The Italian Economic Development since the Post-War Period: Policy Lessons for Europe

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Abstract

The paper deals with the Italian economic development, explaining the main features and the crucial variables in the long-term transformation process.

The Italian economy has been analysed taking into account the different and changing international rules in medium and long-term to understand their role on the development strategies and on the changing competitive position of the country.

The comparative international analysis on selected crucial variables shows some contradictions between expectations and effective outcomes of changing institutional rules and introduced economic policies. This underlines both the emergence of unexpected trajectories and economic performances and the lasting of structural differences among European countries. The selection of consistent economic policies in Europe, then, should take into account these phenomena.

The paper underlines the crucial role of long-term economic analysis to fully understand not only the crucial structural variables but even opportunities and challenges for strategic decisions in the current economic crisis.

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1. *Introduction*

Italy entered, after the end of WW2, a period of unprecedented economic and employment growth, high productivity and real income increases meriting claims for an “economic miracle”. In 1957 it joined the European Economic Community as an equal partner and the third largest economy among the original six EEC member states. In the early and later 1970s, like much of the rest of the West, it was hit by the OPEC oil prices of 1973 and 1979. Its competitiveness then was qualified by entry into the European Monetary System before being hit by the European financial crisis at the beginning of 1990s and again by the deflationary reaction to the financial crisis of 2007-2008. Since when the optimism of the postwar miracle period has given rise to increased pessimism concerning the ‘European Project’.

So what went right, what has gone wrong and how can European policy makers “learn up”?

In seeking to inform such issues, the paper starts with analysis of key factors in the postwar Italian economy. It then outlines similarities and differences with other European and advanced global economies, of which one is the degree to which the thirty years of postwar Italian growth was enabled in large part by investment recovery. The industrial recovery in the first decades occurred mainly in the “First” Italy of the then deemed “Industrial Triangle” of Milan, Turin and Genoa, being enabled by labour outflow from the “Second Italy” of the Italian South, and only later in the “Third Italy” of Veneto, Emilia Romagna, Tuscany, Marche and Umbria.

Thus, in Italy, real incomes grew with large investment from 1953 until 1963 and productivity exceeded wage increases, and encouraged Keynes’s “animal spirits” among Italian entrepreneurs.

Such “virtuous circle” effects (Myrdal, 1957) were matched by others including dynamic industrial districts.

None of which, with only some exceptions, now is the case. Since the debt and deficit conditions of Maastricht (and then of the Stability and Growth Pact) have depressed the “animal spirits” of private sector entrepreneurs in Italy, while the state holding companies, which also were drivers of the initial postwar Italian economic recovery, stopped to be crucial actors in economic development, rather a “vicious circle” syndrome has occurred.

This paper focuses on the mid- and long-term economic development to underline the role of crucial variables in the transformation of the economy in European countries and explaining the cause-effect relationships in economic dynamics as well as the possible hierarchy among economic variables to achieve collective prosperity through economic policies.

It begins by identifying the crucial economic variables in the long-term development of Italy, starting from the post-war period, pointing out the economic problems that have emerged in the last 20-25 years. A comparative analysis with other European countries and with other great Western countries will possibly indicate the existence of homogeneity or differences in the mid- and long-term transformations among advanced countries worldwide.

Moreover, this paper analyzes the economic policies that were introduced in Europe since the beginning of 1990s after the Maastricht treaty and, then, during the introduction of the Euro. Special emphasis is put on the divide between monetary and financial variables and real economic variables, discussing some actual theoretical or empirical contradictions and some emerging heterogeneous changes and long-term trends in European countries. This should help the discussion and the evaluation of choices of economic goals to be pursued by introducing consistent economic policies, and should clarify the issue of short-term and long-term objectives in economic policies.

Finally, the paper shall close with some final observations and remarks, inviting scholars and policy makers in Europe to develop a better debate on the long-term economic transformation and on the role of consistent economic policies.

2. The Italian Economic Development since the Post-War Period

2.1. The Phases of Economic Development

Great transformations occurred in the Italian economic structure in the last 60 years after the post-war economic recovery. Throughout this long period of time, different phases of economic development unfolded, underpinned by different production organization models and with different paces of change.

There is clearly a major difference between the first period, till the beginning of 1970s, with a high growth rate and "virtuous circle" effects and the last 30 years with low growth rates and an even weaker economic transformation change. As for the other advanced economies, the OPEC oil price increases of 1973 and 1979 represented a major shock and in Italy's case marked a great divide between these two long periods. The first was linked to an expansion of demand and an increased role of the welfare state in the context of the "glorious thirties years" of the Italian economic "miracle", paralleling the French "les trente glorieuses". The second started with great disequilibria in the balance of payments which were not offset by the introduction of flexible exchange rates. The introduction of the rules of the European Monetary System and, later, of the Maastricht agreement changed the position of the Italian economy but without the emerging of a vision for long-term transformation, especially due to the prevailing of short term economic policies.

In the first period, the role of external constraints (due to fixed exchange rates) obliged policy makers and firms to take a virtuous conduct, controlling monetary stability and pushing investments (public and private) towards medium- and long-term goals. A vision of the future among key policymakers and the capacity to realize necessary changes and investments were at the basis of a deep structural transformation, implying both an increase in the employment and an upgrade of social wellbeing.

The first period of the Italian economic development went through two different stages: a golden age (1953-1963) with an extensive development phase, with an increase in total employment and an intensive phase of development (1963-1971) with a reduction of total employment coupled with a remarkable growth in labour productivity (Secchi, 1974; Garofoli, 2014).

The "Italian economic miracle" was aided by an increasing openess to international markets, with a notable surge in the industrialization of the country, major improvement in investments and labour productivity (Graziani, 1972 and 2000; Garofoli 2014)[1]. The outcome was the fulfilment of three often incompatible goals of economic policies: monetary stability, equilibrium in the international balance of payments and high investments aimed at achieving a strong economic transformation (Graziani, 2000). The international economic trend for liberalisation of trade pushed increase in exports and industrial production, employment and wages increased and profits grew: economic expectations were good and firms invested heavily. A general social consensus prevailed in that period.

The succeeding phase – from 1964 to 1970-1971 - saw very high growth rates both in labour productivity and income (the average income growth rate was roughly 6% per year in that period), which, however, were coupled with a decrease in the total employment and a fall in investments (the so-called "investment strike", Salvati, 1975). This explains why this phase has been deemed as an intensive phase of development (Secchi, 1974; Garofoli, 2014). This intensive phase has been characterized by the lack of domestic aggregate demand, even for the lack of some welfare reforms (the "missed opportunities") (Salvati, 2000), which not only caused the fall of investments as well but the necessity to force exports (Ciocca, Filosa, Rey, 1973) by price dumping strategies. All this explains why this phase has been considered as a period of high growth without development (Garofoli, 2014).

