

Ca' Foscari University of Venice  
*Department of Economics*

## **In praise of popularization**

*Lectio magistralis* by the Senior Deputy Governor of the Bank of Italy  
and President of the Italian Insurance Supervisory Authority (IVASS)

Salvatore Rossi

Venice, 5 October 2018



## **Introduction**

This lecture stems from a reflection on the way in which we – all of us – form our opinions and make decisions.

The question has many aspects, but here we will deal with one in particular: the information that we consume and the sources from which we gather it. This is a crucial aspect. Opinions and decisions are, of course, shaped by cognitive processes and inspired by religious or political persuasions, but the information that we use is their main sustenance. Combined with our pre-conceptions, they lead us to think one thing or another, and to decide accordingly.

And yet, at this historical juncture, Western democracies appear to have a problem regarding the quality of the information that is made available to the public. A lot of this information, it is said, is false or misleading, either through ignorance, superficiality or malice on the part of those who produce it. The *fake news* phenomenon is part of this debate. Of course, Italy is not exempt from this problem. On the contrary, it is one of its main laboratories.

The thesis of this lecture is that nowadays serious manufacturers of information, and scholars in particular, have what has become an impelling and absolute duty to disseminate their knowledge. This should be their main concern. In all fields. Before it is too late. Especially here in Italy. Especially when it comes to economics.

## **The high priests of knowledge versus democracy**

Fantastical stories and tall tales have always circulated widely among human beings, at all times and in all places. A defining feature of the modern era was the emergence and diffusion of Galilean science, according

to which all claims must be subjected to careful empirical scrutiny and there are no absolute dogmas; put simply, we should not believe in fairy tales.

Modern science, regardless of whether it is engaged in sending a rocket to the moon or in improving economic welfare, can sometimes be hesitant and imprecise, but it is the best that humanity can offer to draw closer to natural truths. It feeds on skills and talents, it seeks first and foremost to convince the rest of the scientific community of the validity of its findings (even at a long remove), it assigns no role to religions, political ideologies, fads or mass enchantments.

For several years now, it has been claimed, in many public debates the opinions of qualified persons have been rejected, if not derided. An idea has gained currency that there is no such thing as difficult problems and complex solutions, and that everything is easy and within everyone's grasp – both in terms of understanding problems and finding solutions – if only the group of so-called experts, who are only good at perpetuating their own power, can be defeated.

The Internet appears to have played an important role in all of this. It lends a voice to anyone with access to as little as a cheap smartphone, even if they are typing in a far-flung corner of the globe. Anyone can write, photograph or film something that will become viral. The traditional intermediation of the experts, of qualified observers, of professional 'sorters' of information, has disappeared. It is a grand, liberating bonfire (but so were the book burnings organized by Nazi students in the spring of 1933)<sup>1</sup>.

A revolution of this kind spares no branch of public activity. Economics and economic policy are deeply affected, at a time when these disciplines are at the centre, either directly or indirectly, of almost all the decisions of individual citizens and of governments – even ethical ones.

Decade after decade, administrative and technical apparatuses have taken shape in the economic field alongside governments, building up a

---

<sup>1</sup> Shirer, William L., 1961, *The Rise and Fall of the Third Reich*, Rosetta Books, New York.

body of knowledge and practices of their own. This includes ministries, specialized institutes and agencies, independent authorities and central banks. They have developed an autonomous capacity to process information and take action. Until a few years ago, the balance between governments and administrative apparatuses was ensured by a sort of trust in the medium term on the part of the former towards the latter: governments only checked intermittently the validity of these apparatuses' action – which at times was not merely administrative – limiting their role to that of setting broad political guidelines. But for governments to behave in this way they also had to be intermittently accountable to voters for their track record, for example on the occasion of general elections.

Now, as long as voters' judgement in Western democracies was mediated by the great ideologies that emerged at the turn of the 18<sup>th</sup> and 19<sup>th</sup> centuries, this form of intermittent control came naturally. Voters trusted that the people in government would, at least in the medium term, act in their interest; they did not seek to judge their performance in real time because the common ideological bond reassured them. When the ideologies weakened to the point of almost disappearing and the electorate morphed into the audience of a continuous and never-ending show, political marketing became the only language spoken to the masses by politicians operating in democratic systems, and the only language understood by those masses. Today, the conversation between the electors and the elected must be unceasing, uninterrupted and take place through any means of communication, especially 'instantaneous' ones such as social media.

