

ITALY AND A FAILURE INSERTION IN THE GLOBALIZED CONTEXT

INTRODUCTION

In the last quarter of the 20th century that phenomenon known as globalization has deeply changed the world scenario, combining the expansion of international markets with a wide increase in world trades and in the gross domestic product of the planet. Those radical changes has produced for sure a great wealth but, at the same time, a lot of inequality. We can say that, despite the recent crisis that has mainly affected North America and Europe, so much wealth has never been produced in the world; moreover in the emerging economy countries hundreds of millions of people have raised from poverty and have acquired a lifestyle and a level of income typical of the middle class, but, on the other side, never on this planet the difference between the richest social groups and the poorest ones has been so relevant. As the Nobel prize for economics Joseph Stiglitz has pointed out, for too many people in the world, the promises broken by globalization have been so huge.

Right in that pattern collocates the first undesired effect of globalization: a loss of trust in the institutions, both at local and global extent, caused by these unfulfilled promises of higher living standards, which the unreliability of the political class and the spread of fake news has made even more unbearable.

Globalization has been, is and will be both a great positive opportunity for humanity, and also the origin of significant imbalances and very serious problems. Not for itself, but for how it has been politically performed: too quickly and too "in debt".

In history, the opening of large spaces and the elimination of physical distances has always constituted a recurring cause of systems disruption. Two of the mains among these cases refer to the geographical discovery of America in 1492, and, a few years ago, to the economic discovery of Asia: the first was a natural fact, that in its historical development has occupied at least a couple of centuries, the second was instead a political fact and an instantaneous phenomenon.

The large-scale processes normally occupy the cycle of *longue durées*, taking therefore the time of transition from one generation to another, not a minimum segment of time, even if concentrated in a time frame of a human life. Nevertheless the development of globalization was instead first compressed, and then exploded in a few years.

The link between the crisis that the world is suffering in the last decade and the globalization is not casual but causal, since it is right in this globalization that founds its roots. Because it has not been a purely natural phenomenon, but with a political cause instead, and with very high political intensity. That is the point: due to its shapes and dynamics, the reasons of the crisis, that is global since has global causes itself, are to be sought in the globalization.

The solution may rely on distinguishing the good from the bad: saving, by separating them from the rest, families, firms and banks which could be authentically functional for development, and to implement new, clear and rational patterns of regulation.

ITALY: The new globalization

THE CAUSES OF THE PROBLEM

Italy is facing in the last decade a serious and structural crisis which has involved both the financial and the real economics respectively by adrift public accounts and a recession hard to contain. But the crisis has go significantly beyond the economic dimension, spreading also to environmental, cultural, social, and political level. Citizens breath the decline and express their fears mainly by reducing their consumption propension, by cutting their average expenses and by losing their trust in the national system and in the institutions.

Also in this specific case it is possible to approximatively relate this scenario with a main cause: the globalization, because Italy has failed to fully understand how the world economy changed and progressed.

In the 1960s the country has based his entire industrial production on low-tech goods: this type of model, in addition to having left irreparable damages to the environment, can no longer work nowadays. We could be identified as an old industrialization country which is not able to move to the next step, laying in a declining context rather than renewing the productive specialization of the country system in order to deal with its main issue: the lost competitiveness.

Actually the choice of following a development path different from any other industrialized country by carving out the specific nice of low technological innovation product has brought Italy in the second half of the last century to be a top level industrial economy, second only to Germany.

Two main factors has supported the success of this “development without research” model: the lower labor costs compared to other industrial countries and the possibility to pursue an independent monetary policy, which allowed to incur in periodical competitive devaluations of a weak currency, the Lyre. Until market industry has been a prerogative of the Western world and Italy was "the poorest among the rich" it has worked very well, but the new waves of globalization in the early 90s, which has started to be sailed by new actors too on the international scene, has flooded the two legs on which the model held.

