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Is Italy Too Italian?

By DAVID SEGAL

“THIS tradition is finita,” says Luciano Barbera, as he opens the door to an underground warehouse. Dozens of large wooden boxes are stacked to the ceiling, containing nearly 80 tons of colorful thread, wound in spools and idling like sunbathers at a beach, absorbing moisture in a cavernous room kept naturally cool and humid by a creek that burbles under the floor.

“I call it a spa for yarn,” explains Mr. Barbera, a lean and regal 72-year-old, who is dressed in a style that could be described as aristo-casual: white linen button-down shirt, brown herringbone pants and brown leather shoes. He is giving a quick tour of the [Carlo Barbera](#) mill, named for his 99-year-old father, and destined to be run by two or three of Luciano’s sons.

Mr. Barbera calls wool a living fiber, and he does not mean this metaphorically. After yarn is dyed here, it rests in the spa for as long as six months, recuperating until 20 percent of its weight is water. Then the material undergoes a 15-step process, which Mr. Barbera will not detail, other than to magisterially summarize it as “the nobilization of the fabric.”

Any shortcuts, he says, would harm the fabric’s “performance.”

Wait, performance?

“Yes, performance,” he says in an accent both purring and professorial. “If your suit is not performing well, it’s like being in a car where you can feel every little bump in the road. If a suit is performing well, it’s as though you drive right over the bumps and you feel nothing.”

And thus the paradox.

As insiders of the fashion world will confirm, the bolts of wool and cashmere produced at this mill can indeed be described as high performance, among the finest in the world, sold to dozens of luxury brands like Armani, Zegna and [Ralph Lauren](#).

The financial performance of the mill that creates this fabric, on the other hand, is far from stellar.

Like much of the Italian economy, the Carlo Barbera factory is struggling and for reasons, according to academics, that say just about everything you need to know about what ails Italy.

Since the economic crisis began, this country has regularly turned up on the informal list of Nations That Worry Europe. While its finances are not as precarious as those of Greece, Portugal or Ireland, because it is far larger — the Italian economy is the seventh largest in the world — its troubles are more frightening. As a [recent report](#) by UniCredit, a European banking group, put it, Italy is “the swing factor” in the crisis, “the largest of the vulnerable countries, and most vulnerable of the large.”

Study the numbers and you will find symptoms of distress that look a lot like those of Greece. Public sector debt amounts to roughly 118 percent of the gross domestic product, nearly identical to Greece. And like Greece, Italy is trying to ease fears in the euro zone and elsewhere with an austerity package, one intended to cut the deficit in half, to 2.7 percent of G.D.P., by 2012.

But dig a little deeper and the similarities end. The Italians, unlike the Greeks, are born savers, and much of the Italian debt is owned by the Italians. That means that unlike Greece, which will be sending a sizable percentage of its G.D.P. to foreign creditors for a generation to come, Italy is basically in hock to its own citizens.

“I know that in the States, all Mediterranean countries get lumped together,” says Carlo Altomonte, an economist with Bocconi University in Milan. “But Italy’s problem isn’t that we have a lot of debt. It’s that we don’t grow.”

Like Italy, Mr. Barbera has debt woes — he owes his creditors roughly \$5.8 million and says that if his country’s financial system offered the protections of Chapter 11-style bankruptcy, he would have sought it several years ago. But he could also solve his debt problem if more orders were coming in.

Instead, orders are drying up. The Barberas have long been small, niche players, the family that high-end designers turn to when assembling their most fabulous collections. And since 1971, Luciano Barbera has also sold clothing under his own name, made with his own fabric. Today the line is sold in stores like Barney’s and Neiman Marcus, handmade suits that sell for \$4,000 and a line of upmarket women’s wear, some of which [you can see on Angelina Jolie](#) in the recent film “Salt.”

But sales for Luciano Barbera clothing and Carlo Barbera fabric have drastically slowed in recent years. In the late ’90s, the mill enjoyed record annual sales of what amounts to about \$15.5 million, Mr. Barbera says. Last year, the figure was half that sum.

