

# viaSarfatti25

BOCCONI UNIVERSITY, KNOWLEDGE THAT MATTERS

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## The souls of diplomacy

In a world struggling to find a new balance, the commitment to multilateralism and international cooperation is all the more important, as Bocconi alumnae and alumni with diplomatic careers tell us

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## NEETs: Italy cannot leave anyone behind



Italy has a big problem: it thinks too little of young people.

The good news is that in Europe the number of NEETs, i.e. young people aged between 15 and 29 who are neither in education, nor in employment or training, is decreasing: in 2022, 11.7% of young people were NEETs, close to the recommended EU target of 9% by 2030, already achieved in 9 out of 27 countries.

The bad news is that Italy trails behind, together with Romania. In the EU, we have the highest NEET rate for young men (17.7%) and the second highest for young women (20.5%).

Why are there much fewer NEETs in Northern Europe (e.g. Holland, Germany, Sweden and Denmark), but also in Southern Europe (e.g. Slovenia and Portugal, but also Spain is doing much better than us)? We must learn from these positive examples, because continuing to tolerate that 2 out of 10 young people are left outside school and/or work means accepting that Italy continues to put a handbrake on economic development.

It is simplistic and wrong for successful middle-aged people to blame young people for their problems, by calling them “big babies” and washing their hands of the problem. In fact, we must build an Italy that has more inclusive schools and universities, so as to train generations of future-proof students: we cannot afford to leave anyone's talent behind. The other nations don't. We must help young people attain economic independence from their parents. Also Italian companies and administrations need to look at the rest of Europe, and open stimulating career paths for young people, while warranting salaries that enable living on their own and achieve independence from one's parents. Bocconi is firmly committed to the advancement of young people and has been investing heavily in study programs that are internationally competitive, by forging alliances with international academic networks, working closely with companies and institutions, and opening access to students from all backgrounds thanks to the ever-increasing number of scholarships.

**Francesco Billari**  
**Rector**





# A campus to live

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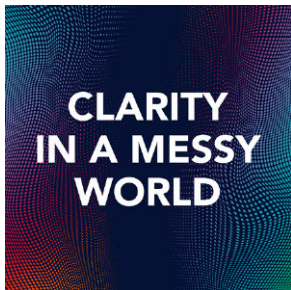


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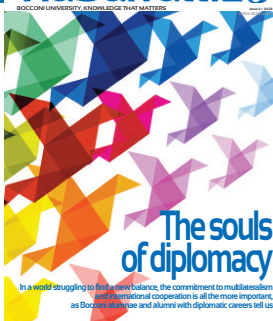
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Publisher: Egea Via Sarfatti, 25  
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Editor-in-Chief  
Barbara Orlando  
(barbara.orlando@unibocconi.it)

Editorial Office  
Andrea Celauro  
(andrea.celauro@unibocconi.it)  
Susanna Della Vedova  
(susanna.dellavedova@unibocconi.it)  
Tomaso Eridani  
(tomaso.eridani@unibocconi.it)  
Davide Ripamonti  
(davide.ripamonti@unibocconi.it)

Translation and revision  
Alex Foti  
(alex.foti@unibocconi.it)

Contributors  
Paolo Tonato (photographer)  
Michele Chicco, Camillo Papini,

Secretariat  
Nicoletta Mastromauro  
Tel. 02/58362328  
(nicoletta.mastromauro@unibocconi.it)

Layout project: Luca Mafechi  
(mafechi@dgtprint.it)

Production  
Luca Mafechi

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# In social science, the buzzword is interdisciplinarity

*Driven by the exponential increase in data available, scientific research in political and social sciences is now able to identify connections between distant phenomena. An increasingly empirical and quantitative approach that from multidisciplinary has become interdisciplinary in order to find answers to global challenges. An underestimated one concerns the future of young people, says the Head of the Bocconi Department of Social and Political Sciences, Vincenzo Galasso*

by Camillo Papini @

Today the social sciences are called to a very important task: finding the answers to the global challenges that the citizens of the whole world are facing: the increase in economic inequality, the increase in the number of autocracies and countries with illiberal democracies, the aging of the world population. To do this, a scientific approach is needed which, by leveraging the knowledge specific to each discipline (demography, economics, political science, sociology, history), is capable of proposing an overall vision which integrates the various kinds of knowledge through an interdisciplinary methodology. This interdisciplinary approach is actually facilitated by the great changes that have taken place in the scientific world: the diffusion and use of big data, the incredible advance in computational capabilities, the development of artificial intelligence. "Data has become the common language across the various disciplines, as fundamental for analyzing reality, and the social and political sciences have become more empirical, more data-driven. It is around this empirical approach that academics coming from different

backgrounds can come together to answer global questions, with a policy-oriented approach, i.e. aimed at proposing actual measures and concrete solutions", explains **Vincenzo Galasso**, Director of the Department of Social and Political Sciences at Bocconi University.

There has been a shift from a kind of scientific research guided by a theory which was too often abstract or purely descriptive to the possibility of studying the surrounding world starting from the observation of data. This has made it possible to identify links and interconnections between apparently distant phenomena, such as globalization and the spread of populism, or automation and fertility, or between societal aging and technological innovation.

"In short, we have gone from multidisciplinary to interdisciplinarity", emphasizes Prof Galasso.

"That's why our Department has opened to different disciplines, from epidemiology to demography, which share a quantitative methodology in research. Starting next year, the first projects will start. The funds of the Department will be allocated to various

work teams of researchers from different disciplines”.

## → What remains of the old social science?

Social and political sciences were previously set up more as narrative, qualitative, descriptive or normative theories. They produced mainly theoretical models that were often difficult to test. The transformation into more empirical and interdisciplinary sciences is certainly underway in the international arena. At Bocconi, political science immediately started developing a quantitative approach, as also confirmed by our Bachelor in International Politics and Government and our Master of Science in Politics and Policy Analysis. These programs are born from the idea that reality is not segmented into academic disciplines, that it is necessary to know how to read data through the magnifying glass of every kind of social scientist, from the economic historian to the welfare expert, to see the world as a multifaceted but organic whole.

## → What are the disadvantages of an interdisciplinary approach?

Academics are asked to publish their studies in international scientific journals and is often easier to get them published in single-discipline periodicals. Publishing in top journals is never easy, but interdisciplinary research projects are likely to find it even harder. From Nature to Science, just to mention the best-known scientific journals, there is no shortage of examples of interdisciplinarity, which however requires an additional effort, but above all a greater risk for one's career which can put off younger academics, i.e. those who have not yet gotten tenure.

## → How do you avoid the trap of seeing a segmented reality?

It is not easy. Let us consider the issue of population ageing. Bocconi is the leader of a spoke of the Age-IT project, an extended partnership funded under the National Plan of Recovery and Resilience (PNRR) which aims to analyze the consequences of aging and respond to Italy's demographic challenge. The structure of this project, which brings together 25 universities, institutions and research centers and over 300 researchers, shows how the phenomenon should be observed from many points of view: from the perspective of social sciences, of medical sciences and, last but not least, by looking at new digital technologies. Bocconi University is the leader of the spoke on political demography which, in turn, ranges from normative aspects in intergenerational equity, to issues of diversity in ageing, to the



VINCENZO GALASSO  
Since the end of 2022, has been Head of the Department of Social and Political Sciences of the Bocconi University of Milan. Between 2016 and 2018, he collaborated with the governments led by Matteo Renzi and Paolo Gentiloni. Previously he was an advisor for the World Bank and the Organization for Economic Co-operation and Development (OECD). Today he is also a research fellow of the Center for Economic Policy Research (CEPR), head of the APE – Analysis in Pension Economics Unit of the Boffi CAREFIN research center, as well as co-editor of the European Journal of Political Economy and of the Journal of Pension Economics and Finance. His passions? Talking to young people (also by explaining economics through emojis), at the center of two of his books: *Gioventù smarrita* (Lost Youth) e *Contro i giovani* (Against Young People, with Tito Boeri).

## THE DEPARTMENT

The Department of Social and Political Sciences is home to some of the most internationally respected experts in the social sciences. Interdisciplinarity is at the core of the department's mission. World-class academic work is produced from diverse viewpoints to study complex social problems and processes that can rarely be resolved within strict disciplinary boundaries.

analysis of electoral demographics, to the generational effects on welfare. Because an aging electorate constitutes the greatest political constraint for policymakers who have to decide on pension policies.

## → Electoral campaigns are opportunities to carry out analysis in the field. Does it still happen?

Electoral campaigns are important opportunities to carry out field experiments. Through the use of a treatment group (for example a group of cities whose voters are subjected to a type of electoral information) and a control group (voters of cities are not exposed to that information) it is possible to establish the influence that a type of information has for example on voter turnout, following the Get-Out-The-Vote literature that has developed in the United States. This methodology requires an important effort in the scientific design of the experiment, but also in the management of privacy and other ethical aspects (such as the sensitive information asked from the people potentially interviewed). But also elections allow us to make other quantitative analyses. Through the use of electoral data, it is possible to study how the selection of politicians is influenced by the level of political competition in an electoral district.

## → Which of the various global questions or challenges is the most difficult?

In Italy, certainly the one concerning the future of young people. This is a debate that does not attract the same attention as other major global challenges. In Italy there are over 3 million youngsters who are NEETs (Not in Education, Employment or Training), thus do not study, do not follow training courses, or are looking for a job. Many young people do not feel involved in society and go to the electoral polls in lower percentages than older voters. Perhaps we should consider young people as a minority that needs to be constitutionally protected. A simple intergenerational tax rule could be adopted: for every euro spent on programs for senior citizens over 65, one euro must also be allocated to policies dedicated to young people. ■



# Bocconi

“

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di vivere un'esperienza  
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*A Bocconi and Harvard study shows that during the pandemic, 80% of the population in 15 countries, from Italy to Korea, and including the United States and China, were favorable to see their own freedoms restricted for the sake of health protection. Because health is sacred, while civil liberties are not*

by Sarah Beate Eichmeyer @



# When health priorities





**8** During major crises, two core government functions - the protection of civil liberties and the provision of public goods - can come into conflict. With a team of researchers from Bocconi University and Harvard University, we have conducted a large survey administered to more than 500,000 people in 15 countries around the world (including China, the United States, Japan, Canada, Australia, India, Singapore, Italy, and many other European countries), over the period from March 2020 to January 2021, to study how citizens think about the trade-off between civil liberties and public health in the context of the COVID-19 pandemic: What are citizens willing to sacrifice, and what are they steadfast in supporting no matter what the circumstances? How does this vary across countries, between individuals within countries, and over time? How do threats to health security affect this trade-off, and what does variation in the willingness to sacrifice rights across groups reveal about social inequality?

Our data shows that a large fraction of people around the world were willing to curtail civil liberties - such as sacrificing their own rights and freedoms, or limit freedom of the press - in order to improve public health conditions during the COVID-19 pandemic. Aggregating the data for all the countries in our study, we find that more than 80% of respondents reported being willing to sacrifice at least some of their own rights during a crisis like the current one.

But citizens from different countries differed substantially in their overall willingness to see their civil liberties curtailed: the citizens of Japan and the US, for instance, tended to be among the least willing to sacrifice civil liberties in exchange for improved public health conditions. Conversely, the citizens of China seemed to be among the most willing to do so. EU citizens tended to fall somewhere in between.

At the same time, respondents across a wide range of countries agreed on the relative importance of different core civil liberties. People reported being least willing to give up their right to privacy or



## THE BOOK

At the heart of *Donald Trump e il futuro della democrazia americana* by Arianna Vedeschi and Mario Patrono (BUP, 2022, 154 pagg., €19,90) is the idea that President Trump's governing style has been a prelude to the semi-democratic authoritarian government that could take hold after the white majority of voters, who have the keys to wealth and power today, become a minority around 2050. The book analyzes Trump's attempt to accredit himself as a plebiscitary leader and influencer of the nation.



Donald Trump e il futuro della democrazia americana



SARAH BEATE EICHMEYER  
Assistant Professor  
of Economics,  
Bocconi University

activities central to democracy, and most willing to endure personal restrictions or economic losses. We further find that within countries with strong pre-pandemic civil liberty protections, the tendency to hold onto rights such as privacy protection is stronger among those individuals who have past exposure to regimes that limited freedom and rights. In South Korea, respondents whose parents or grandparents fled the North Korean regime were substantially less willing to sacrifice their rights. Similarly, among German respondents, those born in the former East German regime became less willing to sacrifice rights over the course of the pandemic as compared to their West German counterparts.