These new emerging players has penetrated the world economy with a labour cost significantly lower than Italian one, so that across 25 years the country has lost its basical competitive leverage. Furthermore, at the same time, Italy has firstly entered the European Union fixed exchange system and then the monetary system based on a strong and stable currency that could not be depreciated at will, the Euro.

In addition, the fact that those repentine and irrecoverable changes have not been perceived and properly considered, worsened the situation even more: the ancient model is visibly limping, so that Italy continues to export less and less medium and low technology goods and to increasingly import high-tech goods. An example regards the great development of renewable sources (wind and solar) that in recent years has been followed, where Italy has imported all the technologies, turning a virtuous environmental process into a burden on the balance of payments around 10 billion euros.

THE CONSEQUENCES OF THE PROBLEM

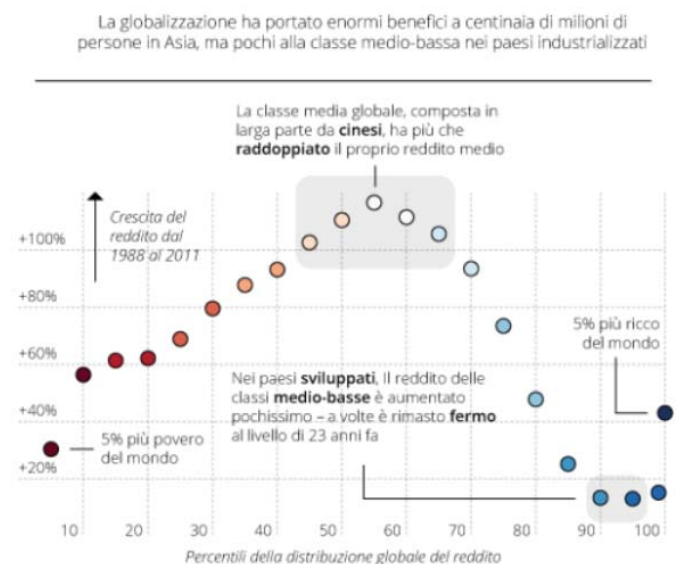
1. Poorness and inequality

There is a thread linking the economical progress of the last decades to the issue of income inequality and that may also explain, as to the spreading of the bad effects of the globalization also to the social and thus the political field, the raise of nationalist and populist movements and feelings in people across the world.

The bipolar scenario that existed until the 80s where hundreds million of people in Africa and Asia where starving has now seen a surprising and exponential growth of the oriental world, with the leading of China, yielding poorness to the lowest level ever reached.

Since the times of the industrial revolution it has been very rare - perhaps impossible - that an economic change of these proportions could bring only advantages for all.

Dividing all the people in the world according to their income, on the left the poorest, in the middle the global average, and on the right those who live in the rich developed countries, it is outspotted how the benefits of globalization went mainly to the world middle class, composed largely of Chinese, and in the meanwhile the less wealthy classes from the developed countries found stumped, including United States and Italy.



Going a bit deeper on the Italian situation, between 2008 and 2013, its economy has been hit by a double recession, when a fall in aggregate production around 9% had a strong impact both on employment levels and on the average standards of living. In 2014, the turning point of the recession, the GDP per inhabitant, in real terms, was 11% lower than the pre-crisis level and the unemployment rate more than doubled: the weak growth recorded in the two following years just partially contributed to reabsorb the unemployed labor force.

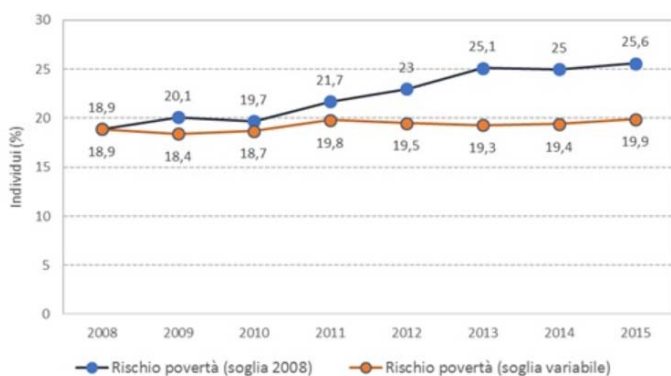
Overall, in the last decade, the living conditions of a large proportion of the Italian population have progressively deteriorated, unavoidably leading to an increase in poverty and inequality. It is possible to measure this deprivation with an indicator: the Absolute Poverty Incidence, defined according to the monthly expenditure needed to purchase a basket of goods and services which is considered essential for a minimally acceptable standard of living.

