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State financialization: permanent austerity, financialized real estate, and the politics of public assets in Italy

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Inspired by Streeck's consolidation state theory, this paper develops a theoretical framework of the restructuring of the state in late-stage financialized capitalism. It observes how in Italy, an emblematic consolidation state, the use of public real estate investment funds supports assetization, that is how state properties are gradually transformed into financial assets via multi-level and multi-sector politics of public assets. As it explores the institutional and material rearrangements underpinning the restructuring of the Italian state, the paper shows how permanent austerity and financialization mutually reinforce each other, with the result that state organizations internalize a financial investor's viewpoint, while statecraft increasingly rely on financial actors, instruments and capital. The conclusion discusses how this theoretical framework can be extended beyond Italy and to other public assets.

Keywords: financialization; austerity; assetization; state; real estate; Italy

In that year, the state was approaching the 3% deficit limit. It had to generate cash by December 31 to avoid infringing EU regulations; and thus we created *Fondo Immobili Pubblici* because it was the fastest way of selling something. (Director, State Public Property Agency, Italian Ministry of Economy and Finance)

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Introduction

This paper questions the restructuring of the state in late-stage capitalism by exploring the mutual interactions between austerity and state financialization. It builds on Streeck's consolidation state (CS) theory (2014a), which allows to conceptualize the interactions between: i) a political-economic condition of 'permanent austerity' (Pierson, 2002) and, ii) the restructuring of the state resulting from its increased dependence on financial markets via sovereign debt. CS theory thus contributes to the literature on state financialization by foregrounding the role of austerity. However, its monolithic and truncated conception of the state leads to an exogenous understanding of state financialization and a neglect of the role of state material arrangements in this process. We dialogue with the emerging literature on assetization to further develop CS theory's contribution to understanding state financialization. By underlining the transformation of the state's *things* —here public properties— into assets, assetization allows us to explore how state financialization unfolds. We complement this literature by stressing the key importance of the *politics of public assets*, and how individuals and organizations of the state internalize a financial investor's viewpoint when dealing with state's material basis, made up of buildings and land.

The heuristic value of this theoretical framework is explored in Italy, an emblematic European consolidation state, through a diachronic analysis of a financializing instrument, namely public real estate investment funds (public REIFs from here on). Created in the 2000s, they have been employed by various organisations of the Italian state to manage a growing and evermore diversified array of public properties as financial assets.

The first section discusses the contribution and limits of consolidation state theory to explain state financialization. The second develops the concept of *politics of*

public assets as a complement to extent literature on assetization, and a basis for a qualitative case study. The following sections examine two decades of public REIFs expansion in Italy and how the financialization of the real estate sector resulted in the internalization of financial rationales and calculations within the Italian state.

State financialization: from the consolidation state to the politics of public assets

Political economy has analysed how capitalist democracies have entered a phase of 'permanent austerity' since the 1970s (Pierson, 2002). Following this perspective, Streeck (2014b) observes how the 'fiscal state' evolved into a 'debt state' as it resorted to bond markets to maintain welfare programs, and then bailed-out financial institutions in 2008. Placed under the scrutiny of financial markets, governments adopted austerity programs. The 'debt state' gives way to a 'consolidation state' (CS) where debt repayments are no longer used to fund state expenditure, but becomes a policy priority in their own right. In other words, the state undergoes a thorough *restructuring* related to the rise of financial markets.

The 'politics of public debts' (2014b) adopted to appease investors have led to cuts in discretionary – often welfare-related – public spending. Far from the supposedly time-limited adjustment programs depicted by orthodox economic theory, austerity becomes a *lasting* condition: it fuels the rise of financial markets by offering public debts to investors while the resulting fiscal discipline means still more austerity measures. CS theory thus *dynamically* conceptualizes the relationship between permanent austerity and state financialization.

States plays a dual role in this process of financialization: first as regulator, paving the way for the expansion of financial markets thanks to its regulatory power and tax policies; second, as asset provider, enlarging the stock of financial securities via

the bond market or the privatization of public property. Resultantly, the state itself is restructured because its policy priorities and calculative practices evolve in line with those of financial market institutions (Chiapello 2015). Financialization *by* the state thus goes hand in hand with financialization *of* the state (ibid).

Recent meta-studies adopting a typological perspective have illustrated that public debt is but one path to state financialization (Fastenrath et al. 2017). Other paths cover various sectors, levels, and administrations: from monetary policies to fiscal revenue and spending policies (Karwowski and Centurion-Vicencio 2018), as well as elements of the welfare state, financial regulation and sovereignty (Hendkrise and Lagna 2017). However, these studies tend to treat austerity as a backdrop rather than as a driving process whereas, although it does not explicitly use the concept of state financialization, CS theory makes up for this by considering the systemic interactions and causality between a process of restructuring associated to financial markets (i.e. state financialization) and austerity conceived of as a lasting political economic condition. Yet, because CS theory is more concerned with how the precedence given to financial markets feeds people's dissatisfaction with democracy, it does not investigate the rearrangements occurring within the state itself. To do this, two major limitations need to be overcome.

Firstly, CS theory is based on a *monolithic conception* of the state. It does not integrate the sectorial diversity of the state and how it is best conceived as 'a set of strategic action fields in which actors engage in political strategic action' and whose positions result from power relationships (Fligstein & McAdam, 2012, p. 70). Furthermore, and although research into subnational dynamics is encouraged by Streeck, by focusing on mostly upper-scalar institutions (Nation-states, the EU), the

theory, as most political economy accounts, misses multi-level dynamics, especially the role of local government. This has two detrimental effects.

Because little or no analysis is provided of political, sectorial or intranational processes, CS theory does not account for the uneven and variegated character of the consolidation state. This contrasts with studies like Lagna's analysis of municipal bonds in Italy (2015) that revealed sectorial and multilevel dynamics in state financialization processes. This invites us to explore the *politics* of public assets, i.e. the strategies, programs and activities that state organizations deploy to manage their properties and liabilities as capitalized future revenues, as well as the negotiations and conflicts that surround these activities.