In general, we find that individuals who are more concerned about their health or the health of their community are much more willing to sacrifice general and specific rights as well as allowing the government to infringe upon the rights of others. Supplementary analyses comparing observably similar regions that experienced larger vs. smaller pandemic surges, and which compared individuals randomly assigned to a control vs. an information intervention that made salient the public health risks of an uncontained pandemic, suggest the relationship is causal: heightened health insecurity induced by the experiment (or induced by increased mortality from COVID-19 in one's region), leads to a statistically significant 16 percentage-point increase in the willingness to sacrifice one's own rights and freedoms. How can we interpret these findings? The findings suggest that many citizens - even in liberal democracies - do not view civil liberties as "sacred values". Instead, most citizens put substantial weight both on the public health ramifications caused by an uncontained pandemic, as well as on the cost to civil liberties deriving from strict public health measures. ■



## THE PAPER

**Civil Liberties in Times of Crisis**, by Marcella Alsan, Luca Braghieri, Sarah Eichmeyer, Minjeong Joyce Kim, Stefanie Stantcheva, David Y. Yang

# trump civil liberties

# Capable of new decisions

*In the age of artificial intelligence and geopolitical complexity, digital, sustainability and human capital are the dimensions you need to read the world today, in order to make decisions that guide the life of organizations and society. We publish an extract from Gianmario Verona's latest book for Egea, discussing how decision making is evolving based on his recent 6-year tenure at the helm of Bocconi and his interviews with 50 CEOs and policymakers in the Executive Chats series of videoclips*

by Gianmario Verona @

**D**eciding in the new millennium is never a trivial activity. From the attack on the Twin Towers in 2001 with the consequent wave of terrorism, up to the global pandemic of SARS-CoV-2 and the war that broke out following the invasion of Ukraine on February 24, 2022, passing through the subprime crisis of 2008 and the sovereign debt crisis of 2011, the so-called macro context of decision-makers is constantly subjected to shocks that basically nullify our predictive ability in our decision making with respect to global economic and geopolitical scenarios. Even the most respected global think tanks whose job is to make forecasts struggle to understand what will happen in the world tomorrow. And,



GIANMARIO VERONA  
Full Professor  
of Strategic  
management of  
technology and  
innovation,  
Bocconi University

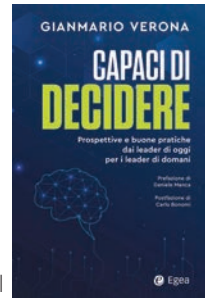
nevertheless, the modern world of economics and finance requires to plan actions in the medium to the long term, since the CEOs of listed companies are valued on a quarterly basis and those of unlisted companies have the eyes of the funds and banks that finance them on their backs. But, apart from the external decision-making framework, the world has also become complicated at the micro level. Our institutions (whether corporate, profit or non-profit, government institutions or NGOs) are enriched by sensibilities unimaginable until a few years ago - think of the issues of diversity and sustainability - and have developed into extremely more complex articulations than their forebears:





## THE BOOK

In order to deal with complexity, we must abandon the simplistic perspective of finding 'the' optimal solution and instead learn to 'connect the dots', questioning ourselves, embracing different perspectives and having the courage to decide at the right time. Thanks in part to his dialogue with important policy makers and dozens of CEOs and top managers of large national and international companies, Gianmario Verona distills in *Capaci di decidere* (Egea, 2023, 176 pp., €24.50, in Italian) a series of reflections and conclusions that will put every business leader in a position to face the challenge.



just look at today's corporate organizational charts and the names of the jobs being carried out, often difficult to decipher if we simply stop at titles. The legal component of business activities has evolved as much as the management component, and today in order to make a decision it is necessary to consult with experts from various disciplines. Not to mention big data which requires the employment of data scientists who have become a precious and scarce resource for all companies.

Experts may object that "complexity" has been mentioned in business textbooks at least since the dawn of the 1970s. In fact, even the father of global management, Peter Drucker, often refers to complexity in his essays that have resulted in many ideas that are still current today. However, let me stress this: the world today has become definitively more complex and requires a completely new leadership and decision-making perspective.

So what to do in the face of increasing levels of complexity? This is the subject of my book *Capaci di decidere* (Capable of deciding), channeling the issue of complexity with respect to the three key vectors of the current century: digital, sustainability and human capital. And the volume tackles the topic through the baggage of experiences that I have personally developed at Bocconi in my six years as Rector and, far more importantly, through the extraordinary contributions of fifty leaders whom I had the

pleasure of interviewing for a series called *Executive Chats*, which, through a minimal digital media format, meant to tell Generation Z (the digital natives born in the new millennium, i.e. the citizens/customers of our university classrooms in these years) what characterizes the decision-making process of a modern manager or policymaker today.

As I write the last pages of this journey, generative artificial intelligence continues to produce awe and amazement. In addition to Open AI's ChatGPT, DALL-E software produces images on command and in real time which turn out to be artistic interpretations worthy of the creative touch of expert painters, and thanks to 3D printers, they will probably do so also with respect to experienced sculptors.

Meanwhile, a music software has produced a potential hit by two greats of the hip hop and trap movement, Drake and The Weeknd, which had nine million views on TikTok and 250,000 plays on Spotify. Too bad that neither Drake nor The Weeknd knew anything about it, generating embarrassment both in music production companies and distribution platforms. Embarrassment that led to the song being immediately deleted from the entire Internet. The official one of course; not from the deep web where it's likely to go wildly popular.

So what should we do, as we said, to decide in these complex times? At this point, one could say that, of course, the first thing to do would be asking ChatGPT, and its ramifications which will shortly enrich the landscape of generative AI, for the solution to our decision! In fact, this will probably be



## THE PLAYLIST

Gianmario Verona, Bocconi former Rector, meets top executives in the frontline in facing the challenges of the digital century.



the modus operandi of Sapiens from now on. After all, this is what generative AI is for: to help us to give reasonably rational answers on the basis of existing knowledge. For this reason, it becomes even more fundamental to equip ourselves with those digital skills, in such a way as to be able to program artificial intelligence and intelligently formulate the question we need an answer for.

But after submitting our question to ChatGPT, we must have an understanding of how AI arrived at the answer. A rational answer which is however based on web searches and probabilistic calculations with respect to them. So a wise decision, but observed through a "rearview mirror", i.e. based on what we have to come to know about the issue so far.

Starting from this answer, we should therefore put in all the other ingredients that are shared in this book, starting with important considerations on the challenges of sustainability in its extended meaning, i.e. the challenges of ESG which will hopefully lead us to "do the right thing" in a world that requires more and more attention to the environment, to diversity and inclusion. But we also have to be aware that complexity cannot be fully predicted: we will therefore have to recalibrate our decision-making framework to make it effective. As we said, we need to work on problem framing to establish the right context of our decision - for example by redefining our margins for action. We must enrich ourselves with perspectives coming not only from our own skills, but also borrow them from the human capital that surrounds us: our team of experts and our partners, who can offer us opportunities for a better apprehension of

what is being discussed. And once a decision is established, we will have to implement it and fine-tune it by strongly focusing on the continuous adaptation it will require.

Incrementalism that enables it to grow adequately with the surrounding context, and be progressively refined as complexity unfolds before us, will be just as important in helping us decide with a sense of realism in a changing and ever more challenging world. In summary, the hope is that the journey undertaken in this volume may give some alternative ideas. Digital, sustainability and human capital are the keys for getting ready to face an increasingly complex world. And the best thing about this journey is that... We are only at the beginning! ■



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# BocconiALUMNI







# World order, a new page is turned

*The international relations scenario is increasingly characterised by a return to great power politics and rivalry, undermining the global cooperation that is essential to address emergencies such as climate change or pandemics, and to achieve long-term peace and prosperity. This is why a commitment to multilateralism and international cooperation must be central to universities. Today, working in diplomacy has a greater impact on the lives of all of us, as Bocconi alumni and alumnae who are diplomats remind us in these pages.*

by Catherine E. De Vries @ Interviews by Andrea Celauro and Davide Ripamonti

**G**lobal affairs are at an inflection point. While after the end of communism and China's entry to the World Trade Organization, multilateralism and economic interdependence seemed to characterize the world order, we are currently living through a return of power politics and increased global rivalry. Not only have China-US relationships cooled rapidly in the aftermath of the COVID-19 pandemic, but the European Union has found itself confronted with a threat on its border. The brazen attack by Russian military forces on the people of Ukraine in February 2022 violated an order based on international law, human rights and self-determination. Whilst the widely expected Russian quick victory failed to materialize as the Ukrainian forces repeatedly fended off attacks and the Russian military proved vastly less powerful and organized than previously thought, the cost of life and livelihood has been enormous. Global powers like US, China and the EU, are struggling to overcome the problem of collective action and how to reach collective decisions in global governance. Against the backdrop of key global challenges like climate change, inflation, poverty or stemming future pandemics, the breakdown of global cooperation comes at the worst possible time.

The challenge to the liberal rule-based order perhaps does not come entirely as a surprise. Within many domestic political settings we have been witnessing increased contention over globalization and international cooperation. Over the past decade in countries as diverse as Brazil, Britain, the Philippi-



CATHERINE E. DEVRIES  
Dean for International  
Affairs,  
Full Professor  
of Political Science,  
Bocconi University

nes and the United States, citizens have elected political leaders that campaigned on promises to withdraw from international institutions such as the Paris Climate Agreement, the International Criminal Court, and the European Union, respectively. The domestic politicization of international cooperation has limited the room for maneuver, at least for democratically elected politicians, to create of new international institutions or reach multilateral agreements, even if they themselves are supportive of them. With mantras such as taking back control, nationalism and protectionism have become part-and-parcel of the political debate. This not only has huge consequences for global cooperation, but also potentially jeopardizes long-term global prosperity and global peace.

Although the current stalemate in global affairs might not come entirely as a surprise, the depth of the challenges is new. The rule-based order, established in the aftermath of the two World Wars, looks increasingly untenable. Many of the key institutions of the global economy, such as the World Bank and the International Monetary Fund, or dealing with global peace, like the United Nations, are looking increasingly grid-locked and unable to act. This may coincide with different global powers to retreat in their own blocks of regional integration rather than acting at the global level. Yet, these regional blocks, like the European Union etc., cannot solve global challenges, like climate change for example, on their own.

These developments in world affairs also have an impact on universities with a global footprint like Bocconi. We welcome students from all over the globe on our campus and send many of our own students abroad with international exchange programs. Our faculty and staff are international, and we have alumnae and alumni working all over the globe. Through our teaching and research, we aim to raise a new generation of leaders who are trained to work not only for their own professional development, but to care deeply about solving global problems. The commitment of the Bocconi community to multilateralism and international cooperation remains strong even in these trying times. ■

**Giorgio Starace @**

*Ambassador  
of Italy to Moscow*

## THE INTERVIEW

To promote the universal values of which Europe is guardian: democracy, tolerance, respect for human rights, liberalism and repudiation of war. This is how Giorgio Starace, the Bocconi alumnus who today is ambassador to Russia, interprets the mission of diplomacy. All the more so in a shifting geopolitical world



**Mauro Batocchi @**

*Director for Trade and  
Investment at Italian  
Foreign Affairs Ministry*

## THE INTERVIEW

Perceived as unstable and therefore unreliable, with a political system that had collapsed a few years earlier under the blows of the Clean Hands investigation, our country succeeded, thanks to diplomacy, in an enterprise that seemed impossible at that time. Mauro Batocchi tells it in his recent volume 'La Partita Dell'Euro' (The Euro game)







## MARCO LANDOLFI United States Embassies 2.0: doing diplomacy on social networks

*By adopting a new kind of language, the activity of diplomats is in full swing on digital platforms. Marco Landolfi, Bocconi alumnus and First Counselor at the Italian embassy in Washington, tells us about it*

Diplomacy is after change, continuous change in the international arena. It evolves and refines its approach and, in this continuous adaptation, it is also language that changes. With the explosion of social networks, for example, even diplomacy has to deal with a new, different, and much more direct kind of language. This is confirmed by Marco Landolfi, 46 years old and with a degree in Economics from Bocconi, Counselor of the Embassy (First Counselor) at the Washington diplomatic representation, where he works as head of press and communication.

**What is the voice of Italian diplomacy in such an important context as the USA today?**

The Farnesina has kept pace with the digital revolution and is investing heavily, at the instigation of Minister Tajani, in communication, including digital media. In the US, the homeland of social media, our Embassy is at the forefront. We have launched a new website, in line with that of the Ministry of Foreign Affairs, and are active on YouTube, Instagram, Facebook and Twitter. We communicate Italy to Americans in all its aspects, amplifying the position of our authorities on current international issues and promoting Italian excellence. We also address our fellow nationals here and the huge community of Americans of Italian descent. Furthermore, we did a series of meetings on Digital Diplomacy, turning the Embassy into a forum for dialogue on technology and innovation issues.

**Has your language changed?**  
We have



### THE LIBRARY GUIDE

Here is a detailed bibliographic guide, edited by the Bocconi Library, dedicated to diplomacy

de-bureaucratized it: 280 characters or a 2-minute video are complex challenges for diplomatic language. We know we need to be clear, authoritative and attractive at the same time. At the instigation of our Ambassador, Mariangela Zappia, we organized a course in social media management which the Farnesina has since made available to all employees. In collaboration with our Foreign Ministry and US authorities and like-minded countries, we are engaged in the fight against fake news and disinformation, a danger to which we are all exposed.

**What is the difference between the American press and the European one?**

Historically, major newspapers, even those with a regional circulation, are enormous compared to ours and can afford to have much more specialized journalists by topic or geographical area. The US is also the cradle of media innovation: I am thinking of publications such as Axios and Semafor, which in the wake of Politico have adopted new channels and business models, such as thematic newsletters. Furthermore, US public opinion and the press are more concentrated on domestic issues than their EU counterparts. This is where the challenge of grabbing the attention of the American public becomes challenging.

**Let's talk about you. How did you come to fill your current role?**

My journey in diplomacy began in 2003: the first Embassy abroad – a rite of passage one never forgets – was at Tehran, from 2007 to 2011. I remember the protests of the green wave after the re-election of Mahmud Ahmadinejad and our concrete support to the injured demonstrators. Or the evacuation that we conducted together with the French colleagues of the staff of the British Embassy, attacked by the Basiji in 2011. After Tehran, I was at the EU in Brussels for 4 years, which covered also the semester of the Italian presidency. Then in 2015 I went back to Rome, to the Office of the Diplomatic Advisor of the Prime Minister and then on secondment to the Cassa Depositi e Prestiti investment bank. In 2020 I landed in Washington, where I had the opportunity to work at the US State Department, a true temple of international diplomacy, and then at the Italian Embassy, one of the largest and most prestigious in our network!

