Proceedings of the 3rd International Conference on Business and Policy Studies
DOI: 10.54254/2754-1169/68/20241379

Analysis of Factors That Have Hampered Economic Growth in Italy

Wei Guo[1,a,*]

[1]Shenzhen Foreign Language School, Shenzhen, China
a. 196111115@mail.sit.edu.cn
**corresponding author*

Abstract: Italy's economic growth since 1990 faced domestic challenges, including structural issues, tax evasion, bureaucratic inefficiencies, and political corruption. Externally, as an EU member and participant in global economic forums, Italy's fiscal policy constraints and the need for a comprehensive strategy to foster economic development are evident. This article employs a multifaceted research approach to analyze the economic development of Italy in 1990. First, the documentary analysis includes a comprehensive review of the academic literature of various economists, the historical record of Italy and Europe, and the study of national institutions to understand the economic situation at that time. In addition, quantitative data analysis was conducted using economic indicators such as GDP, unemployment rate, and investment and trade data. These data were statistically analyzed to identify trends and implications for the development of the Italian economy. A combination of literature and data analysis methods were used to comprehensively analyze Italy's economic development since 1990 and to provide an overall understanding of both internal and external factors that influenced its economic development. Finally come out with recommendations for Italy's economic development that will help it to develop effective policies and strategies that will lead to a more sustainable path of economic growth.

Keywords: Structural issues, Corruption, EU Single Market, EMU

1. Introduction

Since the 1990s, the Italian economy has struggled to growth so much characterized by a complex interplay of internal and external factors that have impeded its economic performance. Domestically, Italy has been hampered by structural problems. A complex and inefficient bureaucracy, a corrupt political system, and high public debt have stifled innovation and entrepreneurship. This affects the development of the Italian economy from within. It has weakened the country's competitiveness. Externally, Italy was active in trade cooperation with international organizations, as well as being affected by the EU and the global economy in general. Italy's membership in the Eurozone constrained Italy's monetary policy, limiting Italy's ability to meet its economic challenges. These factors further hindered Italy's economic recovery.

Considering internal factors such as domestic structural problems, corruption and bureaucracy together with external factors such as international trade relations and the EU single market, it is important to identify the root causes of the problems limiting economic development and to develop a comprehensive understanding of the Italian economic landscape. It helps the Italian government to

DOI: 10.54254/2754-1169/68/20241379

formulate effective policies and adjust its foreign policy decisions. Thus, the prosperity of the Italian economy will be realized.

The rest of this article is arranged as follows: the second part is on internal factors, the third part is on external factors, and finally is the conclusion.

1.1. Literature review

Free competition was an indispensable driving force for social development and one of the most important economic laws in the development of capitalism [1]. In the natural order, the capital of a progressive society is invested, first, in agriculture, second, in manufactures, and, lastly, in foreign trade [2]. The distinguishing features of a capitalist economy were its inability to provide full employment and the unequal distribution of wealth and income. There was no justification for the "present" level of inequality [3]. All the citizens of a country are required to contribute to the maintenance of the government, in proportion to their respective means, so far as it is possible to do so. The equality or inequality of the so-called tax burdens depends upon whether this principle is respected or disregarded [4]. As a social resource, power is in the hands of a few people, and the scarcity of power and the urgency of the demand for power determine its value. And as the owner of power, government officials, out of their own interest maximization considerations, on the basis of measuring the cost-benefit, the scarce power as a weight to exchange interests with other economic actors, if the perceived benefits of corruption are greater than the cost of corruption, they will implement corrupt behavior [5].

