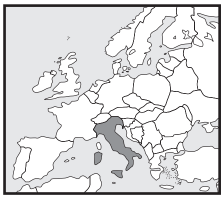
A weak and inadequate response



Government intervention to support those financial institutions exposed to the fluctuations in international markets confirms that Italian banks have been in difficulties since the beginning of the global financial crisis. The worst consequence of the crisis so far is the shrinking of the credit market. In a country where 90% of businesses are of medium or small size, the Government's response has been quantitatively and qualitatively insufficient. There is a need for different policies that adequately distribute the resources to fight poverty and protect workers.

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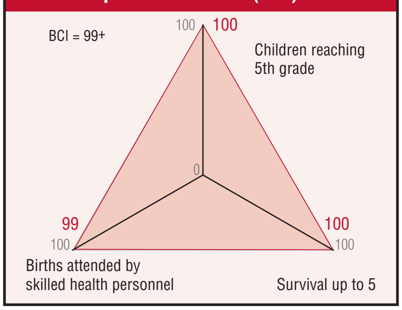
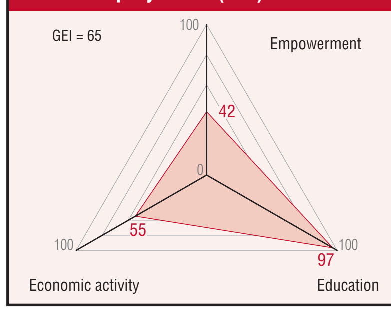
Although the Italian Government has tried to instil confidence by claiming that the country will not only remain untouched by the crisis but even come out of it stronger, the evidence to the contrary is undeniable. While the Government has not yet needed to save any banks, this has not prevented the credit crunch from harming families and enterprises. Figures from Istat, the National Institute for Statistics, show that during 2008 unemployment reached 7.1%, up from 6.4% the previous year, and that between January and February 2009, 370,561 workers lost their jobs – an increase of 46% compared to the same period in 2008.

With regards to the industrial sector, the Italian Confederation of Workers Unions (CISL) 2008 report highlights that there are 900,000 jobs at risk,[1] while studies done by the Italian Labour General Confederation (CGIL) project an unemployment rate of 9% at the end of 2009 and up to 10.1% in 2010.[2] Another significant indicator of the impact of the crisis is that, for the first time in Italy, immigrants are facing problems getting work, particularly in the north-east. According to the CGIA (the association of artisans and small industrialists) in the Veneto Region, 24% of those unemployed during January 2009 were immigrants from outside the EU.[3]

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



The cracks in the financial system

The message that politicians and financial agents have been repeating for months in order to reassure savers and markets is that Italian banks and the financial system are healthy and not subject to the risks of failure and collapse that hit some other countries. A closer look, however, reveals that the situation is more complex. In 2008, the Italian stock exchange lost 49% of its value, and it kept going down in 2009.[4] Credit institutions, representing nearly 30% of Italian stock exchange capitalization, have been hit the hardest.

Even though the Italian financial system was not as deeply immersed in speculative activities as those of the United States and Great Britain, Italian banks pursued aggressive expansion policies, in particular buying other financial institutions in Eastern Europe. And the difficulties they currently experience have been confirmed by the intervention of the Government in support of those major banking groups most exposed to international markets.

During the past few years there has been continuous shifting of the pension system to one managed by private pension funds. Due to the financial crisis, 5.9% of savings managed by pension funds were cancelled in 2008. Open-end funds, usually riskier, registered a loss of 8.6%.[5] In most cases, these workers' savings simply disappeared.

Shrinking credit

The worst consequence of the financial crisis so far has been the reduction in the availability of credit. Several banks have significantly reduced access to credit, particularly for small enterprises, the most important part of the Italian system of production. The situation is aggravated by the fact that many banks have been progressively shifting their business from the traditional activity of collecting savings to fund productive activities towards financial operations. Only half of their revenues now come from credit activity, while commissions and financial deals constitute the other half.

The most severely hit by this crunch are migrants, precarious workers, young people and other sectors of society that were already considered non-bankable prior to the crisis. It is also affecting families. The result is a dramatic increase in non-bank borrowing at high levels of interest, particularly in the south, where the number of over-indebted families has increased by 69.4% in the last year and recourse to such loans increased by 48.2%.[6]

Government measures to revitalize the lending system do not seem to have had any effect. Banks are using the new measures to improve their bottom line and assets without broadening lending channels. Similarly, the reduction in interest rates by the European Central Bank has translated into increased profits for the Italian banks rather than improved access to credit for their clients.

