

# Analysis on the Causes of Italian Economic Recession after the 1990s

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**Abstract.** Italy is the world's tenth largest economies, one of the four big economies in Europe, but since there are many problems of its economic development, Italy had been mired in three recessions since 2008. In recent years, development situation is not optimistic because of the hit of COVID-19 pandemic; expect that, the influence of European debt crisis also made the Italian economy could not return to the past economic level. Being faced with the pressure of epidemic prevention and control as well as the recession risks, containing a recession seems extremely difficult for Italy. This article will start from the chronic illness of Italy's economic development, combined with the Italian economy development history after the Second World War and investigate the key causes of the Italian economic downturn. Italy used to be the birthplace of the Roman Empire, with a remarkable history and glorious culture; it also had its own moment of glory in the modern economic history. In the 1950s until the end of the 1960s, it witnessed a lasted 20 years of rapid economic growth, which is called "economic miracle" of Italy. Nowadays, this prosperity period is long gone, and Italy even be seen as Europe's "white elephant". Fierce outbreak of novel corona virus since 2020, Italian domestic epidemic is raging. And the increasingly rigorous anti-epidemic measures not only made the local people "flee at the news", but also act as a daunting prospect try for the investors, then cause a full-blown attack on the weak Italian economy. Since 2000, there is an almost zero growth in Italian economy, and falls into the predicament of the recession after 2008. Therefore, with the spread of the epidemic, now Italy's economic risk has been close to the edge of the cliff..

**Keywords:** Italian economy, economic recession, reasons, European debt crisis

## 1. Introduction: Italy's economic development after World War II

Italy is located in southern Europe, including the peninsula, Sicily and Sardinia Island. The north is bordered by the Alps, bordering France, Switzerland, Austria, Slovenia, while it faces the Mediterranean to the east, south and west. Italy covers an area of 301333 square kilometers, with social population of 59.259 million in total, according to the latest demographic report released by ISTAT. Italy lacks of natural resources, while energy supply and industrial raw materials mainly rely on import. Italy's gross domestic product in 2020 was \$1.88645 trillion, with \$29287.08 per capita. In April 2022, the unemployment rate reached 8.5%, and 6.5% for the rate of inflation.

### 1.1 A temporary success, economic miracles reappear

In May 1945, the Second World War came to an end eventually. After which Europe was in the midst of piles, and the people displaced, the economy of Europe was bound to have a serious setback. As a defeated country, Italy suffered from war seriously. According to the statistics, after the war, a third of Italy's national wealth was destroyed, industrial equipments were badly damaged. Industrial production and national income fell by more than 50 percent and tens of millions of people lost their work. Even some of the daily necessities are in need of relief from other countries. Till 1946, the United Nations Relief Agency provided about \$450 million worth of food, fuel and other necessary assistance to Italy. In addition, The Soviet union, Britain, The United States, France and other 19 the victors of World War II signed the treaty of Paris with Italy in February 1947.