2. Basic Fact Analysis

2.1. General Analysis

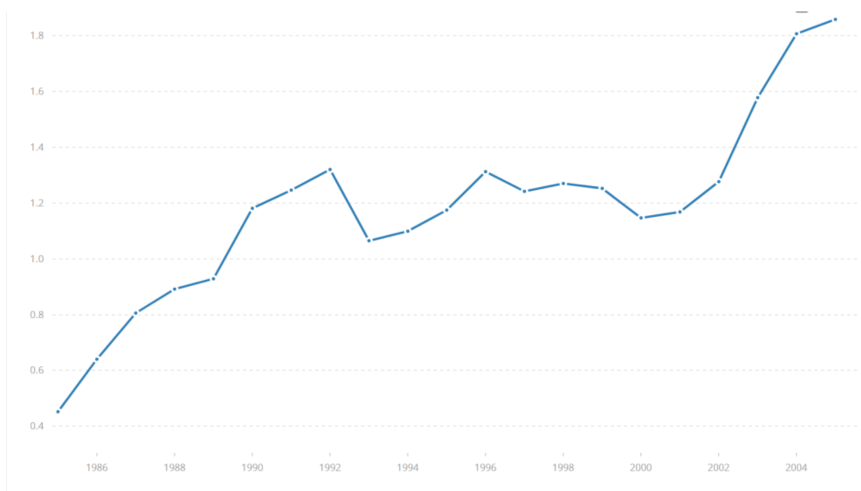

Figure 1: GDP (current US$) of Italy.

Figure 1 shows the GDP of Italy from 1984 to 2004. As we can see, though the overall GDP is on an upward trend, since 1990, GDP of Italy has been witnessed a fluctuating trend in the following decade. It even declined between 1992 and 1994. The overall trend, marked by ups and downs, reflects the complexities of Italy’s economic landscape during this pivotal period.

3. Factors

3.1. Internal Factors

Since 1990, domestic factors have had a great impact in the long struggle for economic growth in Italy. This article will look at SMEs, rigid labor market regulations, tax evasion, regional differences between North and South, bureaucracy characterized by red tape and inefficiency, and corrupt multi-party system.

3.1.1. SMEs

SMEs provides nearly 80% of the industrial and service labor force and generates about two-thirds of the value added. They products that are in demand globally, contributing to export promotion and trade balance. And They also have great flexibility and adaptability. They are able to face the changing market fluctuations and react quickly to consumer preferences. But the disadvantages of SMEs are, their availability of banking credit is low. So it's difficult to access to capital and financing. And It also faces the international competition. It has limited digital skillset compared to EU peers.

3.1.2. Labour Market Rigidity

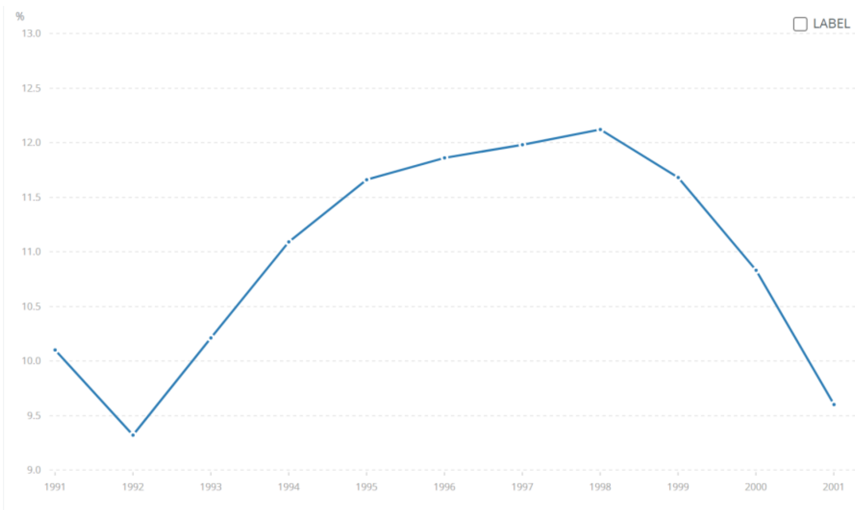

Figure 2: Unemployment rate in Italy.

Figure 2 shows the unemployment rate of Italy during 1991 to 2001. The employment rate reached its lowest point in 1992. Italy experienced a period of economic growth from the late 1980s to 1992, when GDP rose steadily. This growth led to an increase in the demand for labor, which helped to reduce the unemployment rate. During this period, Italy's population was relatively stable and grew slowly, making it easier to meet labor demand. Italy also has one of the most highly regulated labour markets, particularly with regard to hiring and firing rules and restrictions on the use of typical contracts. So the Italian government introduced labor market reforms during this period that reduced strict labor regulations and made it easier for firms to hire and fire employees. Increased labor market flexibility. It also encouraged firms to recruit, launch public works projects, and create temporary jobs to reduce unemployment.

Employment is closely linked to economic development. When more people are employed, they earn income, consume and invest, which promotes business and industry, as well as growth in GDP. More labor also means more tax revenue for the government. These funds can be used for public services, infrastructure development, etc., which are essential for economic growth.