It is worth noting that this does not apply only to economic matters in a narrow sense, but also to other domains of administrative and political action, for example foreign policy. If a country's international relations are constantly exposed to changing public preferences and whims; if, to give an account of the state of national interests and international relations, storytelling techniques – to be clear, the same as those employed in TV series – become widespread and are used to stir the public's feelings; if what counts is the short-term audience share, regardless of the actual medium to long term reality of the national interest; then, a democratic country's diplomatic apparatus will find it harder and harder to influence the action of a governing class interested only in the real-time advertising

of its political stance for the benefit of current and potential voters. Today's United States of America is a textbook case.<sup>2</sup>

Does all of this mean that those with technical skills, the high priests of knowledge, are always right and people's representatives always wrong? That overthrowing the synod of high priests and restoring to ordinary people the power to find simple solutions to their problems is always a revolutionary gesture that must be condemned? Sadly, no. Otherwise, one would not be able to explain the periodic emergence throughout history of vast shifts in opinion or political movements that revolt against the establishment.<sup>3</sup>

It is necessary, I believe, to reflect on this point: science (including economics) is indeed democratic,<sup>4</sup> but only within its own confines. All those who stand outside of it, that is, the body of citizens as a whole, have to trust the fact that the scientific community has strict rules designed to ensure that it can work to the best of its ability in the interests of humanity. If citizens' overall trust is undermined – as can happen in historical eras, as perhaps the current one is, marked by social and political crisis – this is to the detriment of everyone. And it is of no use for researchers to rebel against the mounting obscurantism by proudly reiterating the established rules. Society as a whole might trust them even less as a result.

In other words, making discoveries, innovating, and developing theories and techniques will not suffice. To keep or regain the public's trust the findings of research must be explained to those outside the field, humbly and patiently and without the haughtiness sometimes displayed by those who are proud of their hard-won knowledge. Technical jargon must be meticulously translated into plain, everyday language, trying to reduce as much as possible the inevitable loss of accuracy that any translation of this kind implies.

---

<sup>2</sup> The day after the meeting between the presidents of the United States and of Russia, which took place on 16 July 2018, the French political scientist Dominique Moïsi gave an interview to *Corriere della Sera*, which the journalist summarized in the headline: 'More than diplomacy, this is marketing'. *Corriere della Sera*, 17 July 2018.

<sup>3</sup> Eichengreen, Barry, 2017, *The Populist Temptation*, Oxford University Press, Oxford.

<sup>4</sup> Viale, Riccardo, 'Politics versus science – terrible examples from our past', *Corriere della Sera*, 9 August 2018.

In short, we must popularize. But we must do so without ever losing touch with rigorous reasoning and cold, hard facts. At the same time, we must aim for simplicity and clarity in our explanations, no matter how complex the issues at hand.

## **The popularization of economics**

But what does this mean in practice? Let me give you an example of an inaccurate and misleading myth about the Italian economy, which would benefit greatly from a fair account of the facts, that is, from good popularization.

According to this myth, the Italian economy could be prosperous and happy if only Europe, out of Teutonic foolishness, and the market, out of occasional political antipathy, did not impose a financial straitjacket on it. In this oversimplified narrative, there are grains of truth and mountains of lies. The issues are much more entangled and complicated, and it is up to those who have spent a long time studying these problems to make this clearly understood.

For now, let's clarify one thing: the main problem with the Italian economy is that, when something is produced (industrial equipment, a legal opinion, a history lesson), it is not done efficiently enough. In other words, resources are wasted and it costs more to achieve a given level of quality.<sup>5</sup> On average, of course. The differences between one firm and another, between one lawyer and another, between one professor and another, are enormous, but overall the Italian economy suffers from a competitive disadvantage and growth gap when compared with other economies. And it has done so for at least the past 20 years. Italy knows how to do all manner of things, but it does them, overall, less frequently and less well than it could.<sup>6</sup>

This is another reason for the growing and widespread concern about inequality in Italy. An economy that grows little over such a long period,

---

<sup>5</sup> Economics calls it 'productivity', but that is jargon I will not use here.

<sup>6</sup> Giunta, Anna and Rossi, Salvatore, *Che cosa sa fare l'Italia* (Bari-Roma: Laterza, 2017).

where household income in per capita terms is stuck at late 1980s levels, is an economy that offers few opportunities to its citizens, and especially to the young.<sup>7</sup> It is not surprising that two thirds of young people aged between 18 and 34 believe that those who are today setting out to study or work will never attain the same social or financial level as previous generations.<sup>8</sup>

There are a variety of reasons for this situation and we will not discuss them here. One thing is certain: the problem cannot be solved by encouraging the State to borrow more. The State can do a great deal in this area by spending better and establishing regulations that promote efficiency.