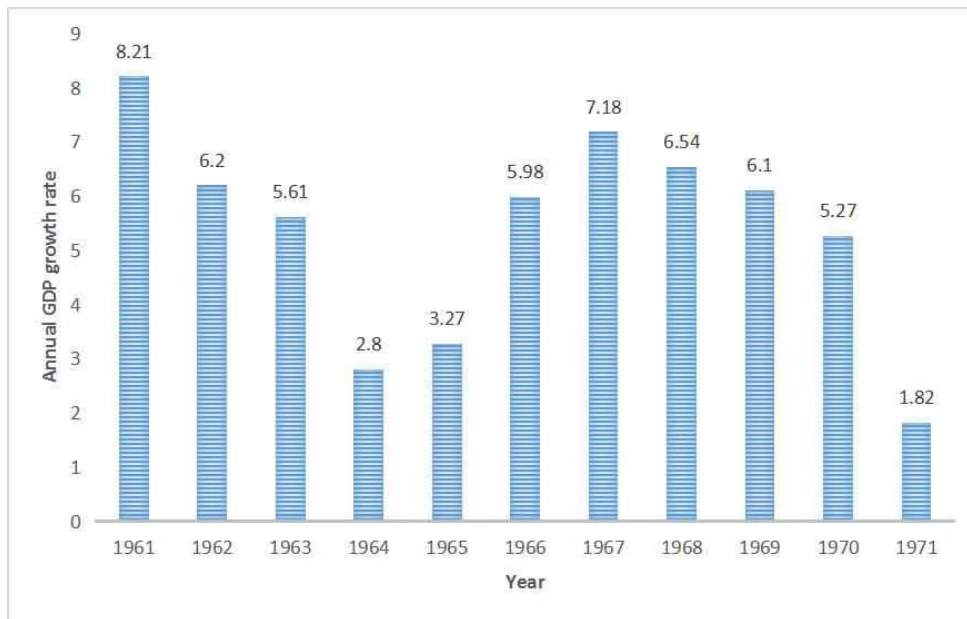


Figure 1. Italy’s annual GDP growth rate in 1961-1971

In just a few years later, however, the Italian economy quickly recovered, and thus entered the high-speed economic development golden period of 20 years, which is also called the "economic miracle" of Italy [1]. Even from 1964 to 1973, when Italy's economy slowed down relatively, the economic growth rate reached 5%, which was undoubtedly one of the most stunning digital during the long post-war boom, and was second only to West Germany in Europe. The US aid played a crucial role in the economic rise of Italy. And Italy also became one of the biggest beneficiaries of “Marshall Plan”. In the five years implementation of the Marshall plan from 1948 to 1952, the United States offered a \$1.47 billion aid to Italy. Thanks to Marshall Plan, Italy's economy began to recover slowly. According to statistics, from 1951 to 1963, the average economic growth rate of Italy reached unprecedented 5.8%, these years were the first golden age of the country's postwar economy, known as the "economic miracle" of Italy. Under the support of The United States, Italy established a free market and open line in favor of the United States. To ensure the operation of the free economic system, Italy introduced a series of laws and regulations aimed at promoting the development of domestic economy and the land reform in 1950 and agricultural transformation of the agricultural reform act is implemented. The Agricultural Reform Act of 1950, which introduced land reform and agricultural transformation, was also implemented. At the same time, the European Economic Community established in 1957, of which the lower tariffs and market access provisions made Italy get more opportunities of investment and exports. The dynamism unleashed by the new liberal economy is the main reason of the full economic recovery. After World War II, the Italian didn't take the path of financial industry derivative like Britain and the United States, but make full use of its own national conditions to vigorously develop small and medium-sized enterprises, embarked on the way of manufacturing-based real economy. According to the statistics of 1951, in Italy, 99.87 percent of SMES had fewer than 500 employees. So Italy is also known as the kingdom of small and medium enterprises. From 1951 to 1963, Italy promulgated four laws in succession to boost the development of small and medium-sized enterprises, which greatly promote the development of the industrial process in the southern part of Italy. During the "economic miracle", under the support of the policy, the data of the export of the small and medium-sized enterprises in Italy was particularly conspicuous. For example, from 1958 to 1963, textile exports increased by 151.4%, the furniture industry exports rose by 102.7%. Ferrariform Fiat and Fashion from Milan became the darlings of the luxury world. Italy successfully transformed from a traditional agricultural country to a modern developed industrial country and became a manufacturing powerhouse in the world. It can be said that the small and medium-sized enterprises are the foundation of Italy’s economic revival.