This monolithic conception also hides the *internal drivers* of state financialization. In CS theory, state restructuring is an outcome of financial market discipline. Change is exogeneous and pre-scripted by power asymmetries favorable to financial institutions. This leads to the 'colonisation' of the state as financial market valuation techniques, investment criteria and rationales are adopted, and eventually embed the financial investor viewpoint *into* the state itself (Chiapello, 2015). This masks the *active* role played by state organizations that use financial markets to strategically gain more room for manoeuvre, often in light of austerity pressure and/or to strengthen their own positions (see Lemoine 2016 on the role of high-ranking civil servants in the French Treasury department in converting sovereign debt into financial securities, or Braun et al. 2018 on market-based finance). Similarly, the spread of financial products to local government – for instance interest rate SWAPs in Italy (Lagna, 2015) – reflect local authorities' strategic and political responses to devolved austerity and attempts to preserve fiscal autonomy.

Beyond describing the variegations of the consolidation state, the heuristic input of the concept of the politics of public assets allows us to conceptualize the *making* of the consolidation state. It emphasizes the interplay between exogeneous, push factors, in the form of financial market discipline, and pull forces such as multi-level competition in state strategic action fields. It reveals how they lead to the active internalization of — and not passive colonization by — categories and formats of financial markets within and by state organizations.

A second limitation of CS theory is its focus on *debt*, thus neglecting the role of the state as owner. This *truncated conception* masks how the combination of push/pull factors is tied to sector-specific features, as is the case with real estate. Surely, CS theory acknowledges that the privatization of public property is both the embodiment and result of austerity policies. However, it does not question the relationship between these disposals and how financialized capitalism has spread to real estate and infrastructure markets. This prevents a complete understanding of how state financialization relates to the development of a fully-fledged 'asset assembly line' (Weber, 2015), and how, as a result, precedence is given to the investment valuation techniques and criteria of the real estate asset management industry that works on behalf of institutional investors. Without questioning the sector-specific 'mediation' that led to the financialization of the built environment (Halbert and Attuyer, 2016), we cannot understand how or why some state entities are compelled to adopt the cognitive, discursive and material practices of asset managers when they sell off public properties. This echoes research highlighting the 'financialization of statecraft' (Pike et al. 2019) as urban infrastructure is converted into income streams traded on financial markets.

This truncated conception also means that CS theory is less able to analyze the *depth* of state restructuring, and neglects how the power of the state over its territories

and citizens is itself restructured. With their sovereign, welfare, logistical and industrial functions, public properties constitute the material basis from which the state deploys its activities and exerts its power. However, by considering public properties as historically accumulated assets that can now be monetized to repay a debt contracted on financial markets, austerity measures redefine the state as owner. With the transformation of its tangible properties into financial securities, its material basis now reflects a financial investor viewpoint. Conflicts may thus arise regarding its perimeters (what it owns), the legal-financial arrangements between the state and 'its things' (how these are owned), and how, by whom and for whom, those things are managed, and for what purpose.

Exploring the assetization of public properties

To overcome the limitations of CS theory, we adopt a finer-grain 'financialization analytics' (Ouma, 2016) by studying the politics of public assets. Our starting point is to recognize that state financialization unfolds through the transformation of *things* into financial assets — debts in Streeck's analysis, tangible properties in our case. This is what the literature increasingly describes as *assetization*.

The concept of asset has been central to early economic sociology writings (see Birch & Muniesa, 2020, p. 7-11). Scholars are currently revisiting it to cast light on the *processes* by which things are transformed into assets. Assets are 'something that can be owned or controlled, traded, and capitalized as a revenue stream, often involving the valuation of discounted future earnings in the present' (ibid., p. 2). They proliferate through 'rentiership', which is based on 'the extraction of value through the ownership and control of an asset, which usually entails limiting access to it' (ibid., p. 2). Valuation practices are key here (Muniesa et al., 2017; see also Langley et al., 2021 on climate finance): they result in social actors adopting the viewpoint of a financial investor (Birch and Muniesa 2020).

However, the concept of assetization may be refined for our purpose. While their definition focuses on 'things', Birch (2017) and Birch and Muniesa's (2020) are overly concerned with intangible assets, with the result that assetization is considered as a 'narrative transformation' (ibid., p. 18). In our case, it is the *tangible* assets of public organizations that are transformed by political and material — not only narrative— assetization practices. Furthermore, beyond valuation practices, these operations involve power relations – what Birch and Muniesa term 'earning power'. Nitzan and Bichler (2009) go further in treating assetization as a *source* of social power. Contrasting with Birch and Muniesa's attempt to define techno-scientific capitalism as the emergent form of capitalism, they conceive of it more generally as the bedrock of finance-dominated capitalism (see also Golka 2021). This conception is expanded by Langley (2020), who calls for an inflexion in the financialized capitalism research agenda to allow more room for the study of 'assetization' *per se*.

Assetization allows us to go beyond narratives of 'epochal shifts' and to analyse late-stage capitalism's 'operative dimension' (Ouma, 2016). This requires exploring the multi-level and sector-specific institutional and material rearrangements by which the state turns its 'things' into financial assets. Pioneering works on these politics of public assets are of interest. However, unlike CS theory, they mention only in passing how this relates to 'the pursuit of austerity policies' or 'fiscal stress' (respectively Birch and Siemiatycki, 2016; Pike et al., 2019).

With this in mind, we set out to explore the politics that lead to the assetization of public properties in Italy. This requires the use of in-depth case study methods as they are best suited to understand the actors, repertoires, and conflicting practices that give form to large-scale social processes such as state financialization. More precisely, we adopt a diachronic institutional approach and examine the changing practices of

state and non-state organizations, of professional groups and individuals involved in the assetization of public properties, as well as the interactions between them. We analyze the politics of their competition and alliances, that is how they seek to strengthen their positions in the strategic action field of public real estate (i.e. at the intersection of the state and of the real estate sector), and consequently, how they define the ways public properties should be managed, and by whom.

This is operationalized by systematically looking, as done in the three empirical sections, at the sectors and levels of organizations involved, at their calculative practices, at the institutional formats they use to manage properties, and at the origins of the capital they mobilise (especially between private vs. state financial institutions). We also analyse the scope of the things that are turned into assets and how their users (here, public administrations) are associated through coercion and enrolment.

The organizations involved in this emerging public real estate field include those state bodies directly in charge of managing public properties (specialized agencies, public pension funds and bank subsidiaries). It also comprises the different government departments (police, army, finance, health, social security…) and public companies that locate their activities in these properties and, for that reason, have their own views on how to manage them. It integrates regional and local authorities, which play a key role in the negotiations surrounding the redevelopment of public real estate, due both to their regulatory powers over urban planning and because they are the main public real estate owner in aggregate terms.