MARCO LANDOLFI  
Counselor of the Embassy  
(First Counselor) at the  
Washington



GIORGIO ALIBERTI Vietnam

# Interpreting the complexities of the world in the name of Europe

*Giorgio Aliberti, Ambassador of the European Union to Vietnam and Bocconi Alumnus, explains what characteristics a diplomat must have to manage a crucial role in a rapidly changing world, and how fundamental Asia is for the economic development of the EU today*

**A**s ambassador of the European Union in Hanoi, Vietnam, after numerous diplomatic experiences around the world, Giorgio Aliberti has a privileged eye on how the role of diplomacy and the role of Europe as a political actor have evolved. Fifty-eight years of age, Aliberti was given the remit of taking care of EU relations with a country that has experienced remarkable development over the last thirty years, just like the whole Indo-Pacific area. A delicate task, which has its roots in his interest for international relations developed during his studies at Bocconi, where he graduated in Economics in 1991.

## → Has diplomacy always been on your mind?

Not immediately, but when, after graduating, I learned about the ISPI course to prepare for an international career, I decided to take that path. After a post-graduate experience at ENA in Paris, I began a journey that led me to various experiences in Europe and around the world, but also in Italy. In fact, it is useful to be exposed to varied experiences abroad, but then have the possibility of bringing some of that experience back to your own country. My first role in diplomacy was at the Italian embassy in Nairobi, then I had the opportunity to join the policy unit of Javier Solana at the Council of the European Union, where I worked for three years, before returning to Rome. From there I moved to Washington, DC, where I was head of the political bureau of the embassy. Finally, I was appointed Italian ambassador to Myanmar, where I remained until 2018, and since 2019 I have held the position of ambassador, but for the European Union, to Vietnam.

## → What characteristics must an ambassador possess today?

You need mental agility, flexibility and an understanding of the complexities of the world. In this, it helps to have had diverse

GIORGIO ALIBERTI  
Ambassador of the  
European Union in Hanoi

experiences. For example, my European experience was very formative, but so was my American experience, because it too gave me a different vision of the world: indeed, sometimes in Europe we tend to live as if we were inside a bubble, we have a very Eurocentric view. In the same way, it is very enriching to deal with the more complex realities of developing countries. From the point of view of experience, Italian and European diplomacy differ somehow from US diplomacy, where there is a tendency for a diplomat to concentrate on a single area and specialize in that.

## → You represent the European Union. How is the EU seen on the international stage?

In recent years, the role of the European Union as a global actor is increasingly acknowledged and Europe is increasingly considered as a homogeneous entity with which to enter into dialogue. In Asia, for example, there is the perception of the EU as an actor whose relevance is rapidly growing. So the time when the European Union was merely considered as a collection of smallish states is over. Today, Europe is seen as a very important partner, especially on trade and investment and on the ecological transition front. Less so, for defense and security.

## → What are the guidelines along which European diplomacy moves?

The bottom line is to combine the defense of European interests with the advancement of our values. Like human rights, for example. Human rights and environmental issues are the ones on which the EU is focusing the most. It is an appropriate choice, although not all our partners share it.

## → What role does Asia have for Europe?

From an economic point of view, Asia is a fundamental partner. On the one hand, there is China, with respect to which – as Ursula von der Leyen recently underscored – we must reduce the riskiness of Sino-European relations, but not cut ties; on the other, there is the whole Indo-Pacific area,







which has grown immensely and become extremely important from a commercial and an economic point of view. For the prosperity of Europe, it is essential to have good relations with this area, an aspect that perhaps we Europeans have understood a little belatedly.

→ *In a rapidly changing world, is the role of diplomacy also changing?*

Today we are all called to deal with international issues, because with globalization they concern us more than in the past. The role of diplomacy has changed, but it remains crucial. Indeed, it is even more important than before to interpret complexity, and analyze the various situations with knowledge of the facts. Also, another thing is clear: even more than in the past, a solid economic preparation is essential. ■

## LUDOVICA LAVIANI MANCINELLI Israel Contemporary diplomacy also means digital technology

*Passion, dedication, acceptance of emerging challenges and willingness to travel across the world are the qualities of a good diplomat. But new technologies are increasingly relevant, as Ludovica Laviani Mancinelli explains in her interview*

The love for diplomacy struck during an internship at the Italian Embassy in Buenos Aires when she was still a student. One of her career goals was working in a position that would take her around the world, but she had envisaged working in a major multinational company. But after Buenos Aires, Ludovica Laviani Mancinelli, a Bocconi graduate in Economics and Management of Public Administrations and International Institutions, chose international diplomacy and now, at the age of 34, she is First Secretary at the Italian Embassy in Israel overseeing economic and commercial affairs.

*How is the path you have taken different from the one you had imagined at the beginning of your undergraduate studies?*

What gives me the greatest satisfaction is serving the Italian state, to advance the interests of my country. It is something superior and noble, which is obviously lacking in the private sector. And this regardless of whether you are in Italy or around the world.

*What has your career journey been so far?*

In Italy, I worked at the organization of the G7 and the G20 summits, first at the Ministry of Foreign Affairs and International Cooperation and then in the staff of the Italian Prime Minister's diplomatic advisor. My first destination abroad was Washington, DC, a truly satisfying and stimulating period given that the United States is a major ally of our country.

*One of the aspects that characterize the life of a diplomat are frequent transfers, the fact of having to*

LUDOVICA LAVIANI MANCINELLI  
First Secretary at the  
Italian Embassy in Israel

*move and change place of work recurrently. Is it good to be a globetrotter?*

As far as I'm concerned, every new job assignment is above all a challenge. You have the opportunity to meet extraordinary people at any level and to continuously receive new stimuli from dealing with them. Clearly one must be malleable, flexible, also because the world is changing at a speed truly unthinkable even just a few years ago. Headquarters and mission generally change every four years, and geopolitical dynamics even faster than that.

*Now you are in Israel, a dynamic country at the crossroads of tradition and innovation. What are your duties?*

I follow the economic and commercial sectors, thus putting my studies at Bocconi to good use. I act as an intermediary between Italian companies that want to enter the Israeli market, especially in the technology sector which is highly developed here, and Israeli institutions. There is enormous potential in this regard.

*If you were to address young university students attracted to a career like yours, what advice would you give them?*

That they must be ready to do things that are always different, pursue lifelong continuous education and also have strong problem-solving skills. Another important thing in my opinion is to have a clear communication style.

Contemporary diplomacy, through the increasingly massive use of digital technologies, has eliminated distance: there is no more center and periphery of the world, we are all interconnected. Jokingly, I say that diplomacy cannot not yet be done on WhatsApp, but that WhatsApp has become a diplomat's tool.



## LUNA ANGELINI MARINUCCI Australia

### Serving the Italian State, 16,000 kilometers from home

*A sure point of reference to solve problems large and small for citizens and firms: this is what a modern diplomat does, as explains Luna Angelini Marinucci, Italian Consul in Brisbane*

A career dream, but with her feet firmly anchored to the ground. The choice of Bocconi, with a diplomatic career in mind, represented a sort of safety plan. If plan A, diplomacy, went wrong, there was always plan B, i.e. the range of professional positions that a Bocconi international degree makes accessible. It is this, combined with the opportunity to learn foreign languages which pushed Luna Angelini Marinucci to enroll at Bocconi and then graduate in Economics and Social Sciences, before devoting herself to plan A and in 2022 becoming appointed Italian Consul in Brisbane, Australia, with territorial jurisdiction over the Gold Coast, the State of Queensland and the Northern Territory.

**The work of the modern diplomat is increasingly oriented towards offering services. What are your duties and which ones do you value the most?**

The versatility that is required from a consul and the variety of areas in which I am called to work in to make my job effective: as Head of the Consulate I have to coordinate the office that provides consular services; maintain relations with the resident Italian community and with local Italian institutions, firms and associations; administratively manage the Consulate and take care of external projection, also via the use of social media.

**What does diplomacy represent today and how is it evolving in the global geopolitical context?**

In a changing world, where unexpected events follow one another and where we increasingly find ourselves having to deal with uncertainty, at a global level but also at the private level, that of

LUNA ANGELINI MARINUCCI  
Italian Consul in  
Brisbane, Australia

individual households, the Consulate must be a safety anchor, capable of generating trust in Italian citizens abroad. In Brisbane, for example, the sense of Italian identity and belonging to the Italian community is highly developed and fellow nationals appreciate and benefit from the reassuring presence of Italian institutions.

**Your career is still in its infancy but you have already been appointed Consul. Would you advise a young person in favor of pursuing a diplomatic career?**

I strongly recommend a diplomatic career to all those who want to understand the world, in its most manifold political, economic, cultural, social facets. Being curious and interested in the world around us and reading a lot are, I think, the two characteristics that all those who manage to enter diplomacy have in common.

**You are part of the digital generation that is used to live on social media. How does it impact your job as Consul?**

Social media have revolutionized the way a diplomat works, providing a new tool for the external projection of Italy which did not exist fifteen years ago. The positive side of the social networks lies in the feeling of closeness they create with fellow nationals: the Consulate is now just a click away. The risks lie in the users' differing levels of digital literacy, who in some cases could end up receiving less information as the digitization of services proceeds, and the higher probability of misinformation and privacy exposure that there is in online services.

**A job that requires great preparation and, sometimes, also the ability to deal with unforeseen situations...**

Yes, I like to mention an anecdote. In the midst of the Covid emergency, when I was still working in Rome in the Farnesina foreign ministry building, I provided assistance to a well-known Italian circus that had gotten stuck in another continent with all the animals that needed to be fed and looked after until the borders could reopen.



## THE BACHELOR

The BSc in International Politics and Government aims to provide the tools to interpret the evolution of social, economic and political systems in an international perspective, understand the mechanisms of decision-making within national and international institutions, and develop skills needed for implementing and evaluating policies.





## MARIA LETIZIA SANTANGELO Italy

### Ideals and self-control make the modern diplomat

*Scenarios, challenges and protagonists change, but the driving force that pushes a person to embrace a diplomatic career is ideals, as Bocconi Alumna Maria Letizia Santangelo, today in charge of one of the key sectors of our diplomacy, explains*

At the beginning it was an academic career but, as Maria Letizia Santangelo, who graduated from Bocconi in Economics in 1997, confesses, "my passion, which was there, was not enough to support the great efforts that this career required". Then, one day, reading in a newspaper the announcement of a Master's degree in International Relations at ISPI, it all came together. She enrolled in the program and then in the government competition to enter a diplomatic career, which she passed on the first attempt.

**What drove you towards this career?**

I am a person of strong ideals and what is greater than serving your country and your fellow citizens? This is the motivation that drives all diplomats to do what they do. Then there are other reasons, such as the variety of skills you are called upon to have, the diversity of tasks, the likelihood, indeed the certainty, of traveling which forces you to step out of your comfort zone every time you change assignment to improve yourself. But the ideal is the basis of everything.

**Today you are Embassy Counselor and Head of the Unit for North America, a very important area for our country. What are its main functions?**

My Unit deals with Italy's bilateral relations with the United States and Canada. The United States, in particular, is a leading player on the international scene and our first strategic partner. Their foreign policy unfolds over a 360-degree horizon, this means for me and my team to have an eye on all the systemic, global and regional challenges that emerge, and, in concrete terms, make analyses and syntheses



MARIA LETIZIA SANTANGELO  
Embassy Counselor and  
Head of the Unit for  
North America

on a plethora of subjects.

**The world context, it is often said, has become more complicated. In the two decades of your career what has really changed?**

Complexity has grown. For example, the development of information technology has posed new security challenges we have to deal with, such as cybersecurity. Similarly, in face of the development of social media there has been a transformation of institutional communication. New priorities have also come to the fore, I am thinking of environmental issues for example, which can no longer be postponed indefinitely without dramatic consequences. And this as we are moving towards new systemic arrangements with a

return to all-round superpower competition between the United States, Russia and China.

**What are the personal qualities that a good diplomat must have?**

I believe they are balance and common sense. It is a world where self-control is required, you need to know how to manage emotions and have the patience and foresight to identify the in every context and every problem the right bargaining equilibrium. It is a question of listening to oneself and others and great discipline. Thus understood, self-control is an important tool for growth and improvement also on a personal level. It is also a job that requires the ability to ponder, analyze the many elements at play and strike the right balance: this is what happens whenever I have to write or say something.



## THE MASTER OF SCIENCE

The MSc in Politics and Policy Analysis aims to provide an advanced education in Political Science and the topics of public policy analysis. Students will understand the complex political, economic and social dynamics of the modern world, how national and international institutions deal with them and how to act in such contexts.

## SARA REZOAGLI Thailand

### The art of being where decisions are made

*Sara Rezoagli, alumna with a degree in political economy, works in the EU representation in Bangkok after a career almost entirely in Asian countries*

Let's immediately forget the figure of the diplomat with a briefcase full of burning documents that reveal who knows what intrigues, a stereotypical image of many spy films. The modern diplomat is today a highly qualified official who serves his country, companies and his fellow countrymen who increasingly travel abroad for work or tourism. Then, in relation to his role, he often has direct relations with world leaders is a consequence of his job, perhaps the most interesting part because it gives the feeling of being there where decisions are made. And very often this is the case, as Sara Rezoagli, a 1994 Bocconi graduate in Political Economy and today Deputy Head of the European Union delegation in Thailand, recounts in the interview.

