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Italy from Recession to a new Socioeconomic Identity[1]

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The historical sources of the Italian crisis

The Italian economic crisis has global as well as domestic roots. As Italy depends on industrial exports, the country has been deeply affected by the global crisis, and even more so by the depressive results of the EU's austerity measures.[2] Mario Monti's technocratic government has also added to depressive austerity: the Italian internal market shows a negative growth, below -2% in 2013, adding to Italy's need for exports.

Italy was one the fastest growing industrialised European countries between 1950 and 1990, performing better than Germany.[3] This was partly due to its newcomer identity characterised by low wages which helped competitiveness at the beginning of this period. The economic landscape was further marked by the presence of a few major enterprises (including Fiat, Pirelli, Olivetti) and big state-owned enterprises (Ansaldo-Breda, Fincantieri, Eni, Enel, etc.). Large companies provided long-term investment and innovation, facilitating the emergence of plenty of successful Small and Medium-Sized Enterprises (SMEs)[4] in the so-called "third Italy". The success of SMEs was founded on their embeddedness in a dynamic economy dominated by large firms, whose investment in research and technology also benefited SMEs.

SMEs provided the Italian system with the much praised "flexible specialisation". They were a segment of mostly formal, but also "informal", producers often connected to national or foreign large-scale manufacturing, and were able to adapt to rapidly changing global and national demand. Also, many of these SMEs grew bigger and smarter: 5000 of the most competitive ones eventually developed into something quite similar to the German Mittelstand. They are the reason why, even in the face of current economic hardships, the country manages to achieve a commercial surplus.

Nevertheless, many other SMEs have suffered the consequences of the past 30 years of economic policies affected by neoliberalism, financialisation, rigid and inflation-obsessed Euro parameters. Financialisation and globalisation convinced large enterprises like Fiat to withdraw long-term and innovative investment from Italy. Neoliberalism added to this process by discrediting the key task of public enterprises as providers of long sighted research and development, despite the evidence that companies such as Finmeccanica and Eni are an unquestionable example of innovation. Moreover, Euro parameters hampered EU internal demand and rendered devaluation impossible. Hence, the historical basic elements of long-term innovation and SMEs virtuous selection was weakened, and the "economic miracle" of 1950-1990 vanished.

Neoliberalism, financialisation and wrong social incentives

In the new century Italy remained largely an industrial country, refraining from the financialised short-term outlook and private indebtedness (the real source of the world crisis) popular in Spain and Anglo Saxon countries. But the Italian economy was nonetheless hit particularly badly by the crisis because of its significant weaknesses. On the one hand, it would have needed another couple of decades such as the "glorious" ones after WWII to get rid of its "newcomer" features, such as the excessive size of the informal labour market, low-wage labour, the average small size of firms and the tendency towards tax evasion as a remedy for competition/insufficient credit to investment. On the other hand, the effects of long-term innovation investment, implementation of labour rights plus higher employment rates in the southern regions of Mezzogiorno needed to be more thoroughly implemented.

If big and especially state owned companies had had the opportunity to play their role in research and development for longer, the results could have trickled down to a large portion of key SMEs, which would have rendered the economy as a whole stronger. This would have been crucial especially for the less developed south: the incentives to a non-newcomer type of competition and investment (strong and more thoroughly protected labour rights, or a less tolerant fiscal system) would have become a ubiquitous and solid reality.

On the contrary, since about 1990, financialisation and neoliberalism triumphed, industrial policies became unpopular and long-term investment lessened. Hence, far too many SMEs remained small (90% have under 15 employees) and within a family-size horizon, often incapable of long-term planning. Therefore, the only positive outcome of the post-Euro years, i.e. low cost of money borrowing, was insufficiently used strategically.

Therefore, for the bulk of Italian manufacturing and services, resorting to typical and still present "newcomer" features remained a necessity. A vicious circle started especially in the less developed south: the more these factors are present, the less is the incentive to long-term product and process innovation.

The roots of the political present

Although progress had been made in collecting tax revenues, neoliberal hegemony intertwined with the remaining newcomer features of part of the economy made this process difficult, which for a good part explains the resilience of high public debt. Former Italian Prime Minister Silvio Berlusconi's election can only be explained by millions of SMEs' need to be reassured from multiple anxieties. The Maastricht parameters seemed to remove any flexibility in the EU internal market: temporary devaluation wasn't anymore possible, and all EU countries at the same time tended to tighten their budgets, rendering EU internal competition far harder for many Italian SMEs and their above mentioned "hybrid" nature.