[1] Key success in this was State rather than market driven. The governing class was not endorsing ultra-liberalism and the "ruling class" in the epoch was open minded. This was a "Keynesian" era and one not averse to planning with and for rather than against markets.

During this period, spanning from the 1950s till the beginning of the 1970s, the Italian economy was mainly organized on large firms[2] and on emerging young medium-large firms, which were gaining space in the international markets, through product imitation and reducing labour costs per unit of production. Firms were looking for scale economies to reduce production costs to maintain price competitiveness and increase market shares (Graziani, 1972, 2000; Garofoli, 2014). The result was an increasing average size of industrial firms, which were reducing structural differences with other European countries[3].

During the 1970s, the Italian economy suffered for the great increase of the oil price and for the reversal of relative prices of raw materials and energy goods in relation to manufacturing goods. The breakdown of the Bretton Woods framework in 1973 and the introduction of flexible exchange rates did not facilitate the dynamics of the Italian economy. The continuous devaluation of the lira could did not compensate either for the squeeze of international demand (especially in Western countries) or for the increase in the costs of imports. The outcome was an incipient vicious circle of currency devaluation, with imported inflation and internal inflation (through the existing automatic mechanisms of transmission of imported inflation into increase of wages and prices of public services under administrative control) – increase in production costs – and further currency devaluation to regain international competitiveness. The strategy of currency devaluation could not favour the firms' orientation to investment (especially for large firms working on international markets) and this caused a lack of attention to medium- and long-term problems.

Thereafter, in the next phase from 1979 competitive devaluation was blocked by the introduction of the European Monetary System. Paradoxically, the introduction of this new external constraint (with quasi-fixed exchange rates among key European currencies) moved firms towards more virtuous conduct. The constraint of the EMS's fluctuation band and the exchange parity mechanism among currencies caused some small nominal devaluations of Italian currency, but an effective revaluation of the lira in real terms due the higher inflation differential between Italy and Germany. The higher inflation increased production costs of Italian companies and obliged them to invest more, both in process and product innovation, to regain European and wider international competitiveness.

In the meantime, the Italian economy entered in a new economic model which involved the entrepreneurial culture and social and territorial organization, changing dramatically the international position of Italian industry. Firms in high labour-intensive industries (often traditional industries: footwear, furniture, textile, clothing, ceramics, food) as well as in some mechanical industries (e.g. machine tools and other investment goods) were able to enter with great success into European markets. This kind of firms were mainly small–medium sized enterprises and located in industrial districts where an interesting balance between cooperation and competition rules was in place, pushing firms towards high-quality production and innovation (Garofoli, 1999)[4]. In fact, Italian firms in these industries during 1980s were able to compete at international level taking off shares of internal markets to European competitors. It could seem strange, but Italian firms were able to do this through higher prices in relation to other European competitors (Modiano, 1982 and 1984), competing on quality and innovation and not anymore on price competitiveness.

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[2] Among large firms it is important to remember the great role of public owned companies especially on the changing of national industrial structure in that period through their high levels of investments.
[3] In this period an increasing regional concentration of industrial activities occurred, coupled by intensive migration flows from Southern regions and depressed areas.
[4] The specific literature on industrial districts has underlined these crucial working mechanisms in this organization model (see Becattini *et al*., 2009). This organization model was coupled by a drastic change in regional distribution of industrial activities and the starting of territorial development in semi-peripheral areas (see Garofoli, 1991).

In this period the Italian performances are quite curious: the performance of real economic variables (income growth, investments and employment growth, surplus in international trade) are positive and generally better than those obtained in other European countries, whereas monetary and financial variables (inflation, interest rate, public deficit, public debt) showed very bad performance, in general worse than those experienced in other European countries (Giavazzi, Spaventa, 1989; Valli, 2009; Garofoli, 2014). This issue shall be discussed later, in the next paragraph.

The period of 1990s is linked with the new European situation after the fall of the Berlin wall and the German unification which caused a severe European financial crisis and the exit of some currencies (starting with Italian and British currencies) from the European Monetary System. The high devaluation of the Italian currency (in the average 40% in three years) wasn't accompanied by an analogous increase of the inflation thanks to the efficient social agreement organized by the Ciampi's government, which restrained inflationary expectations, starting with the introduction of "planned inflation" and constrained wages within the threshold of the planned inflation targets[5] to avoid the transmission of imported inflation into domestic inflation.

These elements boosted the Italian firms competitiveness. Italian firms received a great increase of external orders and were not anymore able to expand proportionally the production within the country (due to shortage of available free workers in the industrial areas) and they started to delocalize production, at the beginning with direct investments abroad and then more and more with outsourcing strategies (Garofoli, 1999). The consequence was the fall of investment due to the excessive price competitiveness (even for high-quality products), and negative effects came about on the induced production of domestic components and intermediate products, which caused later on negative impact on Italian industrial employment.

At the same time, the Maastricht agreement (which was signed in 1992 and became effective in 1993) started to produce negative effects on production and employment through deflationary economic policies both in Italy and other European countries reducing more and more domestic aggregate demand, with consequent effects – through the role of negative expectations – on investment, which decreased even more due to the accelerator mechanism.

The introduction of the Euro and the organization of the Eurozone decreased the national autonomy in economic policies faced by the lack of development policies at European level because European institutions were more and more attracted by the principles of market force mechanisms and financial restructuring.

During the first decade of 2000s, the divide between Southern European countries (and Ireland) and Northern European ones increased. The revaluation of the Euro (since 2002) triggered adverse effects on foreign trade (especially in Southern European economies), reducing firms' competitiveness (especially due to an increasing inflation rate), producing external trade deficit. Inflation and labour costs per unit of production increased in Southern European countries producing a sort of internal devaluation (in real terms) of the Euro in Germany (Guerrieri, Padoan, 2009, graph 2, p. 81; Bricall, 2013).

The international crisis of 2007-2008 and the austerity policies in Europe occurred in already weak economic bodies: the Greek financial crisis and the PIGS phenomenon are simply consequences of this deep divide.

[5] And with moral constraints on firms' prices both in production and retail sectors to prevent opportunistic conducts.

The international crisis showed the fall of European aggregate demand and employment squeeze. We will be back on this argument but what is now relevant is to clarify the key variables which can explain the economic decline in the last twenty years surely in Italy and perhaps in Europe.

2.2. Economic Structural Changes in the Long Run: Key Variables

Some points of the Italian economic transformation should be underlined here as they seem to clarify some crucial changes in economic organization and, especially, in the circuit production – income distribution – overall expenditure and aggregate demand, i.e. the outlet market for the production.

