Italian Economic System in Conditions of Crisis

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Abstract: In this paper we analyze a particular economic systems based on SMEs: Italy. The research methodology is based on theoretical works, statistics macroindicators from official sources, as well as on conclusions drawn from direct interaction with the Italian economic environment.

Keywords: italian economic system, economic growth, crisis

Introduction

The supporters of globalization, less than half a decade ago, fostered the conviction (which they inoculated to the crowds) that nothing could stop the economic growth. The technological progress has always been a defining aspect for the continuously upward trajectory that human kind has taken from an economic and social point of view. The economic cyclic character was annulled, as it was considered that recessions would only occur occasionally, on restricted areas, and would be easy to administer. The conclusion was reached that in a global, open economy, regress is not possible any more, and the economic theory is not valid any more. The jackpot was hit, and capitalism, in its various forms proved to be the best solution for all the problems, regardless of their nature, be it economic or social. Capitalism, especially the American type, is a panacea, and the only problem we should still solve is that of the gaps of development existing in the world between the developed, the emergent and the poor countries.

The whole world bears the consequences of the current recession. Europe, and particularly the European Union, where the dependencies are very high due to the extremely advanced liberalization of the markets, is seriously affected. By virtue of the north-south relations within the EU, the developed states are obliged to provide support to the less developed ones, although presently both groups of states face major economic and social problems. In the context of liberalization, problems have become common, although the reality has demonstrated that when they are solved, the developed economies have first claim. Given that they represent the pillars of the economy, we will analyse, in the following, some aspects of the Italian economy, the third developed country of the euro zone.

1. The Current Economic Crisis

We are currently going through a highly challenging period associated with a wide-ranging crisis, which strongly affects the economy and society. A fierce struggle for survival rather than supremacy is played out on the market and consequently the capacity to adapt becomes a key feature of organisations, regardless of their size.

The economic crisis shaping the current period since the year 2008, far from being over, has sparked panic in society and led to strong economic and, in some cases, social instability. Imbalance is the characteristic observed in most markets, with very limited exceptions, such as Poland, despite efforts made by most states of the world to return to an upward path that should reflect positively in the real economy and in society.

The overall picture of the economy is deficient because the financial, fiscal, external and real sectors are now far from operating under certain and stable economic conditions. The responses of each individual economy, under crisis conditions, have been different: some economies have pursued their efforts to open up their economies and adjust their domestic markets accordingly, while others have focused on their domestic market and on its capacity to stimulate the economic recovery [6]. The austerity measures promoted in the vast majority of economies are restricting the capacity for growth of the domestic markets, therefore it is vital to rely on international linkages and capitalise on opportunities provided by an increased degree of economic freedom.
In an economic crisis, there is a risk for developed economies to stagnate or to decline sharply, whereas emerging economies may rapidly slide into poverty for a very long period. The more rapid the economic and social decline, the more difficult the rebound may prove, requiring an optimal mix of economic policy measures applied depending on the characteristics of each individual economy. Over the course of time, economies have experienced successive protectionist or liberalising measures that have served as the basis for increasing market freedom. As international economic dependence has increased, obstacles to free movement have reduced in size. The outcomes have been particularly encouraging during expansionary periods, reinforcing the belief in liberalisation as a beneficial process for economic growth and development and in economic freedom as an appropriate environment for progress, especially in an economy and society which rely increasingly on knowledge. The dilemma of choosing between liberalisation and protectionism and between economic freedom and constraint remains a relevant issue during recessionary periods. Providing that the ongoing economic crisis can be overcome in a context of economic liberalisation and freedom, then these latter processes will categorically emerge as key drivers of growth and development and will act as prerequisites for general progress irrespective of the stage of the business cycle.

The European Union faces a decline in its economic development potential, especially as a result of the downturn of the Greek economy, and consequently the priority is to focus on the economic development axes. The beginning of the year 2011 marked the passage from the Lisbon Agenda (2000-2010) to Europe 2020 (2011-2020). The first five headline targets of the European Union for the next ten years are:

- to raise the employment rate of the population aged 20–64 from the 69% to 75% (to achieve a reduction of unemployment among the working-age population by 6%);
- to increase research and development investments to 3% of GDP;
- to reduce the share of early school leavers from 15% to 10% and increase the share of holders of tertiary education degrees in the 30-34 age group from 31% to 40%;
- to reduce greenhouse gas emissions by 20% compared to 1990 levels;
- to reduce by 25% the number of persons living below the poverty level, the equivalent of approximately 20 million people.