In this context Former Prime Minister Romano Prodi's centre-left mostly presented the Euro as not debatable, while Berlusconi showed more empathy. Other explanations are simplistic, failing to explain why Berlusconi did not win a second term.

Anxiety grew in the 2000s: The impressive decrease of German low wages and the comparatively insufficient increase of the high ones deprived the EU (especially manufacturing countries like Italy) of a crucial growth factor, in the context of growing competition from the Brics countries (Brazil, Russia, India, China, South Africa).

Italy was largely unprepared for the global crisis. The assumption, however, that Italians have lived beyond their means is mostly false. The high public debt in Italy is largely balanced by one of the highest saving capacities of the world. Italy's diffuse savings are in quantity and percentage larger than most other developed countries, amounting to more than eight times the country's GDP. Private debt is comparatively small: the sum of Italy's private and public debt is in total smaller, often much smaller, than in most other developed countries.[5] This is important as the present crisis was triggered by private, not public debt. Also, most of Italian public debt is owned by Italian savers.

This is of course not to deny the size of the problems. Italy suffers a huge lack of long-term investment, especially after implementing austerity measures, and a very high rate of unemployment. These features are even more negative considering that in the southern part of the country the rate of employment has always remained low in EU terms, thereby strengthening the informal economy and the power of organised endemic crime. How can Italy come out of the crisis in such a way that a historical change is achieved at the socioeconomic structural level?

Solutions for a historical socioeconomic change

Italy needs three kinds of measures:

1) The resources accumulated in private wealth and partly through disloyal fiscal behaviour must be taxed more (i.e. taxation ought to be fairer). These measures must not be perceived to be punitive, and must be implemented gradually to prevent the sudden death of too many SMEs. The new revenues must fuel demand (by allowing lower taxes on work incomes) *and* fund better unemployment benefits and active labour market and innovation policies. This will help remove the incentives to low-wage production, enhancing a virtuous circle based on parity between the labour market parties and systematic innovation.

2) A new "golden rule" as part of a new European compact: part of the state deficit must be allowed and taken out of the Euro parameters to fuel strictly earmarked (monitored at the EU level) investment in infrastructure, greening, innovation, R&D etc.

3) German low wages must grow significantly. This will only partly cause inflation in Germany: the negative interest rates of the Bund (German bonds) already have inflationary consequences. Since more income equality in Germany can easily push Italy out of recession, confidence in Italian public debt can return to acceptable levels, which can cut the irrational flow of investment in German Bund, and thereby non-wage led inflation. As a result, only controllable and "good" German inflation (connected to higher wages and more income equality) will result from increased German wage-led demand.

Along with a rational management of the debt crisis, these three pillars can contribute to complete Italy's development out of its dualism.

The February 2013 elections seem to confirm populism, instability and the urgency of these measures. The centre-left was able to defeat Berlusconi, whose coalition failed for the third time to win a second term, and for the first time stumbled dramatically, losing about 7 million votes. On the other hand, most likely because of the support given to Mario Monti's neoliberal government, the centre-left victory was disappointing in terms of popular votes and insufficient in terms of seats in the Senate. A new protest movement (the "5 stars movement") got an astonishing 25% of the popular vote. There will be no signs of change until reliable parties and coalitions are able to chart a credible road out of the present crisis.

1 This text draws on P. Borioni & R. Mazzocchi, *Die globale Krise in Italien: Entstehung, Eigenart, Gefahren,* available from: http://library.fes.de/pdf-files/id/09554.pdf

2 In 2008 an industrial surplus of more than 70 billion Euro (just considering machinery, mechanical equipment, metal and plastic products) balanced an almost as big trade deficit in energy and petroleum products: Italy has no or very little oil or coal. In 1996 Italy's European trade surplus was about 1% of GDP; in 2010, this had turned into a trade deficit of 5% of GDP (Rapporto CER, Centro Europa Ricerche, No. 1 2012).

3 Italian GDP grew in this period 4.49 times, Germany's 4.19 times. Only Portugal, Greece and Spain grew more, but remained at much lower levels of GDP per capita by 1990, and failed to achieve a significant industrial profile. S. Bradberry, A. Klein, 'Aggregate and per capita GDP in Europe, 1870-2000: continental, regional and national data changing boundaries', *Scandinavian Economic History Review*, Vol. 60, No. 1, 2012.

4 According to *Il Sole-24 Ore*, the country's leading economic paper, Italy has the highest number of companies per inhabitant in the developed world.

5 See: Banca d'Italia, 'L'indebitamento delle famiglie italiane', *Bollettino Economico*, 52/2008.

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