Over the last 20-25 years, the Italian economy has showed structural changes in some crucial variables. It seems important to take a closer look at both the share of income distributed to labour (employed workers) and the ratio between investment and GDP, because they seem to be crucial in interpreting the economic transformation on the medium-long term, especially in the light of the consistently low employment rate in the country.

Figure 1 shows the long-term dynamics of income distribution to employed workers[6]. As the chart indicates, in the phases of highest growth rates (1953-1961 and 1964-1969) the share of income distributed to employed workers shrunk because labour productivity increased more than wages. However, thanks to changes in the labour market (at the end of the first phase) and wage negotiation, wages increased, thus regaining a considerable share of total income. However, after the mid 1970s, this redistribution could no longer be pursued and we can see the drastic collapse of the income share for employed workers, especially in the 1980s and 1990s. The obvious consequence was a shrinkage of available income for consumption and then a relative reduction of private consumption and aggregate demand[7]. As a consequence investment could not follow a positive development path.

HERE Figure 1

Figure 2 shows the dynamics of the ratio between investment and total income. The share of investment on total income increased strongly during the Italian economic miracle (until 1963) and then again rose at the beginning of the 1970s, when public investment and State-owned enterprises' investment played a major role in this expansion. Italy reached a share of income used for investment at least equal to 25% only at the climax of the economic miracle and at the beginning of the 1970s and in 1980. During the intensive phase of development from 1964 to the end of the 1960s, Italy experienced a collapse in investment (especially in the 1964-1967 period) (the so-called "strike of investment" in the metaphor used by Michele Salvati, mentioned above) (Salvati, 1975). Indeed, after 1974-75, i.e. in the period when the Italian currency was devaluated, investment did not guarantee competitiveness, which was hence completely left to the

[6] An index number of the income share distributed to employed workers was used to compare Italian data on national accounts in the first two decades and for the next period. Moreover, a corrected indicator was used to eliminate the effects of the changing ratio in time between employed workers and total employment in the overall economy.

[7] The effects of the decreased income share distributed to employed workers can be balanced in the circuit production – income distribution – expenditure (aggregate demand) only with a remarkable increase in exports, namely through an export-led model. However, in the long run, the general law of economic development is based on an internal regulation of the circuit, rebalancing the domestic interests of society, i.e. through an improvement of social wellbeing (see the French literature on the regulation theory).

devaluation of the currency. Also in the 1980s (with the exception of 1980-1981 and from 1987 to 1990) and the 1990s, the ratio between investment and income decreased.

HERE Figure 2

Figure 3 portrays the dynamics of private investment, which are available only since 1970. The decrease of the share of private investment on total GDP since 1974 until the mid 1990s is quite clear. The small increase of private investment at the end of the 1990s and beginning of the 2000s is linked with the introduction of the Euro and the re-introduction of the external constraint, which obliged firms (especially during the years of devaluation of the dollar against the Euro) to become a little more virtuous for the lack of opportunity of devaluation. However, this small change ended as the international crisis began because, on the one hand, there was the lack of financial resources and, on the other hand, the European aggregate demand dropped.

HERE Figure 3

A long-term analysis of the Italian economic development shows the crucial role played by two key variables in understanding both the next economic transformations and the emergence of crucial structural issues in the last years. The first was the reduction of labour income and its negative effects on the level and dynamics of consumption (and aggregate demand), especially in the light of a lower employment rate as compared to Northern European countries and other advanced non-European countries. The second was the weak accumulation process and the progressive reduction on firms' orientation to investment.

However, in the Italian case there are indeed elements that have surfaced in this analysis which were either forgotten or at least underestimated by economists and policy makers when dealing with the weaknesses of the Italian economy in the last years. The question now is to what extent is this a typical conduct and trend in the Italian economy in the last 20-30 years or can similar trends be identified in other European countries?

3. Key Variables: an International Comparison

In this section, the analysis of these key variables (distribution of income to workers and share of investments on total GDP) will be extended to other European and advanced countries in order to understand if there are similarities or differences with the Italian case. This international comparison shall include the main EU countries, the USA and Japan.

Figure 4 shows the mid- and long-term dynamics of the share of labour income on total GDP in the six major Western countries. Their behaviour differed remarkably in the 1960s and 1970s with very high values in Japan (up to 80% of the total income). After reducing the share of labor income in the 1960s, France showed an increase of up to 75% in the second half of the 1970s and beginning of 1980s. In the mid 1970s, the UK was able to increase the share of labour income for few years despite cutting public expenditure by a deflationary package in 1975, probably because the international crisis did not hit the country too badly due to large petrodollars flows into UK banks and financial institutions.

What Figure 4 clearly shows is the collapse of the ratio of labour income on total GDP starting from the second half of the 1970s, which affected all selected countries with the exception of France (where the collapse started after 1982-1983) until the international crisis began in 2007-2008 and with some short waves in UK at the beginning of the 1990s and at the beginning of the 2000s[8].

HERE Figure 4

Figure 5 again shows big differences among advanced economies in the 1960s and 1970s, especially due to the role of Japan which invested a large share of its GDP (more than 35% of the GDP at the beginning of the 1970s) while European countries were still sufficiently industrialized economies and the investment share was higher (approximately 25%) than now. France recorded the second highest values after Japan of the ratio between investment and GDP (above 25%) at the end of the 1960s and beginning of the 1970s due to its strong industrial policy.

Again, it is clear the collapse of the share of investment on GDP since the second half of the 1970s and especially during the 1980s (with the exception of UK and Japan with an increasing share at the end of the 1980s). Only France shows an increase in the rate of investment during 2000s and, at the end of the period, France recorded the highest value of the ratio between investment and GDP among the major advanced Western countries. Currently, virtually advanced Western countries show very low rate of investment (below 20% of GDP).

HERE Figure 5

How can an economic development and a future be organized in a country with these very low investment levels? All countries that experienced strong development phases and economic transformations featured high investment rates. Even China clearly falls into this category in its recent experience[9].

This clarifies some of the structural problems in the European economy (i.e. lack of aggregate demand and low employment rates) which are clearly based on long-term transformations involving a dramatic reduction both in the share of income distributed to workers and in firms' and States' orientation to investment.

This explains the two crucial variables of economic development: investment and share of workers income because both of them are fundamental for employment and aggregate demand.

This analysis shall be further developed along this line as these structural changes seem to be crucial for their great impact on the European economy. At the same time, the role of real economic variables shall be remarked, while keeping the attention (not only of policy makers and governments but perhaps even of European citizen) on crucial aspects of the European economy and society.

4. The European Economic Crisis

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[8] Again, the explanation should lie in the different position of the country, with a high employment rate in finance and other tradable international services paying high wages and salaries.

[9] The values of the Investment/GDP ratio in China has always been around 35% since the beginning of the 1990s until the international crisis and, a year after the crisis, it increased to 48% in 2009 (Balcet, Valli, 2012, p. 16) to force a composition of the outlet markets towards the domestic market so as to avoid the risk of collapse due to the external market crisis.

