Italian Economic History and Structure

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Over the past century Italy has had an economic history filled with highs and lows, most often the result of incompetent governance at the national and subnational levels. To understand the reasons behind this inability to govern efficiently you need to know about the history of Italian government. Since the abolishment of the Italian Monarchy following the second world war, Italy has been a democratic republic. Similar to the U.S. and Spain its legislature is bicameral, with a Senate and a Chamber of Deputies. An interesting note is that anyone 18 or older can vote for Deputies but you must be at least 25 to vote for Senators. Also, to be eligible to be elected as a Deputy you must be at least 25 and you must be at least 40 to be a Senator. Citizens directly elect the members of the legislature, who in turn elect the president to a seven-year term, which they can serve a maximum of two of (World Atlas). The current President is Sergio Mattarella, who took office in February 2015 after the resignation of the previous president. The current ruling coalition is made up of the center-left Democratic party and the anti- establishment Five Star Movement (The Guardian).

The economic history of Italy since the end of Second World War is almost entirely a result of institutions put into place at that time. The lack of direct taxes at this stage set the expectation that they were not necessary or equitable among the citizens of Italy, leading to a host of problems regarding government revenue in the long run. The inefficiency of the government at all levels led to the reliance on public loans to finance public works and enterprises. It is necessary, also, to know that many Italians did not pay income tax until the 1970’s, well past when most other first world countries had instituted such taxes. The existence of thriving black and underground markets consistently deprives the government of necessary revenue. Unlike direct taxes, indirect taxes, most notably VAT, were increased multiple times during the 80's. Direct taxes were always met with resistance when implementation was attempted. In 1985 a bill was introduced to curtail tax evasion among the self-employed, leading to a one-day national strike (Britannica).

When compared to before and during the Second World War, the economy of Italy rose in strength following the war, thanks to "strong entrepreneurial bias" and liberal trade policies (Britannica). These factors spurred an expansion in the export of manufacturing. Keeping in line with the classic Italian stereotype, due to inefficient bureaucracy the economic development and expansion was not felt evenly throughout the entire country. Similar to the geographic differences in Spain, in Italy the North is generally richer than the South, which, again just like Spain, has to deal much more with the effects of immigration. The southern regions of Italy also see a larger portion of the workforce participating in agriculture, an often-used indicator of economic success and growth. However, on average less Italians work agriculture than the EU average, with 3.6 percent of Italians compared to 5 percent in the entirety of the EU.

Following the Second World War the infrastructure and economy of the southern regions was almost entirely controlled by the government and the public sector. This remained true until the Southern Development Fund was established in the attempt to stimulate economic and industrial development. This program was met with only limited success. While it assisted with infrastructure repair in the form of land reclamation, irrigation work, infrastructure building, and access of electricity and waster to rural regions, it did not properly stimulate the floundering economy. Further development of the economy is a great success story in the eyes of the government. Unprecedented economic growth was felt between 1950 and 1963, where gross domestic product increased by an average of 5.9 percent annually, with a peak of 8.3 percent in 1961 (Britannica). Seeing as most economists believe countries should strive for an average of 3 percent growth in the long run these numbers are seen as highly successful. However, after 1963 the economy began to slow down once again, and in 1973 an increase in the price of petroleum further impacted the economy. Inflation is another important economic measure that has long plagued the Italian economy, often being significantly higher than other European and first world countries. In 1980 inflation reached an astounding 22 percent. This was primarily caused by the power afforded to unions during wage bargaining during the 1970s and a mechanism known as scala mobile. Scala mobile automatically adjusted wages to inflation on a quarterly basis, regardless of the worker being either salaried or hourly. This perceived job security led to an increase in production costs at all levels, leading to a contribution to increased inflation. As scala mobile was gradually rolled back due to pressure from the employer's association inflation fell as well, decreasing to 12 percent in 1984 and down to 4.2 percent in 1986. Public debt is the last economic measure that will have a historic focus in this paper. Throughout the 1980s public debt continuously rose despite measures taken to reduce public borrowing. In 1991 public debt finally exceeded GDP, "and the cost of servicing it was more than $100 billion, accounting for the entire government budget deficit for the year. As of 2010 the public debt of Italy still exceeds GDP.

Current Economic Information

As we can see in Appendix A, GDP per capita has increased substantially in Italy during the 21st century. In 2000 we see that the GDP per capita was 27.2k U.S. dollars and in 2019 that number had been increased to 43.9k U.S. dollars. The only point at which this indicator had a decreasing period was following the 2008 financial crisis, but after only a year managed to once again increase before flattening from 2011 through 2014. An economic forecast for the future has not yet been created by the OECD, but we can logically assume that GDP per capita will decrease as nonessential expenditure is kept to a minimum and workers are furloughed in previously unseen amounts.