### 1.2 Mired in recession for three times in a decade and the intractable economic malaise

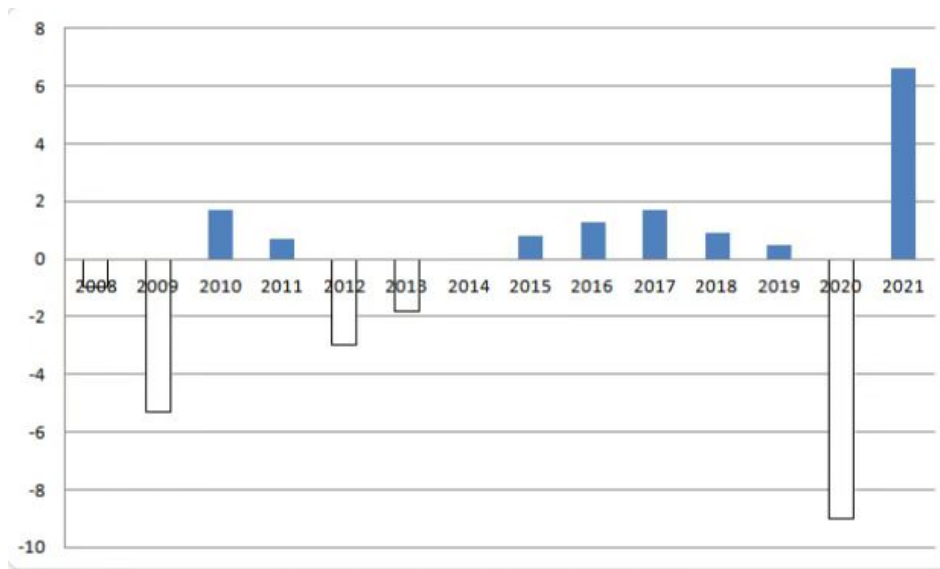


Figure 2. Italy’s annual GDP growth rate in 2008-2021

Before the epidemic outbreak, the Italian economy was already in dire straits. Since 2008, the Italian hit by the international financial crisis continuously, the economic crisis and the sovereign debt crisis, going through the longest as well as the most serious economic recession since World War II. To be specific, from 2008 to 2019, Italy’s economy has suffered three deep recessions. From 2018 to 2019, Italy’s GDP fell for two consecutive quarters, combined with the previous two recessions in 2008 to 2009, and 2012 to 2014, in other words, Italy had caught in three economic crises in a decade since 2008.

## 2. The actual performance of recession

### 2.1 Italy's economy faced continuing downside risk

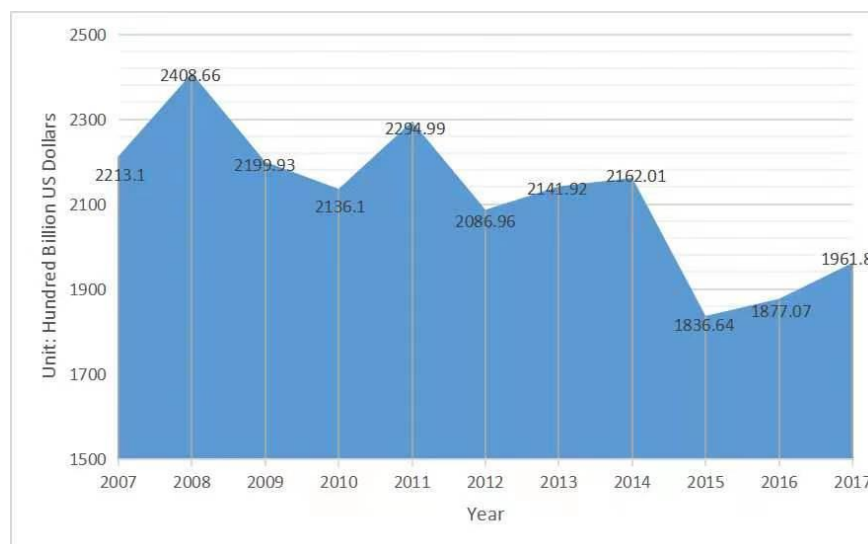


Figure 3. Gross National Product of Italy 2007-2017

According to a report by the Federation of Italian craftsmen and Small Business, from 2000 to 2017, Italy's GDP grew by an average of 0.15% a year, which was close to "zero growth", and was the bottom among the Eurozone countries. The contrast with the average growth rate of 4.8% per annum in the 1960s and 1970s as well as that of 1980s to 1990s was sharp. Among them, GDP growth rate was lower than -5.3% in 2009. After 2014, the Italian economy started to recover slowly with the

average annual growth rate of lower than 1%, less than half the EU average for the same period (about 2.1%). The GDP growth rate in 2018 and 2019 Italy were 0.8% and 0.3% respectively. Therefore, the Italian economy was confronted with great downward pressure [2].