DOI: 10.54254/2754-1169/68/20241379

3.1.3. Tax Evasion

There is a high risk of corruption in the Italian tax administration. And In the 1990s, tax evasion hovered between 15 and 20%. The persuasive power of the Church and its historically hostile relationship to the state have an impact on Italians tax behavior. Eastern Orthodox Church is considered the most united branch of Christianity, closely followed by Catholicism, which is considered strong social groups. Also, When government investment or public spending (e.g. social and welfare programs) decreases and taxes increase, there is a doubling of the contractionary effect on national income. This also leads to decrease in employment rate and economic growth slows down.

3.1.4. Regional Inequalities

The southern region of Italy is highly agriculturalized. Products such as pasta and wine are famous Italian exports. However, unemployment in the south is usually high and there is a lack of employment opportunities in the south. Northern Italy is more industrialized. In particular, machinery and automobiles are known for their strong manufacturing industries, which contribute significantly to Italy's exports. The northern region has a diversified economy, benefiting from better infrastructure and educational opportunities, and has stronger trade links with other European countries. Homicide rates also vary between north and south. Kingdom of the Two Sicilies, state that united the southern part of the Italian peninsula with the island of Sicily between the mid-15th and the mid-19th centuries. Kingdom of the Two Sicilies ceased to exist when Italy was united as a unitary nation-state in 1861[6]. The enduring repercussions of organized crime, originating from the Kingdom of the Two Sicilies, have left a significant imprint on the political dynamics of southern Italy.

3.1.5. Bureaucracy and Corruption

Italy is parliamentary cabinet type of government. Administrative procedures is very complex. The power system of the State is centered on the Cabinet, which has the highest executive power of the State. The Cabinet is accountable to the Parliament and is subject to its control. Most political parties have a top-to-bottom organizational system, and even a set of peripheral party organizations, such as trade unions and women's organizations, which play a supplementary role to the party's rule. The inefficiency and negligence of some people working in the public system which, as a consequence, is overwhelmed with paperwork. Administrative processes were often slow and cumbersome. This causes bureaucracy. Such delay often result in higher financial expenditures. The lack of a good bureaucratic system does not only affect the interests of each individual citizen, but also damages the economy of the country.

Italy has a multi-party system. The most characteristic feature of the Italian party system is the dominant role of political parties. However, Tangentopoli Scandal (also called clean hands) happened in Italy in 1992. In February, Bettino Craxi, the Socialist Party's main Milanese leader, was arrested and imprisoned for receiving kickbacks on projects. The anti-corruption activity spread rapidly from Milan to the whole country. It was a wide-ranging corruption investigation that exposed systemic corruption and bribery within the political and business elites, politicians. Traditional political parties embarked on the path of disintegration, division or reorganization. After 1994, there was a trend toward coalition in the Italian party landscape, which was manifested in the fusion of political parties and the formation of electoral coalitions. Partito Democratico was formed on October 14, 2007 by the merger of the Partito Democratico della Sinistra Italiana and Margherita. According to Samuel P.Huntington, corruption is the violation of accepted norms by government officials for personal gain[7]. Power belongs to the state but is held by government officials, the state belongs to a generalized collective concept, which does not have specific personality characteristics, while government officials are a specific collective concept, which has specific personality characteristics, therefore, from the theoretical level, in the operation of power, the personal interests of government officials are prioritized over the overall interests of the state. The separation of the ownership and use of power, as well as the limited rationality characteristic of government officials lead to the absence of complete contractual norms, the result of which is to lead to the inevitability of opportunistic behavior [5]. Market failures, successive government collapses and frequent changes in prime ministers and leadership, made it difficult for Italy to implement coherent economic policies and reforms. It made long-term economic planning and investment difficult. The comparative political stability has also led to high levels of public debt in Italy. Its spending beyond its means, resulting in deficit. This limited the government's ability to respond to the economic crisis or to invest in critical infrastructure. Chronic government instability has also led to heightened concerns about Italy's public debt. It was found that Italy belongs to the "PIIGS" (Portugal, Ireland, Italy, Greece and Spain), which represents the most dangerous countries in the eurozone debt crisis.

3.2. External Factors

External factors have largely determined Italy's long-term economic distress since 1990. Understanding and responding to external influences is crucial to developing strategies that will help Italy navigate the complexities of the global economy. This artical will discuss the impact of external factors on Italy's economy and finances in terms of the ERM, EC, WTO, IMF, OECD, International Economic Summits, EU Single Market and EMU.

