The towers debt built: how a booming public debt has shaped urban renewal in Milan

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Abstract

While the recent political economy literature on the financialization of built environment has nurtured a veritable paradigm shift in urban studies, something is still missing, namely we have almost no empirical account on how financialization interplays with local governance arrangements. In this paper I claim that a shift towards local taxation may affect the anchoring process of real estate capital, by furthering a bargain context which is unfavorable towards public elites and favourable towards rentiers and developers. To achieve this goal I engage in an, urban political economy driven, empirical observation of Garibaldi Porta Nuova, a renewal megaproject in Milan. I claim that the fiscal reform enacted by Italian governments in the '90s has had two consequences: on one hand has caused a fiscal crisis in the municipality of Milan, on the other hand the reform has favored the birth of progrowth coalition that has successfully seized power both at the regional and at the municipal level. These conditions have influenced throughly the development by favoring an implementation that prioritizes private exploitation of monopoly rent over distribution of public goods.

Introduction

It is widely acknowledged that the financial crisis of 2007 has revealed how much the real estate sector has become globally integrated. By late 2009 it was also clear how much the “subprime” crisis had affected sovereign states in the European context, leading to bloated public debt and to the imposition of austerity measures which, in many cases, manifest at the level of local municipality as drastic spending cuts and a latent fiscal crisis.

While in the past urban political economy disregarded the connection between the financial and real estate sector (Feagin 1987, for a critique) nowadays, as things are radically changed, as we can witness the rise of a new stream of literature that, from a political economy standpoint, explains how the transformations in real estate sector have been affected by the financialization of the economy. Some works focus on how national regulators have tried to reshape the real estate sector in order to boost its liquidity (Gotham 2006, 2009, Wainwright 2009). Others focus on the private sector (Lizieri 2009 for an overview) by explaining how this re-regulation has created a plethora of new financial innovations such as Mortgage Backed Securities (Aalbers 2008, Immergluck 2008) or credit scoring techniques (Straka 2000, Burton et al. 2004). Some authors also claim that these same innovations fueled a veritable process of predatory lending (Squires 2004, Wyly et al. 2009, Anselmi 2013).

Authors also claim that these innovations, on one hand, are shaped by the globalization of real estate markets (Sassen 2009), and have ultimately led, to the staggering growth of a truly global secondary mortgage market. On the other hand, they also claim that significant local peculiarities and path dependencies persist (Aalbers 2009 Aalbers 2011) especially in the primary mortgage market.

Actually this body of literature does a great work by fleshing out, from various perspectives, how the nexus between national polities, financial conglomerates and real estate operators has ultimately led to a financialized reshaping of the real estate sector; however something is still missing. Authors have made it clear that this "financial-real estate complex" works by boosting the liquidity of the secondary mortgage markets; this liquefaction is then used by different actors to accomplish different purposes, in the case of institutional investors is siphoned off as profits, in the case of national public elites this newfound liquidity is crucial to lure footloose capital into financing issues ranking high on the national political agenda (Fox Gotham 2006). At the same time, various authors (cfr. Sassen 2009, Aalbers 2008) have also claimed that this particular setup besides being a spatial fix (Harvey 2001) for a crisis-prone financial capitalism, is also a manifestation of accumulation by dispossession (Harvey 2003) .

What is missing is how this system connects with city (and regional) level political arrangements, namely how this re-regulation affects power relations among the private and the public fractions of the local governance coalition.There is little literature in the US context (Ashton et al 2012, Pacewicz 2012, Kirkpatrick and Smith 2011, Weber 2010, Fainstein 1994) and next to none in the european context (with Memo 2007, Corpataux et al. 2009; Theurillat and Crevoisier 2012 being the only exceptions) so there is clearly a danger of repeating the ethnocentric bias that has hindered Urban Political economy in the past (cfr. Molotch 1999).

What intend to do in this paper is to contribute filling this gap by engaging in a in depth analysis of a single case of large scale urban restructuring in a large Italian metropolis, Milan, which has also been heavily hit by a fiscal crisis. I argue that, while Milan (as other large cities in Italy) has definitely the potential to shape the local anchoring into a spatial progressive agenda, or, at the least, contain the worst manifestations of accumulation by dispossession, local public elites have been unable or unwilling to do so. I also make two additional claims. Firstly I do argue that that the main cause of this dead end has to be found in the effect of the local fiscal crisis upon the local political agenda. Secondly I also claim that the same fiscal crisis has produced a neoliberal re-regulation of urban renewal that is, paradoxically, both debt fueled and debt inducing.

The paper is organized as follows. The first section, after the introduction, deals with some crucial methododological issues: given the fact that one of my goals is trying to prevent an ethnocentric bias, it makes sense dedicating some space in order to clarify how I tried to boost comparability and generalizability of the empirical results. The second and third sections will, respectively, outline how the fiscal crisis came to be, how it has contributed to shape the composition of the public fraction of the regional and metropolitan power elite and how (and why) this new public elite has enforced a neoliberal re-regulation of urban renewal policy. Finally, in the fourth section, I'll demonstrate how this kind of regulation has shaped a prominent flagship project such as Garibaldi Porta Nuova, by boosting private exploitation of monopoly rent and by downplaying the provision of public goods.

Methods: it's all about generalization.