WHEN describing the ills of his businesses, Mr. Barbera tends to focus on one issue: the “Made in Italy” label. For the last decade, he says, a growing number of clothing designers have been buying cheaper fabric in China, Bulgaria and elsewhere and slapping “Made in Italy” on garments, even if those garments are merely sewn here.

Until recently, there weren’t any rules about what “Made in Italy” actually meant, but that will change when a new law goes into effect in October. It states that if at least two stages of production — there are four stages altogether — occur in Italy, a garment is made in Italy.

To Mr. Barbera, this is an outrage, though somehow the word “outrage” doesn’t quite capture the depth of his feelings. He says the law will wreck the national brand, which has long been built on the skill of its craftspeople.

In op-ed articles and an assortment of meetings, he has crusaded against the law, clashing with a nemesis with a familiar last name: Santo Versace, the chairman of the Versace house of fashion. Mr. Versace is also a member of Italy's Parliament and a co-sponsor of what is officially called the Reguzzoni-Versace Law.

"It's a truffa," says Mr. Barbera one recent afternoon, using the Italian word for scam. "And I am fighting with all my strength to make people understand that this country is destroying itself in order to advance the interests of just a few people who are unfortunately members of the most powerful caste of this country."

But labeling is just one of many obstacles standing between Mr. Barbera and profitability. To understand why his factory, and so much of Italy, is stagnant or worse, requires a bit of geopolitical history and a look at the highly idiosyncratic business culture here. It is defined, to a large degree, by deep-seated mistrust — not just of the government, but of anyone who isn't part of the immediate family — as well as a widespread aversion to risk and to growth that to American eyes looks almost quaint.

It has economists here worried not about a looming fiasco so much as a gradual, grinding decline.

"There is no sense of what a market economy is in this country," says Professor Altomonte. "What you see here is an incredible fear of competition."

THE Carlo Barbera factory is a series of glass and brick buildings beside a stream about 55 miles west of Milan. Luciano Barbera grew up here, learning the craft from his father, before heading to the University of Leeds in England.

He brought home know-how in textile engineering as well as admiration for British finery, to which he added a flair for color and pattern and which he has turned into a personal trademark. A fashion director at Neiman Marcus once called Mr. Barbera "the most elegant man in the world." It is not uncommon for strangers to introduce themselves and ask, "How can I look like you?"

“I don’t want to generate people who all look the same,” he says, sitting in his office one recent afternoon. “I am a soloist. You can be a soloist and play in an orchestra.”

His career as a designer began, he says, almost by accident. In 1962, a photographer from Vogue snapped a photo of him in a suit made of fabric he had designed. (In the image, he is leaning against a fence, a cigar in hand, gazing at his horse, Edwan.) Several years later, a man named Murray Pearlstein, who owned LouisBoston, a menswear store, knocked at the Carlo Barbera factory, introduced himself to Luciano and told him that he wanted to sell his line of clothing to the American market.

“I said: ‘Mr. Pearlstein, I have no collection. I have only my own suits.’ He said: ‘You have talent. You should design your own collection.’ ”

At roughly 41 euros a meter (\$48.75 a yard), the average price of the fabric that the Carlo Barbera factory produces today is almost double that of competitors in Biella, a town in the foothills of the Alps that has been renowned for centuries as a textiles hub. The problem is that fewer designers have been willing to pay this premium, and factories in other countries have been copying the Barberas’ methods, with results that may not be as good but that cost a small fraction of the price.

There’s a demand-side problem, too: the number of men buying bespoke suits has plunged in recent years, as the workplace becomes more casual. LouisBoston doesn’t carry Luciano Barbera any longer.

“At a certain point, he could have gone to China and opened factories there,” says Mr. Pearlstein, who is now retired. “But mentally, I don’t think there was any way he could do that because he has always been so committed to his hands-on methods.”

Mr. Barbera says he has no qualms about globalization. In his opinion, Italy can’t compete when it comes to low-skill labor and shouldn’t try.

“But I say that Italy, with its 20 million workers, can be the boutique of the world,” he says. That will

never happen, he adds, if designers can buy fabric outside Italy and tag it “Made in Italy.”