3.2.1. ERM

The European Exchange Rate Mechanism was created in 1979 as a system for limiting fluctuations in the exchange rates of the currencies of EU member countries. Each country agrees to link the exchange rates of their currencies to each other, rather than letting the market determine exchange rate fluctuations. The ERM sets a fixed central exchange rate for the exchange rates of the member countries' currencies and allows the exchange rate to fluctuate at a certain rate above and below the central exchange rate. In September 1992, there were two opposing forces in the European foreign exchange market. One side is the central bank of the European Monetary System member states, determined to protect the mark against the pound, lira and other exchange rates, constantly in the foreign exchange market to sell the mark to buy pounds and lira; The other side is the foreign exchange market speculative forces, selling pounds and lira to buy the mark. The central bank has thrown out more than 20 billion dollars of marks, all of which were eaten by market speculators.It was on September 13th, 1992 when the Italian decision to devalue Italian Lira by 7% took place (other currencies revalue of 3.5%). The day after the British crisis ended with effectively withdrawing from ERM, it in turn flipped the pressure back upon Italy [8]. Only three days later the mark to lira ratio once again exceeded the threshold of the recalibrated exchange rate downturn, and the Italian government spent 40 trillion lira worth of foreign exchange reserves in an unsuccessful attempt to salvage the falling lira. Italy also had a generalized trade deficit during this period. Thus, on September 17th, 1992, Italy withdrew from ERM [8].

3.2.2. EC

Italy is one of the founding members of the European Community. The EC is the world's largest trading bloc, with total foreign trade in 1992 amounting to some US$ 2,900 billion. On December 11, 1991, the Maastricht Summit of the EC adopted the Treaty on European Union, which establishes the European Economic and Monetary Union and the European Political Union.The objective was to establish a unified economic policy through the tight coordination of member states' economic policies and the achievement of a unified market across Europe. The unification of currencies, the

DOI: 10.54254/2754-1169/68/20241379

introduction of a consistent currency exchange rate and the development of a network of European Central Banks tasked with shaping and executing EC policies. Elimination of trade barriers between member states. Harmonize transportation systems, agricultural policies, and general economic policies among member states. Elimination of measures taken by private individuals and governments that restrict free competition. Guarantee the mobility of labor, capital, and business entrepreneurs between member states. On November 1, 1993, the Maastricht Treaty entered into force and the European Union was formally established [9].

Italy has a long-standing trade relationship with European countries. Italy's trade partnerships are influenced by its role as a member of the European Community, its strong manufacturing sector and its important position in the global economy. Germany and France are Italy's most important trading partners within the EU. Germany is one of Italy's most important trading partners within the EC. The two economies complement each other, with Italy exporting products such as fashion, machinery and automobiles to Germany. France is another important trading partner of Italy within the EC. Trade between the two countries includes the exchange of manufactured goods, agricultural products and services. Italy maintains trade relations with Mediterranean countries such as Spain, Greece and Turkey, which are also members of the EC or have close economic relations with the EU.

3.2.3. Forums and Summits

Global Trade Forums Italy actively participates in global trade forums and organizations, including the 1986 Uruguay Round of trade negotiations under the General Agreement on Tariffs and Trade (GATT) multilateral trade negotiations. the GATT provides a framework for reducing tariffs and the GATT has actively worked towards diminishing tariffs and trade obstacles, eradicating discriminatory treatment in global trade, and advancing the liberalization of international commerce. GATT was signed in Geneva on October 30, 1947, and on January 1, 1948, it began to be applied on a provisional basis. This resulted in the formation of the World Trade Organization (WTO) in 1995, an organization that actively advocated for the opening up of international trade and the formulation of global commercial standards.

Italy hosted the G-7 and G-8 International Economic Summits in 1987 and 1994, where leaders of the major industrialized countries discussed economic policies and global economic challenges. These summits provided Italy with the opportunity to coordinate policies with other influential countries, strengthening diplomatic and economic alliances with other major powers. Additionally, these summits offer economic advantages to Italy, contributing to the expansion of tourism, hospitality, and associated economic sectors.