**When you chose Bocconi, and in particular the political economy course, did you already have plans for the career that you then embarked on?**

I have always had a strong interest in international relations and world economies, especially those of Asian countries, as evidenced by my thesis on China's economic model. Bocconi was then the only Italian university that allowed me to study 'economics' with this slant. But the diplomatic career was not something I had planned.

**After graduating in 1994, he started working in the world of international cooperation. What did he do and what memories do you have of that period?**

Since 1995 I have worked in Vietnam and other Asian countries in the field of development cooperation for non-governmental organizations and United Nations agencies, following rural development programs, microfinance projects and female micro-entrepreneurship. It was an exciting, profitable period, where I achieved many interesting things.

**In 2001, however, the change, that is, the entry into diplomacy. A jump determined by what?**

I won the diplomatic career competition. NGOs have a limited scope for intervention, the United Nations obviously has more room to maneuver, but if you represent a sovereign state, a G7 country, then you can have more impact. This was one of the reasons that pushed me, the desire to have a greater impact and in more sectors. I have held positions with gradually increasing responsibilities in Asian countries, with the exception of a parenthesis in London, which have

SARA REZOAGLI  
Deputy Head of the  
European Union  
delegation in Thailand



always attracted me, such as Afghanistan, Pakistan and China, where I stayed for five years and was head of the political section of the site.

**As you progress in your career, responsibilities increase in any job. In the case of diplomacy, sometimes heavy responsibilities are involved, in places where decisions are made that have great influence on a global scale. Do you perceive this in your work?**

We have the opportunity to get closer to the source of the great world issues, to witness the interactions between global players, political leaders, personalities who in various ways determine the fate of nations and the planet. In many cases, we have access to first-hand, unmediated or biased information. Especially in small embassies, it can happen that you relate directly to sovereigns and prime ministers. It is one of the most delicate but also interesting aspects of this profession and this is why I would recommend a diplomatic career to anyone with a passion for international relations. Another great responsibility is that of assisting compatriots, promoting Made in Italy and Italian culture, fundamental missions for every diplomat.

**Today you are part of the diplomatic delegation of the European Union in Thailand. How does this mandate differ from the previous ones?**

That you no longer represent just one country but 27, and if on the one hand you have to seek a synthesis between the interests and positions of all the member states, on the other hand speaking with one voice you have a greater impact. Thailand is a country with which the EU intends to intensify relations. The European delegation in Bangkok has many activities and we interact with the local authorities in various fields, from the economy to culture, from human rights to security, to international rules. Serving in the EU Delegations is a very interesting opportunity for Italian diplomats, an osmosis between the EU and the Member States that enriches both parties.

In 20 years, technologies have changed the way we all work. Social media has opened up perhaps unthinkable scenarios. How has the diplomat's work changed in the light of this? That everything must be done at a previously unknown speed. In the early 2000s, when I started, the job was already changing, but we didn't think it would happen so quickly.

Social media force us to be extremely quick, enemy number 1 is disinformation which, with the modern methods of transmitting news, spreads very quickly. The figure of the diplomatic representative on the white horse with the envelope to be delivered belongs to the distant past, but this speed is one of the challenges to face in the future.



Bocconi

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# Where do the insuran

*Illiquid bonds: this is the preferred form of investment by insurance companies, which can thus count on predictable and stable cash flows over time. Given the high competitiveness of the sector, the return obtained is thus transferred to policyholders through a lower price for insurance*

by Jakob Blaabjerg Ahm Sorensen @

Insurance companies perform one of the most important forms of financial intermediation in modern society. Specifically, they allow households to share risk and protect themselves against the economic costs of accidents and injuries that would otherwise have devastating effects on peoples' lives and savings. A less known side of insurance companies is that they are also major investors in financial assets. Given that insurance companies receive insurance premia immediately and only pay out in case of an accident later on, underwriting an insurance contract involves an investment decision: what should the insurance company do with money it receives for underwriting insurance contracts? In our paper, we investigate how the particular funding structure of insurance companies – the underwriting of insurance contracts – makes them ideal investors in illiquid corporate bonds. Further, we document how insurance companies' investment strategies affect the price of insurance contracts faced by everyday consumers. To understand the paper's main insights, let's discuss three key features of the insurance business. First, insurance companies underwrite many similar contracts in order to diversify their insurance portfolios. Diversification makes the aggregate cash flows generated



JAKOB BLAABJERG AHM SORESEN  
Assistant Professor  
of International finance  
markets,  
Bocconi University

by insurance underwriting predictable; we don't know what specific house will catch fire, but the insurance company has a pretty good idea of the fraction of houses that will burn in a given year and how much they will have to pay to policy holders to fix damages. A second feature is that insurance demand is relatively stable; people tend to buy house insurance and car insurance in good times and bad times indifferently. This provides insurance companies with a stable source of funding which is less sensitive to market fluctuations than funding structures of other investors (e.g. mutual funds or banks). These first two features of the insurance business make insurance underwriting a stable and predictable source of funding for insurance companies.

The question is then what the insurance companies should invest in given their funding structure and the answer turns out to be illiquid bonds (Empirically we find that illiquid credit makes up more than 70% of US Life Insurers' investment portfolios). Illiquid bonds are debt securities which can be hard to sell and therefore trade at a discount relative to their fundamental values. If you are an investor whose funding dries up when the market goes down, you don't want to hold too many illiquid assets as you could be forced to sell them at a big discount. This is a well-known issue for open-end mutual funds and even banks that are vulnerable to so-called runs (hello, Silicon Valley Bank), but if you have stable funding you have an advantage. You can buy illiquid, but fundamentally sound, assets at a discount because you can commit holding these assets until maturity due to the stable nature of your funding; policy holders cannot claim their money back at will and houses won't start catching on fire more than usual just because there is turmoil in bond markets. This means insurance companies, because of their stable funding, have higher expected returns on illiquid assets than other investors.

The third and final feature of the insurance industry is that it is competitive. Because insurance underwriting is a valuable source of funding, insurance companies compete to attract customers by setting lower prices. This means that part of the excess return that insurance companies can make by investing in illiquid bonds is being passed on to policy holders through lower



## THE BOOK

The digital revolution encounters the insurance world imposing a radical transformation, a paradigm shift that involves the entire sector in all its articulations, affecting corporate culture, organisational processes, data management and customer relations, as shown in the book by Francesco Gerardo and Simone Ranucci Brandomarte (Egea, 2023, 176 pp., €26, in Italian).



## THE PAPER

**Asset-Driven Insurance Pricing**, by Benjamin Knox and Jakob Ahm Sørensen

# Insurance companies invest?

insurance prices. We denote this mechanism asset-driven insurance pricing and document its presence across different insurance products and time periods.

In summary, we argue that insurance companies use their stable funding to earn excess returns on illiquid assets and pass back part of these excess returns to policy holders who are the source of stable funding. This implies that insurance premiums are lower when insurance companies have higher than expected



## THE COURSE

The SDA Bocconi course Gli Investimenti nei Private Markets (in Italian) explores the transformative power of private markets and its impact on the composition of investment portfolios.

investment returns because insurers compete for funding. In this way, insurance companies combine two very valuable forms of financial intermediation by buying assets when other investors are forced to sell, and by enabling risk-sharing amongst households and corporations at competitive prices. ■



# Bonuses that don't re

*A Bocconi study demonstrates how the heterogeneity of employers affects the gender pay gap and that it is above all the differences in wage premia that impact*



by Alessandra Casarico @

**G**ender pay transparency was included as a key priority in the EU Gender Equality Strategy 2020-2025. In 2021 the European Commission published its proposal for a directive, which was then adopted by the European Parliament in March 2023 and by the Council of the European Union in April 2023. According to the pay transparency directive, EU companies will be required to share information about how much they pay women and men for work of equal value, and take action if their gender gap in pay exceeds 5%. There are also provisions for compensating victims of pay discrimination, and provisions for penalties, including fines, to punish employers who break the rules. The key data mentioned to frame the action on gender pay transparency is the (unadjusted) gender pay gap. According to Eurostat, in 2021 women in the EU earned on average 13% less than their male counterparts, with large differences between the private and the public sector, and higher gaps in the former. In Italy the figure stands at 5.5 % in the public sector, and 15.5% in the private one. The female employment rate in 2022 was around 51%, eighteen percentage points below the male rate, one of the largest gender gaps in the entire European Union.

The focus on companies and on information disclosure on pay by gender can be explained by the increasing evidence that



ALESSANDRA CASARICO  
Associate Professor  
of Public Economics,  
Bocconi University

firm pay policy is crucial in explaining the levels and the dynamics of wage inequality in general, and gender wage inequality in particular.

How can firm-level gender-related wage differences emerge? For instance, when women sort into firms with lower pay rates, or have preferences for more flexibility, better work-life balance, or shorter commutes. Wage divides also develop as a consequence of differing job search behavior between men and women, given the different availability of time for job search between the two, or statistical discrimination in employers' wage offers and hirings. Gender wage differences can also appear within firms, due to females' lower bargaining power in wage negotiations, different standards for promotion between men and women, or lower earnings growth for mothers following childbirth.

The increasing availability of linked employer-employee datasets that record work and pay history of workers and characteristics of the firms that employ them, allow to study the role of firms in generating gender wage gaps. While it is

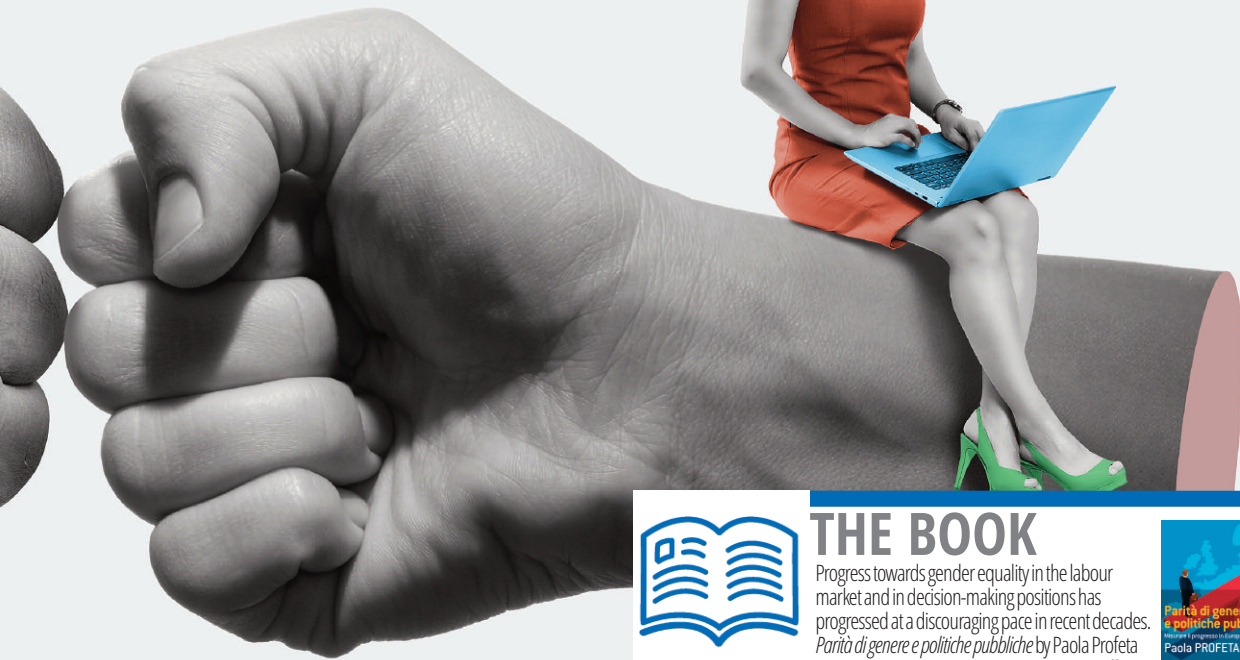


## THE PAPER

**What Firms Do: Gender Inequality in Linked Employer-Employee Data**, by Alessandra Casarico and Salvatore Lattanzio



# ward women



## THE BOOK

Progress towards gender equality in the labour market and in decision-making positions has progressed at a discouraging pace in recent decades. *Parità di genere e politiche pubbliche* by Paola Profeta (Bocconi University Press, 2021, 226 pp., 26) offers a comparative analysis of gender policies in Europe, providing an overview of how public policies are shaping gender equality and how the presence of women in decision-making positions in economics and politics is in turn shaping new public policies.



well known that women are mainly concentrated in the service sector, in low-paid and part-time or temporary occupations, less is known about the characteristics of the firms they are employed in, and how gender differences in a firm's pay policy contribute to the gender wage gap.

In a recent paper with Salvatore Lattanzio, using a large linked employer-employee dataset on the universe of Italian workers in the non-agricultural private sector between 1995 and 2015, we document how employer heterogeneity affects the gender gap in earnings across the distribution, over time, and over the life cycle, accounting for cohort effects. These aspects were yet to be explored and this study can deepen our understanding of the role of firm pay policy in reducing or reinforcing gender inequality in the labor market. We find that differences in firm's pay premia account for approximately 34% of the Italian gender pay gap at the mean. We then decompose gender differences in firm's pay premia into a between-firm and a within-firm component. The former reflects gender differences in sorting across firms and

accounts for two-thirds of the gender gap in firm pay premia. The within-firm component captures gender differences in the allocation of workers across hierarchical levels and in wage-setting within firms, and explains the remaining one-third of the gap, being more important at the top of the earnings distribution. We also show that, while the gender gap in earnings has decreased over time, in firms' pay premia it has almost remained unchanged, thus increasing its contribution to gender wage inequality, and making it even more important to consider this factor when reflecting on policy.