As maximizing comparative value is a crucial goal of this paper the analytical lens I use draws from a intrinsically comparative model such as the "bargain context model" by Kantor and Savitch (2002, 2005, Kantor, Savitch, Vicari 1997). While the work of Kantor and Savitch on urban regimes had a broader focus, the narrower focus of this paper allows for the use of urban rent theory as the main heuristic device backing the model. Urban land, as a commodity, has a two faced nature, namely it is both a prerequisite for the distribution of public goods as well as a precondition for private exploitation of a common resource. While this is clearly idealtypical, however, in real-world implementations this dicothomic condition gives rise to different priorities among the actors involved in the governance coalition. Public elites will seek, for electoral reasons, to maximize the consensus among citizens and, therefore, to preserve the public good nature of urban and periurban land; conversely private elites will try to maximize private earnings. Acknowledging this dichotomy we can achieve a clearer operativization of the dependent variable, analyzing each renewal scheme as a redistribution of the rent increases generated by the project. In Italy public redistribution of rent is provided by both taxes and creation (at developers' expense) of services that meet the needs of the local citizenship.

Our Independent variables will be: tax reform, the subsequent fiscal crisis, and the composition of the public fraction of the local power elite. While each of these two has a direct effect upon the dependent variable, the latter one is also an intervenient variable, as the local power elite has been shaped by the reform of local taxation of as much as it shaped the local impact of it upon renewal projects.

Accurate case selection of both the urban context and the renewal scheme, also allows for greater generalization of the empirical results beyond the single case; in order to do so I have isolated 'market position' as a potentially confounding factor to control for. As we can see from Tab 1 Milan has become a successful post-industrial city as well as the economic core of Italy, as the local GDP shows. These features of the metropolitan area make it very appealing for potential investors as the health of the local economy. Its strategic positioning at the heart of a vast transport network, drives up demand for office space and, as a direct consequence, residential space. This situation is a critical bargaining asset for the public elites as they can demand to the potential developers and investors to pay more taxes, in order to develop a project in a context that has the potential to generate a huge monopoly rent. While I do not have found it necessary to operativize it into a full fledged control variable, another critical factor for choosing Milan as a least likely case is the relative strength of its tax base: as a large and wealthy city Milan has, potentially, a huge and healthy local tax base. This feature, even in a condition of generalized fiscal crisis of local authorities, means that public elites should be not so desperate for cash as to forfeit their role of a distributor of public goods.

Tab 1 Milan- market position

	workforce			demography		accessibility			economy	Residential RE	office market
	% manufacturing	%white collar	% with a degree	density	pop change	car	plane	multimodal	local gdp	rent m2/€	prime rent
Milan	15.7	39.1	20.7	7136.9	-0.07	147	166	161	149,250.0	2,715.00	540
Barcelona	24.1	13.4	25.3	16,453.6	0.98	65	135	127	146,468.9	3,207.00	216
Madrid	18.2	19.1	28.1	5304.4	1.49	54	122	115	186,799.7	2,778.00	294
Naples	19.9	26.9	12.3	8296.1	-0.27	74	126	121	49,674.6	2,007.00	170
Turin	23.6	31.6	13.7	6 699,4	-0.50	126	119	122	65,166.9	1,785.00	150
Rome	16.6	29.1	17.4	2079		87	128	123	133,989.8	2,647.00	486
birmingham	14	21.6	22.7	3806	0.21	129	144	141	33,357.6	2,935.00	378
manchester	6.2	30	26.5	4091.7	2.29	113	143	139	52,384.5	3,137.00	364
copenhagen	7.9	25.3	35.8	5629.7	0.43	55	156	144	38,278.3	2,770.00	270
frakfurt	10.6	40	31	2677.5	0.09	199	187	190	51,109.0	2,300.00	408
munich	18.6	31.3	34.8	4274	0.99	159	140	141	73,487.6	2,500.00	444
amsterdam	7.4	32.7	37.7	4439	0.33	152	175	171	64,121.2	1,921.00	423
rotterdam	13.3	24.7	23.1	2912.5	0.21	164	140	143	51,956.1	971.00	211
stocholm	11.3	33.1	38.7	4307.8	0.69	20	97	89	93,818.3	3,102.00	536

Source :Urban audit 2007 (workforce, demography accessibility and local gdp) Cushman wakefield 2013a 2013b (property market data)

Another critical factor for choosing Milan is the previous (i.e. pre-1992) setup of the local power elite. As a matter of fact the pre-1992 bargain context was strongly “pro public sector” as it shows in selected pieces of literature (Vicari 1990,Molotch and Vicari 1988, Kantor Savitch Vicari 1997, Kantor Savitch 2002). Although the capacity to provide public goods was comparatively low, as the local administration was plagued by corruption, as well as by bureaucratic inefficiencies and chronic infightings, the privileged position of the public elite has been more than sufficient to contain the activism of private actors from the rentier elite or, at the least, to cut it down to a more manageable size.

Regarding project selection instead, the Garibaldi Porta Nuova area is probably the most valuable undeveloped piece of land in all of Italy, no doubt due to its amazing accessibility and central location, so, even at this level, the bargain context should be favorable towards public elites.