This organizational analysis is rounded out by a study of the calculative practices and institutional formats that constitute assetization. Professional groups are key to deploying financializing instruments (Ashton et al., 2016; Pacewicz, 2013). A crucial aspect in this regard is analyzing how the practices and rationales of investment

professionals from the private financialized real estate sector are internalized in the treatment of public properties and the resulting potential conflicts.

Consequently, we engaged in an analysis of Italian public real estate investment funds. Italy constitutes an emblematic case to explore the restructuring of the consolidation state. After 'Unification' in 1861, the growth of public infrastructure was key to strengthening the nation-state (Berstein & Milza, 1995, p. 89) and extending its authority to the territories. Similarly, the welfare state relied on investment in public facilities, especially after World War II. However, the 'maturation' of this regime has led to strong adjustment pressure since the 1980s (Pierson, 2002).

This has entailed the adoption of market-oriented reforms along with austerity measures. This was driven by conditions for joining the EU monetary union and by the subsequent Maastricht Treaty criteria. National politics also played a role: anti-corruption investigations targeting high-level politicians (*Mani Pulite* operation) 'created a power vacuum that enabled technocrats to capture the executive and to unleash their neoliberal reforms in the name of [EU] membership' (Lagna, 2016, p.174), and resulted in 'an alliance of pro-market technocrats and centre-left politicians (that) exploited innovative financial methods such as derivatives contracts (…) to comply with EMU admission criteria' (ibid., p.188).

This resulted in budgetary adjustments, including massive sales of publicly-owned firms in the early 1990s (Curwen, 1993) as well as cuts and privatisations in welfare programmes and agencies (Ferrera & Gualmini, 2004). This was not enough to curb the high level of state debt. Successive governments have thus remained under close scrutiny by EU institutions and rating agencies, and have continuously adopted measures to dispose of public properties *en masse*.

This constitutes the background for the creation of public REIFs in 2001 which deliberately extended the institutional arrangements in use in the private sector to public properties. REIFs are thus a 'typical case' (Gerring, 2007, pp. 91-97) of a legal-financial arrangement which 'entangles' the state —via its public properties — and financial markets —via their extension to the built environment (on entanglement, see Ashton et al., 2016). As such, they allow us to analyze the transformation of the ways in which state organizations belonging to various levels and policy sectors relate to their material basis against a condition of austerity policies and financialization of real estate.

Within this perspective, our research protocol sought to analyse the origins and development of public REIFs, the changes in their institutional formats and their day-to-day workings. The data collection was therefore intended to diachronically map the main actors in the public real estate field, the public administration and public properties concerned (types of buildings and sites, locations), the shareholders and the end-buyers of the public properties, the basis of remuneration of invested capital, the valuation practices used by asset management companies and the real estate services firms involved.

This called for three parallel analyses. Firstly, we studied the changes in the regulatory environment, including the rationales of the promoters of public REIFs. The sources used were legislative documents, fund regulations and the specialized and national press. Secondly, we documented the content of invested portfolios. We ran basic statistical analyses on the number of funds, properties and value of assets under management. We relied on data provided by asset management companies (regulatory documentation, financial reports) and public administrations such as the Ministry of Economy and Finance. Thirdly, and using a reputational method, one of the authors conducted 20 semi-structured interviews with 26 people, almost-all recorded and

accompanied by note-taking and partly transcribed. Held between January 2017 and May 2018 at their Milanese and Roman workplaces, interviewees were mostly men (only 4 women), reflecting the gender bias in the industry. This included public real estate providers (e.g. the real estate departments of welfare agencies and of local governments), CEOs and asset managers of the three main public REIFs, supervisors such as senior civil servants working for *Agenzia del Demanio* and the Treasury, and end-buyers (see Appendix 1). The interviews were aimed at gathering information on daily practices rather than at documenting the values or worldviews of actors. The questions sought to document: the main components of financial arrangements over time; valuation procedures; the professional skills and knowledge involved; the interactions between professionals working in the real estate investment industry and government agencies, with a focus on the resources mobilized (financial, professional, political). This provided an understanding of portfolio selection criteria and existing power relations as reflected in the ability to negotiate the restructuring of the state's tangible properties. We also gathered quantitative data on most existing funds. We paid particular attention to three main funds since they are emblematic of the gradual internalisation of assetization practices and of their politics, as demonstrates the three following chronological sections.

Early experiments: imitating private real estate investment funds

The rise of public REIFs was preceded by central state level organizational transformations triggered by the Ministry of Economy and Finance in a context of fiscal pressure. As part of a reform of its fiscal divisions in 1999, the *Agenzia del Demanio* became the property agency in charge of the valuation and disposal of public real estate. In 2003, it evolved from being a ministerial department into a state-owned company (*Ente Pubblico Economico*). The first director of the agency explained to us how she

wanted to shake up bureaucratic mindsets by replacing two-thirds of the civil servants with the expertise of real estate professionals hired on private contracts (Interview 11).

As debt surged in the 1990s, large-scale disposals of public real estate had already been experimented. However, with increased fiscal constraints, the regulatory environment was thoroughly transformed when law n°410-2001 introduced 'urgent provisions concerning the privatization and enhancement of public real estate assets and the development of real estate investment funds'. It created two new institutional forms depending on the type of property: companies dedicated to the securitization of public housing (*Società Cartolarizzazione Immobili Pubblici*), and real estate investment funds (*fondi communi di investimento immobiliare*) for non-residential properties. This institutionalised conduits for large-scale disposals of public properties to investors, thus further entangling the Italian state with financial markets.

It did so by imitating *private* REIFs, an instrument first designed in 1960 in the U.S. and created by law in 1994, and further enhanced by a decree in 1998, making Italy a forerunner in Europe. REIFs are designed as collective investment schemes where an asset management company, known as an '*SGR'* (*Società di Gestione del Risparmio*), collects capital from institutional and alternative investors inter alia. Like their private sector counterparts, *public* REIFs are granted a series of tax exemptions provided that profits are distributed to shareholders. These mostly accrue in the form of rental income or capital gains when properties are sold. The REIF is thus an institutional format for rentiership as it enables rent to be extracted for shareholders who hold monopoly rights over properties and benefit from an advantageous fiscal and financial legal framework.

