Rainbow Glimmers on the Economic Horizon

Judith Harris (July 26, 2013)

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ROME - The undiluted bad news reports of economic recession is hardly ready for the waste basket, but Confindustria just threw out a welcome ray of hope. In its July report on whither the economy, the Italian association of manufacturers has just declared that industrial production bounced up by 0.4% in June this year by comparison with the previous month. "Industrial production has stopped dropping, albeit remaining well below pre-crisis levels," Confindustria reported this week.

Another positive note is that, over the past year, family savings have risen from an historic low of 7.7%, measured in the second quarter of 2012, to this July's 9.3%. The further good news was that manufactured production has increased slightly, for the first time since 201l. Overall exports surged in volume by 0,5% this May over the previous month while exports to non-EU countries fared better still, boosted by a healthy 3.1%.

Although dismal results continued in the building and services sectors, this mid-summer economic surge was moreover ratified by the Organisation for Economic Co-operation and Development (OECD), whose analysis of the Italian economy placed the overall unemployment rate here, which stands at just over 12%, at half that of Greece and Spain. More help will come from a drop in the cost of energy (which will make gasoline one cent cheaper for consumers, incidentally) and adjustments to public sector spending.
The general feeling therefore is that Italian economic recovery will show further improvements this autumn, thanks to changes outside Italy including the revived US and Japanese economies and to increased demand on the part of the emerging economies. The slow-down among the BRICs (Brazil, Russia, India and China), which together had previously accounted for one quarter of global output, is another factor. According to The Economist, "the era of disruptive BRIC ascendence is over," and this is in its way a dramatic shift.

That said, the recession which began in 2008 and worsened seriously in 2011 is far from over, but many in Italian industry are hailing the unexpected good news with serious rethinking about what they are to do. Even as automotive production has sunk like a stone and car sales with it, the de-industrialization of Italy, however self-evident, has been a dirty word here, utterly ignored by the hide-bound, old-fashioned trade unions. Today, however, even some in the business avant-garde are promoting a return to a solid industrial base of highly skilled workers, preferable, they now believe, to banking on a British-style financial services base.

Others here complain that the Italian tradition of highly skilled craft workers should be revived, but that offers of apprenticeships in the crafts go begging, even as over a third of Italian youth (with youth defined as anywhere up to age 35) have no work nor prepare themselves for work. Another major issue: taxes of 54% on average for those who pay taxes at all while countless tax dodgers manage to pay no taxes at all. According to Premier Enrico Letta, taxes can and should be reduced if tax dodgers can be forced to do their part. At a meeting Wednesday with the leaders of the three big trade unions, CGIL, CISL, UIL, Letta listened to their pleas for a tax reduction for unionized workers, and promised rethinking in September. "In our country taxes are so high because not everyone pays," he acknowledged. "Our commitment is to use all the money that we can from the fight to block tax dodgers to lower taxes to the others." His goal, he added, is to declare war on the notorious tax havens and to encourage foreign investment in Italy by simplification of the complicated and frustrating bureaucratic procedures.

A dark cloud on the horizon is the credit crunch. Banks here continue to be reluctant to grant mortgages to families for purchases of homes, but also to manufacturers. "Liquidity is scant," Confindustria reports, and 25.6% of companies queried say they have insufficient resources for the third quarter. One sorrowful reason: long delays in payments by public administrations for work carried out by private companies. The expectation is that, by dropping the cost of credit, the monetary policies of the European Central Bank, headed by Mario Draghi, will produce further positive effects.

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