Shown by Appendix B, inflation in Italy has on average been decreasing during the last two decades. Through 2007 Italy was experiencing a consistent decline. That changed after the 2008 financial crisis, after which we saw wild swings in the inflation rate until 2014 when it once again began to decline at a steady pace before hitting it trough of -0.1 percent in 2016. As of 2019 inflation rate was at an average of 0.6 percent. Again, the OECD has not yet put out predictions for the future of inflation rates in Italy, but drawing from the knowledge we have from the 2008 financial crisis we can expect inflation to rise substantially once again.

As shown by Appendix C, Italy has for a long time had what most countries in the Western world would consider to be a relatively high unemployment rate. Over the past two decades Italy has posted a maximum yearly average unemployment rate of 12.7 percent in 2012 and a minimum unemployment rate of just 6.1 percent, a number that would be considered very high in many other countries. The OECD provides a forecast out to 2021 of their predicted unemployment rate in Italy. However, it does not appear to have been adjusted sine the onset of coronavirus and its associated measures in Italy, as it predicts the unemployment rate will stay consistent with that in 2019, around 10 percent.

The debt to equity ratio of the Italian government is one of the most worrying indicators that they show. In 2018 debt accounted for more than 132.2 percent of GDP up from 131.4 percent in 2017. As of June 2019 it was estimated to rise to 135.2 percent in 2020 but given the increase in public expenditure required to combat the corona virus and the differed or lowered taxes we can assume that it will grow by more than it was predicted to (Reuters).

As shown by Appendix E, Italy has consistently invested less in research and development as a percentage of GDP than the average of other OECD nations. In 2000 Italy invested 1.004 percent of GDP on research and development and over the past two decades have increased that rate by 0.3 percent, for a total of 1.392 percent in 2019. If Italy wishes to increase its hold in the global market in manufacturing or wishes to expand to other sectors in an attempt to increase GDP it will need to increase its expenditure on research and development to close to the average of other OECD countries.

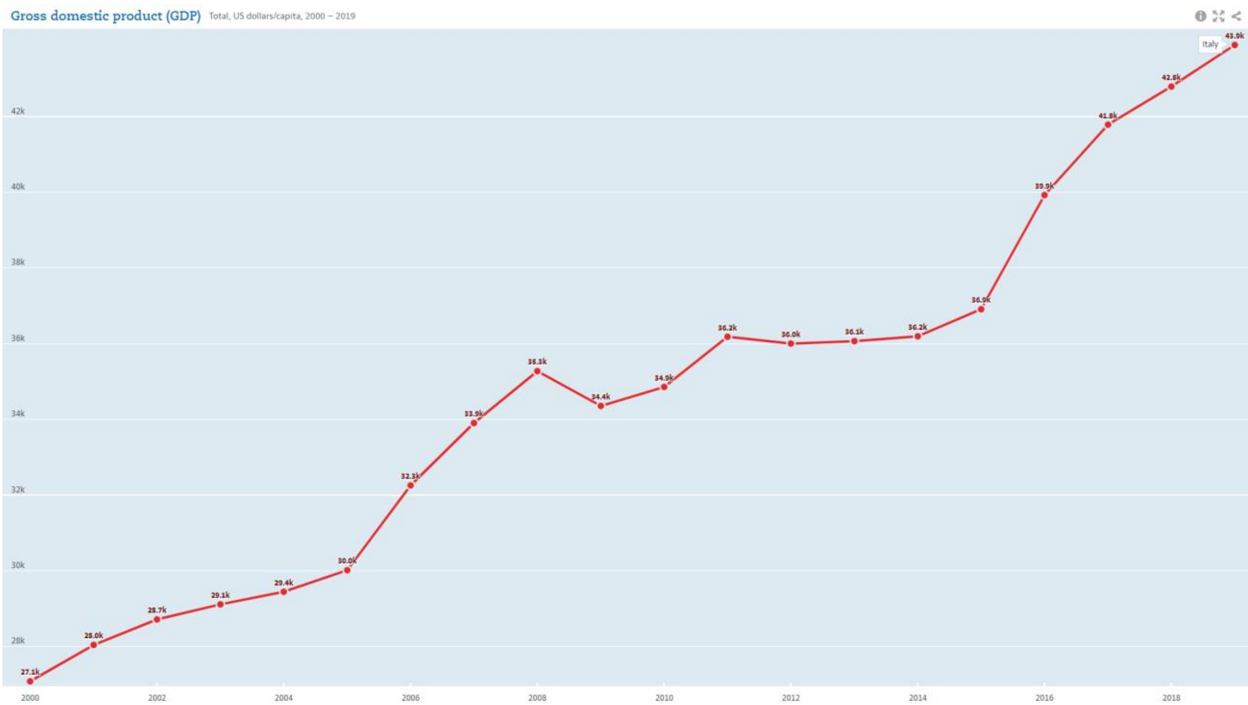
Regarding the economic forecast of Italy the European Commission is not an extremely helpful sources as the European Commission only updates their estimates four times a year, with the most recent being in February, as such I believe they have not yet taken into account the impact the coronavirus will have on the economy. With that being said in February the Commission expected the GDP growth of 2021 to be 0.6 percent year over year and inflation to increase 1 percent year over year (European Commission). In an article published on February 27th of this year RaboBank Research assumes that the corona virus will raise the risk of a recession in the near future. They estimate that domestic demand will continue its trend over the past few quarters and continue to slow as a result of individuals propensity to save increasing during the virus. They also estimate that disposable income will decrease despite a decrease in tax rates and any universal basic income schemes due to a lower real wage than before this shock.