This section shall discuss the international economic crisis but only to reflect on its structural features and on the consistency of the responses given to it through economic policies in Europe and elsewhere. This will facilitate the connections between the long-term economic transformations in Italy (with some short reflections on changes in Europe) and the opportunity to introduce different economic policies in Europe, especially due to the major constraints posed by the crisis, which are forcing to seriously face structural economic issues.

The international economic crisis stems from the increasing financialization process and worldwide overproduction based on huge capital inflows in emerging industrial countries and the increasing working of the globalization phenomenon, and lack of aggregate demand (and especially domestic demand) since the 1990s in advanced and Western countries.

The economic crisis has unveiled the contradictions of an international and cross-national economic system that relied too heavily on automatic market regulatory mechanisms. It is sufficient to remember how little attention was paid to the decision to liberalize capital flows through implemented intermediate decisions which set the final path of this process without a clear economic and political debate. It is sufficient also to remember the “incompatible triad” of Wallich (Wallich, 1973; Vianello, 2013) that was at the basis of the Bretton Woods agreement which clearly prevented a liberalization of capital flows to guarantee, coupled with trade liberalization, both the opportunity to use fixed exchange rates and the autonomy of national monetary policy.

When the international financial crisis of 2007-2008 started to generate effects on real economic variables, Europe wasn’t ready to react to external challenges. This lack of consistent responses and economic policies appeared both in Europe and in national European countries.

The absence of an anti-cyclic reaction in Europe is the result of a substantial abdication by the economic political authorities against the challenges raised by the new economic situation. The attention of European policy makers was exclusively focused on financial and monetary variables and economic policies were deflationary in order to control (and reduce) inflation, public expenditure, public deficit and debt.

Conversely, the response of non-European countries was completely different, with economic policies that were mainly expansive in order to strengthen domestic demand[10], especially through an increase of investment (see especially China, the USA, Brazil) (Yusuf, 2012; Nassif, 2012; Nassif *et al.*, 2015). Differences were present not only in the objectives but even in tools and working institutions. Such as the role in Brazil of the bond funded National Bank of Economic and Social Development - BNDES - which played a key role not only in infrastructure but sustaining advanced technology and regional development in the less developed North-East of the country (Coutinho *et al.*, 2012).

Moreover, the economic crisis in Europe had a major impact on real economic variables also due to some specific and weak structural features existing in Europe. First of all, the low level of investment (and the decreasing ratio with GDP) which has been already discussed, Secondly, the low employment rates which were 10 points below Japan and USA at the end of the 1990s (Valli, 2009, Table 2.7, p. 70) but which are still relevant especially in Southern European countries. Thirdly, the demographic structure which identifies

[10] The sudden response of the Chinese economic policy caused the mobilization of a great amount of resources (equal to 16% of the annual GDP) in the first quarter of 2009 alone, which were used to foster domestic demand (see the dramatic increase in the investment/GDP ratio in 2009 mentioned in footnote 9) to counterbalance a decreasing external demand. A similar sudden response took place in the USA, albeit with fewer resources but still accounting for 5% of the total annual GDP.

Europe as an ageing region, with a large share of elderly people and fewer of working age, with the evident effects on a reduced fiscal base per head of population and on public expenditure in the long run.

All this underlines the inadequacy of the European economic institutions in terms not only of employment and development issues but even with the question of sustainability and durability of the European economic model.

In the interpretation of the crisis, the financial indicators issue assumed for some years a great (perhaps too much) role. Whereas it is necessary to understand better the likely opposition of behaviour and performances of financial variables versus real economic variables. This point has been already introduced within this paper and will be discussed further in the next section.

The attention on financial variables is quite clear when we deal with the choice of the economic indicators used to regulate European economy. Paradoxically the crisis is based on structural issues but the attention of European Institutions is still attracted by short-term questions.

The public debt ratio on GDP is just an indicator with a lot of methodological problems[11] and its impact on the country's economic conditions cannot be overestimated or overemphasized.

This indicator showed very low values in Spain and Ireland (roughly around 50% of the Maastricht value) before the crisis of 2007-2008 but this did not prevent neither the transmission of negative effects of the economic crisis or the dramatic increase of the values of this indicator in both the countries. This explains that the cause-effect relationships among these variables are working in the opposite direction. Moreover, the ratio between Public Debt and GDP is greatly higher in Japan and USA than in Europe. Nevertheless, Japanese economists are not worried about the value of the indicator, because debtors and creditors are belonging to the same country and currency's area.

All this explains external debt is much more important than internal debt. In fact, external debt is a crucial indicator because it shows a great structural problem: the lack of exports to cover imports in the medium-long term, i.e. the existence of structural disequilibria in current accounts of payments balance in some countries, which shows the lack of their competitiveness (cf., even, Balloni, Crivellini, Pettenati, 2013).

However, it should be recognized that Eurozone does not bear a great external debt because the public debt of Eurozone countries is mainly held by Eurozone organizations/creditors[12] and this should make the economic situation in Eurozone much more manageable.

[11] The debate on the public debt/GDP ratio as an indicator was very widespread and does not need to be discussed here. However, a few points should be mentioned: a) the great differences in the ratios (and sustainability) taking into account the total national debt (public, private businesses, financial organizations, households) instead of public debt; b) the use of one "flow" variable and one "fund" variable because the ratios should be very different if one compares, for instance, public debt and total assets (instead of income); c) the interactive economic dynamics which prevent a successful reduction of public expenditure on the value of the indicator due to the negative multiplier effects on income; d) the higher structural impact of external debt (in relation to total public debt) on economic sustainability (see Valli, 2009 and 2011).

[12] Unfortunately, neither the ECB's nor National Banks' publications (especially in countries with high public debt ratios) provide this kind of information. Yet, this seems obvious also thanks to the positive values of the aggregate balance of current accounts of payments in Eurozone countries.

5. *Some Contradictions in European Economic Development*

This section shall discuss some contradictions produced by economic development in Europe and especially in Italy. A review of some long-term transformations will explain this point.

First, the dynamics and the performances of the real economic variables during the 1980s in Italy and their performance divide with monetary and financial variables should clearly explain it is not sufficient to reach good performance in the second group of economic variables to guarantee good performance for the first group of variables.

As already indicated, the implicit revaluation of the Italian currency (the rate of monetary devaluation was much lower in relation to the inflation differential with Germany) forced Italian industrial firms to follow a virtuous conduct, increasing investment rate (both for increasing labour productivity and improving product quality) in order to regain their international competitiveness. In that period, the increase in investment caused positive effects on other real economic variables (employment , share of international market, increase in industrial production); their performances were positive and better in comparison with other European countries, while the performances of monetary and financial variables were negative and lower than in other European countries (Valli, 2009; Garofoli, 2014).