If we wanted to tackle the issue from a social equity standpoint (and we would be making a mistake if we were to separate this from production efficiency – you have to bake the pie before you think about how to slice it), once again more debt will not resolve the problem. What we have to do instead is to redistribute taxes between those who have more and those who have less and improve the equalization capacity of many public transfers.

Today, Europe and the markets are first and foremost worried about Italy's public debt which, as everyone knows by now, has risen to more than €2,300 billion, or 130 per cent of one year's GDP.

So let's ask ourselves: What does Europe mean? What do the markets mean?

Europe means all the complicated architecture of institutions (the Commission, European Parliament, European Council, European Central Bank, and so on) and legislation (Treaties, Directives, Regulations, etc.) that limit or influence the sovereignty of the Member States. By their choice.

---

<sup>7</sup> Andrea Brandolini, Romina Gambacorta and Alfonso Rosolia, 'Inequality Amid Income Stagnation: Italy Over the last Quarter of a Century', in *Inequality and Inclusive Growth in Rich Countries: Shared Challenges and Contrasting Fortunes*, Brian Nolan (ed.), (Oxford: Oxford University Press, 2018).

<sup>8</sup> Demopolis survey on 'Italian youth and inequality' conducted on behalf of Oxfam Italia in September 2018 on a representative sample of 1,040 participants.



Let us linger a bit longer on the markets. Markets mean investors. Anyone who has set aside even a modest amount of money anywhere other than in their current accounts and entrusted it to someone else to invest for them: a bank, a financial agent, a friend. Usually these retail investors turn to wholesalers (banks frequently have both in-house) who sell them financial products of various kinds, from the most simple, such as government bonds, to the most complex, such as derivatives, depending on the sophistication of the final customer. The wholesalers (agents who work in the product development departments of banks, or for investment funds or asset management firms) have no homeland, even if they are Italian, German or American by passport and residence. They have the whole world as their playground and they all think more or less in the same way.

How many are there? Let's say, at a very rough estimate, about half a million worldwide. Their goal is to earn the highest returns possible for the same amount of risk so as to satisfy their clients – those retailers who, in turn, must satisfy the investors who have turned to them. They strive to emerge in a highly competitive environment, but basically they use the same methods, chasing news about the financial outlooks of companies and countries one second before their competitors.

And the speculators? They also exist, of course. People who use their own money or that of a few associates (hedge funds, private equity funds, and so on) to place bets, even shorting, i.e. betting that a company or country will get into difficulty and that the securities that it issued to fund itself will lose value. But they are pilot fish, not sharks (even if sometimes they are the size of whales). They short (that is, short sell securities that they do not own) when they understand that the immense school of fish that is right behind them – the investors who act on behalf of savers throughout the world – is unsure about what direction to take, to sell or not, and they try to point them toward selling. If they succeed, and the value of the securities sold collapses, they buy them back at a much lower price and honour the previous short sale, at a large profit. They come into play when there is already concern among ordinary investors because of worrying news circulating about this or that company or State. And in any case they are only motivated by the prospect of profit. Which is all the more likely when they perceive in advance that the victim is teetering on the edge and all that is needed is a little push to make them fall. Political sympathies and antipathies do not even enter their minds, it would cloud their vision, which must remain focused on making money.

If the market basically means small savers, are domestic savers different from foreign ones? In other words, would I, as an Italian, be more likely to choose, for patriotic reasons, to hold a BTP (an Italian government security) in my portfolio than a French or German saver would? Maybe, but it is highly unlikely. Money is money, and no one likes to lose it for love of country, except in exceptional circumstances, like a war. One economic difference could be that if the Italian State, let us say, were to default, in other words if it were unable to redeem its bonds on time or could do so only in part, it would have to raise taxes to try to get back on its feet, thereby hurting its own citizens, but not the French and Germans as well. Italians might then be more reluctant to rid themselves of domestic government securities, when there is more bad news about their government's finances, in an attempt to save the State and avoid further taxation. But this is more the reasoning of an economist discussing theory than of the average saver; it is really very unlikely that this can explain the difference in behaviour between Italian and foreign holders of Italian public debt. Another economic reason for the relatively greater inclination of Italian savers to hold Italian government bonds could be this: in the event of a partial default and consequent debt restructuring, the Italian State could seek to protect its savers, at least the domestic retail ones (so not banks or insurance companies), but not the foreign savers. This is also a highly unlikely scenario because it would be counterproductive when thinking of a future return to the international markets and because, in any event, foreign bondholders would avail themselves of the collective action clauses that now protect them.