For these reason I feel that Milan is a veritable “Least Likely" (Gerring 2006) case, i.e. a case which, according to the control variable, should experience a bargain context which is favorable towards public elites. However the actual value of the dependent variable is incompatible with a public elite hegemony. The methodological strategy backing this kind of selection aims at boosting the generalizability of empirical results. It is a very simple yet a very powerful one: if the hypothesis that local fiscal crisis has overdetermined the agenda and damaged the hegemonic position of the local public elite is confirmed in an “unfavorable” context then, we can safely assume that the same hypothesis is implicitly verified in other “more favorable” contexts.

Regarding data collection I’ve used a total of 20 elite interviews with members of the public elite as well as the analysis of a plethora of documents and quantitative data sources.

Starving the beast, Italian style. Local government reform and fiscal crisis

By analyzing the historical events that shaped local taxation, we can discern three different periods, (roughly 1945-1973, 1973-1992, 1992-2013) featuring two very different setups. Using Istat data we can capture the U shaped trend of fiscal autonomy in local municipalities[1]: in 1967 it was 87% in 1987 it was 27% and, finally, in 2000, it was 65%. We'll focus on the latter two periods, especially upon the transition towards a system based upon local taxation and how this transformation eased the advent of a fiscal crisis of local administrations.

From 1973 till 1992 the financing of local authorities was mainly assured by a grant system. While this system had the advantage of containing jerry-building and land consumption, nevertheless it came under accusation as it was considered a main cause for the growth of public debt, as local governments were not accountable for their spending[2]. In 1992, the Amato government had the imperative need to cut a booming public debt or, else,

[1] Fiscal autonomy its measure of the quota of total revenues coming from local taxation and local non-tax revenues as opposed to the quota coming from grants and transfers . Source Istat “rilevazione consuntiva bilanci enti locali ” 2012

[2] While it's true that calculating grants on past expenditure, as it happened in that period of time, does not help promoting fiscal soundness, to claim that the grant system financing local administrations was the main driver of debt growth is, at best, very inaccurate; as, in the same period (1981), Italian central bank (Banca d'Italia) achieved indipendence from the treasury. This single event may have caused, through a rapid and uncontrollable increase in

Italy wouldn't have met Maastricht criteria on debt, also the situation was critical because Italy had just withdrawed from a pan European exchange rate agreement (Sme). In order to cut down spending, the government enforced a switch towards a locally managed tax system. In 1992 (law 11/1992) and 1993 (law 507/1993) two new taxes were introduced: ICI (Municipal tax on Property) and Tarsu (Municipal tax on waste disposal). Tax value of both ICI and TARSU is calculated as a fraction of the cadastral value of real property owned within the boundaries of a given municipal authority. The adoption of new taxes, however, involved a series of problems, as the financing of debt relief through an indiscriminate increase in tax burden would probably have had serious consequences, in terms of growth as well as in terms of consensus. For these reasons local governments were allowed only a small amount of freedom in setting rates. Essentially, while local authorities were now dependent upon the strength of local tax base, they were not allowed to change, in any significant way, the type or the amount of taxes levied[3]. This new setup was then followed by huge cuts in grants issued by central government, which caused the first crack in local balance sheets, as the new 'local' taxes couldn't substitute lost grants. This series of events led to a paradoxical situation, one in which municipalities depend upon 'local' taxation but they have no way to increase tax levy if need arises, as it shows in ISTAT data on "autonomia impositiva[4]" which was 38% on average in the 90s and it has been, on average 49% in the 10s. This mean that more than half of current expenditure has to be covered with grants (on the amount of which municipalities have no control) or non-tax revenues (on which they have more control but are, by definition, volatile).

However, tax reform is just one of the three pieces of the local government reform project which has arisen in the 90s. The second part of it is the product of a series of centre-left governments in the late 90s (Prodi I and D'Alema I) and consists of a reform of the competencies of local administrations, this project is known as Bassanini Laws, (59/1997, 127/1997, 191/1998, 50/1999) by the name of its author, Mr. Franco Bassanini. This set of laws, enforces a rather strict application of the concept of vertical subsidiarity, which became even stricter when a huge constitutional reform ("Riforma del Titolo V della costituzione" law 3/2001) was promulgated. The new "federal" constitution enforced a complete overhaul of the scalar division of labor among different level of public administration; this meant another huge transfer of competences towards regional and municipal administrations, especially in the areas of health and welfare provisions.

The third element that helped nurture the present fiscal crisis of local administrations is the so-called "internal stability pact" (Patto di stabilità interno): it is a reform which became operational in 1999, as a local implementation of the " European Stability and Growth Pact " imposed by the Maastricht Treaty. According to the internal stability pact, municipalities must contain debt, deficit and spending within specific parameters, predetermined by central government. Failure to comply would result in a capping of current expenditure, and a reduction of economic transfers granted by central government.

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interest rates of treasury bills, a critical buildup of new debt.

[3] Tax reform mandates that, while local administrations are to be financed by the local tax base, both the number of taxes and the tax levy rate is determined by central government. Municipalities can only choose which rate to apply among a minimum and a maximum rate

[4] "Autonomia Impositiva" it's an ISTAT indicator accounting for the fiscal indipendence of local administration. It's calculated as the quota of current expenditure covered by local taxes as opposed to the quota covered by grants and non tax revenues. It's a rather rough estimator of fiscal independence of local administration, underestimating the real size of the problem as it does not take into account the fact that municipalities experience serious limitations when setting tax levy rates.