In other words, there is no guarantee whatsoever that full control can be achieved at the same time on all the economic variables. The behaviour of the two different groups of variables is indeed likely to diverge. This means that usually it is necessary to make a choice between different objectives of economic policies through an evaluation of the existing trade-off in the interest of collective wellbeing.

During the 1990s, the strong devaluation of Italian currency (1992-1995) generated major problems to other European countries, which lost their competitiveness and shares of their domestic markets due to the remarkable increase of Italy's competitiveness, even though prices were no longer crucial for Italy's international position (see Modiano, 1982, 1984; Garofoli, 1999). Competitors in Europe suffered badly because of the resulting reduction of market shares. German and French firms paid dramatically the constraint of the lack of aggregate demand even because, in the same moment, European countries introduced deflationary economic policies aimed at complying with the Maastricht conditions. However, what should be emphasized here is that, in these conditions, Italian firms did not invest.

Moreover, the behaviour in the period of the European Monetary System (EMS) clearly shows the role of the stronger European country towards other European participants. The country with positive export surplus assumed a compensation rule financing other countries (with deficits in the current accounts of payments balance) with flows of financial capital to regulate the European financial and economic circuit. Why did this happened when loose EMS regulations were in place and not anymore during the Eurozone organization, in which the compensation rule should be stricter and the specific monetary institutions and organizations were stronger and more efficient, to guarantee autonomy to the European monetary and financial system? Why export surpluses have not been used to regulate production capabilities and aggregate demand at the European level?

In the end, complying with the economic fundamentals was not sufficient to avoid economic crisis in Europe because structural weaknesses (the dynamics of the cost of labor per unit of production, the deficit in current accounts of payments balance due, especially, to differences in industrial structure) are often more important in the medium-long term. Some European countries, especially Spain and Ireland (once called the "Celtic tiger"), showed good performances in economic fundamentals in the first period of the

Eurozone (1999-2007), before the crisis, but they have been transformed, during the years of the sovereign debt crisis, into “Pigs” (see Valli, 2011), explaining that complying with the macroeconomic fundamentals is not a good enough guarantee of avoiding the crisis.

The competitiveness question within Eurozone countries has determined a regional redistribution of industrial and manufacturing production and employment favoring their preservation in the stronger economic countries and the progressive disintegration in weak European countries (mainly Southern European countries) through increasing “exports” from Germany to Southern European countries (Simonazzi, Ginzburg, Nocella, 2013; De Nardis, 2015a and 2015b). However, a change in the composition of German imports took place at the same time: they shifted from large imports from Southern European countries (especially from Italy) in the 1990s to large imports from China and other Asian countries, thus moving from high-quality products to low-medium quality products and components (Simonazzi, Ginzburg, Nocella, 2013)[13]. This is a consequence of a dramatic change in the structural ability of European countries to find a new position in the international labour division, but even an indication of a strict competitiveness inside Europe through cost reduction strategies, which clearly cannot be sustainable in the long run.

This means structural differences among countries cannot be reduced through homogeneous monetary and financial policies – or by means of homogeneous fiscal policies - without any balance with development policies fostering investment and increase of production and labour productivity in less efficient regions and countries in Europe[14].

6. *Alternative Economic Policies: Some Critical Remarks*

There are at least three main issues regarding the awareness and capability to manage the introduction of alternative economic policies in Europe: a) the internal coherence of the European economy and the economic circuit issue; b) the introduction of development policies because macroeconomics doesn’t matter enough for sustainability and durability; c) the necessity to launch a widespread development project culture and to mobilize economic actors in specific investment projects.

The awareness on the construction of a coherent national and European space seems a crucial issue because it is necessary to pay attention on the proper valorization of existing resources, including knowledge, skills and professional and technological competences to reach a potential production and income that are consistent with the existing needs of the citizens. This requires the ability to organize the regulation of the interactive cycle of production, income distribution, consumption and aggregate demand, both in static and dynamic terms. This approach should even promote the sense of belonging of social and economic actors within national and European society.

Then, the working of the economic circuit should provide coherence in the changing process of the production structure and potential demand. This includes managing capabilities to produce goods and services to fulfill the domestic demand (for a sufficient level of quality of life) and capacity to export in order to cover absolutely necessary imports. This should even clarify the issue of international competitiveness, i.e. mainly the capability to sell national and European products (and, then, labour

[13] The changing composition of German imports is also a symptom of increasing poverty in Europe, including in the “core” countries. The quoted article provides additional information on growing poverty in Germany (Simonazzi, Ginzburg. Nocella, 2013).
[14] See the lessons of Giorgio Fuà in the analysis of lagged European countries (Fuà, 1980).

services) on international markets with prices which should guarantee an improvement in the population wellbeing.

The concept of competitiveness has seemingly been overemphasized in Europe in the last few years. The issue of competitiveness has mostly been used as an “ideological” factor rather than as a crucial argument for a general reflection and debate on the structural organization and weaknesses of the European economy.

Suffice it to remember the best part of services, other than in finance or consulting, are local rather than global. The case that the provision of either education or health therefore should be market based than social based is as new as it also lacks any widespread empirical confirmation or social support (Holland, 2015, pp. 234-236). Thus the priority for competitiveness over cooperation in an unsupported regressive dominance of market values in Europe in recent years. Rather it has been used as an “ideological” weapon to reduce social protection without recognising the “beggar-my-neighbour” deflationary effects that if all EU member states, and all of the rest of the global economy, mutually reduce their labour cost they thereby also reduce their mutual demand[15].

The relevance of the competitiveness concept is usually associated to the logic of the export-led development model, which is a consistent strategy when domestic aggregate demand is weak. To understand this point, suffice it to reflect on the actual openness of the European economy.

If we take into account, as we should do in Eurozone, only non-EU exports and imports, the European economy is not very open, with roughly 10% of the GDP – quite similar, then, to the USA figure - before the crisis, reaching 9.8% vs. 8.4% in the USA[16] (see Table 1). The small increase in these values in the last few years is the consequence of the squeeze of demand in Europe and simply indicates that European firms were looking for increasing demand outside Europe.

HERE Table 1

Hence, what is more important, in demand terms, for the European economy is to take into account the actual and potential internal demand (more than 500 million European citizens) rather than the external demand.

…

Or more simply, whether a recovery of the European – or global economy – can wait for this by incentives to raise confidence in the private sector rather than relying – as did postwar Italian recovery – both on the “demand-pull” of trade liberalisation and the “supply push” of public investment and the multipliers that it generated for the private sector.