Since 2007, the condition of absolute poverty has involved increasing shares of the population and the upward trend continued even after 2013, when Italian economy started to slightly grow again.

It is important to notice the huge differences recorded in this indicator depending on regions, age of family members, professional conditions, educational level, and the characteristics of the families.

In order to study the inequalities, instead of the economical deprivation, we apply another indicator, the Relative Poverty Risk, representing the percentage of people with an income less than or equal to 60% of the median disposable income in a given country. In Italy, this quota is higher than in the other most advanced European countries, with the exception of Spain: in 2015, it was close to 20%.

Anyway the relative poverty has to be considered with caution because the 60% threshold is not fixed and can change across the years due to alterations of the general income level and on its distribution, for example during a recession wages tends to decline. That can affect a reduction on the incidence of poverty risk, so Eurostat provides data where the threshold is fixed and anchored



to a reference year, thus adjusted for inflation, allowing to get more realistic outcomes. In this way, the poverty risk concerns over a quarter of the Italian population, that is 15 and a half million people. The figure on the left shows the clear divergence between the anchored and the non-anchored poverty rate: the first one increases much more than the latter, pointing out a sharp deterioration in living conditions in the lower income groups.

In addition, this worrying poorness which is spreading is certainly not helped by a welfare system that protects the middle classes more than the really poor ones and the older more than the younger.

Poverty and inequality are complex phenomena, influenced by multiple causes which go beyond the economic condition, involving also the occurring structural changes in social composition, such as the irrepressible immigration wave experienced in the last two decades, the competitive pressures to which economic systems are subjected to, the wage dynamics and the diffusion of precarious work forms.

Just because of the complexity and multiplicity of causes affecting those issues, their contrast does not only require the extension and strengthening of social and welfare measures, but concerns a much broader area, which includes fiscal policies and labour market regulation.

2. Labour market

One of the most common critiques to the global trade system is about how it ships work, especially manufacturing jobs, from less developed countries to developing countries, and the immigration that the openness has facilitated and expanded is the main determinant of that process. Low-skilled workers in developed countries who lose their manufacturing jobs, often hit high difficulties in

finding a new, comparably compensated one, generating a double-strain on those countries' social welfare systems: more people are in need of help, and job losses leads to lower tax revenues that are exactly what is needed to fund the social welfare systems.

But there is another heavy problem within the labour market frame in Europe, the relative decline of the younger generations incomes compared to the older ones, that is not just due to the recession that began in 2008, although it has exacerbated it. Rather it is an ongoing trend since more time, which depends both on the delayed enter on the labour market of young people, and on the spread of precarious and low-wage work forms, that unavoidably affect and increase the poverty risk.

All the interconnected issues concerning the labour market that the globalization brought to Italy has heavily contributed to cause the current worsening of economic and social conditions. About that scope one of the main discussed challenges of globalization regards the increasing gap among people with a high salary and the ones with a modest wage: a possible reason is that many of these employers worked on the production of goods which have overtime become more cheaper to be purchased from China, where lower salaries and costs allow to reduce final prices and attract the world market. The side effect is a fall of manufacturing and related jobs: a great problem for countries which heavily relies on it, like Italy, where a significant portion of the economy found displaced by the huge change and unable to self renew, so that the crushing competitive pressure yield to stagnant wages instead of a shift to new sectors.

The new globalization wave has so just left the door open to two possible paths to be followed, either the social dumping or the titanic business of quickly changing the productive specialization towards a most differentiated one in terms of goods.