Overall, in the 17 years from 2000 to 2017, GDP grew by 2.6% in Italy, far behind the rest of the economies in Euro zone, especially behind France, Germany and Spain (the growth rate were 21.7%, 23.7% and 31.3% respectively).

## **2.2 Unemployment is high, per capita wages stagnated.**

According to the latest figures released by Italy's National Statistics Agency, the number of unemployed in Italy rose by 60000 year-on-year in 2021, while the unemployment rate rose to 9.5%. In 2021, non-labor force population aged 15 to 64 decreased by 460000 people on year-on-year basis. In April 2022, Italy's youth unemployment rate was 24.2%, and in March 2014, the data was 43.5%, the highest point on history. In recent years, the unemployment rate in Italy remained high. It is easy to find from the above data that the young people are the majority of the ranks of the jobless. In the past 37 years, during the most serious period, even nearly half of the young generations in Italy do not have a job[3]. Chronically high unemployment is not only a sigh of slow economic growth but also the main factor that hinders economic development of Italy.

According to the statistics of OpenPolis, Italy's average pre-tax salary in 2020 was 32700 euros, far behind 39200 euros in France and 46100 euros in Germany. Compared with three highest average wages countries in EU, it was 56600 euros in Luxembourg, 50600 euros in Netherlands and 50200 euros in Denmark, the average salary for Italy was relatively low in European countries. Surprisingly, the average salary in Italy was not only low, and there had been a negative growth for 30 years. From 1990 to 2020, the average annual salary fell by 2.9%. And during the 30 years, Italy is the only EU country of which the average wage fell but not rose. During this period, the average wage in France increased by 31.1%, and that of Germany increased by 33.7%. The average salary in Greece also increased by 30% although it was stuck in debt crisis. While the average wage in Italy dropped by 2.9%.

## **2.3 Epidemic outbreak brings greater impact on Italy's economy**

The outbreak in Italy directly affected the financial markets, led to sharp fluctuations in financial markets, and the economic sentiment continued to slide. On March 12, 2020 only, the ITLMS index of Italy fell by 3194 points, and the decline was 16.40%, which was the biggest one-day fall since the beginning of the year. Until March 16, the ITLMS index dropped by 37.03% compared to that of the start of the year.

As for the real economy, a nationwide lockdown city brought Italian commerce to have a halt and transportation to a standstill. The consumption in Italy's key industries of retail, tourism and restaurants fell sharply, and the manufacturing took a hit as well. Italian Consumer Confidence Index and Industrial Confidence Index in February was -13.7 and 4.8 respectively, both were at low levels since 2018. At the same time, the Italian manufacturing has been shrinking lately, Italian manufacturing PMI was 48.7 in February, and remained below the threshold for 17 consecutive months.

Also, the foreign trade is flagging. Tourism, automobile and other export pillar industries affected by the epidemic dramatically. As an export-oriented country, Italy's economy depends on exports greatly, and exports accounts for about one third of GDP. Affected by global trade tensions, Brexit issues, the carbon emissions regulations for passengers and cars and other negative factors, Italy's foreign trade works badly. In 2019, the number of exports of goods and services was 518.657 billion euros, while the year-on-year growth rate was 1.17%, which was the lowest for almost 6 years. That of imports of goods and services was 487.973 billion euros, fell by 0.39%, and was the first negative growth for almost six years. As the epidemic spreads around the globe, Italian foreign trade situation became more serious, the export pillar industry, such as automobile industry tourism suffered a loss and the stability of its trade structure was damaged. After the outbreak, the Italian government

regulations banned domestic travel and population movement, which results in a stagnation of tourism in Italy. In the early stage of the outbreak, some of the automobile manufacturers supply chain in Italy was broken, several automakers closed down their factories because of the confirmed cases among the employees and the prevention from infection.