For the following ten years, the European Union has set a range of objectives that are relatively similar to those stipulated by the Lisbon Agenda, with a deep social focus and seeking to protect vulnerable groups. The priorities of Europe 2020 (increasing education levels, decreasing unemployment, reducing poverty, limiting pollution) will only be achieved if they are correlated with the objectives of increased competitiveness and economic growth, otherwise they will only be a statement of good intentions (Poverty reduction is an extraordinary objective, yet its achievement tends to run counter another headline EU objective, i.e. economic growth).

European states have recorded better or more modest levels of growth, varying from case to case. For example, the eurozone countries had an average growth rate of 0.41%[9].

In what follows we will refer only to the Italian economic system.

2. Italy in the Current Economic Conditions

Italy is the third economy in the euro zone, the eighth economy of the world and the seventh developed economy, according to World Economic Outlook - 2011. The main factors of attractiveness of the Italian economy would be:

- the large and rich market;
- the intercultural character of the market (11% of it only is considered European market);
- the advantageous geographic, economic and strategic position (a littoral to the Mediterranean Sea, at the intersection of commercial roads, between the European Union – whose member it is – and the Mediterranean Sea);
- an open, liberalized market;
- a developed strategic sector[13].

From an economic point of view, the peninsula can be easily divided into two distinct regions of development: the north and the south. The north region is industrialized, the economy being
dominated by private companies, while the south one, less developed, is dependent on the north region, being mainly an agricultural area, characterized by a high unemployment rate. The north part of Italy is situated on the Blue Banana “corridor”, a European area along which are concentrated the European industrial branches, business and money[5]. Beyond the financial, industrial and urban concentration, the corridor also cumulates a high percentage of the European population. Blue Banana is the European equal of the American famous Silicon Valley, but the concept, developed by the geographer Roger Brunet polarizes Europe into two major categories, of winners (the regions located on the Blue Banana corridor) and the losers (the rural areas, the cities situated at greater distances, the entire Eastern Europe)[14]. The Blue Banana corridor is bordered, in the south, by the Italian cities of Milan, Venice and Genoa, situated in the north half of Italy.

Italy’s economic development is supported by the industry providing consumption goods and services, made especially in small and medium-sized enterprises, many of them being, in fact family businesses.

Another characteristic feature of the Italian economy that we cannot neglect is the underground economy, which holds a high rate of the GDP (about 17%) according to the CIA data[12]. The main affected sectors are agriculture, constructions and services.

The GDP structure offers us an image of the economy whose tertiary sector is strongly developed. The services hold 73.4% of GDP, the industry 24.7% and agriculture just 2%[12]. Although the sector structure is specific to developed economies, under crisis circumstances, a preponderant tertiary sector is not necessarily an advantage, but rather, on the contrary, a major disadvantage. The economic growth is, under these circumstances, conditioned by the sustainability of the tertiary sector and especially of the tourism activity, the preponderant one. Out of the total active labour force, 67.8% carry out its activity in the tertiary sector, 28.3% in the secondary one and only 3.9% in the primary one.

According to the information provided by the KOF index of globalization, out of the total number of Italian companies, only 0.3% are multinational ones, but they contribute over 25% of the investment in research and development[15].

In 2005, before the world economy entered the recession, The Economist named Italy the sick man of Europe[1], being considered the laggard of the Euro zone.

After the world economy entered the recession, the economic macroindicators demonstrate a not at all favourable situation for Italy: a decreasing rate of economic growth, a rising rate of inflation as a result of the increase of the consumer prices while the incomes remained constant, which strongly affected the purchasing power. In 2008, the economic growth was 0.4%.

Although this is one of the pillars of the European Union, due to the public debt accumulated in the post-crisis period and to the structural problems it faces, it has become a vulnerable economy on the international financial markets. Italy’s public debt has consistently increased starting from 2007, reaching in 2011 the total of 120% of the GDP.