Can firm-to-firm mobility be a potential mechanism underlying the importance of a firm's pay policy? The answer is positive, because women are less likely than men to move to a firm with higher pay policy and more likely to move to firms with higher within-firm inequality. This happens especially when moves are caused by firm closure, indicating that women may have worse outside options or weaker networks than men. The good sign is that gender gaps in mobility have tended to decline in more recent cohorts and years.

Pay transparency, if properly implemented, can help addressing the gender wage gap. ■



## THE COURSE

The SDA Bocconi Diversity and Inclusion Management course (in Italian) provides participants with the tools to effectively respond to external contextual influences and measure the impact of diversity in their company.



The Italian economy is facing significant challenges due to its high government debt to GDP ratio, which has remained at around 150 percent in 2022. This economic imbalance creates a widespread country-risk premium, which affects both the financial markets and the real economy. The country-risk premium refers to the extra amount of money investors demand to lend to a country with a high level of debt. This, in turn, affects the cost of borrowing for firms, making it more expensive for them to invest in their businesses.

Additionally, the high level of government securities in banks' assets has weakened the balance sheets of banks, making them more vulnerable to financial crises. During times of sovereign debt crises, banks' balance sheets can deteriorate further, leading to a reduction in their ability to lend money to businesses. This can create a "financial accelerator effect," whereby the credit restrictions cause a negative impact on the economy, leading to further financial issues.

To tackle these challenges, Italy's Department of Treasury has created a model called ITFIN (see, Barbieri Hermitte et al. (2023)). This is a quarterly stock-flow consistent econometric model that allows for a better understanding of the link between sovereign risk and output growth. The



CARLO FAVERO  
Full Professor,  
Deutsche Bank  
Chair  
in Asset Pricing  
and Quantitative  
Finance,  
Bocconi University

model considers not only the impact of productivity and GDP growth on the cost of sovereign debt, but also the feedback loop between sovereign risk and output growth.

The structure and the properties of the model are helpful to understand the transmission mechanisms in recent crisis, such as the 2008 crisis, driven from contagion effects due to sharp contraction of foreign demand and the drop of foreign stock prices, and the subsequent 2011 crisis, where the rise in market yields and the losses generated by nonperforming loans have clearly originated from domestic political instability. The ITFIN model can help identify the factors behind these crises and suggest strategies for mitigating their effects.

In particular, ITFIN features a dynamic structure in which the evolution over time of the financial assets and liabilities of the different sectors of the economy is explicitly modelled and originates from financial flows associated to agents' decisions determining the supply and demand of financial assets. A model closure, based on taking a single item of each sector balance sheet as residual, imposes consistency between financial stocks and flows for each sector of the economy.

Moreover, the financial positions of the various institutional sectors affect the agents' economic decisions and the real economy. The breakdown of

by Carlo Favero @

*It's called ITFIN and was developed to simulate and evaluate the effects of monetary and fiscal policies on financial markets*

# A model for managing





the model in institutional sectors broadly reflects the one of the National Financial Accounts (Flow of Funds) data. In addition, the model is characterized by a detailed breakdown of financial instruments issued and held by each sector. ITFIN is a highly data-driven model, where the specification of the behavioral equations, although broadly consistent with theory, is designed to generate residuals that pass diagnostic tests. Modelling stocks and flows implies simultaneous modelling of (stochastic) trends and cycles. The economy consists of seven different sectors: Government (G), Banks (B), Insurance companies, pension and mutual funds (P), Households (H), Non-financial firms (F), the national Central Bank (CB) and the Rest of the World (R). The national central bank does not implement conventional monetary policy as policy rates are set by the European Central Bank and taken as exogenous in the model, instead it implements unconventional monetary policy on behalf of the ECB by executing sovereign debt purchases on the secondary market as well as long term refinancing operations (e.g. LTRO and TLTRO). It also operates through the standard banks' refinancing channel. The model assigns a central role to money, credit and finance in determining the pattern of financial and real variables in the economy and considers



## THE PAPER

**A Stock-flow Consistent Model for the Italian Economy,**  
by Riccardo Barbieri Hermitte, Alberto Cagnazzo, Carlo A. Favero,  
Francesco Felici, Valeria Macaudo, Francesco Nucci, Cristian Tegam

the demand and supply of a large number of financial instruments, that are simultaneously assets for some sectors and liabilities for others. In doing so the model keeps track of the interconnectedness of the sectors up to modelling simplification. Not all assets and liabilities are modelled but only those that exhibit significant variation over time in the balance sheets of the various sectors.

By tracking the structure of the Flow of Funds database, it is possible to quickly assess the impact of any omissions or simplifications in a model. This is because any differences in the net financial positions of each sector in the model compared to the data can indicate the effect of variables that have been left out. Essentially, any discrepancies between the model and the data can indicate what variables are missing from the model.

In conclusion, the ITFIN model has been developed specifically to simulate and evaluate the effects of monetary and fiscal policies on the Italian economy. ■

# Italy's country risk

# The challenge is to invest i

*Due to their characteristics, sovereign wealth funds would be the most suitable for supporting the United Nations development objectives and filling the enormous funding shortfall of developing countries. Yet only 7% of global transactions can be classified as having an impact in terms of SDGs. This is why we need a new set of Santiago principles focusing on sustainable investment*

by Bernardo Bortolotti @

With portfolios worth more than \$10 trillion, Sovereign Wealth Funds (SWFs) are a prominent and fast-growing class of institutional investors. Given the sheer size of their assets, sovereign wealth funds can move the needle in achieving UN Sustainable Development Goals (SDGs) and bridge the huge financing gap developing countries face. Furthermore, state sponsorship legitimizes them to address market failures in their investment strategies, accounting for externalities, and investing in public goods. The intergenerational nature of SWFs's business places them in a better position to assess the materiality of long-term risks, such as climate change, to their portfolios. At the same time, as universal owners with large stakes in companies across a huge range of sectors and markets, SWFs are uniquely placed to drive the transition across the investment cycle through active and responsible ownership.

Yet, SWFs are often referred to as "sustainability laggards", and their participation in the responsible investing movement has been claimed to be lackluster relative to other institutional investors and private-sector counterparts. According to a recent UNCTAD survey, only 13% of SWFs interviewed had published a sustainability report in 2019, while the share of pension funds already doing so is 31%. Indeed, a part a few notable exceptions (notably Norway's Government Pension Fund Global (GPGF), SWFs are generally portrayed as isolated institutions, shielded from the external pressure to change investment policies and deliver on the SDGs.

Over and above this anecdotal evidence, a recent paper aims to set the record straight about sustainable



BERNARDO BORTOLOTTI  
Director of the Sovereign  
Investment Lab, Baffi  
Carefin Centre for applied  
research on international  
markets, money banking  
and regulation,  
Bocconi University

investment by global SWFs, by providing updated and comprehensive data about their deal-making in this space. The data show that indeed SWFs did not engage deeply in making sustainable investments, as only 7 percent of global deal value can be classified along the SDGs. The sectoral distribution shows an impressive concentration in healthcare, and an even allocation among main target developed economies, while within emerging countries Southern Asia sticks out as the primary target due to the impressive activity of Singaporean funds. Sadly, Africa, the continent desperately needing this type of capital, is still below the SWFs' radar.

The research has also studied empirically the determinants of SWF sustainable investing in the framework of competing theories of the drivers of ESG (Environment, Social and Governance) considerations in investment decisions. Political factors or SWF type in terms of developmental orientation do not seem to matter, while stronger ESG policies in place seem conducive to more sustainable investments by SWFs. SWFs as universal owners, namely institutional investors with large, globally diversified portfolios, are uniquely placed to foster and hasten the sustainability transition mentioned above, and genuinely deliver on SDGs. So far, however they have adhered to a strict interpretation of their fiduciary duty, aligning their strategies to purely financial considerations, shunning any other goal that would make them look politically motivated. This approach was enshrined in the Santiago Principles, a voluntary high-level code of conduct that was drafted by the International Working Group of SWFs and endorsed by the International Monetary Fund in 2008. A review of these principles is probably overdue. Based on our research, we recommend the formulation of a "Santiago 2.0" version, led by the International Forum of Sovereign Wealth Funds, where the pursuit of SDGs is explicitly stated as a legitimate goal and as an integral part of their fiduciary duty, catalyzing a broader adoption of sustainable investment practices among private and state-sponsored financial institutions alike. ■



## THE PAPER

**The Times Are They A-Changin'? Tracking Sovereign Wealth Funds' Sustainable Investing.** by Bernardo Bortolotti, Giacomo Loss, Robert Van Zwieten



[illegible]



# The effects of shadow trading

*Two Bocconi studies show that these transactions offer insiders in high-impact companies greater incentives to pursue risky investments. And to explain it, the author uses a thought experiment that at the time of Covid could have involved Pfizer, Netflix and Zoom*

by Alessandro Romano @

**Y**ou are a high-level insider at Pfizer, and at the beginning of November 2020, you learn that your company is about to launch a vaccine that exceeds all expectations and might soon put an end to the COVID-19 emergency. You immediately realize that thanks to the vaccine lockdowns will soon be over, and therefore people will spend less time on Netflix or using Zoom. Thus, you anticipate that upon Pfizer's announcement of its vaccine development, Netflix and Zoom stocks will go down in price. Can you profit from this inside information by shorting the stocks of Netflix and Zoom? In United States the answer is yes (Note that in Europe the answer would be resounding no, so don't try this at home!).

Corporate insiders engage in "shadow trading" when they use inside information about their firm (e.g., Pfizer) to trade shares of other companies (e.g., Netflix and Zoom). In a pair of forthcoming articles, my co-authors - Yoon-Ho Alex Lee at Northwestern University's Pritzker School of Law and Lawrence Liu at the University of Southern California - and I analyze the phenomenon of shadow trading. In the first paper, we study the effects of shadow trading on corporate investment choices and in the second, we focus on its macroeconomic consequences.



ALESSANDRO ROMANO  
Assistant Professor  
of International  
comparative  
business law,  
Bocconi University



## THE PAPER

**Shadow Trading and Corporate Investments,**  
by Yoon-Ho Alex Lee, Lawrence Liu, Alessandro Romano

In our first paper, we develop a formal model to show that shadow trading can allow a firm to externalize part of the cost of its insiders' compensation on connected companies. The gist is that since insiders can profit from trading shares of connected companies, when they are permitted to





do so by their firms' code of conduct, they are willing to accept lower salaries from their own company. Note that this is not necessarily bad news: allowing insiders to engage in shadow trading will increase their risk appetite, which can be beneficial to some extent for investors who hold diversified portfolios.

Consider a decision that you must make prior to our initial example: stay out of the vaccine race or make a huge investment. In the latter case, winning the race would bring enormous rewards to your company but losing would almost bankrupt it. If you can engage in shadow trading, the risky strategy of entering the race might sound appealing. If the project works, you will learn about it before the market, and hence you will be able to profit by shorting certain stocks, such as Zoom and Netflix. If the project does not work, you might get a lower performance-based compensation. On the other hand, you can make a handsome profit by shorting the stocks of other companies whose stock prices are expected to decline - such as those who participated in the investments. Note also that the insider stands to profit more if the potential swing in stock prices is greater. Thus, permitting shadow trading can increase insiders' risk appetite. Further, we find that in some instances shadow trading might lead insiders and shareholders to prefer risky projects with negative expected values to profitable safe ones. This is because shareholders can profit in two ways from shadow trading when their firm invests in risky projects. First, they can have their corporation engaging in shadow trading. Second, as noted above, they can save on managers' compensation by negotiating lower salaries for their managers in return for permitting shadow trades.

As we discuss in our second paper, combining the model's results with the findings from the macroeconomic literature leads to the hypothesis that allowing shadow trading might have the effect of increasing the level of macroeconomic risk exposure. On the one hand, the macroeconomic literature has shown that a subset of "central" firms can impose large externalities on the economy and can trigger aggregate fluctuations in production (Gabaix 2011; Acemoglu et al. 2012). On the other hand, shocks at central firms also tend to have a larger impact on related companies' stock prices (Aobdia et al., 2014), and hence insiders of these firms can derive larger profits by creating risk and engaging in shadow trading. Put differently, the possibility of engaging in shadow trading gives insiders at firms with significant economic impact greater incentives to pursue risky investments. ■



## THE PAPER

**Shadow Trading and Macroeconomic Risk**, by Yoon-Ho Alex Lee and Alessandro Romano





*Private support for the arts needs to grow in Europe too. Art philanthropy is changing skin due to the digital revolution and new generations coming to the fore with their sensitivities, and fundraising now needs to involve all actors in art institutions and not only those in charge of development: from the museum curator to the individual artist, from the student volunteer to the designer of exhibits. Because only by internalizing the goal of fundraising within an art organization will its economic and cultural independence improve*

by Alex Turrini @





# The art of collecting donations

Throughout history, the arts, much like education, medical research, social services and religion, have needed to be subsidized to have a market. For centuries, the church and royal dynasties provided such support. More recently, the public and private sectors have filled this role, concluding that the arts are essential to defining our humanity. Public support for the arts is particularly relevant in Europe - where it covers about 65-75 percent of budgets of art institutions. It also plays a role in the United States, where government indirectly supports private donations to arts institutions by granting tax exempt status, thus providing donors with fiscal benefits. Despite the arguments in favor of public support for the arts, impassioned criticism about it is rising on both sides of the Atlantic. In the United States, skepticism about government intervention in the arts is motivated by the fear that it could limit development of art markets and reduce true freedom of artistic expression. In Europe, the debate about government funding for the arts has become more vigorous, often highlighting negative side effects like the long bureaucratic procedures linked to such public subsidies. But more importantly, following a trend that began years ago but has accelerated during the COVID-19 pandemic, European public actors tend to be more selective in their funding decision-making, looking for evidence of positive economic and communication impacts of funded projects or institutions before giving their grants.