If there is even the remotest possibility of debtor default, that is, the failure to repay debts on time, savers/creditors will protect themselves as best as they can by instructing their investment managers to sell a portion of these riskier securities; it makes little difference whether the savers are Italian, French or German. The official statistics do not help us discover in time if a given wave of sales of Italian public securities originated more from domestic or foreign savers without cross-analyzing various databases and relying on estimates.

The markets – that is, domestic and foreign savers/creditors, plus any speculators/anticipators – read the papers, watch TV and follow social media, listen to policy statements and try to understand whether the probability of a State default is increasing or decreasing.

For a country that is a member of the euro area, like Italy, they also look at its relationship with the European institutions and EU legislation, because any

deterioration in these relationships is a sign of an approaching expectation of a default, even a unilateral abandonment of the euro area. Therefore Europe is important, but only indirectly. It is the markets, as I defined earlier on, that have their finger on the trigger.

In conclusion, Italy's main problem is the average efficiency of the country's producers: for many years now this has been improving very little or not at all, because the technology used is inadequate, the laws and regulations unfriendly, the public institutions weak, because business owners do not want to expand their companies too much, because, because...

Italian society remains unequal also because its economy has little capacity for growth. In any case, the solution is not more government debt.

### **Why it is difficult to popularize economics**

Reaching a large audience is very hard to do and economics is no exception. Because economic reasoning and facts are never 100 per cent watertight or purely objective.

The economy studies human behaviour: therefore it is not an exact science. Even the best economic theories conceived by acclaimed scholars whose good faith cannot be doubted, can be tarnished by prejudice and distorted by non-economic convictions.<sup>9</sup>

Economic events – both at a micro or individual and a macro or group level – pose formidable problems of identification and measurement. For example, measuring firms' investments or those of an entire domestic economy, in a way that can be compared across firms and countries, first requires setting multiple and detailed accounting and statistical standards, identifying the right interlocutors in firms, and formulating the right questions for data collectors: because a productive investment can have a thousand different implications, from the purchase of a pencil

---

<sup>9</sup> On the role of scientific paradigms, Thomas Kuhn is among the most often cited (1962), *The Structure of Scientific Revolutions*, The University of Chicago.

to new software or an entire skyscraper, from the construction of a warehouse to the planning and realization of industrial machinery.

It is even more difficult to measure the sentiment and expectations of a local, national or international community: confidence levels, inflation expectations, consumption or investment intentions. For example, if the community to be surveyed is a large one, for obvious cost reasons, it will be necessary to rely on a sample and sampling techniques are highly complicated if the survey is, in fact, a serious one.

Official statistical institutions present in all of the countries and international organizations that publish economic and financial data (including Eurostat, the International Monetary Fund, the Organisation for Economic Co-operation and Development) take care of the main knowledge needs in economic matters and they do it in the best way possible. But the need for precise and comprehensive data often trumps clear communication. Moreover, the official institutions are far from being the only sources available. There are also many private statistical centres that supply the media with data, at times well done, at others not. At times they are no more than outright statistical scams.

We citizens are not used to paying attention to the sources of the news that rains down on us every day when we leaf through a newspaper, consult the digital devices that most of us have, or look at dear old television. The media is full of tables and charts about various economic facts and almost never indicate sources and methodologies. Even if they were indicated we would not pay them any heed as we normally have very little time to devote to one particular news item. But if the fact is non-existent or measured badly we will receive an incorrect impression which, however mild and fleeting, can leave traces in our psyche and affect our behaviour.

It is even worse when we are faced not with non-existent or poorly measured facts, but with mistaken or misrepresented theories. Any statement about the way in which economies work, the laws they obey, the ways in which they pursue the goal of well-being that a society sets itself must correspond to a theory that has been empirically and robustly validated. Otherwise, especially if emotionally persuasive, this might induce the recipients to behave in a way that is contrary to their own interests.

In short, we are all extremely vulnerable, exposed to all manner of error or manipulation, even when we believe we are sufficiently evolved so as not to run this risk.

## **The need for effective popularization**

What can be done to stop the rot? How can we defend ourselves against those who want to manipulate us or who are simply ingenuous or untruthful out of sheer ignorance but whose opinions risk leading us astray?

We can appeal to three categories to counter distorted or false information: ordinary citizens, that is, consumers of information; the media, which spreads it; and the serious architects of information, individual scholars, research centres and statistical institutions. Let's start with the first category: citizens/consumers of information. They must raise their guard, there is no doubt about this. They must become more aware of the need to carefully assess the quality of the economic information that reaches them, first weighing the reputation of the various sources and being wary of those that are unknown or of bad repute. However, this is difficult and takes time; it depends on our individual good will and is therefore a task that no public authority can carry out on our behalf.