Given this situation of increased spending and stagnating revenue local municipalities will experience, from 2000 onwards a growing deficit. As a direct consequence of this most unfavorable situation, in the hope to prevent a full fledged default, and to avoid economic sanctions mandated by the Internal Stability Pact, municipalities have developed a rather dangerous coping strategy. On one hand they tried to cope by taking loans either with private banks or with the 'Cassa Depositi e Prestiti'[5]. On the other hand, when this strategy turned sour and led to a sensible growth of local debt[6] they started boosting a particular category of revenues called "entrate extratributarie" (roughly translates into "non tax-revenues") on which they have more control. This particular category includes, somewhat ironically, municipal taxes on new development (Oneri di urbanizzazione) and the sale of real property owned by municipalities. This, subsequently, led to a precarious equilibrium in which debt increase and precarious assets kept the risk of default at bay, at least for the moment. Italian Audit Court is rather explicit about the risks embedded into this coping strategy.

"[cost figures] show operating costs that the current local finance can bear [...] only by exploiting an anomaly: i.e. by financing a large part of the costs, which are certain and long-term, with [inconstant] revenues that, by definition, have opposite characteristics" (own translation, Corte dei Conti 2011)

This situation has lead to a veritable fiscal crisis as dangerous as it is unrecognized, at least by Italian urban sociology. While this crisis affects all municipalities there are two kinds of municipalities which are affected the most: small ones with a weak fiscal base and incapable of generating a sizable amount of oneri di urbanizzazione, or mammoth ones, who can generate a great amount of oneri di urbanizzazione through the unchecked expansion of built environment but which also have to pay for the infrastructures and services needed to support this growth. Milan falls within this second type, as the per-capita debt was the second highest of all Italian municipalities (with Turin being the first one[7]).

Tab 2 debt of municipality of Milan in mln/€

year		**debt**
2011		5495
2010		5670
2009		5166
2008		5197
2007		5194
2006		4939
2005		4909
2004		4717

5 It is an Italian public controlled investment bank, one of its priorities is to provide local administration with loans.

6 In the 2001-2010 timeframe the debt of regional administrations more than doubled (+ 244%) and debt of Municipal administrations grew threefold (+ 338%). Source: own calculations on Italian Central Bank data (Base Informativa pubblica ref:0340)

7 Own calculations on 40 largest provincial capitals. I've decided to not include Rome and Catania, because the current administrations refuses to publish balance sheets. While they are available through a database maintained by the Ministry of Interior, there are still serious doubts about how much balance sheets were "cooked". Source: assorted balance sheets for 2010

Source: balance sheets for the municipality of Milan 2004-2011

While calculating precise estimates about the origin of this debt is a methodological nightmare it is clearly connected with the many infrastructure projects undertook by the Municipality of Milan (especially the fourth metro line). However these projects have become a necessity, when regional and municipal administration decided to compete with other 2nd tier global cities to attract RE investments.

Considering revenues the situation, while officially 'under control', is not very optimistic either. Although Milan can cash in a formidable amount of oneri di urbanizzazione and can also count upon dividends generated by municipally owned companies, this apparent strength masks some crucial weaknesses in local budget administration, as it is mainly based upon two risky strategies. Firstly oneri di urbanizzazione need infrastructure which, in turn, is debt-financed; furthermore, the huge importance of dividends means that an unsatisfactory performance on the part of controlled societies could have very serious repercussions on the financial health of the municipality.

No more friction in the growth machine: CL and the Milanese growth coalition

The restructuring processes of the 90s were the main trigger that helped establish pro growth regimes in Italian municipalities as the turn towards a locally fed tax base created a dire need to boost tax and non-taxation revenues, in order to keep the local budget afloat. This need was met by a new local political elite who could benefit from a higher cohesion, a stronger link with economic actors and a clearly stated 'private led' growth agenda.

Back in the years before 1992 the political elite in Milan was rather fragmented among different interest groups. Although in the 80s the municipality was formally controlled by the PSI (Italian socialist Party) the survival of municipal government was guaranteed by an informal agreement among all relevant political parties. Also, this local agreement was embedded into a national agreement named C.A.F.[8] which, guaranteed the survival of the political arrangements that backed most of the Italian national governments in the 80s. This local pact was enforced upon the local political elite by the national political elite so, even if the Socialists were, formally, in charge they had no way to exert a clear hegemony. We also have to take into account that the both the national and the local PSI were anything but cohesive, as they were fragmented into a multitude of different currents. At the local level currents were often controlled by a single family or even a single individual, and the relations among these microcurrents were anything but cordial, if not downright hostile. The regional government, which, at the time, had just a fraction of the powers that has today, was controlled by Christian Democrats. Also, the local PCI (Italian Communist Party) even if it was informally included into the alliance in a marginal role, in many occasions was able to act as a political counterforce.

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8 CAF was the acronym for a political covenant that has led Italy in the 80s and earliest 90s (1981-1992). It was an informal pact among three political leaders Craxi (PSI) Andreotti and Forlani (DC) and a host of other minor leaders.