The Ministry of Economy and Finance and *Agenzia del Demanio* played a decisive role in deploying these instruments. Under pressure from them, seven social

security institutions listed almost 100,000 social housing units in 2001 and 2002 for a total of €10 billion. Sub-national governments followed suit (Venice in 2005, the Liguria Region in 2007, and Turin in 2009).

The same year, non-residential properties shared a similar fate with the first public REIF, known as the Alpha Fund, launched by the National Institute of Social Welfare and Assistance for Public Administration Employees (INAIL). It was relatively small (€260 million in assets under management) and comprised 26 mostly large, rented commercial properties located in top-end markets, especially in Rome. Fund management was entrusted to the asset management subsidiary common to the welfare agency involved and a private Italian investment bank active in the privatization of public firms in the 1990s. The Alpha Fund was present in the financial markets in two ways: it was listed on the Italian stock exchange and raised debt on the bond market.

In 2003, the Lazio Region set up the second public REIF, again based around the sale of a welfare agency's properties (namely the regional health agency). The asset management company retained was the Italian subsidiary of BNP Paribas Real Estate, a leading investment bank. With these first two funds, public real estate was thus transformed into financial assets via *private* asset management companies. This expanded the investable universe for financial market investors. Along with the Ministry of Economy and Finance's consolidation policies driving the disposal of public properties, the financialization of the real estate investment sector was thus an important vector: previous private REIFs provided the know-how, format and calculative practices for the securitization of state properties while the capital needed to purchase public properties came from financial markets.

The €3.3 billion *FIP* fund (*Fondo Immobili Pubblici*) launched in 2004 by the Ministry of Economy and Finance replicated the previous experiments, but on a very

different scale. It explicitly resulted from the Italian government's pressing need to reduce its deficit and comply with the Maastricht Treaty as attested by the quotation at the inception of this paper.

The lack of internal resources led the Ministry to hurriedly call in organizations active in the financialized real estate field (Interview 11). For this new fund, private agencies used the valuation practices and institutional formats available to them. This paved the way for the financial markets' investment convention, notably in terms of selecting the tangible state properties to be transformed into financial assets.

For this, the Italian Treasury had recourse to external expertise, starting with the investment banks (Barclays Capital, Lehman Brothers, Royal Bank of Scotland and Banca IMI) who sourced institutional investors and helped select the asset management company. They retained InvestiRe SGR, a subsidiary of a listed investment bank that had already set up two private REIFs. Its founder and CEO was a seasoned professional having worked with Deutsche Bank and Fiat (Interview 02). Other financial, legal and real estate intermediaries were brought into the fund, including multinational service providers already active in financialized Italian commercial real estate markets: Boston-based State Street Bank as custodian bank; the global valuation specialist American Appraisal; the global real estate services group CBRE for day-to-day property valuation; the real estate arms of the Italian insurer Generali and of the listed asset management company Beni Stabili for property and building management; international consultancy firms to provide property brokerage services. They came armed with financializing techniques, starting with the discounted cash flow method used to value the 394 buildings in the portfolio.

Furthermore, the disposal of public properties was based on capital raised on the markets, firstly via the sale of 12,000 shares each worth €100,000 to domestic and

international institutional investors. The remainder was provided by a loan from a pool of banks. It was soon turned into mortgage-backed securities marketed to institutional investors seeking sovereign bond-like titles.

To match the maturity of the bonds, public administrations became tenants locked into renewable 9-year leases. Transformed into a *de facto* property manager, *Agenzia del Demanio* collected rents from various public administrations and paid out the €270 million billed by the fund as rental income. This annual cash flow covered debt servicing and payment of dividends. Shareholder payments soon also included profits on disposal of the buildings.

As a result, the buildings placed in the *FIP* fund reflected institutional investors' criteria. Although it was the Ministry of Economy and Finance that pressured other central fiscal and welfare agencies (e.g. *Guardia di Finanza, Agenzia del Territorio*, social security institutions) to sell the non-residential buildings to *FIP*, the Ministry's haste and lack of expertise led it to rely on the appraisal firm, the banks providing the loan and the asset management company itself who became a key player in the politics of public assets. For example, InvestiRe SGR vetoed several properties to keep the portfolio compatible with investor criteria (Interview 05).

This limited the geographical scope of the public properties transformed into financial assets in the 2000s, with a clear bias for the main Italian cities: 42% of the net asset value (NAV) was concentrated in the North and 40% in the Centre of Italy (mostly in Rome). Similarly, priority was given to property located in central areas and business districts and exclusively to large, stand-alone ('*cielo-terra'*) non-residential buildings (76 buildings accounted for 80% of total NAV). Most of the buildings sold by the fund were acquired by institutional investors themselves: 60% of the revenues generated by the sales between 2005 and 2016 came from international institutional investors, other

asset management companies and hedge funds. As they also acquired the biggest and most expensive buildings, the 'filtering' of public properties to reflect financial investor criteria during the creation of the fund was thus reinforced with each sale.

This highlights how the politics of public assets go beyond the use of calculative practices (here imported from financial markets) that interests STS-inspired literature on assetization, and are more generally a disputed process – in this case, between welfare and fiscal agencies, the Ministry of Economy and Finance, asset management companies and institutional investors – that transforms the material basis of the state. The following funds gradually extended assetization to other types of locations and properties: university campuses (*Fondo Umbria* sponsored by Umbria Province and other institutions), housing or parking lots (Milano I and II). However, this feature only really gained momentum in the 2010s.

Internalizing public real estate investment funds within state organizations

Public REIFs kept on growing, totalling more than €7 billion in assets under management in 2019 (see figure 1). In the 2010s however, the features of assetization of public properties changed, leading to the financialization not only of (former) public properties sold to institutional investors, but of the state itself. Private asset management companies and financial investor capital were replaced respectively by state-owned organizations and public capital, resulting in the *internalization* of calculative techniques and instruments within state administrations.