For those institutions that are greatly dependent on public funding, being aware of these threats and trends is crucial. To adapt to this ongoing change in the art philanthropy market, arts organizations should work to strategically diversify their funding sources, enlarging their private donor base at all levels (maybe investing more resources in attracting major



ALEX TURRINI  
Associate Professor  
of Public and nonprofit  
management,  
Bocconi University

private donors) and reducing the percentage of budget covered by public resources.

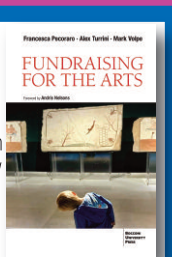
What position within cultural institutions should be responsible for improved fundraising? Traditionally, individuals within an arts organization had very distinct roles. The second oboist played the second oboe parts. The actor playing Hamlet just played Hamlet. The curator for Ancient Egyptian, Nubian and Near Eastern Art only focused on art from those regions. And the development director solely raised money. While this approach worked in the past, the digital revolution, the proliferation of not-for-profit art institutions competing for funds and the evolving sensibility of younger generations have led to rethinking about who is responsible for fundraising. Modern art organizations are best served if all employees and volunteers have "ownership" of a fundraising campaign. Now, the second oboist may sit on an annual fund committee and occasionally might be asked to write thank-you notes to donors. The actor playing Hamlet might speak to a group of donors at a post-performance reception. The curator of Egyptian, Nubian and Near Eastern Art might lead a group of donors on an excavation in Egypt. And the lead development officer should expect to be included in meetings in which strategic decisions are made. This is not to say that artists are being asked to replace the art institutions's development team or that the development director will be allowed to make decisions about the calendar. Rather, such involvement has more to do with cultural attitudes than with functional responsibilities and a team approach to management. In essence, everyone in the organization must see fundraising as part of their job description, whether directly or indirectly, since art organizations increasingly realized that developing a culture of philanthropy is crucial to achieve sustainability. Furthermore, effective fundraising relies on personal, trust-based relationships more than on transactional exchanges between institutions and donors. Building long-lasting relationships requires time and effort, especially in the case of substantial donations; otherwise, donors may be sidetracked and see their contribution not as an added value for the organization but as a mere commercial exchange.

Consequently, developing a culture of philanthropy in the arts is very closely related to the notion of citizenship within the communities in which art institutions are situated. More than protecting the arts or cultural heritage, these institutions are in fact pivotal to cement bonds of trust, nurture social capital, facilitate social development, serve younger generations and grant cultural access to all citizens. Internalizing these attitudes will increase fundraising capacity, which in will enhance the independence of cultural institutions and help them to focus on their veritable mission, the real purpose of their existence: serving the community through art forms. ■



## THE BOOK

The work of fundraising has transformed into a sophisticated and competitive profession. The arts and cultural field has not been an exception to these pressures, above all in times when new emergencies and pressures shrink the funding opportunities of arts organizations both in Europe and in the US. *Fundraising for the Arts* (BUP, 2023, 328 pp., €32) aims to be a reference point for undergraduate students, graduate students, and junior practitioners in the arts management field.



# Unicorns' dark side

*Their rise, jointly with decacorns and hectocorns, has changed the role of venture capital and opened new legal scenarios to curb fraud and illicit behavior, as highlighted by the Theranos startup case. That's why compliance, transparency and accountability must be prioritized*

by Enrico Basile @

**U**nicorns - late-stage startups valued at more than \$1 billion - along with decacorns (exceeding \$10 billion) like the UK fintech company Revolut and hectacorns (surpassing \$100 billion) like the Chinese giant ByteDance that owns TikTok, have dramatically changed the Venture Capital (VC) scene in the last decade. Due to instances of corporate wrongdoing, several high-value private companies named after mythological beasts have come under increased scrutiny, prompting a closer investigation of the criminological implications that such scandals may have.

Theranos, a once-promising healthcare unicorn that claimed to have invented groundbreaking blood-testing technology, is a notable example. When the accuracy and reliability of its test results were called into question, Theranos became embroiled in fraud allegations. Elizabeth Holmes, the company's founder and CEO, and former president Ramesh "Sunny" Balwani were both charged with several offenses, including conspiracy and wire fraud, and sentenced to lengthy prison terms.

Accusations leveled against various digital companies often involve charges of overpromising or dishonesty, establishing them as paradigms of the (catchy, and still elusive) notion of "white-collar crime", a term coined in the late 1930s by US sociologist Edwin H. Sutherland. These high-profile incidents necessitate a stringent legal response to maintain compliance and openness, especially in the realm of high-value startups.

To handle the said problems, several scholars advocate a blended strategy that includes extending regulation designed for public companies to major private corporations, broadening whistleblowing laws, encouraging trading incentives for investor vigilance, and enforcing anti-fraud rules. These techniques can be analyzed using white-collar crime lenses to better assess their potential usefulness in the criminal law field.

Unicorns' wrongdoing requires, furthermore, a



ENRICO BASILE  
Assistant Professor  
of Criminal law  
and white-collar  
crime,  
Bocconi University

grasp of the larger context. In recent years, the VC climate has encouraged taking risks, while the secretive nature of private companies has created an environment that can lead to illegal activity. As interest in rapid innovation and disruptive technologies rises, it is critical to investigate the legal consequences of these corporate activities and their ramifications for investors and consumers. Preventing misconduct needs, as seen, a variety of approaches, each addressing a distinct part of the issue. Although extending the regulatory framework for private enterprises is a possible answer, it nevertheless presents difficulties in achieving a balance between regulation and business freedoms. Even trading incentives may be insufficient if unicorns can simply avoid having their securities traded. Whistleblowing, while effective, is in turn dependent on anti-retaliation procedures and rewards, both of which have limitations. Finally, it is noteworthy how criminal law responses rely on law enforcement agencies receiving accurate information, which can be difficult to obtain due to these entities' inherent secrecy.

The rise of unicorns, decacorns, and hectocorns, as well as their related misbehavior, necessitates continued research, and we can better understand and prevent similar scandals by investigating examples like Theranos. As the global economic effect of unicorns grows, it is critical to prioritize compliance, transparency, and accountability. We can manage the complicated terrain of these multi-billion-dollar companies while limiting the risk of wrongdoing by taking a diversified approach to regulation and focusing on criminal law consequences. The future of such high-value entities in the corporate world is dependent on our capacity to learn from past mistakes, develop a strong legal framework, and properly harness their transformative potential. As we dive deeper into the sea of unicorns, we must remain alert to potential malfeasance and prioritize regulation in order to maintain stability and confidence in this fast-changing environment. ■







# Extending the life cycle of products

*More efficiency in managing (increasingly scarce) resources and greater ability to reduce climate-altering carbon emissions: the sustainable future passes from here and primarily by acting on construction, mobility and agri-food. This is the strategic direction indicated by the EU and Italy must be at the forefront*



by Edoardo Croci @

**T**hrough the dissemination of circular economy practices, it is possible to seize significant opportunities for innovation and growth in the direction of sustainability while the competitiveness of the system of firms, thanks above all to the ability to act on two dimensions: efficiency in the use of resources, with less use of raw materials and minimization of waste along the supply chains, and the reduction of carbon emissions across the entire life cycle of products, from design to production, distribution and consumption, up to end-of-life management.

The sectors that offer the greatest potential for the joint reduction of raw material inputs and climate-changing emissions through circular practices are buildings, mobility and food ([Circularity Gap Report, 2022](#)). In particular, construction is one of the key sectors for



EDOARDO CROCI  
Professor of Practice,  
Director of the  
Sustainable Urban  
Regeneration Lab,  
Bocconi University

achieving a sustainable and circular transition. In fact, buildings are responsible for around 40% of whole energy consumption and 36% of total CO2 emissions in the EU. Furthermore, according to Eurostat, the construction industry is responsible for around half of the demand for the extraction of raw materials and 35% of total waste generation in the EU.

In December 2015, the European Commission issued the Communication *Closing the loop - An EU action plan for the Circular Economy* which envisaged a set of measures including new legislative proposals and the updating of the legislation in force, as well as a general action plan. Priority areas included eco-design, new sustainable production and consumption patterns, the development of secondary materials markets and the promotion of industrial symbiosis, as well as strengthened targets for



the collection and recycling of different categories of waste, with the aim of minimizing the share destined to the landfill. In March 2022, the European Commission adopted a further circular economy package of proposals to promote circular business models in different sectors, including an eco-design regulation for sustainable products, the revision of the construction standards regulation, a new EU strategy on sustainable textiles, and new rules to empower consumers in the green transition and tackle greenwashing. A specific regulation concerns plastics, also in relation to the fight against littering and the protection of the oceans.

At the Italian level, the National Strategy for the Circular Economy was approved in June 2022, defining the actions, objectives and measures to be pursued in policies for the transition to a circular economy. In particular, governance models and administrative and fiscal tools are now identified to enhance the market for secondary raw materials, favor green public procurement through the progressive definition of minimum environmental criteria for purchases of a variety of product categories, encourage the recovery and reuse of products by specifying criteria for end-of-waste qualifications, and promote the application of the extended producer responsibility principle, according to which the producer of a good must deal with financial and sometimes organizational responsibility for the management of products at end of their lifecycle.

In this context, waste management systems are going through a phase of innovation to respond to increasingly ambitious collection and recycling objectives. As regards packaging waste, Directive 2018/852 mandates that by the end of 2025 at least 65% in weight of all packaging materials be recycled and the percentage rises to 70% by the end of 2030, with quotas differentiated by kind of waste. Directive 2019/904 sets for the collection for recycling of single-use plastic bottles at 90% by 2029 and a content of at least 30% of recycled plastics in the production of PET bottles. The proposed EC Regulation of 11/30/2022 aims to make all packaging recyclable by



## THE PROJECT

As part of the European Horizon 2020 Agro2circular project, of which Bocconi University is partner, the team coordinated by Edoardo Croci is developing new business models for the recovery of agri-food residues through the assessment of environmental impacts and economic costs along the entire life cycle of products

2030 and gives priority to reuse. In this context, the possible use of Deposit-Guarantee Systems (DRS) is also envisaged.

To this end, a growing commitment to waste management that responds to the principle of Extended Producer Responsibility (EPR) is required. Recent research by the Bocconi GREEN research center has evaluated the degree of effectiveness and efficiency of various organizations of producers for the management of packaging waste in Europe, highlighting the excellent performance of the Italian model coordinated by CONAI. Implementing the European principles for a circular economy, also in relation to the new proposal for an EU regulation to strengthen the sustainability and circularity of the supply chains of critical raw materials, constitutes a strategic direction for our country, also due to its scarce endowment in terms of geological resources for raw materials, geopolitical vulnerability relating to regional concentrations of critical raw materials, and recent tensions on energy markets also in terms of price increases. ■



## THE BOOK

In the era of 'liquid modernity', consumer paradigms and business models are changing. This revolution also concerns the world of fashion, both in the dynamics of production and distribution and in the attitude of the consumer, who is increasingly attentive to responsible purchasing. This new edition of *L'impresa moda responsabile* (Egea, 2022, 256 pp., €32, in Italian) contains a careful monitoring of the evolution of sustainable value chains and the rapid transformation towards circular models.





## AN ENTERPRISE THAT HAS THE RIGHT STUFF TO BE SUSTAINABLE

*Anna Fiscale, a Bocconi alumna, is the founder of Quid, a social enterprise whose creed is upcycling and social sustainability, by giving a new life to fabrics and people that make them*

Project Quid transforms meters of fabric into new clothes and accessories ready to be sold. All the excess fabric comes from fashion brands; therefore one could say that «where the fashion supply chain stops, our design and production process begins», reads the website of this social enterprise ([www.quidorg.it](http://www.quidorg.it)). Quid was founded ten years ago by Anna Fiscale, a Bocconi graduate in Economics and Management of Public Administrations and International Institutions. Our mission is to give new life to materials that fashion brands are discarding because they are out of their color scale or have minimal defects. Only in this way can the impact of production on the environment and society be reduced. It is no coincidence that Project Quid also strives for «social sustainability by offering, in particular, specialized jobs to vulnerable people, often women, victims of violence, persons with disabilities, former inmates and even individuals with a history of drug addiction» Ms Fiscale explains. «The concept of upcycling and therefore of circularity must proceed together with ESG (Environment, Social and Governance), despite their diversity and breadth of their definitions».

Specifically, Quid is based in Verona and gets donated or buys fabrics and leathers at discounted prices, materials which, otherwise, would be pulped or sold off. Often these are not finished products but raw materials, which, even if they were recycled, would still require the consumption of other resources before being reused. «90% of the fabric we recover for our women's fashion collections comes from Italy, within a 250-kilometer radius. The remaining 10% comes from Spain, England and Croatia», continues the social entrepreneur who then built a structured sales network with 7 retail stores scattered between Milan, Bologna and Mantua, an e-commerce service, and various collaborations with retail brands such as Kappa, Ikea and OVS. The market positioning is the medium-price range, i.e. "democratic prices, for example around €100-120 for a coat and under €80 for a dress", recalls the

*ANNA FISCALE is the founder and president of Progetto Quid, a social enterprise that was born in April 2013 by combining fashion and circularity. Fiscale graduated from Bocconi in Economics and Management of Public Administrations and International Institutions. A program of study which also allowed her to obtain a second degree in European Affairs at Sciences Po in Paris. She has worked for Non-Governmental Organizations (NGOs), for example, in support of the post-earthquake reconstruction of Haiti or in conjunction with the European Commission in cooperation and development aid.*



Anna Fiscale whose enterprise crafts over 350,000 meters of fabrics. In particular, 1,000-2,000 t-shirts are delivered to Kappa every season, 200,000 hair bands go to Calzedonia, while with OVS the focus of the partnership is more on capsule collections. Finally, 100,000 cushion covers and cases are packaged for Ikea (a collaboration that has the peculiarity of starting from a finished product).