### 3. Analysis of the cause of economic recession in Italy

Italy has been fallen into the predicament of the recession for three times since 2008, analyzing and exploring carefully, the following four major diseases are the key causes for the Italian economic depression.

#### 3.1 Maintain long-term high welfare social policies as well as the high public debt

Huge debt is the root cause for the weak Italian economy.

Since the Eurozone was founded, all member states could enjoy the same credit rating system and benefit from the low interest rate policy introduced by European central bank. As a result, the credit accelerated among the Eurozone countries, particularly in Italy and Greece, borrowed excessively, which foreshadowed the Europe's sovereign debt crisis erupted after the financial crisis.

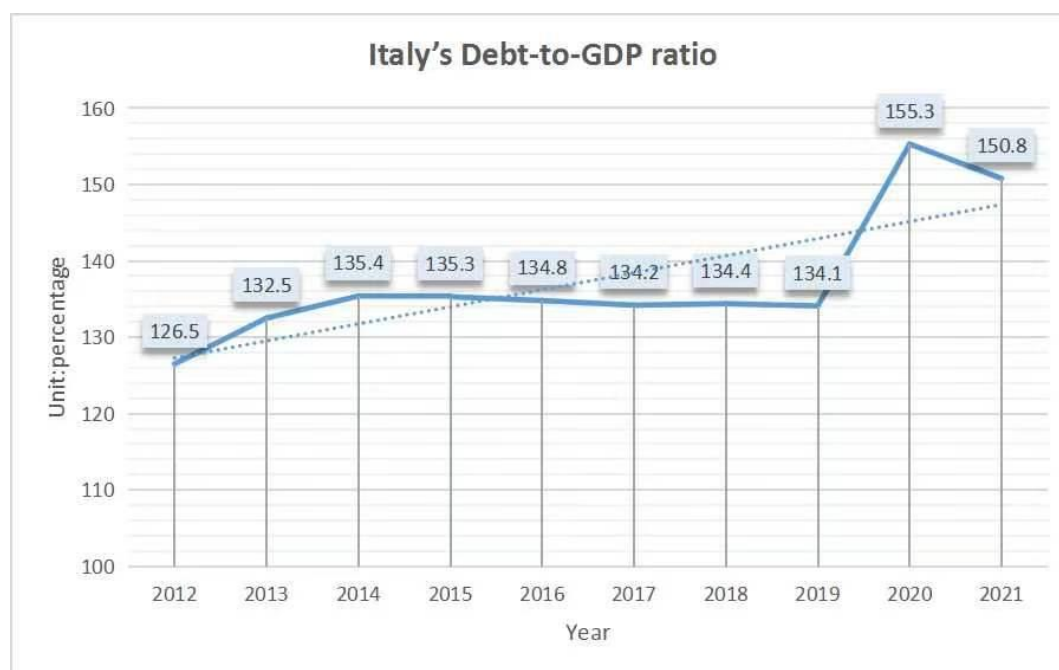


Figure 4. Italian government debt as a percentage of gross domestic product

As one of the major participants of the European debt crisis, Italy is one of the very few OECD countries that has not yet returned to pre-crisis economic growth levels. Meanwhile, Italy is also the only one of the seven countries of which the per capita GDP has not yet returned to 2007. Thus, the EU has been particularly wary of Italy's economic "excessive imbalances" problem. According to the "European semester" mechanism released economic assessment report of the member states, the accounted for 134.8% of GDP in Italy in 2018 and rose to 136.2% in 2019, and 136.8% in 2020, further increased to 137.4 in 2021. Italy's annual public debt ratio of more than 130% of its gross domestic product (GDP) is much higher than 60% regulated by the Maastricht treaty in the European Union, as well as 90%, which is the warning line for the public debt in the developed countries.

High public debt is a heavy burden that drags on Italy's economic recovery. The reason why Italy's debt crisis is so severe partly because the Italian people enjoy the generous social welfare, including public education, public medical free, free vacation, which all above the average level of unemployment benefits and pensions[4]. Now, pension spending is big part of Italian fiscal spending, accounting for 16% of the GDP, and Italy is one of the developed economies with highest proportion.