This process was begun by Fondo Investimenti per la Valorizzazione on which this section focuses. It was officially launched in 2013 by CDP Investimenti SGR, a subsidiary of the *public* investment bank Cassa Depositi e Prestiti (or simply *Cassa*), itself controlled by the Ministry of Economy and Finance. The fund was divided into two 'compartments'. While the first one, known as 'Plus', was relatively small (€100

million) and acquired only a few public properties that were quickly resold, the second one, the 'Extra' compartment, had a targeted investment of €1.08 billion. In 2017, it had acquired 65 assets for €710 million. However – and unlike the funds of the 2000s – it did not seek to attract private institutional investors. Instead, the fund was fully subscribed by the *Cassa* itself. This reflects how the internalization of the financial, organisational, and technical features of REIFs was a shared and explicit aim of both the Ministry of Economy and Finance and the public bank.

[figure 1 and table 1 here]

The fund was designed in the post-2008 financial environment. The bail-out of Italian banks had then resulted in a big increase in the national debt and heightened budgetary pressure. International investors had grown more cautious. This proved an opportunity for the *Cassa* to maximize the return on its own cash reserve with the anticipated 7% per annum return over 30 years promised by the FIV. This was also consistent with *Cassa*'s industrial strategy of increasing its involvement in the real estate sector. After the initial attempt in 2002 to create a subsidiary specialized in the sale of public real estate, the process was re-initiated with the creation in 2009 of a dedicated *SGR* (asset management company), CDP Investimenti, in which *Cassa* took a 70% stake. Its CEO was a senior economist with 13 years' experience in private equity and real estate at US investment bank JP Morgan. In 2009-11, he spearheaded CDP Investimenti's foray in funds as varied as smart cities, tourism, and social housing, thus tactically tapping into national government policy priorities as they emerged. The Fondo Investimenti per la Valorizzazione was a further opportunity: public REIFs were a promising market as local authorities increasingly faced budgetary pressures, especially with reduced central state grants due to the sovereign debt crisis (Cepiku *et al.*, 2016, p. 224). The idea was to bring local authorities on board, as explained to us by

the former founder and CEO of InvestiRe SGR who managed the 2004 FIP, and who then joined CDP Immobiliare with the stated aim of 'helping the state' (Interview 02, authors' translations for all interview extracts).

To achieve this, CDP Investimenti moved in two directions. Firstly, it entrusted the management of its Fondo Investimenti per la Valorizzazione to an engineer who had previously worked at Hines, a prominent US-based asset management company. With him at the helm, the Fund's management was overseen by professionals who imported practices, organisational formats and categories from the financial sector to Cassa's real estate and investment subsidiaries.

Secondly, CDP Investimenti internalized most day-to-day real estate service operations. Assisted by CDP Immobiliare, these included the sourcing and appraisal of properties and feasibility studies to enhance their potential value. The two subsidiaries also sought to educate public landowners (especially local ones). The '*Valorizzazione Online'* platform provided 'due diligence services' to assist public administrations in preparing their properties for sale, and a dedicated website, 'Patrimonio Pubblico Italia' (http://www.patrimoniopubblicoitalia.it/en), showcased these properties to potential buyers (Interview 09). CDP Investimenti further incentivized local governments: if a minimal guaranteed selling price estimated using the discounted cash flow technique was not reached during public auctions, CDP Investimenti committed to buying the property for Fondo Investimenti per la Valorizzazione. In other words, although public providers were still being pressured by the Ministry of Economy and Finance, local administrations were now also brought on board as one of the Ministry's subsidiaries assisted them using market-based capitalization techniques. Or, as a Cassa official explains:

> The [EU] stability pact meant that the central state could no longer finance local authorities. (…) So we said: 'Dear local authorities, please behave reasonably: get us to analyse your properties and deploy a process to identify, assess and change their use in order to attract private interests and then sell them off. (…) '. So the local authorities – especially the big ones, Milan, Rome, Turin – started compiling an inventory of their portfolios with us to see what properties could be freed up and what could be sold. (Interview 02)

However, this institutionalisation of a public real estate field was not a smooth ride. Firstly, local administrations proved reluctant to use the online platform. CDP investimenti and some local governments bypassed the platform and engaged in direct negotiations — highlighting the importance of political mediation whenever public properties are involved. Conflicts at central level also arose: the same former CEO of InvestiRe who claims to have 'invented' the *Cassa*'s Fondo Investimenti per la Valorizzazione noisily resigned because, in an attempt to milk the fund to reduce its annual deficit, the Ministry of Economy and Finance compelled CDP Investimenti to acquire buildings and land to be redeveloped, a type of property usually considered as too risky by the financialized real estate industry (Interview 02). Political bargaining made the picture even more complicated. For instance, the barracks sold to the fund involved redevelopment and land use changes that were endlessly disputed and negotiated with local authorities and civil society (for instance Artioli, 2016).

The politics involved in the assetization of public properties is thus underpinned by multiple logics that straddle the state and real estate fields: political bargaining; financial rationale as public properties are used to extracting revenues for the Ministry of Economy and Finance; professional ethos as individuals navigate between private and public organizations; and a combination of business and organisational motives for Cassa. Indeed, the latter attempted to develop activities in the real estate sector while

seeking legitimacy *vis-à-vis* its main shareholder, the Ministry of Economy and Finance, and attracting potential contributors (local authorities).

This internalization of REIFs within the state occurred alongside the gradual extension to a larger spectrum of the public sector, beyond the central welfare and fiscal agencies targeted by the 2000s funds (see table 1). The first 'Plus' compartment comprised buildings owned by provincial and city governments and a hospital foundation seeking to finance a new sanitary facility. The 'Extra' compartment was even more diverse, reflecting both Cassa's attempt to become the leading public real estate manager and how political bargaining with local authorities forced a wider range of property types onto the fund's portfolios. Properties thus came from various levels and sectors of the state: regional health agencies, the National Institute for Insurance against Accidents at Work, Guardia di Finanza and the Department of Defence.

Assetization also gradually encompassed more than just the buildings that traditionally interest financial market investors. It experimented with alternative types of locations and properties, including some requiring major redevelopment (like the barracks mentioned previously). However, the value of the fund remained highly concentrated, with 81% of its NAV located in seven medium and large cities in the North of Italy, plus Rome and Florence (Urbanpromo, 2014). In other words, certain financialized real estate criteria persisted.

The investment time horizon evolved too. In 2004, *FIP* was an emergency fix for an urgent need of cash. *Cassa* created Fondo Investimenti per la Valorizzazione with the same budgetary consolidation goal as it targeted local governments 'with the ultimate aim of cutting deficits' (Marchesini, 2013). However, it now benefited from more stable, in-house instruments like the Valorizzazione Online portal and the Patrimonio Pubblico Italia website.