The relations with the private elites were a reflection of this system, as they featured a really complex and widespread patronage and corruption system, in which each of the parties would try to push its own developers (in exchange for votes and bribes). Still, in the same time, each of the parties would receive a part of the kickbacks “earned” by other parties. However, this system not just unable to generate a proper growth machine (cfr Vicari 1990) but, paradoxically, it acted as a counterforce, for two reasons. First of all, while no single fraction of the political elite achieved a credible hegemony, the political elite was, as a whole, the hegemonic actor. This supremacy was exercised by “informally taxing[9]” (i.e. requesting bribes) investors and developers. Furthermore the Milanese corruption system was an insider only-system: in order to build in Milan a prospective developer should have had a way to deal with extortion by local politicians, or, otherwise, he would have been bled dry. Typically an hookup with some prominent local or national politician would have been the best way to deal with this situation. This setup is clearly a very relevant disincentive for big investment into the local property sector. So, in the absence of powerful investors or developers the hegemonic role of the public elites was uncontested. In 1992 this system comes to an end: the local public elite was beheaded by corruption trials which, ultimately will cause the dissolution of the PSI, both at the local and at the national level; also they will cause the dooming of the CAF as powerful leaders of both PSI and DC will be trialled for corruption in the following months.

In 1995 Roberto Formigoni, a rather obscure low level leader of a Christian Democrat splinter group (CDU) won the regional elections, due to the support of Forza Italia (the newly founded party of Mr. Silvio Berlusconi), later on he (and his political area) will join Forza Italia. His rule will end in 2013, after four consecutive terms. Mr. Formigoni, was also much more than an obscure political officer, he was the political leader of Comunione e Liberazione[10] a small but highly disciplined and very well connected political and religious movement. One of the central features of CL (at least in its last incarnation) we have to keep in mind, is that it has a very tight relationship with some sectors of the private elite, as many local entrepreneurs (especially in the construction sector) are affiliated with Compagnia delle Opere[11] which is the “economic arm” of the sect. During the 4 terms of Mr. Formigoni CL (backed by Berlusconi) will pursue a highly aggressive strategy, occupying every single relevant political office in regional government, and many highly relevant offices in Provincial and Municipal government. As soon as the regional administration will get additional competences CL will use these newfound powers to support their associates in the local economic elites. Basically, the first goal of the political agenda of CL will be enforcing a veritable neoliberal turn in regional administration, in order to generate profit opportunities for associates.

In 1997, with the election of Mr. Gabriele Albertini as mayor of Milan (FI) (1997-2006), which was followed by Mrs. Letizia Moratti (PDL[12]) (2006-2011), CL won another success as these two administrations were very

9 It's not just a metaphor as, in the opinion of the public prosecutor who has dealt with the corruption trials that , the system was so well organized and widespread to function as a veritable “parallel informal taxation” (cfr . Travaglio, Gomez, and Barbacetto 2012)

10 Comunione e liberazione is the political legacy of Don Luigi Giussani who was a highly influent priest in the 60s. While in the early days CL was somewhat left-ish, as it tried to blend in with the political climate of the times, in subsequent years grew from a small protest movement to a tightly knit lobby. Nowadays it's a mayor political player in both at a local level and at the national level. While the majority of its leaders have been elected with Silvio Berlusconi’s parties it has the support of other parties as well for example in the Partito Democratico Mr. Bersani and Mr. Zanonato are said to be very close to CL .

11 Compagnia delle Opere is an association of entrepreneurs linked to CL. It is actually the economical lobby of the sect its focus is the diffusion of subsidiarity within Lombardy and at the national level.

12 PDL stands for Popolo della Liberta (literally “Freedom People”) which is the new name for Silvio Berlusconi’s Party

friendly towards the movement. In Albertini and Moratti's administrations CL will claim two key offices: urban planning[13] and (after 2009) Budget[14]. Many interviewees also claim that CL in the 1997-2011 timelapse has nominated (or recruited) some key high ranking bureaucrats in both offices.

In a nutshell local administrations reform allows for a radical renewal in the regional and municipal public elite, as private owned resources become more and more significant in order to administer a cash strapped local administration. CL synergy with the local private elite becomes a key asset in order to seize and maintain power at a regional and municipal level.

Furthermore the fiscal crisis works also as a “catalyst” in order to reshape political agendas of other fractions of the local political elite, as long as other player wants to ensure the survival of local administrations they have to play by the rules defined by CL. This, in the field of urban renewal, means that both CL and other groups will try to maximize “oneri di urbanizzazione”: the first ones will do so in order to boost the earnings of their associates, the latter will do so in order to ensure the health of local balance. As a matter of fact, the hegemony of Comunione e Liberazione is not just based on a strict control of all relevant offices in regional administration but, primarily upon the creation of a wide consensus (among public elites as well as among citizenship) on two key ideas. Firstly that the solution for the (then latent) fiscal crisis was to be found in the maximization of “oneri di urbanizzazione” (and, in general, of non-tax earnings), and in privatization of local welfare. Secondly, that this kind of administration was not bound to create another, larger, crisis in the future.

The re-regulation of development

The hegemony of Mr.Formigoni's associates had a serious impact upon the regulatory regime imposed upon renewal schemes. In 1999 Regional government will approve law 9/1999 which, building upon a suggestion from the previous DC administration and upon instructions coming from the central government, introduced the PII (Programmi di Intervento Integrato) which is a new kind of administrative framework allowing private actors to negotiate urban renewal plans with public elites. Subsequently, in 2005, Regional government will introduce new mandatory criteria for urban planning, replacing the previous Piano Regolatore Generale (PRG) with the new Piano di Governo del Terriorio. Both the PII framework and the new planning criteria embedded in the PGT furthered a real revolution in planning as they replaceed the unilateral approval which constituted the basis of the PRG, with a private/public bargaining procedure.