As long as the problem of high aging social structure has not been solved perfectly, it's hard to manage and control the debt risk of Italy.

According to the annual government report of Italian National Statistics Agency, the comprehensive statistics on social aging shows that Italy male life expectancy is 81 years old, for women it is 85 years old, in 2020, in Italian society, people over 60 years old accounts for 28.59%, the 65 - year - old or older people takes up 22.36%. Italy is the oldest country in Europe. Around the world, Italy is now the world's second-oldest country, just after Japan. At present, Italy still adopts the policy of giving generous retirement package for retirees, which was introduced in 1952. But the ageing population brings a huge challenge for the implementation of the policy. At the same time, Italians are also faced with the serious problem of unemployment.

Deficit spending and excessive borrowing leads to deep in debt for Italy. As Italy's debt growing severely, once the global economy fluctuates, it is likely to cause a nationwide economic explosion, and bring a serial domino effect [5].

### 3.2 Single industrial structure, weakening small and medium-sized enterprise competitiveness

As one of the four great powers of Western Europe the seven major world capitalist, in theory, Italy's ability to fight the recession and to repay the debt wouldn't have been so vulnerable, so why it stuck in recession repeatedly? This may related to the Italian industrial structure.

Compared to other economies of the same size, Italy owns only a few world-class multinational corporations. While in this country, the small and medium sized enterprises account for more than 99% in the total number of enterprises, creating more than 70% jobs and 80% gross domestic product (GDP), that's why Italy was once known as "the kingdom of small and medium sized enterprises". We can say that the small and medium sized enterprises are the foundation of Italy's economic growth. However, they will either make it or break it. According to the European commission's small and medium-sized enterprises Tracking report, 95% of Italian enterprises with fewer than 10 employees, and the family is the core of the business model. Because of the small scale of enterprise as well as lacking innovation ability, product technical content is not high. Apart from that, small and medium-sized enterprises have neither interest nor ability to explore new markets. In the era of globalization, the emerging economies have also begun to industrial modernization and scaled production, which makes it difficult to highlight the advantages of the small and medium-sized enterprises, and lost their former brilliance gradually.

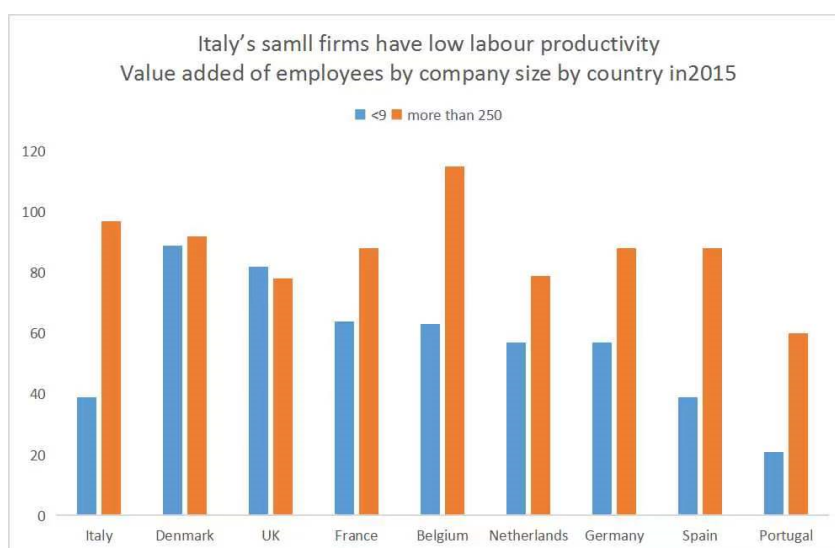


Figure 5. Employees' additional value of different company size across countries in 2015

Due to the small scale and family-run management, Italian companies' lack of experiences in operation and management compared to foreign mature large enterprises. In the same industry, the larger companies tend to invest more fund in upgrading, innovating, manufacturing and modernizing,

so they can make full use of the scaled production, and obtain higher overall productivity. According to the data of Organization for Economic Co-operation and Development, Italian firms are less productive than the foreign counterparts.