From emergency disposal to a long-term fix for permanent austerity?

The 2015 i3Core fund was created as a 'fund of funds', a common format in the financialized real estate field where investors seeking diversification take stakes in a fund that invests in other, often specialized funds. This type of structure has deepened the internalization of assetization: while Invimit SGR, its asset manager, is once again a state company, this time, it is not only the assets that are provided by a welfare agency, but also the capital. We have already indicated how INAIL was a forerunner as it was compelled by the Ministry of Economy and Finance to contribute properties to the first Public REIF (the Alpha fund discussed above). A decade later, the €1.3 billion comprising the i3Core Fund came from the cash reserves constituted out of the collection of a compulsory employer tax by this social security compensation fund.

The i3Core fund seeks a net internal rate of return of 3% to 4% p.a. over 30 years thanks to the capitalized revenue streams associated with the sales of public properties and rental income. INAIL's money is not meant to acquire properties but to cover capital expenditure, i.e. the cost of redeveloping state properties before they can be rented or sold on at a profit. Public administrations thus become shareholders in proportion to the estimated value of the properties they contribute to the specialized funds, minus a minimum 10% 'portfolio discount' as is customary in financialized real estate for block transactions. In other words, INAIL provides the cash that debt-ridden public administrations need to rent or sell their own properties. Like any social actors, public administrations are 'reframed, altered, and conceptualized anew' (Birch & Muniesa, 2020:18) as assetization opens up a new, long-term financing solution for public organizations and becomes a more permanent feature of the Italian consolidation state.

Indeed, asset management and other intermediation services are provided by public organizations themselves. Although i3Core's by-laws allow it to entrust the management of each fund to private companies, it has mandated Invimit SGR, a company specially created for this purpose and owned, following an overhaul of the legal framework (article 33 of Decree n° 98-2011), by none other than the Ministry of Economy and Finance. Daily management is provided by professionals who connect the public and private real estate sectors. Invimit's CEO had been Managing Director of the Ministry's Agenzia del Demanio and was involved in creating the 2004 FIP. She had also gained experience as CEO of a private real estate consulting firm between 2008 and 2013. Her successor had previously worked in financial consulting firms and the 5 senior managers of the specialized funds came from multinational real estate service companies, investment consultancy firms and asset management companies.

These careers attest to the existence of a milieu of professionals active in the public real estate investment fund market (see also Appendix 1). Their circulation between the public and private spheres transfers rationales and know-how that are conducive to the assetization of public properties. Invimit SGR for instance promotes the risk-adjusted-return calculations favoured on financial markets and asked public administrations to prepare the business plan and test themselves the financial viability of the funds they consider creating. This includes the use of cash flow modelling and risk adjusted internal rates of return (Invimit, 2016a). Responsibility for selecting properties is thus shared between Invimit SGR, Agenzia del Demanio, and the public providers as owners and soon-to-be shareholders.

Again, calculations are bound up with broader politics of public assets. Take for instance the Manifattura dei Tabacchi complex located in Bari (Apulia): its redevelopment necessitated an agreement between Invimit SGR, the municipality and

the future public tenant, the National Research Council. The Chairman of Invimit SGR facilitated the transaction as he had previously served as Vice-President of Bari province and MP of the Apulia Region. As he genially commented:

> We have written a beautiful page of institutional collaboration […] which I hope represents a pilot project for the South in terms of adding value to and redeveloping public properties with a high economic and, above all social return. (Invimit, 2020)

Personal political interests and multilevel negotiations (here around the timeworn theme of Southern Italy's development) matter in how the politics of public assets and associated bargaining frame property selection and redevelopment. This enables the public REIF format to navigate between both routine inter-institutional relations and the vagaries of civil society. For instance, when asked about her relations with local politicians, the CEO of Invimit SGR replied:

> Look, I am late for our meeting because I was on the phone with a Councillor of the Tuscany Region. It's a daily relationship with these people. Politicians and civil servants, that is, the ruling class in the various territorial administrations. (Interview 11)

She also explained how, for the redevelopment of a military site in Milan, she participated in meetings with neighbourhood spokespersons. The political and multilevel territorial reorganisation processes of state sectors such as the Army is thus mediated by the organisations, professionals and the rationale of public REIFs. As they become internalized, these instruments assume – in comparison to the funds launched in the 2000s – new political and governmental roles, such as that of territorial development.

This is fraught with tension. In 2015, facing coordination issues, and under pressure to 'rationalize' its public property securitization policy, the Ministry of

Economy and Finance debated whether to shut down either Cassa's Fondo Investimenti per la Valorizzazione or Invimit SGR's i3Core funds (Bonafede, 2015). Both organizations eventually managed to secure their position by pleading a form of task division: in principle, the former concentrates on financial, market and engineering studies to facilitate the trading of public property, while the latter focuses on capital expenditure to convert properties into marketable products (Interview 18).

The material basis of the state has been further transformed. The 2015 'fund of funds' format virtually enrols any public owner, as INAIL and the National Social Security Institute have done as well as the departments of Defence, Justice and the Interior, and a Region, several Provinces, Municipalities, and Universities. This format also expands the array of buildings involved (residential apartments, theatres, stores, Renaissance villas…). It echoes the fund manager's stated attempt 'to guarantee the widest spread [of investments] throughout the national territory' (Invimit, 2016a, p. 9), a decisive step in disseminating assetization to potentially all locations and properties:

> We work in places others do not go [...]; – outside the investor map – because first we don't think we need to disrupt the private investor market and second, we have to go and support those who cannot do things on their own. (Interview 11)

Witness how the University fund acquired seven student accommodation facilities in second-tier cities (Modena, Ancona, or Perugia, Invimit, 2016b), or how the Housing fund extends to locations like Vercelli, Forlì, and Monopoli, way off the financialized investment radar.

The most significant shift however has affected statecraft with the broadening of policy goals and a change in temporal horizons. Far from a one-off response to budgetary constraints, the 2015 i3Core fund embraced a more complex set of political objectives, including non-financial ones, as already observed in other contexts with the

sale of public properties (Piganiol, 2017). Firstly, i3Core's funds aim to broadly support territorial and urban planning policies (Interview 11): limiting land consumption, responding to urban renewal requirements, addressing 'local social needs', and supporting a mix of urban functions (Invimit, 2016a, p.10). Secondly, objectives target the restructuring of the state's infrastructure as the specialised funds all seek to 'streamline and/or concentrate existing public facilities' (idem). Here, INAIL's capital provides a long-term substitute for diminishing monetary transfers from the indebted central state.