While his vehemence on this subject is easy to understand, economists here say that Mr. Barbera’s small empire would be teetering even if he could rewrite the “Made in Italy” law tomorrow.

In a list of what is crushing Mr. Barbera’s balance sheet, they say, the provenance of labels is not at the top.

FIVE years ago, Francesco Giavazzi needed a taxi. Cabs are relatively scarce in Milan, especially at 5 a. m., when he wanted to head to the airport, so he called a company at 4:30 to schedule a pickup. But when he climbed into the cab half an hour later, he discovered that the meter had been running for more than 20 minutes, because the taxi driver had arrived soon after the call and started charging for his time. Allowed by the rules, but to Mr. Giavazzi, utterly unfair.

“So it was 20 euros before we started the trip to the airport,” recalls Mr. Giavazzi, who is an economics professor at Bocconi University. “I said, ‘This is impossible.’ ”

Professor Giavazzi later wrote an op-ed article denouncing this episode as another example of the toll exacted by Italy’s innumerable guilds, known by several names here, including “associazioni di categoria.” (These are different from unions, another force here, in that guilds are made up of independent players in a trade or profession who have joined to keep outsiders out and maintain standards, as opposed to representing employees in negotiations with management, as a union might.) Even baby sitters have associations in Italy.

The op-ed did not endear Professor Giavazzi to the city’s cab drivers. They pinned leaflets with his name and address at taxi stands around Milan and for the next five nights, cabs drove around his home, honking their horns.

“This is a country with a lot of rents,” says Professor Giavazzi, sitting in his office one recent afternoon, using the economists’ term for excess profits that flow to a business because of a lack of competition. “You need a notary public, it’s like 1,000 euros before you even open your mouth. If you’re a notary

public in this country, you live like a king.”

For Mr. Barbera, as is true with every entrepreneur here, the prevalence and power of Italy’s guilds explains much of what is driving up costs. He says he must overspend for accountants, lawyers, truckers and other members of guilds on a list that goes on and on: “Everything has a tariff, and you have to pay.”

THE **protectionist** impulses of the guilds are mimicked throughout the Italian labor market. The rules are different for small companies, but in effect, people with a full-time job in a company with more than 18 workers have what amounts to tenure, even if they don’t belong to a union. This makes managers reluctant to hire, especially in a downturn. You are stuck with new employees in perpetuity, whether they’re good or not.

A sclerotic job market is a major reason that the Italian economy has been all but dormant for the past decade, growing far more slowly than its European peers. And this is a country that never had a housing bust or a major bank crisis.

So how does Italy keep going? Given the numbers, you expect it to be flat on its back. But when you visit, there are hardly any signs of despair, even in Biella, where hundreds of factories and warehouses have closed in the last decade. Why?

One answer is the black economy, say economists. Roughly one-quarter of Italy’s G.D.P. is off the books. When you inquire about the cause and persistence of this longstanding fact of life, people here say that most Italians have little sense of national identity, an obstacle to a system of national taxation. The country didn’t really begin to transcend its clannish roots and regional dialects until after World War II; even today, displays of national pride are reserved for World Cup victories and little else.

Italians, notes Professor Altomonte, are among the world’s heaviest consumers of bottled water. “Do you know why? Because the water in the tap comes from the government.”

The suspicion of Italians when it comes to extra-familial institutions explains why many here care more about protecting what they have than enhancing their wealth. Most Italians live less than a mile or two from their parents and stay there, often for financial benefits like cash and in-kind services like day care. It's an insularity that runs all the way up to the corporate suites. The first goal of many entrepreneurs here isn't growth, so much as keeping the business in the family. For a company to really expand, it needs capital, but that means giving up at least some control. So thousands of companies here remain stubbornly small — all of which means Italy is a haven for artisans but is in a lousy position to play the global domination game.

“The prevailing management style in this country is built around loyalty, not performance,” says Tito Boeri, scientific director at Fondazione Rodolfo De Benedetti, who has written about Italy's dynastic capitalism.

