

mintessay

An Italian sojourn: glimpses of a faltering recovery

The immediate constraints are Italy's difficult fiscal condition and the fragility of its financial sector

SUDIPTO MUNDLE

is emeritus professor at the National Institute of Public Finance and Policy and was a member of the Fourteenth Finance Commission.

Europe's long recession finally seems to have bottomed out. However, the recovery remains uneven across countries. The Central East European economies are growing consistently at around 3-4% per year, according to Michael Landesmann, a Vienna-based economist who tracks those countries. Germany and France, the two largest European Union (EU) economies, are growing at around 1.5% now. Among the worst affected of the southern economies, Spain is now growing at over 3%. But recovery in Greece and Italy is still faltering. The International Monetary Fund (IMF) now expects Italy to grow at only 0.7% in 2017. A sojourn in Italy earlier this month gave us some glimpses of how this is playing out on the ground.

Italy is the third largest economy in the EU and the eighth largest in the world. With per capita income of nearly \$31,000, it is also one of the most advanced countries in the world. It also has a well-diversified industrial base accounting for nearly a quarter of gross domestic product (GDP). Its products include iron and steel, machinery and electrical equipment; energy, chemicals, cars and white goods; garments, shoes, accessories and other consumer durables and food products. It is the world's largest producer of wine, and its pasta, cheese and meat products reach all corners of the globe.

Despite these strengths, Italy's recovery is still faltering. Every where we stopped and made enquiries about business and employment, the responses were almost identical. "So so". Official statistics are consistent with this popular assessment. Output is still well below the 2007 peak. The unemployment rate is still over 11%, and it's over 40% among the youth. Nearly a quarter of the population is at risk of absolute poverty.

How come such an advanced economy with a powerful industrial base is struggling to recover? The immediate constraints are Italy's difficult fiscal condition and the fragility of its financial sector. Italy has a public debt-GDP ratio of 160%, leaving little room for any fiscal stimulus. Tax rates are already high and additional revenue mobilization is also constrained by a large unrecorded economy. Meanwhile, just as in India, the financial sector is grappling with a high level of non-performing loans. The stressed balance sheets of private banks have reportedly driven down their share prices by around 50% during the past year.

Interestingly, in our discussions people typically referred not just to the recent debt crisis but also to the euro shock that preceded it. Whether true or not, the popular belief throughout the country is that real wages were effectively halved when the euro replaced the Italian lira. It is not difficult to see which way Italy would vote if it had a UK-style referendum.

I am emphasizing that these responses were consistent across the country because generalizations are risky in the context of Italy's sharp regional dualism. Virtually all of Italy's large and diversified industrial base is located in the north-

ern and central provinces. Fiat is based in Turin; Lamborghini, Ferrari and Maserati are in Lombardy and shipbuilding is centred around Genoa. Italy's famous fashion houses are mostly headquartered in Milan, with Gucci in Florence and Benetton in Veneto. Small and medium enterprises in leather goods, textiles, furniture, jewellery, machine tools, etc., the backbone of the post-war Italian miracle, are also mostly in northern Italy.

The southern provinces are largely agrarian. But the richest agrarian regions are also in the north, along the valley of the Po river. The world-famous cheese, ham and salami come from Parma and other parts of Lombardy. Italy is the world's largest producer of wine, but the prime vineyards are in northern and central Italy, not the south. Compared to the north, per capita income in the south is only a little over half, unemployment rates are higher and poverty incidence is almost double.

Given this sharp regional dualism, perceptions can differ widely between the north and the south. Hence generalizations need to be based on dipsticks of opinion drawn from across the country. From this perspective, our itinerary positioned us well for such broad anecdotal assessments. Having done the 'grand tour' of Italy's great cultural heritage, especially Florence, Venice and Rome, on earlier occasions, we focused mostly on the roads less travelled and places less visited. Starting from Ponte-di-Legno, nestled in the Italian Alps in the far north, and the lake district around Como, we drove south through Lombardy and the Po valley to the vineyards of Emilia-Romagna, Tuscany and Umbria in central Italy, then down to Abruzzo and finally far south to Pompeii, Capri and the quaint little towns along the Amalfi coast. We did touch some of the larger cities: Milan, Brescia and Parma in the north, Rome, and finally Naples. We also crossed the country from the Adriatic coast in the east to the Mediterranean coast on the west. The opinions and impressions we gathered were probably, therefore, a fair representation of conditions across the whole country.