However, the multiple time horizons built into this financial instrument may conflict and end up encouraging short-term value extraction when fiscal pressure tightens. The Lazio Region requested that INAIL not only cover capital expenditure for improving the residential units placed in the fund, but also provide a lump sum payment equivalent to a third of the net asset value: the regional authority saw the fund as an opportunity to monetize its properties in order to settle its accumulated unpaid bills (*fondi perenti*) (Interview 19). Likewise, the Patrimonio Italia fund was created to meet an urgent liquidity crisis for the provinces recently transformed into 'Metropolitan Cities' (law n°56-2014). Budgetary emergencies may thus supplant longer-term policy priorities, especially that of providing a durable financing mechanism to modernize properties. It nonetheless follows that, far from being just a response to budgetary constraints, i3Core embeds an ubiquitous instrument within the state that systematically turns public properties into financial assets and institutionalises the extraction of value from them on a lasting basis.

Conclusion

This paper has developed a theoretical framework to analyse the restructuring of the state in late-stage financialized capitalism. It built on Streeck's consolidation state

theory which enables us to think of the financialization of the state in a dynamic relation to permanent austerity. We have taken this further by considering the multiple paths through which various sectorial, interorganizational and multi-level processes turn more state 'things' into financial assets other than just debt.

This enriched consolidation state theory was put to work using empirical qualitative research focusing on the assetization of public properties in Italy, an emblematic capitalist democracy facing permanent austerity. This is achieved using a case study of a typical financializing instrument, namely public real estate investment funds.

On this basis, we now conclude by providing a stylized theorization of state restructuring which combines two aspects: in-depth political-economic transformations and how these unfold through political and organizational mediation. On the first aspect, permanent austerity, which echoes long-term demographic, economic and political transformations (population ageing, deindustrialization, globalization, etc.), dynamically combines with the financialization of the economy, i.e., the rising importance of the production and trade of financial securities in capital accumulation. Both mutually reinforce one another and are driving processes in the assetization of public assets.

More precisely, while Streeck has claimed that austerity pressure turns public debts into market securities, our research demonstrates how public real estate investment funds constitute another path to state financialization. As austerity measures endorsed by the Italian Ministry of Economy and Finance trigger the disposal of public properties, these are transformed into financial assets due to the pre-existing extension of financial markets into the real estate sector in Italy. In turn, capital market investment formats and calculative practices are gradually internalized within the emerging field of

public real estate, as illustrated by the rising importance of public asset management companies (CDPi and Invimit), as well as pubic investment banks (CDP) and welfare agencies' capital (INAIL). This reveals how sectoral processes – here in the form of the extension of financial markets into part of the real estate investment industry – are vectors for state financialization.

However, on the second aspect, the assetization of public properties unfolds through contested *politics of public assets.* They shape the consolidation state as multi-level, private or public organizations and individuals (ranging from national welfare agencies to local elected representatives) engage in bargaining and conflicts in the strategic action field of public real estate to accumulate financial, economic, symbolic, professional or political capital.

Beyond this stylized framework, the empirical analysis casts light on the multi-dimensional restructuring that affects the organizational, professional, legal, and material arrangements ushered in by the financialization of the Italian state. New organizations specialized in the management of public properties develop, and new professional skills are integrated into the state. The recourse to instruments like real estate investment funds also transforms the financial-legal arrangements that surround the properties from which state administrations exercise their activities. Sectorial and local state (regions, provinces, etc.) are becoming shareholders in funds that comprise the buildings and facilities that they are still partly using to deliver public services. Conceptions of the material basis of the state are thus evolving: adopting the viewpoint of a financial investor, they consider public properties in terms of their historically accumulated value, and how this value is appraised by market actors. Consequently, policies to manage university campuses, administrative buildings or disused barracks internalize the rationale, formats, practices and capital that circulate in financial

markets. Moreover, due to the uninterrupted budgetary pressure, what was once a one-off emergency experiment has gradually become a fully-fledged, continuous active asset management policy seeking to rationalize and modernize the material basis of a growing number of public organizations.

Can this revised consolidation state theory be applied to other national and local situations? Some similar changes have been observed in capitalist democracies exposed to both a lasting condition of permanent austerity and the rising importance of financial markets in the economy. Think for instance of how the French equivalent of CDP actively sought to introduce public real estate investment funds to bolster state housing policies. With Italy, our conceptualization was developed using an emblematic case study. This now calls for research based on most-different and least-likely cases (Gerring, 2007) to ascertain the strength of the explanation, map its extension within and between countries and grasp potential variegations.

Additional research is also necessary to fathom the depth of the studied processes. Since we exposed how the politics of public assets turn state properties – and not just debt – into financial securities, it is now necessary to survey other experiments through which public organizations consider assetization as an answer to the pressures of austerity. This can encompass the conversion of future fiscal revenues linked to urban redevelopment into bonds or of public expenditure in social services or environmental policies with the growing importance of social impact or green bonds. In fact, the theoretical framework developed in this paper could arguably be applied to any income stream generated from public tangible or intangible assets. It may thus provide a companion to research that explores the multiple paths leading to state financialization in a still lasting condition of permanent austerity.