My personal opinion regarding how the Italian government should react is different from my opinion on how the United States should react, given the difference in culture. As one of the leasing economic powerhouses of the world I firmly believe that the U.S. should do whatever it can to maintain that hold on global dominance. Seeing as Italy is not seen as a global powerhouse and maintains a difference in cultures surrounding family structure, it should do whatever it can to protect the safety of its citizens even it that involves them maintaining lockdowns.

My personal opinion on fiscal policy in Italy moving forward is supportive of an expansionary policy. While inflation will absolutely increase as a result of the size of the expansionary policy necessary to maintain and fund various state institutions, the necessity of many programs to maintain the functionality of the country outweighs the potential increase in inflation as a result of the policy.

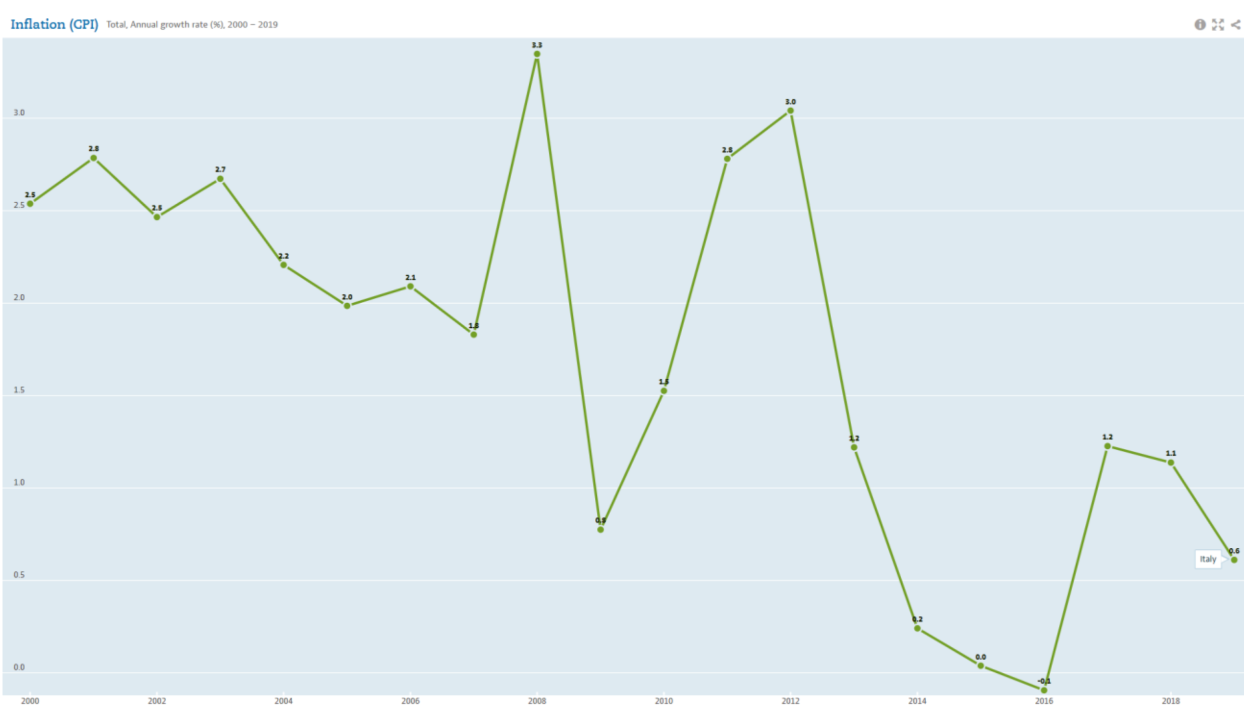
It is also necessary for the government at every level of Italy to incentivize domestic expenditure during this crisis in order to ensure the survival of Italian firms over international firms. A decrease in domestic expenditure is the reason the OECD cited for the decrease in GDP per capita in the fourth quarter of 2019.

