoir of resources available to support the profitability of capital. The transformation starts from within the state itself: a utility company wholly owned by the Treasury is converted into a value-extracting firm and then transferred to private owners. Though paradoxical when compared with the twentieth century constitutional principles of national states, such a transformation is fully coherent with the constitutive ideology of the neo-liberal state. According to two of Osborne and Gaebler's (1992) ten principles, "market-oriented governments utilize a market mechanism instead of an administrative program to provide goods and services to the public" and above all "enterprising governments stress earning rather than spending money".

The story of the Italian railways also shows – and this is perhaps even more important – that the logic of value extraction is also penetrating the foundational sectors of the economy. Public services are now the privileged object of a business model aimed at maximising return on capital. Echoing the Braudelian pattern, we can say that the "top floor" of the economy (the space in which maximising return on capital *is* the business) is expanding to the detriment of the foundational space of the economy, which in the last century was regarded as the basic economic infrastructure of social life and was devoted to the implementation of social citizenship. The rail service is no longer an instrument for exercising the right to mobility: rather, it is a business devoted to the maximisation of value for shareholders, largely based on a natural monopoly and the exploitation of public finances.

According to the Polanyian prediction of a "double movement", one might expect that such strong pressure towards marketisation of economic life would be countered by societal forces aimed at social protection (Polanyi, 1944, 138). Unfortunately, no such mechanism is at work, nor can Polanyi's counter-action be understood as a self-fulfilling prophecy (Smith, 2013).

Some movements and organisations in Italy have highlighted the contradictions and difficulties in the transformation of the railway service. We have repeatedly mentioned in this article, for instance, the report prepared by Legambiente on the reduction of basic rail services.

In 2014, on the initiative of a young commuter, a movement was born which asserts the right to carry bicycles on trains at reasonable fares[10] (Trenitalia still demands that the transport of bicycles is paid for by the passenger or, on regional trains, by regional administrations). Also worth mentioning here is the movement for the recovery of disused railways and their transformation into greenways and bike trails.

The strongest movement demanding a different approach to the rail business however is the one started by the inhabitants of the Susa Valley in Piedmont, in opposition to the construction of a new high-speed railway line between Turin and Lyon in France (as part of an EU project which plans to connect Lyon to Budapest and high-speed lines in Ukraine). This is one of the many European movements that oppose the brutalities of the neo-liberal economy and economics. As Saskia Sassen (2014) argues, expulsions – displacements, evictions, eradications – are the economic result of an action which does not scruple to sacrifice the integrity of human life and the environment in the search for value extraction. Such devastations are opposed by an increasing number of local resistance movements, and that of the Susa Valley is one of the most significant.

Nonetheless, these counter-actions are still local and interstitial. Organised money has still full control of politics in post-democratic regimes. Compared to the (false) promise of techno-nihilistic capitalism (Magatti 2009), critical voices still sound weak. Overall, although the critics have not been entirely annihilated, the neo-liberal transformation of the Italian rail service – supported by the neo-liberal mantra of liberalisation, competition and efficiency – has been a successful experiment in symbolic violence. Even concerning the sale of railways to private hands there is no significant opposition: some raise questions about how the railways should be privatised, but the alleged need for privatisation is seldom questioned (see Beria and Boitani 2015).

In such circumstances, of course, social sciences cannot play a direct political role, but two major avenues are open to them. First, they can expose the dynamics of value extraction, which are often hidden behind the attractive self-representations of neoliberal capitalism. Second, they can show why and how the foundational economy should be studied, defended, and reorganised. This is the main purpose of the foundational economy approach (Bowman *et al.* 2014; Barbera *et al.* 2016), which assumes, based on Braudel's and Polanyi's lessons, that for a real countermovement to emerge, it must be conceived in terms of organisational principles and institutional purposes, moving from a set of interstitial movements and counter-practices towards a new regulatory dimension.

[10] See the Facebook page of the movement: https://www.facebook.com/groups/bicitreno/ (last access 12.1.2016).

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