This means a regulatory process should be defined and managed within the domestic economy, now not only at national but also at the European level. Economic dynamics should be mainly organized on the potential increase of European domestic demand. But also should recognize that public investment can

[15] It seems important to remember the main Western states understood this point in the mid 1970s when they stopped very soon their deflationary economic policies introduced after the oil crisis and the consequent problems in their payment balances (Garofoli, 2014).

[16] There are only small differences in the values of the indicator if one considers the European Union or the Eurozone. The same would hold true for a 12-country or 17-country Eurozone. Here, a 12-member Eurozone was used because this was the number of countries participating in 2007-2008, i.e. the first period analyzed in the Table.

create demand. The awareness of this point should help both the evaluation of the hierarchy among policy objectives and the selection of economic policy tools in Europe.

A New Deal for Europe

The main objectives of the economic policy in Europe should therefore be centered around an increase in investments and employment so as to allow for an increase in aggregate demand. This perspective has been already underlined by the proposal of a "New Deal" for Europe (Varoufakis, Holland, 2011; Varoufakis, Holland, Galbraith, 2014; Holland, 2015; Pavia Declaration, 2015) and the controversial issue of funding a European recovery by Eurobonds[17].

The reflection on changing economic structure in coherence with the European citizens' needs and changing demand in time underlines that macroeconomics doesn't matter enough for sustainability and durability, i.e. long-term economic and social resilience in Europe.

Consequently, a focus on industrial policy is necessary. Industrial policies have been introduced in all non-European countries (Wade, 2012) and it isn't conceivable the absence of a strategic Industrial Policy in Europe. Industrial and development policies are necessary to modify economic and production structure in Europe, which is the main goal of European investment linked to a vision of the future, in line with a future demand structure[18]. The experiences of non-European countries could be very useful for developmental industrial policies in Europe, especially if we reflect on the Chinese, Brazilian and the US cases (Wade, 2012; Yusuf, 2012; Mazzucato, 2013; Nassif *et al.*, 2013, Pitelis, 2012 and 2015). Public expenditure and investment should be used to change the shares of demand composition in Europe[19]. Moreover, investment, research and education/training to create competences for innovation will offer great opportunities to enlarge demand and employment in Europe. On these fields, the role of the European Investment Bank (EIB) is crucial, not least since its borrowing and lending does not count on the national debt of any EU member state. As also the role of the European Investment Fund introduced by the Essen European Council (Varoufakis, Holland, Galbraith, 2014; Holland, 2015; Pavia Declaration, 2015).

Meso and Microeconomic Dimensions

However, coherent European and national economic policies would not be sufficient to launch an economic recovery in Europe. It is necessary, moreover, to organize even territorial and community reaction to the crisis, involving local actors in organizing solutions to their problems, not only through self-organized initiatives, but also by both political and economic networking.

[17] While it is worth recollecting that the Roosevelt New Deal, by being bond financed, and shifting surplus savings – high in a recession or depression – into social and environmental investments, and not least the Tennessee Valley Project, reduced unemployment in the US within seven years from over 22% to under 9%. And, moreover, did so, with an average federal budget deficit in this period of only 3%, i.e. the initial Stability and Growth target of Maastricht (Holland, 2015, pp. 243-249).

[18] See the major European responsibility for the lack of a European energy policy, allocating resources and increasing capability to valorize new knowledge and competences accumulated in the field of alternative energy sources.

[19] See the role of investments in public transport, environmental and territorial protection, healthcare and care for the elderly, protection and enhancement of landscape and cultural assets, education and life-long training, and so on.

The mobilization of ideas, projects, sequence of investment for production of goods and services could be crucial to ameliorate the life conditions of the community. But even to pay attention to the lack of capability to launch and manage investment and development projects: the investment reduction and the disappearing of collective actors able to face community problems, as well as the lack of resources for local public authorities, have reduced the use and ability to design, obtain and manage collective investment, public works and development projects.

This implies creating (or recreating) a culture for developing and managing projects, engaging different actors and professional skills and resources into common projects, promoting and disseminating a plural economic and political approach, i.e. a territorial or "meso-economic" approach. The reemergence of these needs and the necessity to organize bottom-up initiatives will be the starting point of developmental processes, joint learning, innovation and challenge to austerity.

Such an approach should guarantee the mobilization of actors towards a common objective. The generation of new ideas would offer opportunities to solve problems for the existing firms and the local community. These processes would give new firms the opportunity to enter the market and create new jobs. With the proposal of the Economic and Social Committee of the EU for bonds issued by the European Investment Fund to finance a parallel European Venture Capital Fund ….

…

A coordination among players would support the introduction of new products, new strategies, adding needs for new professional competences, better control of external markets, and so on. A coordination towards a common goal would allow for a widespread awareness of the future and the organization of participative strategies.

Stronger relationships among economic and social actors would strengthen the economic coherence and organization on a territorial level and should reinforce a sense of belonging to local societies. The specific literature on this topic has already stressed the role of the interaction among players in supporting joint learning, network organization, and the introduction of innovation through complementary competences. Moreover, a problem-solving approach along productive "*filières*" or cluster production is very effective in creating not only the conditions for inter-company and inter-professional cooperation, but also in introducing innovation.

….

Networking on a horizontal basis … (Holland)

…… Footnote ?

……

The involvement of local economic and social actors in the management of resources[20] of the territory and society represents a crucial issue for next years to reach a full awareness on the role and mobilization of territorial resources for economic development and the organization of a participative society. This is necessary if we want to let possible a societal approach to the economy. All the ideas and definitions of a social economy in Europe, often remembered in many European documents but increasingly more disregarded in the last difficult years for the European economy and society, should start to live directly “on the ground”, on the perceptions of citizens and on the effective organization of the local economy and society by strengthening the relationships and building a true alliance between public and private actors in order to tackle and solve territorial problems.

7. *Some Closing Remarks*

The increase in investments and especially in the ratio between investment and income seems to be the first priority of the economic policies in Europe.

Also the employment rate in Europe should be increased, following other experiences, especially those made in Japan where the employment rate is higher than in Europe.

What is important is the regulatory system at a European (and national) level as it is the foundation of the autonomy and sustainability of the economic system. Hence, regulating the system while abiding by the circuit mechanisms between production and aggregate demand is crucial.

Therefore, taking good care of the European citizens’ needs and being able to fulfil their requirements is much more important than focusing on competitiveness.

The above remarks also explain the actual objective of increasing labour productivity in efficient sectors (i.e. sectors with high labour productivity and better chances of increasing their values) in order to pay for the maintenance of other necessary (due to the high and increasing needs of the population) sectors in which it is almost impossible to increase labour productivity (mostly off-market services: teaching, most of health-care services, culture, maintenance of landscape and territory organization, care for the elderly and disabled, etc.).

All these services belong to labour-intensive sectors but are crucial for an affluent society (cf. the Essen European Council), and they will guarantee a high employment rate and high levels of aggregate demand.