The media should be the first to select sources based on quality. Few do so nowadays. The media universe has changed greatly with the advent of Internet. The daily and periodical press, which could be relied on more in the past, has lost enormous ground and the digital formats with which it has attempted a comeback have only partly succeeded. Internet-based communication tools, in particular the social networks, have long passed it out, even if for the time being they do not threaten the supremacy of television. Italy's Communications Regulatory Authority (AGCOM) recently<sup>10</sup> confirmed this by measuring the four major categories of media (television, Internet, newspapers, radio) according to the share of the population that claims to use that medium as its main source of

---

<sup>10</sup> AGCOM, *Rapporto sul consumo d'informazione*, February 2018.

information: 56.6 per cent said television and radio were their primary source, 26.3 per cent the Internet and 17.1 per cent newspapers.<sup>11</sup>

Television and radio, precisely because of their general popularity as channels of information, above all for politics, have, for many years, been particularly exposed to the influence of political parties and movements, which impair their ability to filter news on the basis of genuine scientific facts. This problem also affects the press, which often puts news that is useful for promoting the political and editorial line of a newspaper before objectivity (which is always relative, as we well know, but which nonetheless ought to be pursued). The Internet is inherently anarchic: as we said before, it is a platform that allows everyone to transmit whatever they want, without intermediation or filters. But it is turning into a colossal tool of manipulation by occult intermediaries, in the very name of the democratic struggle against manipulation by the traditional intermediaries of printed news, television and radio.

In short, one can hardly rely on the capacity and willingness of the media to start actively distinguishing between good and bad news, with the truth as their only polestar.

Let's turn to those who try to present theories and facts in the best possible way, in the sole interest of advancing knowledge: the authors who claim to be serious. Are they the good guys in our history? Not exactly. Not if they take refuge in the ivory tower of their knowledge and do not care to earn the understanding and trust of the public by disseminating their research and that of the scientific community to which they belong.

Here we need to dispel a basic misconception which is insidious especially in countries such as Italy, where the official culture is humanistic: that to disseminate

---

<sup>11</sup> In reality, and as always in these cases, this was a sample survey. AGCOM relied on a well-known market research company, GFK-Italia, an Italian subsidiary of the big multinational GFK. For many years now, this company has used a vast representative sample of the Italian population for carrying out surveys, which apart from substituting the units that naturally disappear, remains unchanged from year to year: technically speaking, a panel. Since it is a company that sells its services to make money, it does not willingly disclose the technical characteristics of the panel or its overall modus operandi. AGCOM provides some technical details in an Annex to the Report, but these are clearly insufficient to get an accurate idea of the reliability of the results. The reader is expected to trust the findings based solely on GFK's reputation, which is indeed good. So let's agree to trust them too. But this is an example of the difficulties that one encounters when assessing the quality of the information that surrounds us.

is to make vulgar, in a derogatory sense; so that, in addition to being a waste of time, it is to dirty the purity of cultured thought. In reality, dissemination should be the researcher's highest aspiration if it is done in a way that that does not undermine the strength of the argument and the accuracy of the analysis: to popularize in this sense means, as was mentioned earlier, to translate but also to prune back, to get to the heart of the matter. It is a laborious and complex exercise. It requires vision.

In the Anglo-American world which, and this is no accident, has achieved absolute supremacy in all fields of knowledge over the last century, both specialized journalists and scholars, even illustrious ones, manage to spread their knowledge in later years. In their youth they advance knowledge using the techniques and language typical of their field, without worrying about being understood except by their peers. Then, later on, they put what they have learnt and discovered at the service of the wider community.

Today this capacity, which has always been very important, has become essential to curb the drift towards superficiality, approximation, falsity and manipulation that threatens to overwhelm us. Those who are in the trenches and struggle to push out the frontiers of knowledge in their own circumscribed fields cannot shake their heads and say: it is none of my business, it cannot be up to me to make myself understood by the lawyer or the plumber next door. And so we become accomplices of those who make of superficiality or manipulation their creed. Those who transform economic or foreign policy into instant political marketing.

In short, what was in the past only desirable – that economists communicate reliable and proven economic theories and data more, and more effectively – is imperative and urgent in these times of omnipresent bad or inaccurate economic information, used for political purposes. It is not only the good name of the economic profession that is at stake here. It is the very functioning of our democratic societies.