«All our collections are born thanks to the recovery of surplus fabrics made available by fashion companies and textile firms. But stocks are not infinite and, for this reason, our garments are often made in limited quantities», says the Bocconi alumna, and concludes: «How do I see upcycling today? Today it is a topic of general interest, there is greater sensitivity, also thanks to the diffusion of trends such as the vintage and secondhand markets».





# Beyond ESG

*The Circular Economy is generating financial and material impact for all stakeholders, by acting as an accelerator of the sustainability strategies in the banking industry, thus superseding ESG investment strategies*

by Claudio Zara @

Last April, two important events concerned the development of the Circular Economy as a content of sustainability in the context of investment and financing activities.

Globally, UNEP FI issued guidelines (Guidance on Resource Efficiency and Circular Economy Target Setting - Ver. 2) which identify the transition to a circular economy as the scope of application of the Principles for Responsible Banking. The 325 signatory banks of the Principles can now identify in the financial and advisory support to client companies towards the circular transition one of the two areas of application required by the Principles to generate a positive impact towards the achievement of the sustainability objectives set by the SDGs and those envisaged by the Paris climate agreement.

At EU level, the European Commission, within its Environmental Taxonomy, published the draft of the Technical Screening Criteria (hereinafter TSC) relating to the four objectives, among which there is the “transition to a circular economy” added to the ones relating to climate change; the enactment of the



CLAUDIO ZARA  
Researcher in Financial  
markets and  
institutions,  
Bocconi University

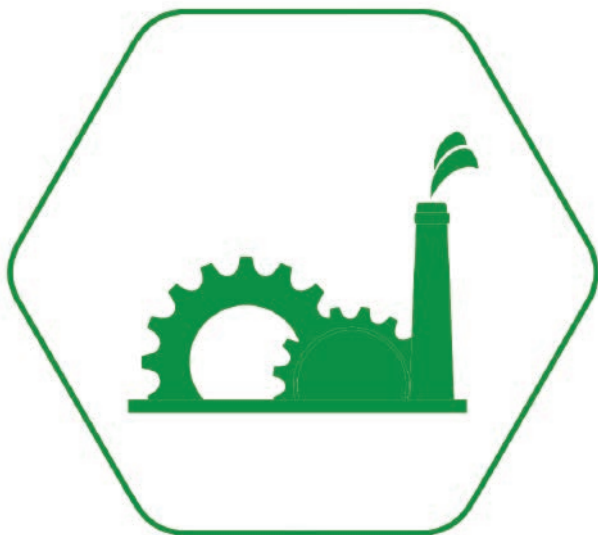
Delegated Act is scheduled for June. The establishment of the TSC is the last step necessary to enable the Circular Economy as a content of the taxonomy also for the purpose of calculating the performance indicators required of the financial industry to measure their degree of compliance with principles of sustainable finance, among which the GAR (Green Asset Ratio) stands out for the banking industry.

Still within the EU context, the most strategic element, however, consists in observing that rh is evolving from an environmental issue included in the Commission's Priority 1 (European Green Deal, 2019; Circular Economy Action Plan, 2020) to a fundamental element of the EU's industrial policy, indicated by Priority 2 (A Europe fit for the digital age - Digital future agenda & a new industrial strategy - digital & net zero, 2020), through the progressive development of typical circular economy issues such as the correct management of stocks of finite pristine resources and their replacement with renewable and/or regenerable resources (e.g. Critical Raw Material Act, 2023).

The scenario that is emerging requires a reflection on the contents of sustainability in the financial sphere. In fact, ESG (UN, 2005) was adopted on the assumption of the existence of a nexus of financial materiality, focusing first on the returns of shares (e.g. Eccles et al, 2014) and then on environmental and climate risks (e.g. ECB, 2020). However, the most recent literature (e.g. Bruno et al, 2021) is increasingly in agreement in indicating a decline, if not an absence, of outperformance of ESG strategies and assets, at least in terms of excess returns, questioning the effective permanence of its financial materiality.

Furthermore, the need to develop dynamic materiality is emerging: sustainability must be able to combine financial/ESG performance with impactful results that are relevant for stakeholders other than financial investors; think, in this regard, of the financial investment products under art. 9 of the SFDR in the field of asset management. ESG, which was not conceived with a view to pursuing double materiality, shows strong limitations in this sense.

On the contrary, the research conducted within the Bocconi GREEN Research Center, developed with the support of the ISP Group, highlights the presence of financial materiality for the Circular Economy at the





level of: risk-adjusted extra returns on equity (Zara et al, 2022); reduction of risk for both equity (Zara et al, 2022) and debt (Zara et al, 2022a); and resilience to exogenous shocks (Zara et al, 2023). Furthermore, having an economic content that is pervasive with respect not only to environmental but also geopolitical and social issues, a circular-economy approach is able to pursue impact objectives that are material with respect to the interests of non-financial stakeholders. Ultimately, the Circular Economy stands as an evolutionary line of the sustainability content of mainstream ESG and is capable of channeling the impact that can be generated within ESG categories, by becoming an accelerator itself for ESG strategies of banks and other investors. ■

## HOW TO COMBAT INCREASINGLY COMPLEX PACKAGING

*When it comes to recycling, the biggest problem is the evolution of packaging, which is increasingly made of mixed materials. Fortunately, today technology and regulation make it possible to recover more packaging than in the past, as explained by Simona Fontana, Bocconi alumna and head of the CONAI research center*

There is a myth to dispel when it comes to recycling and packaging recycling in particular: the e-commerce boom has little to do with it. It does not significantly affect the total quantity of packaging materials to be disposed of for industrial and domestic uses. If anything, e-commerce and home delivery have an impact by changing the type of urban waste produced by households. If domestic users also have to dispose of cardboard boxes, waste collection in cities becomes more heterogeneous and onerous, and cities already generate a wide range of recyclable materials. Not to mention that national disposal plans must take the different municipal organizations and rules followed in Italy's urban centers into account. «There is a sort of constant evolution in the production of packaging to be recycled, increasingly complex packaging to dispose of appears on the market. The solution is to stimulate both a systemic response and an incentive for technological research», explains Simona Fontana, head of the CONAI Research Center for the Circular Economy, which is responsible, among other things, for coordinating companies and public administrations in recycling efforts, and also to support the extra costs of urban waste collection through supply chain operational

consortia. Born out of the 1997 Ronchi Decree, CONAI (which stands for Consorzio Nazionale Imballaggi, National Packaging

*SIMONA FONTANA became Head of the CONAI Research Center for the Study of the Circular Economy, after earning a Degree in Economics and Management of Public Administrations and International Institutions and a Master in Economics and Management of Public Utilities at Bocconi University. At CONAI, which reports to the Italian Ministry of the Environment and Energy Security (MASE) and the Ministry of Firms and the Made in Italy (MIMIT), Fontana was previously head of the Prevention Area Research Center and, before that, Senior Analyst in the Technical Area.*

Consortium) has promoted, for example, a partnership for a green and technologically advanced system to recover all the components of complex packaging such as tetrapak bricks, beverage cartons made up of several materials including paper, plastic and aluminum. «In the past, only one element could be extracted from its recovery and we had to discard the other two. Today, not only paper, but also plastic and aluminum from tetrapaks can be used to make other products, including pallets», underlines Fontana.

Between complex materials and progressively more heterogeneous collection, however, CONAI has also revised upward its recycling targets for 2023: the goal is to recover 75% of packaging materials used on a national basis this year. For last year, preliminary estimates give a result of 74% for Italy. It was 73.3% in 2021, starting from 33% in 1997. «The differences in percentage points may appear minimal but, in reality, they correspond to millions of tons of packaging reintroduced into the economic system», points out Ms Fontana. «Italy has a historic vocation for recycling. It is the first country in Europe in terms of kilograms per capita recycled. It is therefore a consolidated trend, which has not stopped even during the financial crisis or Covid. To the contrary, moments of uncertainty give greater value to the recovery of packaging and related economic benefits».

What role do citizens and public authorities play in this ecosystem? «Italians are among the most attentive to and convinced of the advantages of separate waste collection in Europe», replies Simona Fontana. «The public administration, on the other hand, has various tasks, from standardization and control procedures that must be easily implementable in reality to that of greening its own purchases through green public procurement processes».





# Fashion that doesn't go out of style

*From the recovery of materials to eco-design, the fashion industry aims to be sustainable. But for now, EU regulation remains the strongest push to drive change towards circularity in the industry. However, there is the risk of merely adapting to what is required by law, and not being able to grasp all the advantages that derive from a business transformation oriented towards circular value chains*

by Francesca Romana Rinaldi @

**T**he recent decree proposal for the establishment of an Extended Producer Responsibility (EPR) regime for the textile supply chain of clothing, footwear, accessories, leather goods and home textiles is shaking up the Italian fashion sector, which has started a rush towards implementing circularity policies to prepare for upcoming post-consumer waste obligations. In 2020, the European Commission's Circular Economy Action Plan of the related Green Deal established seven key areas essential for achieving a circular economy: textiles, plastics, electronic waste, food and water, packaging, batteries and vehicles, buildings and construction. On 30 March 2022, the Commission published a proposal for regulating the eco-design of sustainable products; in November 2022, it proposed new EU-wide rules on packaging. More recently, in March 2023, a proposal for a directive on Green Claims was published while the revision of the Waste Framework Directive is underway, including the EPR also for the European fashion sector.

Why is the focus increasingly on waste? Just look at the numbers, although they are still approximations given that there is still no obligation to collect data on textile



FRANCESCA ROMANA RINALDI

Director of Monitor for Circular Fashion, SDA Bocconi School of Management, and author of the volume Fashion Industry 2030

waste in European countries. In the recent report "LCA-based assessment of the management of European used textiles" by Norion Consult for EuRIC Textiles, European data updated to 2019 speak of about 5.4 million tons of textile products placed on the market: of these, only about 2 million tons are collected as post-consumer waste. Of all used textiles, therefore, only about 38% are separately collected for reuse, recycling and disposal. At the moment a rather wide range is estimated for the various destinations: 50-75% is aimed at reuse, between 10-30% is recycled and the remainder is used for energy recovery or disposed of in landfills. The worrying fact that emerges from the report is that the remaining 62% is not collected separately and therefore ends up directly incinerated or landfilled. Also, according to the report in 2018 146,000 tons of textile waste were collected in Italy, of which approximately 68% was destined for reuse, approximately 30% was recycled, an approximately 2% was destined for landfill.

A McKinsey study "Scaling textile recycling in Europe - turning waste into value" published in 2022 with 2020 data estimates instead that between 7 and 7.5 million





tons of textile waste are generated in Europe (with an average of 15 tons per person): about 85% are post-consumer waste and only 30-35% are currently separately collected. Starting from the post-consumer waste collected in Europe, 40% would be exported to second-hand markets outside Europe and the remaining 60% would be destined for the internal market (about 60% sold in second-hand markets, while the remaining 40%, or about 0.5 million tons, would be destined for recycling).

Let us remember that uncollected waste ends up in the incinerator or is sent to the landfill. Regardless of the estimates on the absolute numbers - on which there is still no certainty - there is still a lot to do, and the legislation on EPR should guide the sector towards a better use of discarded textiles as a resource. But the focus on waste is not enough. We need to apply the principles of eco-design and supersede a system based on overproduction and overconsumption, by innovating business models. Managing sustainability and circularity requires a holistic approach: focusing only on end-of-life stage would be a mistake that reinforces the linear system. The implementation of eco-design principles along the circular fashion value chains constitutes a real opportunity to accelerate the green transition in the coming years.

The ultimate goal of a circular approach is to keep products and materials in use while maintaining their quality and minimizing the environmental impact throughout their life cycle. In its 2022 research report,



## THE MONITOR

The Monitor for Circular Fashion is a multi-stakeholder project involving leading companies in the fashion industry and key actors in the fashion supply chain. The SDA Bocconi Sustainability Lab is the scientific partner of the project to identify Circularity KPIs, done jointly with a KPI Committee and more than 25 Partners from the various supply chains of the fashion sector. Enel X makes its cross-industry vision available to the project.



## THE BOOK

Current models of production and consumption based on 'take, produce, throw away' will not be sustainable in a world that will have nine billion people in 2050, especially with ever-expanding consumption rates. But there is good news: the circular economy offers a powerful means to decouple growth from the use of scarce and harmful resources, allowing for more production and consumption with fewer negative environmental impacts while making companies more innovative and competitive, as explained in *Il manuale della circular economy* (Egea, 2021, 376 pp., €42, in Italian).