A developed country with an advanced society can now only be competitive by producing assets with a high value of added knowledge, but Italy, due to a lack in advanced economic culture, has not pursued the goal of entering the "knowledge economy" and thus to focus on high-tech or high-creativity products, as the other countries with a mature economy and industrial structure did. So it started to move through dumping policies which are losing from all the points of view, starting from the economical one, because of a fall in domestic demand, up to the social one, where a new mass of poor and dissatisfied people is born.

This direction in which Italy is walking, where market forces push down prices and salaries, in a context of fragile economy which is made heavily trickier by a strong currency, of public finances that are basically to be rethought and of a historically high debt/GDP ratio without sufficient growth, prevents the creation of private occupation. Italy has thus found itself crowded because on one hand it cannot count on competitive currency devaluations and on the other one it is not even free to produce adjustments through the fiscal leverage since tax reductions would not be perceived as permanent by families and businesses due to the high stock of public debt. So it is literally "cinesizing" in private work with the lowest wages in Europe and in decline, and in particular, again, young people are seeing their income falling against a raise in the older generations earnings, protected by the pension system.

It is interesting to notice that may stand right in those dynamics the advent and the great success of populist movements and parties, in fact according to lot of surveys, the main two among those in Italy (M5S and Lega) are primarily supported by young or unemployed people. The latters represent of course a folk which is absolutely not attached to the status quo, and their deep desire for a change get easily capted by the effective and quick means of acquiring consense that populist leaders use.

3. Private investments

Another unexpected consequence of globalization concerns the decline in private investments, because an increase in openness and connectivity makes it more and more hard to limit the risks only to those who really intend to bear it.

Moreover these phenomenum strongly questions the Schumpeterian idea by which the contribution to GDP yield by the creative component linked to innovation, i.e. more productivity and employment, is greater than the negative effects of its destructive component (at least in the long term), since they are actually growing, as well as the economic and social costs of product and process innovations. Consequently the impact of the new technologies on GDP growth progressively decreases. In this way, it assumes a crucial importance to consider the negative externalities of innovations on productive sectors, business, citizens and more in general, on the country, because in a globalized world it matters a lot where and when the destructive effect or the creative one occurs.

It is also underestimated the increased implicit risk in any investment in innovation due to the the higher speed of technological change at global level and so the more rapid deterioration of previous investments. This implies that private investors will be less willing to catch all the opportunities offered by new technologies and to provide new services and products, even in presence of potential demand, because global markets are riskier and disseminate the perception that winners can take everything and losers can lose everything.

4. The environmental effects of globalization

- A general overview

Wide are the consequences that the globalization had on the environment all over the world. A renowned study developed by three researchers provides a proper pattern about them; they have examined the emissions of sulfur dioxide, a dangerous pollutant, which is significant in order to assess the industrial and environmental quality, in 50 different countries, across 50 years.

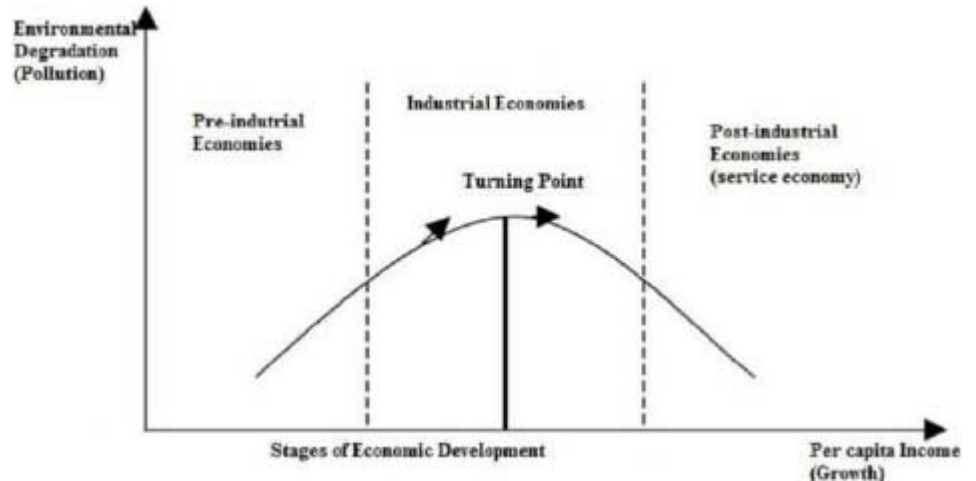
The outcome has been charachterized by a bipolar dynamic.