3.2.4. EU Single Market

The European Union is the world's number one free-trading organization, and has achieved complete freedom of movement of goods, services, capital and people. The advent of the euro has resulted in increased financial market and stock exchange integration, bolstering the euro's economic standing. The member states of the EU enjoy a number of preferential policies, such as zero tariffs between the member states, same status of foreign trade, free movement of capital between member states, common surtaxes and excise taxes, etc.

The advantages are following. Italy's access to the EU Single Market facilitates the free movement of goods, services, capital and people, expanding Italy's export opportunities and attracting foreign investment. Italian businesses don’t face trade barriers. Exports in sectors such as manufacturing, fashion and automobiles are promoted, increasing trade opportunities and boosting economic growth. Italy receives financial assistance from EU funding programs, particularly the Structural Funds and Cohesion Funds. These funds support infrastructure development as well as initiatives to reduce

DOI: 10.54254/2754-1169/68/20241379

economic disparities between regions. For example, in order to boost the European economy and help member states accelerate their recovery, from 2021-26 the EU implements The National Recovery and Resilience Plan, totaling the equivalent of €672.5 billion in economic assistance. Italy is the first beneficiary, of which the RRF alone guarantees 191.5 billion euros. Italy has adopted the euro as its currency, which simplifies trade and financial transactions within the eurozone. It also reduces the exchange rate risk for Italian businesses.

There are some drawbacks as well. Italy's fiscal policy has been constrained by EU fiscal rules, including deficit and debt limits under the Stability and Growth Pact. These constraints have limited the government's ability to respond to economic challenges. Italy also faced economic challenges such as high public debt, which at times put it in conflict with EU fiscal rules. This led to tensions between Italy and the European Commission. At the same time, membership in the EU required the cession of some sovereignty to European institutions, which reduced Italy's ability to make independent policy decisions on issues such as trade and immigration.

3.2.5. EMU

Italy is a member of the EMU and adopted the euro as its official currency in 1999. The conduct of the euro has an impact on various aspects of the Italian economy, including on inflation, interest rates and competitiveness.

The European Central Bank was established on July 1, 1998, and is the only institution qualified to allow the issuance of euros within the European Union. The main functions are to maintain monetary stability in the Eurozone, manage interest rates, currency reserves and issuance, and set European monetary policy [10]. Typically, loose monetary policy will depress the euro exchange rate, while tight monetary policy will boost the euro exchange rate. Independence is one of its distinguishing features. It is independent of EU institutions and national governments, and is the world's first central bank to manage a supranational currency. However, it is lack of autonomy. Its decision-making power is held by the European Central Bank itself, without the influence of countries. Many economists agree that the autonomy of the ECB is extremely important, as it prevents markets from being manipulated for political purposes [11].

After the official launch of the euro on January 1, 1999 Italy lost its power to independently control monetary policy, including setting interest rates, in favor of a monetary policy set by the European Central Bank. Prior to joining the EMU, interest rates in Italy were higher because the lira was considered risky. With the use of the euro, Italian borrowers were able to obtain lower interest rates, which reduced the cost of borrowing. While lower interest rates benefited borrowers, Italy lost its ability to set monetary policy independently. The ECB makes interest rate decisions for the entire Eurozone, however, individual member states do not have the same monetary policy needs. Italy's system of governance had difficulties in managing its own currency, which in turn led to the devaluation of the lira. The adoption of the euro eliminated exchange rate fluctuations between the lira and other European currencies. This led to a significant stabilization of the exchange rate, from which Italian firms engaged in international trade benefited. However, Italy faces international competition and challenges in maintaining industrial competitiveness due to high labor costs and regulatory burdens compared to countries with lower labor costs. In order to enhance competitiveness, Italy also undertook structural reforms in the 1990s, liberalizing, the use of atypical contracts and temporary agency work. The aim was to increase the flexibility of the labor market and reduce bureaucratic obstacles.