In the Italian ski resorts, we were struck by the large, loud skiing parties of families and friends. This was in sharp contrast to the relatively desolate and quiet beauty of the frozen lake and glaciers around the chic Swiss resort of St Moritz just across the border. But the staff in the resorts, restaurants and shops of Tonale and Ponte di Legno said the season had been just "so so". It was the same in Lake Como, other small towns that we toured in the region, and the larger cities like Brescia and Parma. Some of those we spoke to were local residents but others had travelled up from the south in search of work.

One of the most charming aspects of journeys along the roads less travelled in Italy is its chain of *agriturismo* farm houses. We stayed in one such farm house in the Emilia-Romagna region. Waking up in the middle of a vineyard, with acres of vines all around, and no sound other than the twittering of birds and the buzz



iSTOCKPHOTO

Sikh pogrom of 1984 in Delhi around the same time generated the urge to migrate. The migrant Sikh workers of Punjab were prepared to take on the most onerous jobs to make a new living.

What started as a trickle soon grew into a flood. Local politicians recognize that the Sikh workers saved the Parmesan industry and, indeed, other factories in the region. Jit Rana, who migrated from Hoshiarpur in 1987, says there were barely a handful of Sikh families in all of Italy at the time. Today, they number over 100,000, spread across the country. But the Sikhs are not the only migrant workers. There are large numbers of Indians from other states, workers from Bangladesh, Pakistan and Sri Lanka, and from Africa. In Naples, we found a particularly large presence of Tamils from Sri Lanka. They had presumably got away from the ethnic conflict just as the Sikhs had gotten away from the troubles in Punjab.

The migrant workers are present not just in the large cities but also in the smaller towns, and not all migrants are a part of the underclass. In the small medieval town of Scanno, we visited a church where the service was being conducted by an African priest. Jit Rana told us that the second generation of migrants, including his own children, was well educated and had moved into white-collar jobs.

This has caused some resentment, given the prevailing high levels of unemployment. But it did not appear to be a major problem. A tragic consequence of the high unemployment we did encounter was in Naples. Just a block away from Piazza Dante, the historic centre of the city, we saw a South Asian couple beside a garbage dump. While the woman stood by looking miserable and embarrassed, the man was rummaging in the garbage dump. To see this in Italy, one of the most advanced countries of the world, was the most depressing experience of our entire sojourn. It left us shocked and speechless.

What are the prospects of Italy getting back to a stable path of growth? Fiscal constraints and the balance sheet problem of banks are the immediate constraints. But Italy also faces a challenge which is undermining its competitiveness over the long term. With high unemployment, Italy spends nearly 1.7% of GDP on unemployment doles, one of the highest among Organisation for Economic Co-operation and Development (OECD) countries. On the other hand, its expenditure on education is the third lowest among OECD countries. Not surprisingly, Italy's performance in the latest PISA (Programme for International Student Assessment 2012) learning tests is very disappointing. Out of 38 countries, Italy's ranking is 26th in math, 29th in reading and 31st in science. With poor education undermining Italy's competitiveness, how long it will be able to retain its position as the third largest economy in Europe and the eighth largest in the world remains an open question.

Comments are welcome at views@livemint.com

With poor education undermining Italy's competitiveness, how long it can retain its position as the third largest economy in Europe is an open question

of bees, is a most exhilarating experience. After breakfast I chatted with Cara, the daughter of the host family, about conditions in the wine industry. It was evident that they are more concerned about disease and the vagaries of the weather rather than the ups and downs of the economic crisis.

A major highlight of our Italian sojourn was meeting the Sikh community at Gurdwara Singh Sabha in Novellara, the oldest and largest *gurdwara* in Europe outside Britain. After a most unexpected *langar* of *dal, paaver, roti* and *kheer*, they shared with us their remarkable story. Novellara is a small town not far from Parma. A major produce of the farms around it is Parmigiano Reggiano, the cheese popularly known as Parmesan which is sprinkled on pasta dishes all around the world. The work cycle on these farms is onerous, starting with milking the cows at 4 in the morning. There are also several factories in the region, with the toughest jobs being in the foundries. Both farm and factory went through a crisis of labour shortage in the late 1980s. The violent political disturbances in Punjab and the