For Italy, the second half of 2011 represented the proper time to take some austerity measures, meant to balance the budget until 2014 and to reduce the weight of public debt. This package of austerity measures involves the increase of VAT, the reformation of the pension system, and dismissals in the public administration field.

In the current period, the Italian government faces pressures from the investors and the trade partners, especially in Europe, due to the impediments of structural nature maintained on the long run, like the inflexible labour market and a high tax evasion. These problems existed before the crisis started, but from 2008 they have grown significantly graver, especially on the labour market where the unemployment rate rose from 6.2% (2007) to 8.4% (2011) [7].

There are few possibilities to revitalize the labour market, in the long run. According to CIA data, Italy is a country with a reduced demographic rate (0.38% - the 157th world position), with a life expectancy
at birth listed at 81.86 (10th world place – 79.24 in men’s case and 84.63 in women’s case) and a flux of migration of 4.67 per thousand[12]. The population’s structure in age groups demonstrates more clearly that in the medium and long run there is an aging tendency of the population.

Although Italy’s economic growth rate decreased in 2011 compared to the previous year, it remained positive. In 2009, Italy’s economic growth rate was negative, recording a 5.2% decrease compared to 2008, when it had been only 0.4%, much under the average of the Euro Zone (1.5%) [3]. The delicate situation of the Euro Zone, especially, a result of Greece’s economic difficulties, had an impact upon Italy who, in 2011 recorded a growth rate of only 0.4%. As a result of the economic recovery in 2010, GDP per capita increased slightly, remaining constant in 2011 as well. Italy’s economic growth is weak and fluctuating, and the associated risks are still high.

In 2011, the investments were 25% of the GDP, Italy being, from this point of view, on the 91st position in the world. The rate of industrial growth was estimated to 0.2%, Italy occupying the 147th world position. The main goods are tourism ones, equipments, iron, steal, chemical products, processed alimentary products, textile materials, motor vehicles, clothes, footwear, ceramics.

As far as the State budget is concerned, 2011 was characterized by deficit (incomes of 1,025 billion dollars and expenses of 1,112 billion dollars). Compared to the GDP, the deficit was estimated, for 2011, to 3.6% (the 116th world position). In 2010, according to the World Economic Outlook data, Italy’s budgetary deficit represented 4.6% of the GDP, slightly higher if compared to Germany’s one, 4.3% of the GDP, and under France’s one, 7.1% of the GDP. In the first half of 2011, the Italian government established a series of medium run objectives, most of them rendered possible by measures of austerity, with a view to balance the budget by 2014. Among them, there is the economic growth one. The GDP projections are 1.3% for 2012, 1.5% for 2013 and 1.6% for 2014 [10].

One of Italy’s current economic problems is the public debt. In 2010, this was 119.1% of the GDP, and the estimations for 2011 are 120.1% of the GDP.

A weakness of the Italian economy in the current period is the failure to impose an economic dynamism strong enough for the economy to record a high level of productivity, because of the problems of effectiveness and innovation of the economic system. A great part of the public expenses are directed towards the wages financing in the administration; according to other opinions, like Wolfgang Munchau’s one (an editorialist at The Economist), in the knowledge-based and information-based economy, public expenses should mainly support the education system, like in Finland, and thus the economic growth will stay, in the best case, around zero, in a situation of reduced competitiveness [1].

The labour market, with all its defects, was well administered until the recession started. Employment opportunities were created, for the immigrants too, and the salaries were established at an attractive level. The aging of the population (an increasingly accentuated process), its current rigidity and the pension system that need over 14% of the GDP, are factors that will probably push Italy into a vicious circle.

The Italian economic weaknesses influence the reduction of competitiveness and of the innovative capacity, with effects upon the economic growth, while the global and regional economic situation forces the concentration of macro-economic efforts to support the objectives of growth and development.

Conclusions

Until the recession affected the world economy, Italy was regarded as a country with a sufficiently strong economic system, capable to face the challenges of economic liberalization and globalization.

Nowadays, the difficulties associated to the crisis periods are accompanied by economic problems of domestic nature, like the gerontocratic economic system, the reversion of the age pyramid, the reduced innovative capacity, the dominance of the tertiary system, the strong migrational flux, the failure of the
reforms of economic policy under the influence of pressure groups, which reduce the dynamism and the potential future of Italy’s economy.

References
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