SDA Bocconi's Monitor for Circular Fashion highlighted the challenges and advantages deriving from business transformation oriented towards circular value chains. Among the main pluses we find: the improvement of brand reputation and consumer/end-user loyalty, new business opportunities, new jobs and cost reductions. In summary, legislation is today the strongest push driving change towards circularity in the fashion industry but it is not enough: political decision-makers and companies, trade associations, universities and research centers, media and non-profit organizations must work together to build a sustainable and circular fashion culture that puts consumers and end users at the center. To build a sustainable and circular fashion culture, a multi-stakeholder approach that starts from education and information is needed. ■



# All the remedies to sta

*From AI to drones, from the blockchain to the Internet of Things, many are the solutions employed by companies to estimate time, quality and quantity of throughput. But any green approach to business needs to evaluate the lifetime impact of a product or service in order to be environmentally effective*

by Pietro De Giovanni @

**T**he Circular Economy is not just a trendy buzzword, it's a game-changing business practice that is taking the world by storm. This new business approach to sustainability is gaining momentum across the globe, as more and more businesses recognize the benefits of going green. However, it is not as simple as just optimizing returns and extracting maximum economic value. Without the feedstock injected the Circular Economy systems, firms simply cannot activate the operations needed to bring the circular economy dreams to life. From reverse logistics to remanufacturing, from closed-loop supply chains to recycling, feedstock is the essential ingredient that makes circular systems work. But firms definitely know that estimating the

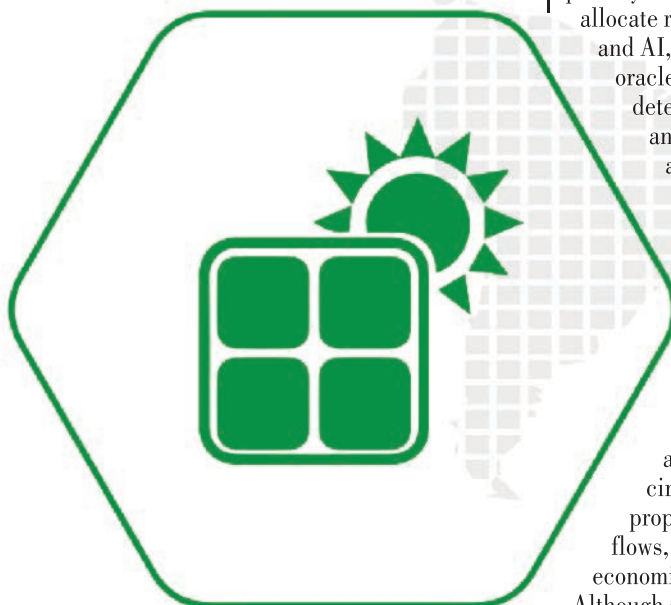


PIETRO DE GIOVANNI  
SDA Professor  
of Practice

time, quality, and quantity of feedstock available can be a challenge. With uncertainty lurking at every turn, it is no wonder that circular systems struggle to make accurate predictions.

It is time for firms to take a proactive approach towards connecting with feedstock in order to drive their circular economy initiatives forward. However, this requires a true connection between firms and feedstock, which can only be realized through the support of digital technologies. By harnessing the power of drones, Internet of Things (IoT), big data analytics, blockchain and Artificial Intelligence (AI), firms can effectively connect to traditional systems such as satellites, SAP systems, and public datasets, enabling them to optimize their circular economy activities. For instance, businesses can utilize drones and satellite data to more accurately estimate the quantity of feedstock available in a given area and allocate resources accordingly. With blockchain and AI, firms can leverage inbound and outbound

oracles to assess feedstock quality and determine its residual value. Meanwhile, IoT and big data analytics can enable firms to anticipate when feedstock will become available, offering significant benefits in terms of reverse logistics and production planning. Ultimately, these tools can help firms select the most appropriate circular options, including reduce, reuse, remanufacture, or recycle, to achieve their sustainability goals. With a solid understanding of the digital technologies available and a commitment to driving circular economy initiatives, firms can properly evaluate feedstocks and material flows, and better estimate the real impact of economic processes oriented to circularity. Although digital technology is a powerful tool in





# ve off greenwashing



## THE LIBRARY GUIDE

Here is a detailed bibliographic guide, edited by the Bocconi Library, dedicated to circular economy

driving circular economy initiatives, they alone are not enough to ensure that greenwashing is avoided. One of the major challenges faced by firms is demonstrating that there are tangible economic, social, and environmental impacts of their circular economy actions. To this end, the Life Cycle Assessment (LCA) approach is an effective tool. By analyzing goods and associated feedstocks across all the stages of a products' life, LCAs can help firms identify areas of intervention to design more impactful circular economy systems. In order to achieve the sustainable design of products, firms should focus on principles such as material selection, energy efficiency and waste reduction, as well as supply chain management, geographical dispersion, and involvement of stakeholders. Digital technology plays a crucial role in collecting and analyzing the right pieces of information to calculate the circular economic impact through LCA. In conjunction with circular economy first and digitalization afterwards, LCA assessments enable firms to demonstrate the true impact of their circular economy initiatives and avoid the pitfalls of greenwashing. ■



## THE BOOK

So what is the circular enterprise? What are the elements of its business model? And, again, what role do digital technologies play? And politics with its choices? Interweaving analyses and stories of companies large and small, belonging to various sectors, *L'impresa circolare* (Egea, 2022, 168 pp., €25, in Italian) identifies the archetypes to which very different companies can be traced, proposing a scorecard to measure the implementation, actual effectiveness but also the risks of the circular economy.







# The unbridgeable chasm

*The isolation of the Russian Federation and its expulsion from the Council of Europe mark points of no return. The latest act was the resolution condemning the forcible "Russification" of Ukrainian children and the consequent request to allow the safe return to their families*

by Leonardo Borlini @





LEONARDO BORLINI  
Associate Professor  
of International law,  
Bocconi University

On 28 April, the Parliamentary Assembly of the Council of Europe (PACE) requested the Russian Federation to allow the safe return of Ukrainian minors forcibly transferred to its territory or to the territories temporarily occupied by it. PACE also urged the 46 member states to ensure the punishment of those responsible at all levels of the forcible transfer of Ukrainian children, arguing that the documentation collected on this practice would prove that Russian authorities perpetrated international crimes. In particular, in the resolution based on a report by the Portuguese parliamentarian Paulo Pisco, the parliamentary body of the Council of Europe (CoE) supports the existence of evidence documenting the deportation of Ukrainian minors and their subjection to a process of “Russification”, through a re-education in the Russian language, culture and history, citing examples of minors forbidden to speak Ukrainian, exposure to propaganda and visits to “patriotic” sites and military training. The transfers of Ukrainian minors “were clearly planned and systematically organized” as a state policy, the Assembly said, and had the aberrant purpose of “annihilating any ties and characteristics associated with their Ukrainian identity”. No wonder,

therefore, that PACE has welcomed the decision of the International Criminal Court to issue arrest warrants for Russian President Vladimir Putin and the Russian Government’s Commissioner for Children’s Rights Maria Lvova-Belova on charges of war crimes, urging the execution of such rulings.

Many are dealing with the legal feasibility and political expediency of an international trial against Russian government officials suspected of war crimes.

However, it is interesting to dwell on another aspect here: the PACE resolution indicates once again that the break between the pan-European organization and Russia, which took place with the expulsion of the latter from the Council of Europe in March 2022, is now irreparable. As is known, following the armed aggression against Ukraine, on March 16, 2022 the Russian Federation was expelled from the CoE despite the fact that, in accordance with the Statute of the organization, the Russian government had formally notified its intention to withdraw from the CoE entity the day before the decision came into effect. From a legal point of view, the expulsion has raised legal perplexities: withdrawing is a unilateral manifestation of will symmetrical to that of joining an international organization, to which the organization’s legal system attributes the power to extinguish, in accordance with the purpose that the withdrawing party proposes, any relationship between a state and the entity regardless of the will of the latter. The forcing of the provisions of the Statute of the CoE inherent in the expulsion decision can then be explained by the need, of an eminently political nature, to enable the body to determine the cessation of member status of the Russian Federation with its own formal act rather than legitimize the unilateral act of withdrawal of the Russian state, to mark the latter’s very serious violation of international law. Ultimately, that provision indicated a saturation of the relationship - indeed, never easy - between the CoE and the Russian Federation itself, together with an unbridgeable chasm between the values and objectives of the organization and the policy and ideology of the Russian State for as they are currently expressed. With Russia now out of the organization, the growing distance was emphasized in the following months by various bodies of the Council. The latest act was the PACE resolution of 28 April. The consequent irrecoverable exclusion of Russia from an organization which does not offer its members economic and financial advantages, or security guarantees, instead mandating important commitments on the part of national governments with respect to the institution’s protection of human rights, the rule of law and democratic principles, seems consistent with the risky and for many undesirable prospect of a different and multipolar international order. ■



## THE PAPER

The Russian Federation’s Expulsion from the Council of Europe and its Legal Implications, by Leonardo Borlini







# Liquidity yesterday, inflation today

*Long before the war in Ukraine, it was the excessively expansionary monetary policy of central banks that had inflamed the rise in prices, explains Franco Bruni in his latest volume for Egea. Going beyond solutions to deal with emergencies, explains the Bocconi Professor Emeritus and Vice-President of ISPI, the Fed and the ECB should tie their own hands with monetary rules to avoid erring again*

by Michele Chicco @

The inflation that is emptying the pockets of Europeans was not just caused by the energy crisis or by the Russian invasion of Ukraine. The events were the matches that ignited the flame, but the fuel had been ready for some time: excess liquidity all over the world, at very low interest rates. To understand the origins of the phenomenon, we need to delve further into the past, even before the Covid-19 pandemic, at look at quantitative easing. This is the perspective offered by **Franco Bruni**, Emeritus at the Bocconi Department of Economics and Vice-President of ISPI, in his latest book (*Oltre le colonne d'Ercole*) published by Egea last month. "In Europe - explains Bruni - there was strong insistence from the ECB in keeping rates negative and quantitative easing abundant in 2017-2018 as well, when growth was already picking up and inflation was fast approaching the 2% target".

Bruni's essay, the author recounts, highlights "the considerable slowness with which monetary policies have tackled price increases, both in the United States and Europe: even when there were clear signs of acceleration in the cost of living, the central banks postponed the rate hikes. Inflation began to rise in 2021, but if in the US the Federal Reserve intervened only months later, in Europe the European Central Bank acted even more slowly". One of the original contributions of the book, he explains, is going through of the minutes of ECB board meetings: "I went to see how the discussions of the directorate were summarized, trying to understand how every time the increase in interest rates was postponed despite inflation already being substantially at 2% and the economy recovering. In 2018 this was sensational: the change in monetary policies was procrastinated with all kinds of excuses, going so far



as to say that the acceleration in prices was due to the shopping for the Easter holidays”.

Abundant criticism of quantitative easing can be found in this work, just like in his much earlier *L'Acqua e la Spugna* (*The Water and the Sponge*), published by Egea thirteen years ago. “Of course, Mario Draghi knows these criticisms well”, says the Bocconi emeritus, who was a fellow student of the former ECB governor and Italian prime minister. The mistake, Bruni explains, “was considering the purchase of government bonds as a sort of permanent monetary policy tool”, a mechanism that made monetary policy “less independent of budgetary policy and a way to make life easy for governments, which issued treasuries knowing someone would buy them. A central bank is made to intervene when needed, but immediately afterwards it must know when to stop: by its nature, monetary policy is a short-term affair because in the long run a central bank must only ensure that inflationary expectations are low and constant”. Instead, especially in Europe, “the accumulation of public securities in the belly of the ECB has become almost structural, discombing the functions of the central bank, and shifting it towards growth objectives that must be pursued through other instruments and policies, thus reducing its independence in reacting to shocks”.

ECB and Fed should tie their own hands to avoid a repetition of the current situation in the future. Bruni suggests that central bankers must “tie their hands” with an array of rules and best practices that prevent them from erring the course. “Unlike many of my colleagues - he explains - I’m not angry at central banks for doing acrobatic moves to stop inflation. But when they have won this battle, they will have to start thinking how to avoid derailing again”. There are two fronts: rules are needed to anchor interest rate movements by limiting abrupt and lasting excesses in one direction or the other, and flexible constraints are needed to limit the possibility of the central bank



## THE BOOK

With his book *Oltre le colonne d'Ercole* (Egea, 2023, 272 pp., €29, in Italian), Franco Bruni reconstructs the Eurozone crisis over the past decade and then focuses on the period 2014-19 with its trade and political tensions, low inflation and little growth. These are the years in which central banks venture into uncharted waters, unorthodox and unregulated, with ultra-expansive policies based mainly on Quantitative Easing, which the FED implemented from 2009 to 2014 and the ECB in the following five years.



accumulating private and especially public assets for too long. “The central bank - explains Bruni - by its very nature must concentrate on regulating the liquidity of the system, granting and withdrawing credit. This involves, from time to time, the buying of treasuries. Securities that, in the balance sheets of central banks, must act as temporary buffers, capable of inflating and deflating rapidly”.

Limits that cannot be set by governments, so as not to threaten the independence of central banks: “They have an interest themselves in acknowledging these constraints and tying their own hands to be more credible in the eyes of markets when they say they are pursuing financial stability and low inflation”. One way, Bruni points out, could for central banks to start communicating together, globally: “In a global

context, there should be the principle of collaboration and coordination between all central banks given that the effects of monetary policies do not remain within the jurisdictions of the Fed or of the ECB but spread around the world. Markets need to know that central banks coordinate their actions; if the latter start making joint announcement, they will have more difficulty in contradicting themselves later”. In short, he concludes, even if central bankers consulted continuously on major decisions, it would be necessary to change their code of conduct in the coming years and “at least some strategic decisions should be coordinated and then made public through a global press release: this would make everything more binding and believable” ■

FRANCO BRUNI  
Emeritus at the Bocconi  
Department of Economics  
and Vice-President of ISPI



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