Political Science

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ITALY:
AN ECONOMIC POLICY ANALYSIS

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1. Introduction

When dealing with Italy's domestic and international economic situation, one issue is paramount in the mid- to late 90's. Will Italy be able to join the third stage of the European Monetary Union (EMU)? What has the Italian state done to reach this goal? The step the EU is about to make will not only strongly affect all member states but also all other European states. The world economy will experience a monumental change. Italy almost desperately wants to be a part of this "experiment", hoping to shine in the light of currently more stable and successful EU members like France and Germany.

A profound discussion of the Italian economy within the EU also requires a close look at Italy's domestic strengths and weaknesses. To deal with all issues which might be of interest in this short paper simply is impossible. That is why I chose the topics, which seem to be of particular interest with regard to a more and more unifying Europe such as inflation, unemployment and administrative weaknesses. I will also try to analyze Italy's current measures to try to match the strict economical criteria.

2. Learning from the past? The "miracolo economico"

From 1950 to 1963, Italy witnessed a huge economic expansion. The developments of this period have been labeled as "miracolo economico", the economic miracle, referring to the West German phenomenon. Per capita income almost doubled and the GNP reached growth rates of up to 8.3 percent (Ammendola 265). Are there any lessons to be learned from this period of prosperity? What was the secret of this success in the wake of the Second World War?

First of all, Italy during these times went through enormous structural changes, and became a more industrialized country. While in 1951 42.2 percent of Italian workers were part of the agricultural sector, by 1961 the percentage was down to 29.1 percent. During the same period the percentage of workers in the industrial sector rose from 32.1 percent to more than 40 percent. Its production figures show annual growth rates of up to ten percent. The service sector also experienced remarkable growth. High rates of investment and rather unusual price stability were part of the economic miracle. Unfortunately, the rapidly developing growth was not evenly distributed. A northwestern industrial triangle composed of Genoa, Turin and Milan became the focal point of a large wave of people emigrating from southern Italy to the wealthier North. Trying to close the gap, the Italian state passed bills supporting southern enterprises and investments in the South (Ammendola, 266). These governmental efforts were not very successful but important in the sense that they marked the beginning of more intense economic planning by the state.

The outstanding success of this period above all was the result of further industrialization of a former mainly agricultural nation. The change to the service- and industrial sector provided the Italian economy with a boost that was even intensified by the low labor costs. With the masses moving to the North, near full employment led to higher salaries which seriously damaged the competitive advantage of Italy's export-oriented industry (Ammendola, 266).

Consequently, the most important lesson to be learned from the Italian economic miracle is that more effective ways have to be established to create economic and social equality between the wealthy North and the still relatively underdeveloped South.

3. North vs. South: Regional Disparities

The "Mezzogiorno", despite various government measures and continuing support still remains one of Italy's major domestic problems. Action taken in the wake of World War II and during the 50's, such as the creation of small properties instead of larger, mechanically more advanced farms was unsuccessful because it was against the trend of the time and a step backwards instead a move towards a more developed region. It aimed mainly at increasing the electoral support for the governing party. The newly established "Cassa per il Mezzogiorno" (a state development bank for the South) reflected these policies with large shares of its funds going into agricultural projects (Ammendola, 265).

A look at some of today's most important economic indicators shows that the South is still behind. Per capita product, per capita consumption and savings deposits are much lower than in the Center-North region, while youth unemployment is three times higher (Locke, 177). The South's share of the nation's total unemployment rose from 44.3 percent in 1980 to 52.3 percent in 1990, even though the North at that time went through a difficult period of industrial restructuring (Locke, 176). Besides unemployment and poverty, other features associated with the South are crime and especially corruption. The level of education also has always been below the national average.

Without question, the problems of the South rank high on the national political agenda. Public investments have to remain high and already initiated improvements in the infrastructure need to be accompanied by an increase in private investment. Ammendola also emphasizes the need for a further crackdown on organized crime (277). The state can be and in the case of Italy has

to be the trigger of change. This becomes even more obvious if one has a look at public services and welfare state provisions in the South. One of the defects of the Italian welfare systems is that it discriminates against large families with unemployed spouses, which are common in the Mezzogiorno (Ferrera, 233). The next section of this paper will deal with some of the structural and organizational inefficiencies in Italy.

4. Bureaucracy and over-regulation: illnesses of the Italian state

The Italian "stato sociale" (welfare state) is the subject of an Italian paradox. Although its size is slightly below the European average, in public debates it is indicted as one of the main reasons for the nation's financial problems. Ferrera in his discussion of the future of the Italian welfare state names three reasons to explain this. The first is a high public debt, causing a desperate search for programs to cut; the second is the lack of chances to increase taxes; the third is the inefficiency of the welfare system itself, which is widely abused and marked by uneven distribution. He sums up the problem of the government in one simple sentence: "The Italian state does not spend "too much" for social purposes, but definitely spends badly" (232). However, the pressure caused by the convergence criteria for the EMU has caused a shift in spending priorities. Interest payments are now the largest area of spending, causing a decrease in the sum related to social policy (della Sala, 22).

