Sour notes in Italy's. September Song

Judith Harris (September 09, 2016)

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ROME - A sour note will be heard in Italy's otherwise glorious September song: the economy. During the second quarter this year Italy's GDP grew by only 0.7% over the same period the previous year, or less than the 1% of the first quarter. This compares with growth during the same period of 2.2% in the U.K. and 1.4% in France. The slowdown "comes as no surprise," acknowledges Economics Minister Pier Carlo Padoan. "But despite the slow growth, public spending is under control," he added with a note of optimism.

A fundamentl problem is that nine Italian families out of ten are relatively poorer than were their parents back in the last century. The recession is, at this point, global, but Italy's portion of economic woe is of particular concern because significantly greater than that of the United States and most European countries.

According to the McKinsey Global Institute Report issued this July, between the years 2005 and 2014, two-thirds of the households in 25 advanced economies had flat incomes or worse. Save for a brief period during the Seventies, household income rose steadily by about 2% a year until 2005, when real incomes began to collapse. In a measure of flat or falling income, Italy hoved in at a staggering 97%. The U.S. came in second worst, with 81% of the families showing serious struggle. Next, tied for 70%, were the United Kingdom and the Netherlands. And despite its troubles France was better off than these four, at 63%. Compare this with Sweden, where only one out of five families had stagnant or falling incomes.

The data sources derives from respectable sources such as the Bank of Italy, the U.K. Office for National Statistics and the U.S. Congressional Budget Office. "The hardest hit are young, less-educated workers, raising the spectre of a generation growing up poorer than their parents," the McKinsey Institute concludes. The social consequences are of concern particularly because the trend may well worsen, aggravated by automation in the factories.

In the meantime Italian industrial production has just made an upward surge in the building trades, in production of leather products and of foods and beverages, transportation and pharmaceuticals. At the same time, however, other areas of the economy are in deep trouble. Between the year 2008, which ushered in the current recession, and 2015 media production (newspapers, journals, books) shrank by 38.5%. Even telecommunications along with TV productions took a beating during the same period, down respectively 24.3% and 12%. Not surprisingly, metal manufacturing shrank by over 20%, a crucial factor for a nation that had been a major manufacturer of automobiles and household appliances during the entire postwar period. Consider Fiat production: the Italian auto industry ranked third in Europe and fifth in the world in 1989 with a production of 2.2 million vehicles, but slumped by over half, or to just over 1 million in 2015. Thanks to robots, the factory work force shrinks by an even larger percentage.

As a result, blue collar employment fell by 8% during that same seven-year period, even as industrial production rose by 6%. Thanks to automation, individual worker productivity has risen sharply, meaning that the surviving factories need hire fewer workers. The politics implicit in this are of concern; in the UK, which invented the manufacturing industry back in the l8th Century, the crisis in manufacturing was a huge factor in producing the Brexit vote. The U.S. is obviously suffering from a similar situation.

Purchasing power of the average Italian family has accordingly declined, and, as Italy's official statistics-gathering agency, ISTAT, points out, and with it the mentality of the Italian consumer. Thanks to deflation, an individual's buying power has actually increased by 1.1% this past year, "but the consumer's philosophy has become the conviction that less is better than more," as one observer put it.

Another respected pollster, SWG, determined that almost half (45%) of those queried fear that the sagging economy is not yet ready to be turned around, which helps to explain why sales of clothing and of footwear fell by 28% in the six years after 2007. The SWG poll, sponsored by the Confcommercio association of retailers, found that other primary factor are fear, whether justified or not: fear of crime, of terrorism, and of migrants who commit crimes even though the latter crimes listed often involve trafficking in other migrants, including forcing women into sex for pay.

The picture is obviously complex. Stable migrant families, studies here show, become well inserted into Italian life. And then there are organizations like the Catholic charity Caritas, which is organizing migrants into squads to help dig out the Appenine towns devastated by the earthquake of Aug. 24.