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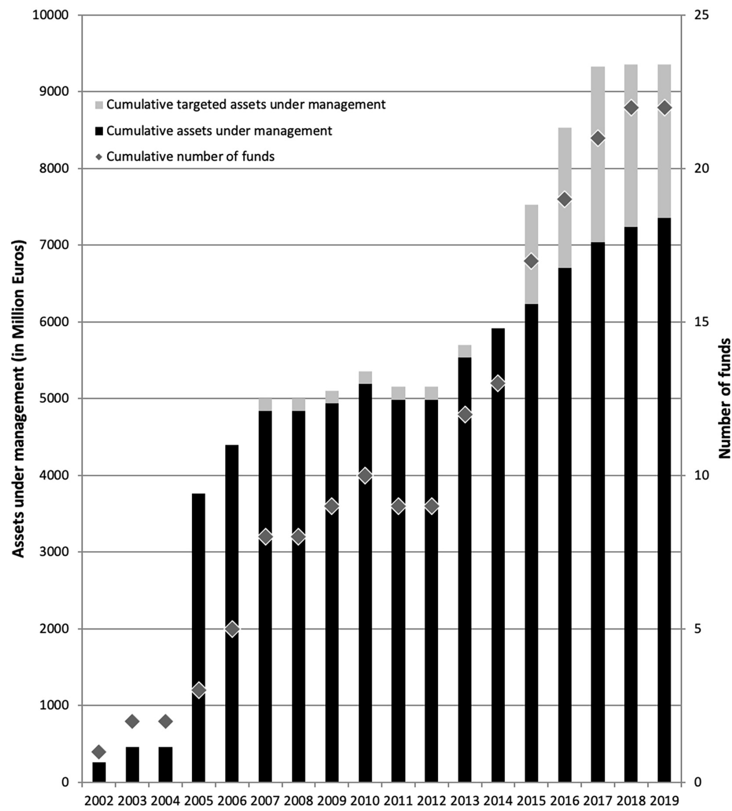
Figure 1: the growth in public real estate investment funds in Italy (2002-2019)



Sources: Authors' calculation based on fund documentation, as of 2019, February 13.

Table 1: The three major public real estate investment funds in Italy

	Fondo Immobili Pubblici	Fondo Investimenti per la valorizzazione	i3Core
Inception	2005	2013	2015
Asset Management Company	Private investment bank	State bank (70%) & banking associations (30%)	State-owned
Real estate services	Outsourced	Internalized (except sales)	Internalized (except valuation / sales)
Financing	Private institutional investors (40%) and securitized debt (60%)	Ministry of Economy and Finance-controlled investment bank (*Cassa)*	Public institutional investor (INAIL)
Property Providers	Welfare and fiscal state agencies	Army, hospitals, regional and local governments	Any public institution
Properties	Stand-alone, large commercial properties	Any kind of stand-alone, turnkey property	Any kind of property (incl. redevelopment)
Location	Main markets, esp. Milan & Rome	Main Northern Italian cities, Rome & Florence	Any Italian city (incl. second-tier cities)
Main goals	Emergency funding of national budget	- Real estate diversification (public bank); - Cash for indebted public organizations	- Durable source of investment in public facilities - Territorial development policies - Cash for indebted public bodies

Appendix 1: List of interviewees

N°	Occupation (*former occupations*)	Department, service	Institution	Place, date
01	Full professor *Deputy-mayor*[i]	Planning Dept. *Urban planning*	Politecnico du Milano *City of Milano*	Milan, 31/01/2017
02	Founder *CEO* *Founder*	— — —	Private real estate investment fund *CDP Immobiliare (FIV)* *InvestiRe SGR(FIP)*	Rome, 7 /02/2017
03	Associate Professor *Deputy-mayor*	Urban planning —	Università Roma 3 *City of Rome*	Rome, 8/02/2017[J1]
04	Local government officer	Planning Dept.	City of Rome	Rome, 8/02/2017[J1]
05	Senior official	Invest in Italy Real Estate Programme	Italian Trade Agency	Rome, 8/02/2017[J2]
06	Civil servant	Invest in Italy Real Estate Programme	Italian Trade Agency	Rome, 8/02/2017[J2]
07	Asset Manager	—	InvestiRe SGR (FIP)	Rome, 9/02/2017 (+Rome, 7/10/2013)
08	Director *Director*	Urban and territorial Development Dept. P*roperty, Urban planning, Infrastructure & Housing policy Dept.*	Institute for local finance and the economy *National association of Italian local goverments..*	Rome, 13/02/2017
09	Director	Strategy, Project development & Shareholding	Agenzia del Demanio	Rome, 13/02/2017
10	General Director *Mayor*	— —	Agenzia del Demanio *City of Piacenza*	Rome, 14/02//2017
11	Manager *Senior civil servant*	Portal 'Patrimonio Pubblico Italia' *Public Property Sales*	CDP Immobiliare *Treasury, Ministry of Economy and Finance*	Rome, 15/02/2017[J3]
12	Financial analyst and manager *Financial analyst*	Portal 'Patrimonio Pubblico Italia' *Public Property Sales*	CDP Immobiliare *Europrogetti & Finanza*	Rome, 15/02/2017 [J3]
13	Asset manager *Senior project manager*	Dept.Management & Development of REIFs —	CDP Investimenti (FIV) *Hines (RE developer)*	Rome, 15/02/2017
14	CEO Invimit Sgr *CEO* *Director* *Member*	— — — —	Invimit SGR (i3Core) *Re Asset Management Srl* *Agenzia del Demanio* *Commission for the agencification of the Treasury*	Rome, 17/02/2017
15	Project manager	In charge of FIV's 'Sforzesco portfolio' (Milan)	Borio Mangiarotti Spa	Milan, 27/02/2017
16	Local government officer, *Director*	Facility & Energy management *Dept. for Territorial Development*	City of Milan —	Milan, 27/02/2017[J4]
17	Fund manager	Asset Management	BNP Paribas RE (Milano I & II funds)	Milan, 27/02/2017[J4]

18	Fund director *Fund manager*	In charge of assets sold by FIP	Coima SGR *Hines Italia*	Milan, 27/02/2017 [J5]
19	Fund and asset manager	In charge of assets sold by FIP	Coima SGR	Milan, 27/02/2017 [J5]
20	Senior fund manager *Business developer & Analyst*	— —	Kryalos Spa *DeA Capital Real Estate (previously IDeA Fimit SGR)*	Milan, 1/03/2017
21	Cabinet of the Deputy-Mayor	Urban planning, Green & Farming	City of Milan	Milan, 16/06/2017
22	Director	Property Dept & i3Core advisory Board	INAIL (i3Core)	Rome, 15/05/2018
23	Senior civil servant, Head	Asset & property development Dept.	Treasury, Ministry of Economy and Finance	Rome, 16/05/2018[J6]
24	Senior civil servant	Asset & property development Dept.	Treasury, Ministry of Economy and Finance	Rome, 16/05/2018 [J6]
25	Regional Director	Dept. Public property development	Lazio Region	Rome, 16/05/2018
26	Head	Dept. Property and archives	National Institute for Social Security	Rome, 17/05/2018

Notes:
[j]: two persons jointly interviewed.