[20] There is another issue that cannot be investigated here, one which has been by-passed in the neoliberal ideology and the liberalization of capital flows, namely the relationships between finance and industry. The financialization process has clearly broadened over time the gap in the rationale of surplus (and savings) production in different territories and regions and investment decisions. Consequently, a fundamental resource for development, namely financial resources already accumulated in territories and regions, has disappeared. There is no guarantee whatsoever that these specific resources shall be used for the development needs of the societies in which these resources have been accumulated. This obvious issue not only poses the question of social responsibility of financial and credit organizations but also raises a question on the role of “proximity capital”[20]. Cf. the role of territorial commercial banks, the use of territorial bonds and the …

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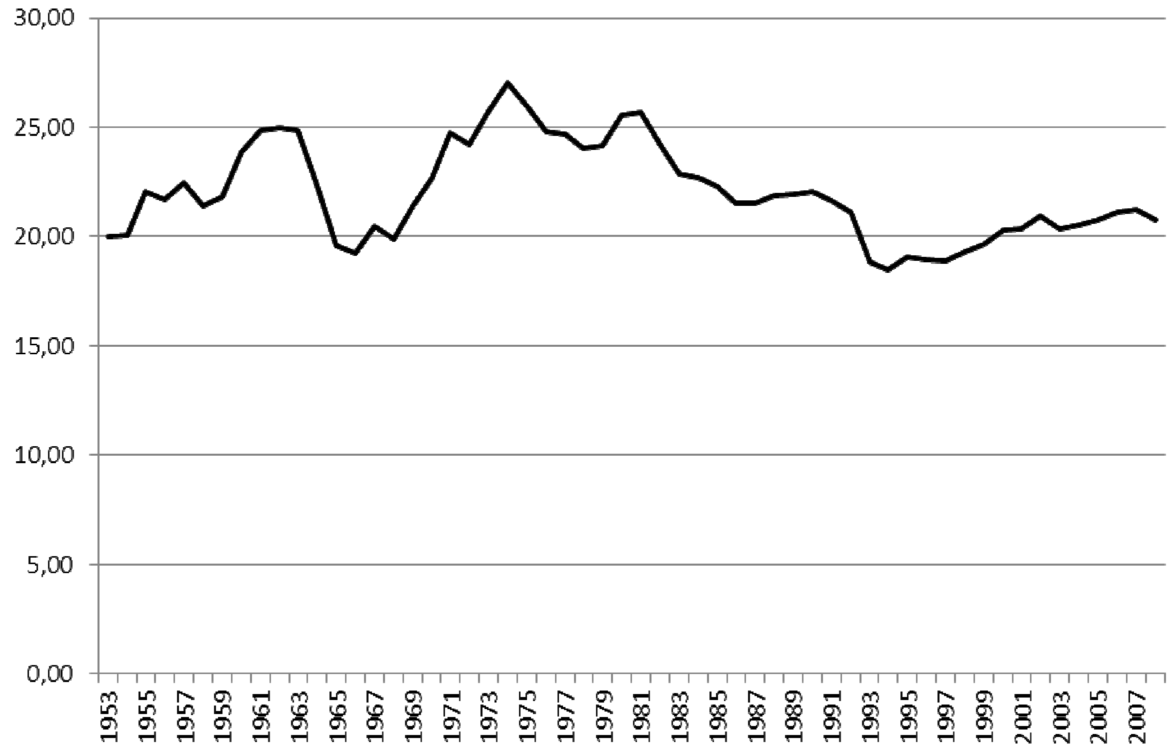
Figure 1 – Income share distributed to employed workers in Italy: index number (1953 = 100)

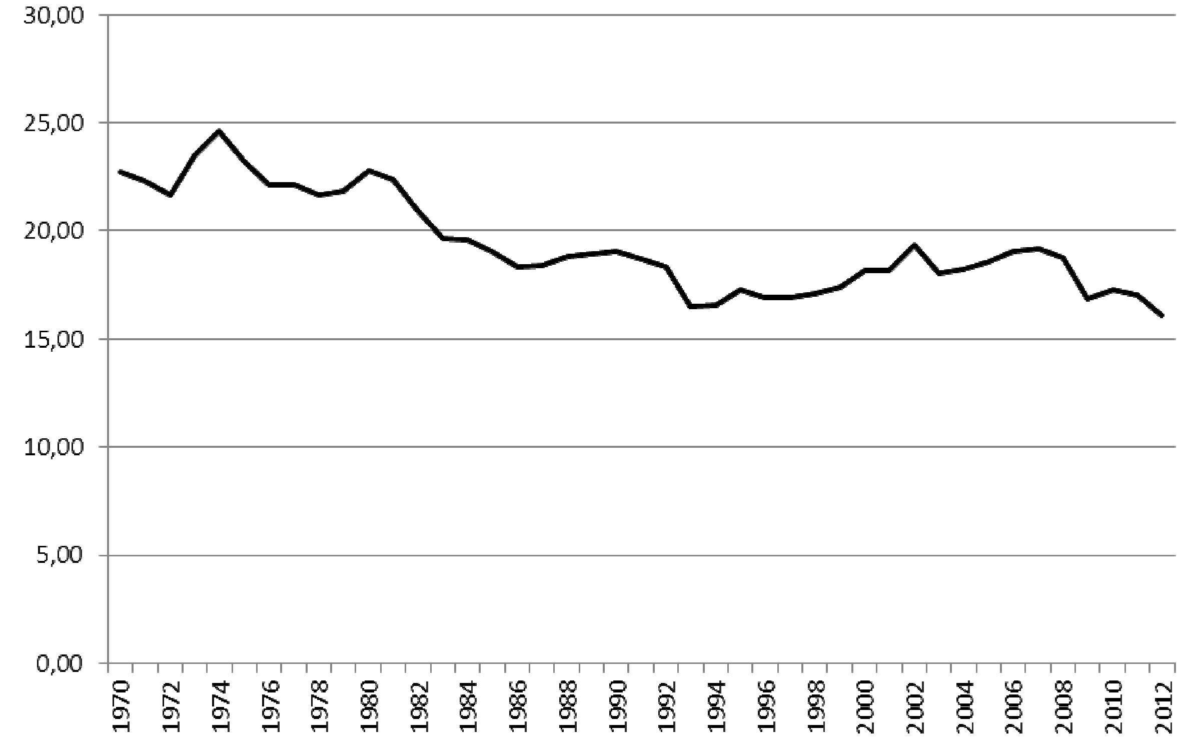
Source: elaborations on Istat, *National Accounts*, database

Figure 2 – Investment rate as a percentage of GDP in Italy (1953-2008)