Public administration is another Italian sector in need of serious reforms. Quantity and quality of public services are often inferior to those of other European countries (Ammendola, 277). Clientelistic party interference as well as excessive overregulation have been seriously threatening Italy's competitiveness within Europe. A jungle of laws harms entrepreneurs and

drives away potential investors. Fewer but more sensible regulations are what reformers are looking for. In a referendum in 1993, a clear majority of Italians even voted for the abolition of segments of the administrative apparatus. Italian users of public services in surveys also state significant dissatisfaction with the state of administration (Cananea, 204).

These problems have to be solved, particularly because of possible European Monetary Union and the increasing European integration,which requires a high rate of efficiency to comply with its regulations. Other European countries are better organized and therefore might be better prepared to support their citizen's interests (Cananea, 208). However, as skeptical as this may sound, since the beginning of the 1990's the Italian bureaucracy seems to be on the way towards higher efficiency, stressing actual results more than formal procedures and precise observance of even the least important legal regulations. Still there remains a strong need for the full implementation of four crucial principles of public administration: efficiency, simplicity, transparency and publicity (Ammendola, 277).

5. Unemployment in Italy

Italy's high unemployment rate is another issue, which strongly needs to be addressed. In 1994 the average Italian unemployment rate was 11.5 percent. In the Center-North region it was 8 percent, while the South had 21 percent (Curtis, 276). Since then, the unemployment rate has remained at about 12 percent. While one reason for this high level is the rigidity of the labor market, which also plagues other European countries, Italy's unemployment also is largely uncyclical and highest among young people and women. This points towards structural deficits, which have to be overcome without threatening the success of the fiscal consolidation and

disinflation strategy.

The OECD in its economic survey of Italy calls for the creation of a new wage-setting environment. In fact, it has already discovered “signs of the labor markets having become less rigid in response to the important measures of structural reform undertaken since the early 1990s...“ (Economic survey, 7). In September 1996 the social partners and the government signed a very important agreement trying to make the labor market more efficient. The "Patto per il Lavaro" builds on the tradition of social consensus and mainly aims at an increase in flexibility concerning wages and labor costs. It also should help to lower non-wage labor costs and wants to improve the infrastructure in economically weaker regions, such as the South. An upgrading of the quality of "human capital" is part of the agreement as well as the improvement of the efficiency of public employment offices (7). Since the eventual European Monetary Union rules out monetary policies as stabilizing instruments, the OECD report stresses “the need for creating a wage setting environment which helps to preserve Italy’s current competitiveness and hence to create the conditions for employment growth“ (7).

6. Debts, deficits and inflation: Italy and the third stage of the EMU

A few months ago, the probability of Italy joining the EMU from the start date in 1999 still was considered very low. Important members of the European Union such as France and Germany openly remained skeptical about Italy’s participation. They feared that allowing the Italians to join might undermine the whole project of the European Monetary Union. However, after the publication of the recent estimates about key convergence criteria, Italy’s chances are better than ever. Especially surprising are the numbers concerning inflation, which used to be one of the

nation's most serious problems for more than two decades. After it dropped out of the European Exchange-Rate Mechanism in September 1992, it was allowed in again in November 1996. From this point on, the Italian lira has performed well. Having stabilized at a rate of about 2.5 percent, Italian inflation now is within the range of the Maastricht convergence criterion (within 1.5 percent of the best-performing EU countries) (Economic Survey, 7).

Any member state that wants to be part of the EMU's third stage is only allowed a public deficit maximum of three percent of GDP. Italy apparently also matches this important criterion. However, the Italian government has a serious problem with its public debt. It is only falling slowly from a level twice as high as the Maastricht Treaty allows (Economic Survey, 7). But many analysts believe that this criterion might play a less important role when it comes to actually allowing members to join. How did Italy over such a short period of time manage to progress so impressively in terms of finance and economy? Which efforts were made?

When Italy was forced out of the ERM, this was a major turning point in Italian economic policy. The newly formed government under the leadership of Giuliano Amato mainly consisted of economic specialists and immediately introduced considerable tax-increases and spending cuts. Huge privatization programs followed. A new bill gave the government the authority to attack the structural deficits mentioned above, a move leading to immediate savings of $ 8.6 billion (della Sala, 25).

The Maastricht Treaty and the publishing of the convergence criteria for the third stage of the ERM in 1991 played a very important role in this process. It not only established a clear timetable for budgetary aims but also provided Italian governments with a reason to bring about

changes concerning the role of the state. This allowed the government to take more dramatic steps within a shorter period of time. The goal of reaching the convergence criteria in time, also established a rare consensus between the Italian political parties, which all seem to be working together in the name of one common goal: join the third stage of the European Monetary Union. Last but not least, the Italian citizens also strongly support the idea of Italy joining the new currency. This makes them more willing to accept measures such as the "Europa Tax" and gives the Italian government an enormous amount of credibility.

7. Conclusion

Italy, at least in economic terms, has changed significantly during the late 1990's. The concepts of the European Union and especially the European Monetary Union have provided Italian economic politics with a motivational boost. The whole political scene seems to gather around one objective: join the third stage of the European Monetary Union. Technocrats and economists now try to reform a state willing to work on its problems. Given the current situation, a failure to enter the EMU might cause a serious breakdown, giving further ammunition to northern separatists who want to secede from the underdeveloped South. On the other hand, being allowed to join the EMU does not automatically solve all of Italy's problems. Current efforts to stabilize competitiveness at a high level need to be continued, regardless of a possible EMU. Then, even if Italy is not admitted in 1999, chances are high that it will be allowed to enter in the near future.

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