This new “neoliberal” orientation was enthusiastically saluted by the municipality of Milan which, in 1999, will publish a very relevant document which goes by the name “Ricostruire la Grande Milano” (roughly translated as “let's build a bigger Milan”) which, in the following years, will shape the political agenda in the field of urban renewal. This document was compiled by Mr. Marcello Lupi who, at the time was the alderman in charge for the planning office, and is, still today[15], a very relevant CL member.

13 The first CL linked alderman in charge of city planning was Maurizio Lupi. Mr. Lupi's actions were instrumental in unlocking the project back in the 2000-2004 period. Lupi was followed by Mr.Gianni Verga (not a CL affiliate) and by Mr. Carlo Masseroli (CL affiliate).

14 Traditionally in municipal administration the accounting office was chaired by the mayor himself. In 2009 the Moratti administration nominated Mr.Giacomo Beretta (CL affiliate) as the alderman in charge of accounting.

15 As of may 2013 he is the minister of infrastructures and public works for the Letta government

A quote from the document may help clarify the kind of renewal policy that the municipality will follow later on.

“The self-evident inadequacy of the PRG and of its mode of implementation [...] must lead us to reconsider the actual value of government directed urban planning [...] There is a need for a new model, of a cultural as well as a technical change, one that can represent a veritable implementation of subsidiarity in urban planning” (own translation, Comune Di MIlano 2000 pg: 5)

The approval of the new PGT (in 2011) will confirm these orientations by making very relevant concessions to the advantage of local rentiers and developers. The new planning framework will enable them to develop larger buildings. Moreover, due to a rather generous calculation of building rights and their tradability, some non-developer private actors (such as hospitals or the bishopric) will accumulate a large amount of building rights which, later on, they will resell to proper builders, leading to even more developing.

Garibaldi Porta Nuova: towers of debt

The renewal of the garibaldi-repubblica-isola area has always been a flagship project for both Municipal and regional administrations, as public elites wanted badly to associate their names to the unlocking of a project that, since its inception, has been swamped in an hellish quagmire of delays and conflicts with the local population.

The first attempt to renew the urban fabric of the area is dated 1953 as the PRG stated that the area southwest to Central Station and east of Garibaldi Station should become the new Business district (Centro Direzionale). Already at the time the area was highly valuable and accessible, since it was served by railway and two high capacity roads. Later on these infrastructures will be supported by two metro lines, MM2 (1971) and MM4 (2012) and a light urban railway (Passante, 1984).

In the late 50s and early 60s the renewal project that was envisaged with the PRG actually started, but the completion of the project was painfully slow and, eventually doomed to fail, as the municipality was unable to muster the cash needed to finance for the eminent domain acquisition of public space areas. Furthermore it was, unable to manage the PCI-backed protests, coming from the working class neighborhoods of Isola and Garibaldi. As of late 60s all development was halted and, while the renewal project featured the completion of MM2, the failure to complete the project had left behind a huge undeveloped area known as Varesine. In 1978 a variation to the PRG, finally, puts the project on an indefinite hold. However In 1980, the municipal authority tried to unstuck the project without success, as the new renewal plan was successfully challenged by local residents who managed to swamp it with lawsuits. Then the 1980 plan was followed by the 1991 one which, at least, managed to muster some support from the local business community and to complete a proper masterplan. However the new project failed as well, as local residents, once more, managed to swamp it with lawsuits.

However, what really killed the 1991 project was the infighting among the governance coalition, as the public fraction was fragmented and unfocused on a single political agenda and the private fraction was definitely too weak to exert a credible hegemony on the renewal scheme. The ownership of the local area was fragmented into a multitude of owners and no one of these was strong enough to force the others to sell him their plots of land. Moreover, even if the private fraction of the coalition would have managed to stop the infighting it still lacked access to critical resources, which could have been useful, in order to force the public actors into supporting the renewal scheme. On one hand, the potential credit lines were weak and untrustworthy, and, on the other hand, the public fraction didn't have an overwhelming need for cash, subsequently it had no need to develop the area "no matter the costs". The failure of 1991 had cast a bleak outlook upon the future of the area as it was manifest that the local rentiers were clearly unable to reach an agreement, and the public fraction of the governance coalition, while powerful enough to curb the ambitions of local rentiers, was unwilling or uninterested to assume a full fledged leadership role using the project. Furthermore banks and institutional investors were not that interested into financing a project that lacked a clear leadership and was deeply plagued by uncertainty.

The project finally unstuck in 2004 as Manfredi Catella CEO of Hines Italia srl[16] supported by one of the rentiers, Salvatore Ligresti[17], by two very large institutional investors, such as TIAA-CREF and Hines European development fund, and by the various tiers of local administration, managed to buy off almost all of previous rentiers (the only relevant exception being Ligresti himself), managed to neutralize the opposition of local citizenship and, finally, start the development and construction phases.