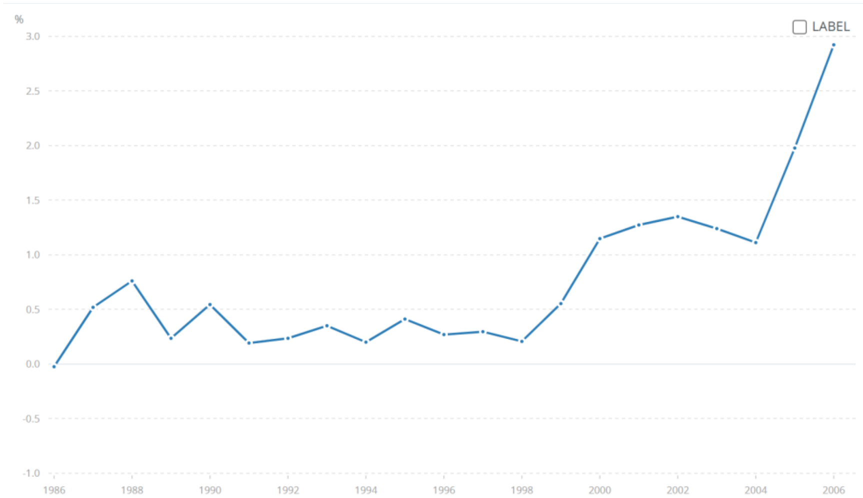

Figure 3: Foreign direct investment, net inflows (% of GDP) in Italy.

On Figure 3, we can see that foreign direct investment, net inflows in Italy fluctuated between 1986-1998, until two distinct uptrends in 1998-2000 and 2004-2006. Italy officially adopted the euro in 1999. It changed Italy's monetary policy and currency, affecting the country's economic landscape and having a significant impact on Italy's economic landscape. Italy has also established friendly relations with other Eurozone countries, that increased the net inflows. Additionally, between 2004 and 2006, a series of economic reforms were implemented within Italy to reduce bureaucracy, improve the business environment and attract foreign investment. The EU was also enlarged in 2004 to include several Eastern European countries, increasing trade and investment opportunities between Italy and these new EU members.

4. Conclusion

In summary, struggled economic growth in Italy since 1990 has been caused by multiple factors, both domestic and external. On the domestic front, Italy can continue its labour market reforms to optimize the market structure, provide job security and reduce unemployment. On the international trade front, Italy can increase foreign trade and investment opportunities by reducing taxes and simplifying regulations to attract foreign companies to invest. Although the road to recovery for the Italian economy is complex, reforms of the domestic political and economic system and a foreign trade strategy tailored to the Italian context can help Italy to embark on a more sustainable path of economic growth.

References

[1] *WANG Zezhi. The Economic Moral Values and Enlightenment of Classical Political Economists.:1674- 9014 (2017) 03- 0006- 09*
[2] *Adam Smith. Wealth of Nations (I) [M]. Translated by Guo Dali, Wang Yanan, Nanjing: Yilin Publishing House, 2011:328. (1997)*
[3] *John Maynard Keynes. (1073c [1936]) The General Theory of Employment, Interest and Money, in: John Maynard Keynes The Collected Writings (London, Macmillan), vol. VII*
[4] *Adam Smith. Wealth of Nations (II) [M]. Translated by Guo Dali and Wang Yanan, The Commercial Press, p. 384. (1997)*
[5] *Xiao Ke, Zhang Longhui. Corruption Prevention and Treatment from the Perspective of Institutional Economics.1674-9170(2021)04-0008-11*
[6] *The Editors of Encyclopaedia. Kingdom of the Two Sicilies. 14 Sep. 2023. Retrieved on 6 Oct. 2023. Retrieved from: https://www.britannica.com/place/Kingdom-of-the-Two-Sicilies.*

[7] *Samuel P.Huntington. Political Order in Changing Society [M]. Wang Guanhua, Liu Wei, et al. Trans. Beijing: Sanlian Bookstore. (1988)*
[8] *Martin Armstrong. The Financial Crisis 1992-1993. 26 Mar. 2017. Retrieved on 6 Oct. 2023. Retrieved from: https://www.armstrongeconomics.com/international-news/europes-current-economy/the-financial-crisis-1992-1993/*
[9] *Economic and Commercial Counsellor's Office of the Chinese Mission to the EU. Foreign Investment Cooperation Country (Region) Guide —— EU: Press of the Ministry of Commerce. (2014)*
[10] *Guo Caiping. European Central Bank. 02 Sep. 2009. Retrieved on 6 Oct. 2023. Retrieved from: http://intl.ce.cn/zhuanti/data/ucb/ucbdata/200909/02/t20090902_1471810.shtml*
[11] *The European Central Bank. 04 Aug. 2023. Retrieved on 6 Oct. 2023. Retrieved from: https://www.baike.com/wikiid/6831746041833721130*