In advanced economies the increase in wealth and the opening of markets have generally led to an improvement in environmental quality during the first globalization phases, moreover in most of

them the emissions considered have also reduced, following the trend of the so-called Kuznets curve.

The template, represented in the graph, relates the two variables pollution and wealth and defines, through an inverted U shape, how at the beginning of an economic development cycle the increase in wealth yields to an even quicker increase in pollution, since young economies are inefficient and negatively exploit the environment. Then, when a certain peak is met, further growth in wealth is followed by a reduction in pollution, because the social demand for environmental quality increases, becoming a value which from a bond turns into a renewed competitiveness factor. Not all the advanced economies has

pursued this path, as another important variable is relevant in the process: environmental quality becomes a value beyond a certain income only if, over a minimum one, a sufficient environmental culture is acquired, and this did not verified everywhere.



Instead in emerging economies the considered emissions have heavily increased as to the advent of globalization; the GDP growth and the progressive opening to international markets have yield an higher pollution rate, due to the fact that they have not reached the turning point in the curve yet, and so a sufficient level of welfare which would allow them to value the environmental quality.

A further factor that partially explains this deterioration refers to the “*pollution haven hypothesis*” which poits that large industrialized nations seeking up places to outsource will often look for the cheapest ones in terms of resources and labour. Likewise, the most polluting companies in developed economies, attracted by the absence of a strict regulation, migrated towards developing countries, where, actually, the worsening of environmental quality helped to increase richness and trade opening. So, globalization led benefits to the environment in the old industrialization countries, moving polluting loads to emerging economies.

- The Italian case

The already discussed choice of Italy to follow the dumping strategies, not only limits to the social sphere, but has also been applied to the environmental managment, with the same bad consequences. The risk in this case is tied to the attempts of enhance competitiveness by eluding environmental standards in production instead of innovating processes, as the great world powers have done.

The country is ascending the Kuznets Curve: by decreasing wealth and refusing to compare with the international top, environmental culture is deteriorating. While generally emerging economies aim to make the "frog jump" to lower the turning point and achieve a less polluting growth, Italy is doing a "shrimp step", going back towards a lower wealth production and a higher pollution.

Furthermore, it is giving a new interpretation of the pollution haven hypothesis with a sort of internal selection that preserves the most polluting firms and prevents the raise of industries with rely on high knowledge and sustainability concerns. The actual road is a bad one, but not just one way: the course can be reversed by an improvement in industrial and environmental quality.

THE STRENGTHS THROUGH WHICH TO REBORN

This tiny prospect of entering a reverse trend, that let keeping up a bit of faith in future, brings us to consider and analyze which could be the virtuous aspect in the Italian economy and industrial system, because actually not everything has to be thrown away: some driving engine has survived the transition between the two centuries and across the last generations, bearing the weight of all the failures.

Italy has always been characterized by the absence of a big enterprise dimension due to several and different factors, ranging from its recent political history to the cultural roots such as the artisan tradition, the statism imposed by the leftist parties in the first republic, up to the attention for the family business that the governments exerted in the second half of XX century.

Unavoidably all these reasons has led entrepreneurs to a progressive disinterestedness towards the big enterprises, focusing instead on a specialized SME dimension which has constituted the real strength of Italian productive system in the last 50 years.