In addition, Italy's labor productivity has risen slowly, and there was even downward momentum. According to the statistics, from 1995 to 2015, Italy's labor productivity grew by 0.3% in average, while that was 1.6% of the European Union's average annual growth. In 2015, Italy's labor productivity fell by 0.3%. This result may be related to the culture where the local people hate competition. In Italy, it's a common phenomenon that young people are unlikely to learn the knowledge and employment skills. According to the data released by the European Union's Court of Auditors, by the end of 2016, the number of the Neet people (not currently engaged in employment, education or training) under 30 years old up to \$2.2 million, accounting for 24.3% of the total number of young people, and the ratio was the highest in Europe, while the average in European Union was 14.24%, and only 8.8% in Germany.

### **3.3 Italy lost the monetary autonomy and export superiority, and the economic vitality declined**

In order to achieve the goal of joining the Eurozone, Italy completely gave up its own currency lira which often devaluates, during the European currency reform in 1999, a fixed exchange rate was: 1 euro = 1936.27067 the Italian lira, which means the Italian's money shrunk nearly 2000 times all of a sudden. More than that, joining the Eurozone also deprived of the monetary autonomy of Italy. In order to fill the fiscal deficit, the Italian central bank took the policy of high inflation and high interest rates, combined with loose fiscal policy originally. But on the other hand, a weak currency created the advantageous superior environment for export, so during the period of lira devaluated continuously, Italy had created its own economic miracle.

But the birth of the euro means that the road of printing money to develop economy came to an end, Italy indirectly lost the control of switch of money printing machine. Without the independent monetary decision-making power, Italy can only solve the financial deficit through external loan. In the first decade of the 21st century, the euro remained firm, which was a disaster for the Italian economy, because the country's main exports are light industrial consumer goods. Compared to the German export machine products, they are more sensitive to the international exchange rate. From 2000 to 2018, Italy's GDP growth averaged less than 0.2% per year, which was close to "zero growth" and was a stark contrast to the average growth rate per annum of 4.8% from 1960s to 1970s and that of 2% from 1980s to 1990s. Overall, Italy without monetary independence could no longer use lira devaluations to obtain export advantage, which made Italy's economic vitality decline.

### **3.4 Poor political stability, severe social contradictions and difficult reforms**

The frequent government change is also an important factor that hinders the development of Italian economy [6]. At the political level, the parties and groups stand in great numbers so that the ruling party is unable to focus on development.

Italy now has hundreds of large or small parties, which not only lead to political dispute, but also bring great pressure on the ruling party since it has to spend more energy on defusing opposition parties and has less time to pay attention to the development. Republican since 1946, during the time of more than 70 years, Italy has replaced 64 governments. Since they would not be in power for a long time and faced with the danger of collapse, most of the government would put the self-preservation on the top when making policies to ensure the stability, so they lack of guts and courage and the policies are not long-term and forward-looking. The government would adopt expedient when encounter economic problems, which finally cause accumulating defects. So, the poor political stability and policy continuity are the major drawbacks of Italy's democratic system.

At the same time, the development gap between the north and south is huge, thus the resulting social problems and regional conflicts have been difficult to solve. The economic level of the southern regions has far lagged behind the northern parts. The mafia is on a rampage, which provides the illegal

economic development with social conditions, and leads to violence, drugs, and other social problems, such as organized crimes and gangsters, making more underground economy appears and cause corruption as well as tax evasion [7].

Inefficient government and public services are also dragging down Italy's economy. Italian judiciary authorities are of low efficiency, with each case taking an average of 3,000 days to deal with. In the global index of economic freedom, Italy ranks the 64th in the world, the 29th in Europe and last in the Euro zone. Italy's civil justice system ranks the second to last among 35 high-income countries, according to the World Justice Project. According to the European Commission for Judicial Efficiency, Italy takes an average of nearly 3,000 days to reach a final decision, compared with about 400 days in Switzerland, the most efficient country, and around 600 days for the European countries on average. Such judicial inefficiency is clearly leaving a negative effect on Italy's economy.