Appendix A



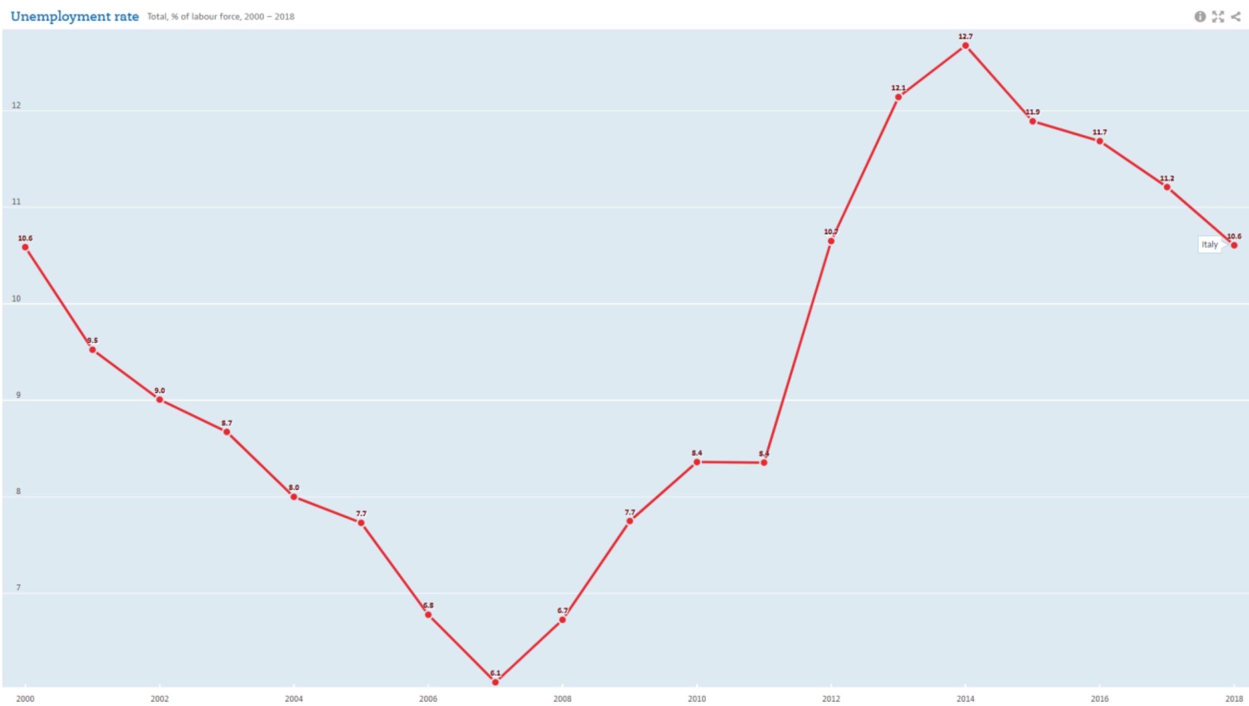
(Courtesy of the OECD)

Appendix B



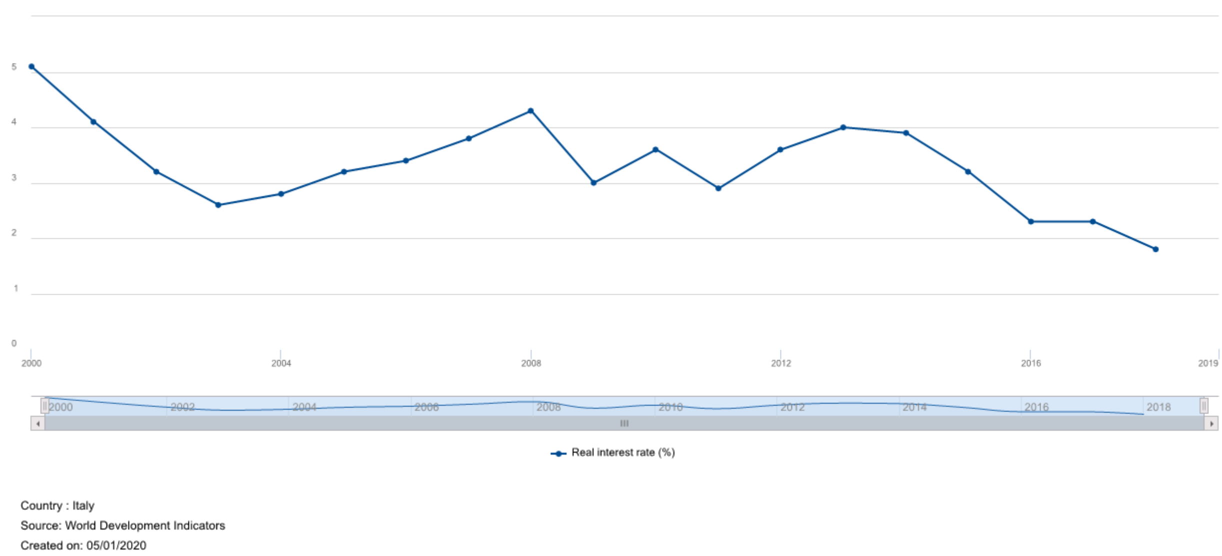
(Courtesy of the OECD)