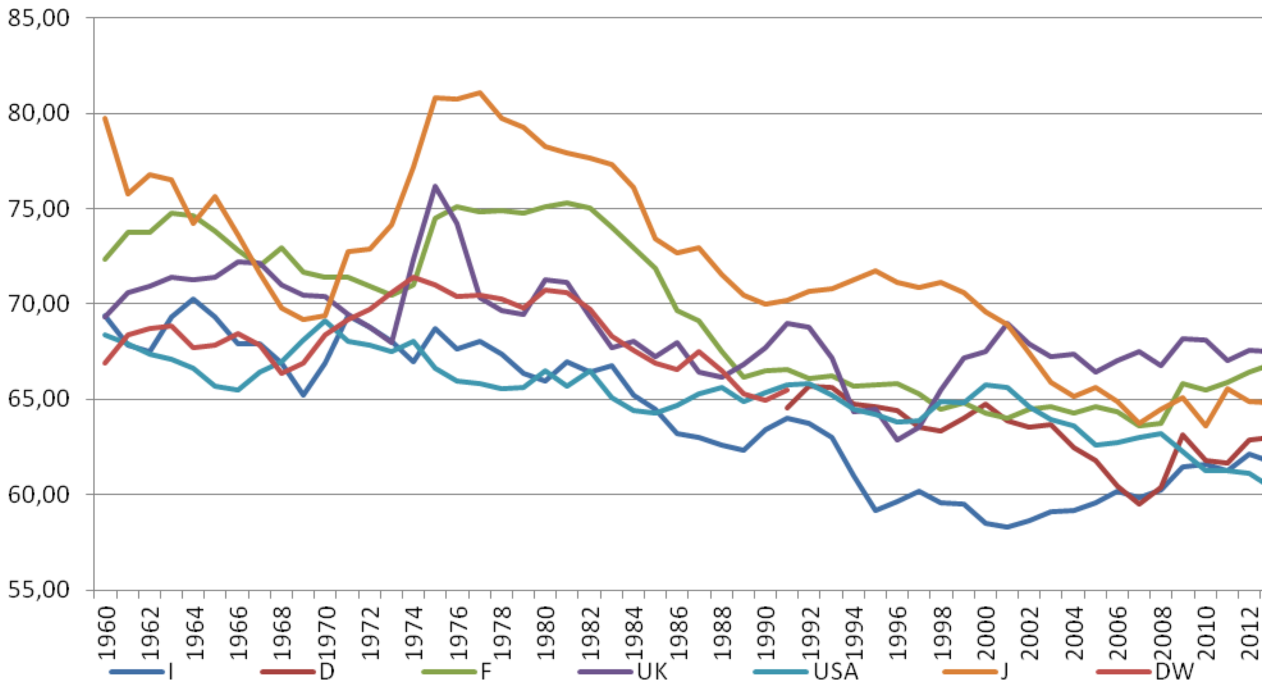
Source: elaborations on Istat, *National Accounts*, database

Figure 3 – Private investment rate as a percentage of GDP in Italy (1970-2012)



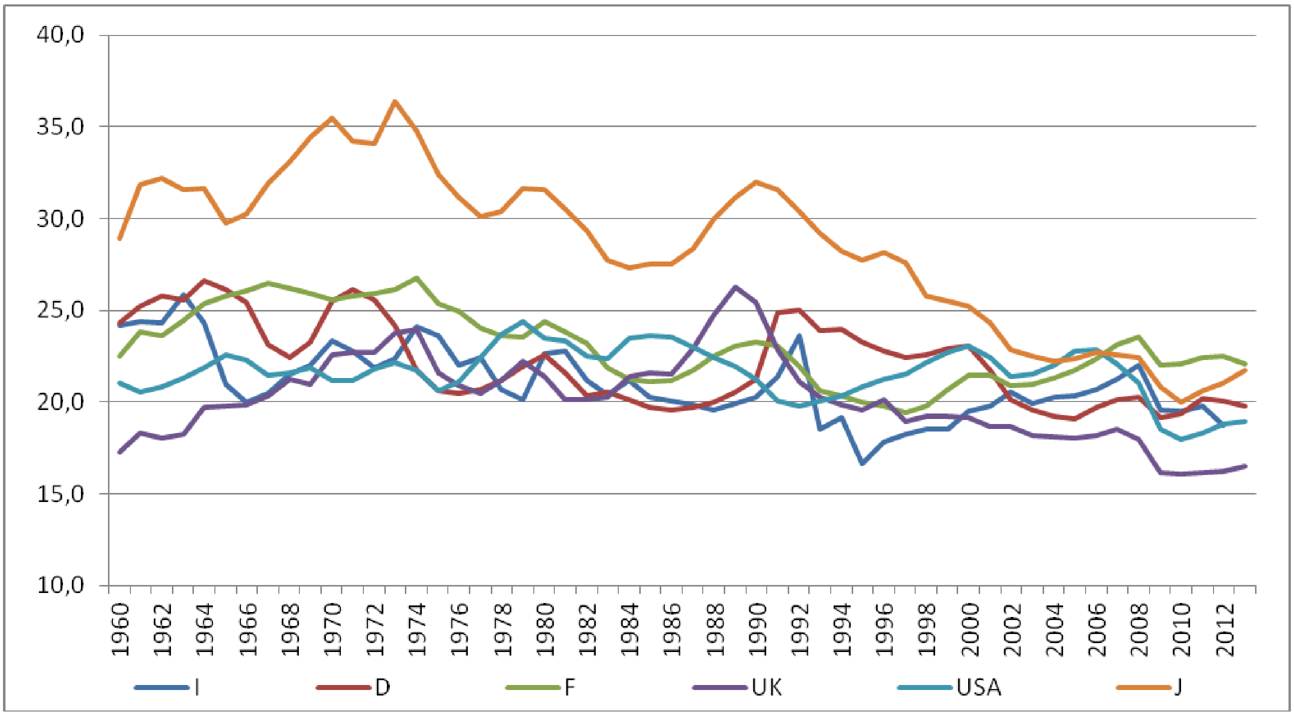
Source: elaborations on Istat, *National Accounts*, database

Figure 4 – Income share distributed to dependent workers: an international comparison (1960-2013)



Source: elaborations on European Commission, AMECO database

Figure 5 – Investment rate as a percentage of GDP: an international comparison (1960-2013)



Source: elaborations on European Commission, AMECO database

Table 1 – Ratio between actual* European export and GDP (%): a comparison between EU and USA

Countries	2012-2013	2007-2008
European Union (27 countries)	12.7	9.8
Euro Area (12 countries)	13.2	10,4
Germany	16.9	13.7
Italy	11.1	8.9
France	8.6	7.4
Spain	8.2	5.1
United States	9.5	8.4

Source: elaborations on European Commission, AMECO database. * Actual European Export are only Export to non-European Countries.