A context where the big business is a minority, today mainly limited to the old public enterprises now privatized, is offset by a market capitalism economy with a strong specialization in hundreds of "niches" in which medium-sized Italian companies are international leaders. The success has to be traced back to the strategical importance of the local industrial districts, formed by a concentration of SMEs specialized in the realization of a basic product in all its possible versions and processing. This helped to empower production efficiency by organizing common services (sharing providers, pooling productive phases, gathering facilities,...) which allow to reduce costs; moreover the proximity of firms predispose the raise of a favorable institutional pattern and the development of a high-skill labour force deeply specialized.

The district model has suffered lot of changes since 90s, mainly due to the imperative of facing globalization and internationalization dynamics. Lot of medium enterprises has expanded abroad, going beyond the territorial common acceptance that characterized them, and recording great performances since 1996. Thus they became the most effective side of industrial districts, mainly guided by the significant and key impact of manufacturing exports, thanks to the great reputation that the label Made in Italy enjoys all over the world.

It is quite intuitive so, to deduce that leveraging competitiveness, productivity and exportability of our domestic brands on a large scale and valorising those industrial district which keep on representing the real spine of our economic system are the boundaries that border the path for the relaunch of Italy.

The political economic efforts and decisions must be addressed to the high technological and innovative content SMEs which are surviving and thriving on the international context thanks to competitive quality products, instead of focusing on stagnant sectors, in order to attract medium-long run investments able to generate occupation and consumption, in terms of raises in aggregate domestic demand. The implementation of precise measures for tax relief and incentives for firms would allow to lighten the difficulty to record prominent growth rates above certain revenue thresholds, where carrying out scale economies become essential, but at the same time so hard to achieve for those firms which do not own sufficient market power to drive prices and costs.

A careful selection of the industries where to allocate public resources is crucial to defend the "Made in Italy", more than realizing protectionist policies and boosting multinationals coming to Italy with opportunistic logic or firms that has already outsourced domestic production on a large scale.

Furthermore incentives are important also to defend the Italian property of our excellences from the attack of the great foreign tycoons that the globalized context favoured. It is crucial to avoid losing strategic sectors which represent Italian identity and to keep the defined and incumbent position that they has obtained in a united and economically strong European context.

CONCLUSIONS: Future perspectives whithin the strict regulated European frame

The situation that the Italian government has currently to deal with is now almost clear.

The discussed challenges that globalization yield, from the disruption of the middle class, an effect which is amplified by the consistent public debt level, to the economic growth rates below the EU average, are faced by providing subsistence to those who suffer the globalization process for the most and by trying to push up public investments to create conditions for growth.

But those public measures required to manage the status quo have always to be revised so that they can fit the strict regulated pattern agreed at community level. It is needed to underline that it may perhaps work during periods of sustained growth, but certainly do not meet the needs of the current slowdown situation involving European economies. These rules do not allow to take into account the changeability of economic conditions, which has significantly increased hand in hand with the global economic connections, thus preventing discretionary policy adjustments, and tragically ending up by acting pro-cyclically.

The Treaties which enshrine them focus on procedural aspects without neither considering why we need to be together as Europeans nor adequately responding to the faced challenges in a hyper-connected world.

A clear distinction has to be made among the meaning of sharing common European ideals and values and the fiscal rules: often questioning the validity of these technicalities has been perceived as questioning the European Union itself or the single currency, as if their rigorous respect would be the only reason for staying together. Obviously has not to be just about that, the European Union project must aim to greater objectives, to play a decisive role in creating a sustainable globalization, because the discretionality in economic policies should head for giving more weight to the fundamental reasons for nations to cooperate than to the technical regulations. This is an essential way in order to build up trust again: look firstly at why we are together and just in a second time at how to perform that, fitting the rules architecture in order to effectively react to the current situation in a globalized and hyper-connected world, but today is happening the opposite.

Rebalancing the interests within this context, and not at the expense of globalization itself or of multilateral cooperation is the path to follow to get out of this trap and to rebuild trust. The challenge is given by the difficulty of facing at national level the consequences of the widening inequalities in terms both of economics and of control power of global networks that determines our societies. There are no global institutions or governance that address the problem of losers in global competitive challenges and EU appears potentially better equipped if it recovers the reasons for its unity.