While Hines and its CEO have taken almost all the credit for the "slaying of the beast" the reality is much more nuanced. Sure Catella and Ligresti had access to critical assets (mainly credit lines and excellent buyers, such as Unicredit, for the Cesar Pelli tower) but eventually it was the radical change in the composition and in the priority of the public elites that managed to solve the problem. The selling agreement was explicitly sponsored by the local authorities, which in one case went so far as waging a legal and bureaucratic warfare against the largest of the previous owners Bruno De MIco[18], who didn't want to sell to Hines (Pagni 2000). Moreso they provided the appropriate legal framework in order to curb the activism of local opposition (as the new planning framework was less sensible to lawsuits[19]).

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[16] Hines Italia it's a local subsidiary of the Texan real estate giant Hines.

[17] Mr. Salvatore Ligresti is probably the single most important rentier in Milan. He has been active in Milan since the early 80s. He has assets in both financial intermediation (he has owned 5% of Mediobanca, and has been elected in Unicredit's board of directors) and real estate (Fondiaria SAI spa). He also is very well connected with almost all relevant political parties: back in the 80s was protected by PSI, nowadays he is very well connected with both CL (through Formigoni) and PDL (through the La Russa family).

[18] Bruno de Mico was a really powerful real estate entrepreneur who was mainly active in the 80s, as he was very closely linked with the left leaning PSI current. Because of these connections, still in the late 80s, he was tasked with the re-development of the Garibaldi Varesine area by Ferrovie dello Stato (Italian national railway company) who, at the time, was controlled by the left fraction of PSI. After being involved in numerous corruption scandals in the early 90s he withdrew from public attention for some time. Mr. De Mico made a comeback in the early 2000s trying to build on the Varesine area. Municipal administration was very hostile to his proposal from the beginning and this happened for various reasons. First of all, after the "fall from grace" of the PSI he was now an outsider with no political connections. Secondly his public image was highly damaged as he was perceived by both citizens and financial institutions as the stereotypical crooked developer. Moreso planning office (then chaired by Mr. Lupi) was worried that he could build so much to actually claim all of the development rights for himself.
In order to expel De Mico planning office waged a legal war against the developer, when this offensive failed as De Mico won judgment in nearly all suits in which he was involved. They had to resort to a much more effective bureaucratic offensive, which was based upon the menace of swamping the project with red tape and paperwork. This second approach actually worked as De Mico sold to Hines in 2006.

[19] More than an interviewee has stated that the action of the public elites was not confined to rewriting the law, according to them, actually local administrations pressured the local courts of justice, in order to ensure that the claims against the project, coming from local citizens and activists were denied.

Project implementation and private exploitation of monopoly rent

The area of Garibaldi Porta Nuova is actually divided into three sub-projects Garibaldi Repubblica, Garibaldi Isola and Garibaldi Varesine. While each of these project has different developers, different arrangers and different general contractors, in each and everyone of them Hines played a crucial role by ensuring a clear leadership and by bringing in TIAA-CREF and Hines European Development Fund as investors.

Garibaldi Repubblica is the most valuable area, hosting the Cesar Pelli Tower (currently pre-let By Unicredit) as the flagship building, the development here is mainly oriented towards office space. Garibaldi Isola and Garibaldi Varesina will feature premium residential space as well as office and commercial space. Both the Regional and the municipal administration have been involved in the project as full fledged developers. The regional government built its new seat in the area (Palazzo Lombardia) and the project costed 570 mln Euros (+48% of what was originally envisaged (Carlucci 2012)). The municipality tried to do the same by building another skyscraper, literally at the other side of the road, but the project was scrapped in 2011 due to excessive costs and due to the opposition of the then minister of Finance Mr. Giulio Tremonti[20] (PDL) which refused to earmark national funds for the project (Montestiroli 2012). Nowadays the developing activity undertook by the municipality is more low-key as it features a requalification of an existing office complex[21].

Simultaneously, private developers built with unheard of densities as 'indice volumetrico[22]' should have been 0,65 as of PRG but the real indexes fot the three branches of the project turned out to be 1,65 for Garibaldi Repubblica 2 for Garibaldi isola and a stunning 2.56 for Garibaldi Varesine[23] .

Concerning vehicular traffic the approach taken by the designers and city planners (private as well as public ones) allows for a dramatic increase in parking space (in the masterplan 5000 car spaces were planned) and this it's bound to have serious repercussions on an area which is already overcrowded with traffic.

The renewal project has also had a dramatic impact upon local housing prices. Residential units within the project were sold for as much as 11.000 €/m2 with the minimum price being 7.500 €/m2 (Bronzo 2011) this type of luxury residential development takes place at the doorstep of a working class neighborhood, which , since the early 2000s has experienced a really fast gentrification process (Semi 2011, Diappi 2009)). While the causes of the gentrification of Isola are legion it's undeniable that “supply side” phenomena had a huge impact on the neighborhood, at the least when it comes to housing prices.

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20 It is significant to note that Mr. Tremonti, even if he comes from the same political party, at the time was a staunch oppositor of CL. That's because he comes from a different current in PDL. His preference for the Lega Nord is well known and, at the time the Lega Nord was waging a political “cold-war” with CL for the hegemony in Lombardy.