Appendix C



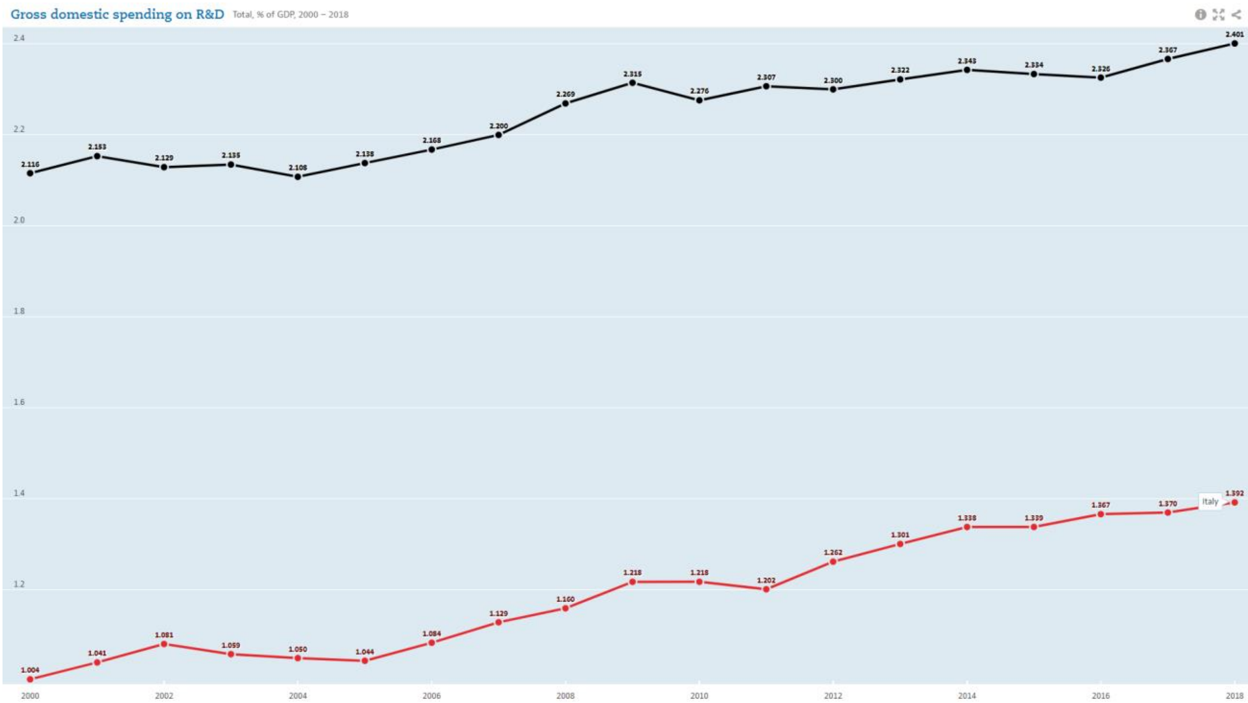
(Courtesy of the OECD)

Appendix D



(Courtesy of the OECD)

Appendix E


Gross domestic spending on R&D
Total, % of GDP, 2000 – 2018
2.4
2.2
2.0
1.8
1.6
1.4
1.2
2.116
2.153
2.129
2.135
2.106
2.138
2.168
2.200
2.269
2.315
2.276
2.307
2.300
2.322
2.343
2.334
2.326
2.367
2.401
1.004
1.041
1.081
1.059
1.050
1.044
1.084
1.129
1.160
1.218
1.218
1.202
1.262
1.301
1.338
1.339
1.367
1.370
1.392
Italy
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018

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