In the eternal contest between the meticulously honed and the nationally franchised, Italy knows where it stands. As a matter of profit and loss, it doesn't make sense to store wool in a spa and let it convalesce for six months, but the methods of Luciano Barbera were never destined for a get-rich-quick guide to manufacturing. His business will make sense only to customers, and for them, quality has a logic of its own.

And of course, the worship of growth has its limitations. The American economy is vastly more robust, but instead of family-owned bakeries, which seem to dot every hectare of Italy, we've got Quiznos. And for all the efficiency and horsepower in Germany, no character in a movie has ever welled up and sighed, “We'll always have Stuttgart.”

Despite his cash flow woes, Mr. Barbera is sticking to his plan, even the plan to hand his business to his sons, which according to a national maxim is likely to end in tears.

“We say in this country that the first generation builds, the second generation maintains and the third generation destroys,” Mr. Barbera says. “But my father and I worked together, so I think we were the first generation. My sons are the second generation. So at least they will maintain.”

MR. Barbera can discuss all the quirks and pathologies of the Italian economy, but there is rarely more than five minutes between his monologues about “Made in Italy.” He is reluctant to name the fashion houses he thinks are snookering consumers, in part because they are his customers, and in part because they are acting legally.

“I’m criticizing the law,” he says. “I am not criticizing the people who buy my fabric.”

One name he is happy to mention is Santo Versace, whose purchases — his brand buys a “very small” amount of fabric, says Mr. Barbera — are eclipsed by his role in pushing the new law.

In a phone interview, Mr. Versace noted that there was no “Made in Italy” rule before the law he co-wrote, which means his rule is a huge improvement on the free-for-all that had existed. Yes, his company makes less expensive products, like jeans, in countries like Croatia and Turkey, but he said every luxury brand does the same.

“Never our top stuff,” he said, through an interpreter. “All of that is made in Italy.”

He sounded skeptical about one of Mr. Barbera’s ideas: a label that simply lays out the origins of a garment, stating where its fabric was made, where it was constructed, and so on.

“You can’t make a label too complicated,” said Mr. Versace. “You need a simplified label. Otherwise you can’t sell things.”

For now, Mr. Barbera is hoping that the [European Commission](#) will overturn the law, which it can do. Meanwhile, garments in the collection that bears his name are labeled “Entirely manufactured in Italy.”

Economists said that Mr. Barbera had a point, but they also said that worrying about this issue was like fretting about the head cold of a patient with Stage 3 cancer. They see a country with a service sector dominated by guilds, which don’t just overcharge but also raise the barriers to entry for the millions in

ill-fated manufacturing jobs who might otherwise find work as, for instance, taxi drivers. They see a timid entrepreneur class. They see a political system in the thrall of the older voters who want to keep what they have, even if it dooms the nation to years of stasis.

They see a society whose best and brightest are leaving and not being replaced by immigrants, because Italy has so little upward mobility to offer.

To Professor Giavazzi, the future here doesn't look like Greece. It looks like Argentina.

"Before World War II, Argentina was rich," he says. "Even in 1960, the country was twice as rich as Italy." Today, he says, you can compare the per capita income of Argentina to that of Romania.

"Because it didn't grow. A country could get rich in 1900 just by producing corn and meat, but that is not true today. But it took them 100 years to realize they were becoming poor. And that is what worries me about Italy. We're not going to starve next week. We are just going to decline, slowly, slowly, and I'm not sure what will turn that around."

Mr. Barbera is optimistic. He is working with a bank to allow him to pay off creditors. After lengthy negotiations with the government and workers' representatives, he has reduced his payroll to 90 employees from 120.

Best of all, he says he thinks he has found a large group of new customers in an improbable place: China, where he has been talking to a number of distributors. Given that he has been undersold by the Chinese for years, it would be a surprising twist if Chinese consumers became fans of Mr. Barbera's fabric and his painstaking methods.

"Water from the creek," he says, as we leave the yarn spa. "Listen. It is the sound of music."

The sentiment seems so sincere and romantic that it sounds as if he could be kidding. But when the line elicits a laugh, Mr. Barbera's gentle rebuke makes it plain that he is not.

"You know," he says, with a resilient smile, "it is a hard world for poets."



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