#### **4. The enlightenment of Italian economic development to China**

From the current situation, characteristics and existing problems of Italian economic development, we can get the following enlightenment:

##### **4.1 Guarding against government debt risks, implementing relevant laws and regulations strictly**

Compared to Italy, the overall debt ratio in China is not high from a macro point of view, and local government debt risks are generally controllable. However, risk awareness cannot be relaxed for a moment. The debt risks of some local governments, especially the hidden debt problem, must be paid great attention to. Auditing shows that irregularities in borrowing still occur from time to time, with many risks and hidden dangers. At present, we should realize that strengthening local government debt management and preventing them from the hidden debt risk is a key task in the battle of the precaution and resolution for the major risks. We must strictly implement laws and regulations, continue to improve the systemic oversight system, and implement normalized monitoring, verification, and oversight mechanisms to effectively leverage the positive role of government debt financing while firmly preventing and defusing risks.

##### **4.2 Enhance economic autonomy and improve the competitiveness of small and medium sized enterprises.**

Italy's economic autonomy is weak, and the health of its economy is closely tied to the condition of the global economy [8]. Nowadays the trend of globalization is inevitable; the bond between our country and the world is much closer. Thus we should draw lessons from Italy. With the economic and political culture becoming more open and tolerant, we are supposed to continuously enhance their own ability to resist risks, improve the economic autonomy, be ready to fight against global risks, and we will endeavor to promote the real economy, especially the competitiveness of the small and medium-sized enterprises. For the Italian small and medium enterprises to compete rivals in the international market with fierce competition, innovation is the key to success. Our country can draw lessons from the successful experience. For example, we can encourage the specialization in small businesses and help cultivate the brand awareness in the small and medium-sized enterprises. In addition, guiding the product services to aim at the high-end market would also be useful. Combining handicraft with modern high-tech technology, the overall production vitality and competitiveness of local small and medium-sized enterprises can be improved. By starting with the local small and medium-sized enterprises, integrating the local enterprise resources, formulating a suitable production mode, establishing a complete network of production, we can reach the ultimate goal of the construction of local industrial clusters in line with China's national condition [9].

### 4.3 Attaching importance to the aging of the population and continue to improve the scientific social security system

According to the results of the seventh national population census, the number of people aged 60 and above in China is 264.02 million, accounting for 18.70% of the total population. Besides, the population aged 65 and above is 190.64 million, accounting for 13.50%. By contrast, in 2010, the proportion of old generation increased by 5.44 percentage. China has a large elderly population size and the aging process has accelerated significantly. In a sense, the aging of population is ahead of the level of economic and social development. On the one hand, we should fully learn from Italy's advanced experience in social security management and establish a "smart social security" management mechanism, so as to achieve long-term sustainable development of social security system; On the other hand, we should place a high value on the cultivation and development of the elderly care industry and build a number of industrial clusters of elderly care services from medical rehabilitation, home support, spiritual consolation, nutrition and health care, leisure tourism and other aspects[10].

## 5. Conclusions

To sum up, there are many problems for Italy's economy, such as the continuous downturn, high unemployment rate and serious government debt crisis. The combination of these problems makes the Italian economy recover slowly, and be vulnerable to recessions. Here are a couple of reasons. The political situation remains highly unstable for a long time, so the government is faced with many obstacles to reform. When the country lost its monetary independence after joining the Euro zone, its export advantage no longer existed. Moreover, the single industrial structure lacks competitiveness. Under the pressure of huge debts, Italy's economy walked on the edge of cliff. Under the background of the backdrop of global trade tensions and slow growth in the Eurozone, the spread of COVID-19 in Italy and around the world will further exacerbate the decline in domestic and foreign demand. The Italian government is trying to stimulate domestic demand and boost the economy by cutting taxes, introducing irritant fiscal policies, assisting the youth to be employed, increasing exports and encouraging citizens as well as tourists to spend more. But due to the lack of market confidence, the tight bank credit and political uncertainty, the Italian economy is likely to maintain weak in the short term and need joint efforts from each side to get out of dilemma.

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