21 As this part of the project is still in pre-development phases we still do not know how much it will cost.

22 Indice volumetrico is a coefficient measuring the density of a given development: it is calculated as the volume of the buildings (in m3) divided by the total surface area interested by the development (in m2)

23 Source: PII Garibaldi repubblica, PII Isola, PII Garibaldi Varesine.

Tab 3- increase in property values

	Variation 2002-2012 €/mq
Milan-other[24]	
residential: middle class housing	+ 21,5 %
residential: working class housing	+11,3 %
office space	+ 7,2 %
Isola	
residential: middle class housing	+36,4%
residential: working class housing	+29,7%
office space	+33,3 %

Source: Agenzia del Territorio “rilevazione dei valori immobiliari 2012”

As the data from the Agenzia del Territorio point out, prices in the area have grown significantly, especially for working-class level housing.

Notwithstanding this situation, the quota of subsidized housing planned in the project is totally inadequate, the few units that have been planned (so far none of them has been actually built) will sell for around 3000 €/m2, which is clearly not the kind of expense an Italian working class household can afford. Even if the Municipality of Milan has never effectively protected the right to housing, previous restructuring plans, nevertheless provided for a small quota of subsidized housing (cf. Memo 2007) with affordable prices.

Regarding planning gains[25] the situation will get a bit better but not in any significant way. A sale of the plots of lands owned by the Municipality will bring a significant amount of cash into municipal coffers (roughly 100 mlns euro) but that's (along with the new metro station) pretty much the only public benefit coming out of this project. All future revenues coming of taxation of the development scheme have been earmarked for reinvestment into amenities linked with the project, such as walkways linking commercial areas and promenades or social spaces such as the Fondazione Catella the “casa della memoria” or the “stecchetta”. While all these spaces contribute to the already lively cultural life of the neighborhood, they are all features that are bound to add more value to the project in itself (who can achieve greater exploitation of the monopoly rent by cashing in positive “ social externalities” from the neighborhood) than to the neighborhood that, as a whole, could have benefited from a greater quota (and a lower price for it) of subsidized housing and from the strengthening of welfare services in

24 Given that in Milan property prices decrease with distance from the center. I have compared Isola with others neighborhoods which are at the same distance from city center.

25 Italian planning laws require that developers, once they start a given projects, should pay a onetime tax to local municipality. The amount due is calculated as a fraction of the total value of the development scheme can be provided either in money or in kind (i.e. by constructing public use amenities)

the area. Actually a Kindergarten was planned and, according to SICET[26] was badly needed. However this particular building was scrapped because all of the money earned with oneri di urbanizzazione was spent on other services and amenities.

Conclusion

Reviewing results we can say that, in Milan, the kind of anchoring experienced by the new financialized real estate capital was significantly influenced by the fiscal crisis caused by state restructuring and tax reform. On one hand, state restructuring processes and tax reform, which begun in 1992 have actually favored the formation of a pro-rentier coalition led by CL as, through the mediation of CL, regional and municipal governments could benefit from a tighter relation with local capitalists. Moreover, while this kind of relation is essential for a local government wanting to outsource welfare services for balance reasons, it's also critical in order to stimulate local construction sector. On the other hand fiscal crisis has offered the perfect justification for a new city boosting agenda as, revenues linked to city growth have become critical in order to postpone default. However the approach used by the municipality turned out to be just a short term fix, as the municipality was forced to borrow more money in order to provide new renewal schemes with critical infrastructures. When the deficit coming from new borrowings exceeded tax returns, the fiscal crisis manifested in full glory, with a spectacular increase of local debt. The other tangible result of this pro-private regulation was the absence of whatsoever form of social rent redistribution as Garibaldi Porta Nuova demonstrates. This particular result is better understood as an interplay of state restructuring and of the financialization of the property sector. Namely it is caused by two factors. On one hand the liquefaction of real estate capital means more competition among developers for increasing returns on investment, this also means that, in order to achieve better results, a through exploitation of monopoly rent is needed. On the other hand to achieve this goal, a pro private regulation is needed. As the Municipality of Milan was weakened by cuts and cash strapped it was in no condition to steer renewal projects into a pro-redistribution implementation.

It's critical to repeat that the literature on the financialization of the property sector has opened a whole new valuable paradigm for urban studies. However, in order to understand how the processes of financialization impact upon the “right to the city” (Harvey 2008) it is critical to sketch out how these interact with local governments and, possibly fuel a reshaping of the political agenda. This paper provides a first account of local anchoring of financialized capital under certain conditions that are believed to be widespread, at least to most Italian municipalities.

Anyhow there's still a lot of ground to cover. Firstly there is to establish if, and how, the findings of this work apply to non-Italian municipalities because, even if the analytical frame is built upon a model that is “comparative by design” it still requires a bit of fine tuning in order to be “fully portable”. Secondly, even in the case of Milan there is still the need to investigate in detail how city boosting policies relate to public debt through infrastructure provision. This is a two-faced dilemma because, on one hand there is a need to come up with more systematic methodological tools, and balance sheet analysis can be one way to solve this dilemma. On the other hand, there is an urgent need to investigate whether and how new forms of infrastructure financing (project finance

26 SICET is a grassroots group concerned with right to housing.

and other forms of PPPs) interact with the need to curb debt and deficit because, to put it bluntly there is no guarantee that they help contain it as there is journalistic and technical evidence that this may not be the case(Cicconi 2004).

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