Italy is a country in which the transfer of income from labour to profits has been most evident. This trend, common to most Western economies, has meant a shift of 8 points of GDP (EUR 120 billion)[7] in Italy from workers to enterprise profits, leading to a progressive "financialization" of the economy.

Government responses

After a brief parliamentary discussion, an "anti-crisis decree" was made law on 28 January 2009. The measures adopted to deal with the recession are completely deficient for two reasons. First, the allocated resources are insufficient, especially when compared with other European countries (EUR 5 billion in Italy versus EUR 60 billion in Germany, EUR 38 billion in Spain, EUR 26 billion in France and

1 See: <www.cisl.it/sito.nsf/Documenti/130BF9D1BE670162C125751300380E3D/$File/Industria2008.pdf>.

2 See: <www.ires.it/>.

3 Cgia. Available from: <www.gazzettino.it/articolo.php?id=49282&sez=REGIONI>.

4 See: <www.borsaitaliana.it/chi-siamo/ufficio-stampa/comunicati-stampa/2008/081230fineanno.htm>.

5 Felice Roberto Pizzuti, on data by COVIP. Available from: <www.sbilanciamoci.info/Sezioni/italie/Se-la-bolla-scoppia-sulle-pensioni>.

6 Associazione Contribuenti Italiani. Sportello Antiusura. See: <www.contribuenti.it>.

7 AMECO data, elaborated in Travaglino, 2009.

EUR 22 billion in Great Britain). Second, they will not strengthen the system of production. Especially problematic is the downplaying of the fight against tax evasion – a phenomenon with disturbing dimensions in Italy at approximately 18% of GDP, which means that more than EUR 100 billion in revenue is lost every year.[8]

Families

The most important measures are single payments and cheques for low-income families. Additions to family income are welcome by those who receive them, but 40 euros per month (the value of the so-called "social card") can neither cover their expenses nor protect them from present and future problems.

Labour

Measures proposed by the Government are credit aids and redundancy funds for the largest enterprises. As about 90% of Italian businesses are of medium or small size, however, most enterprises and workers will not be able to access this support. Moreover, the sector that benefits the most is the automobile industry. Around the world, most countries help this sector and Italy is no different; however, the Government should have tied the transfers to investments in environmental sustainability and innovation. Besides, there are other sectors, such as garments, that need urgent help (in particular to support their exports and the internal demand) for them to remain competitive.

Welfare

Welfare money transfers have not been set out as policy. This means that the Government is giving out money without implementing safety nets, active labour policies, social inclusion, promotion, vocational training, etc. In the near future, there will be scores of unemployed workers lacking structures that could guarantee basic services for a decent life. At the same time, in order not to face budgetary problems, the Government has reduced specific funds for social policies, self-sufficiency, local public transport and the inclusion of migrants.

Finance

The so-called Tremonti bonds, named after the Minister of Economy and Finance, are in essence public loans that can be used by the banks in order to strengthen their financial statements. The goal is to re-launch the credit system, particularly for medium and small enterprises. The effects of this have yet to be seen.

Other measures

The Government's plans for the future include cutting resources for research and development and investing in nuclear power. Measures supposed to stimulate demand are investments in high-speed transport and the huge Bridge on the Straits of Messina, as well as loosening environmental legislation and permits for the private building industry. No attention is given to renewable energy, emission reduction or the hundreds of small infrastructure projects the country urgently needs.

Apart from anti-crisis measures, the Government is proposing a very short consultation on the welfare model. The agenda includes some worrying proposals, such as pushing for further labour flexibility; a shift towards "workfare" models; the treatment of immigration as a problem, and not as a resource; and lack of recognition for the non-profit sector as a key actor in the Italian welfare system, making reference only to volunteers and ignoring the role of thousands of social enterprises.

Proposals from the Italian Social Watch Coalition

In order to offer a different response to the crisis and re-launch the Italian economy from the starting point of those who are most affected by it, the Social Watch Italian Coalition is proposing a number of measures:

Family and welfare

The key words should be "fighting poverty and redistributing resources". A real welfare policy through public services benefits for those who really need help, rather than direct money transfers, is the main tool to guarantee redistribution of resources within society. The Government, at the central and local level, has to improve basic services, health, assistance, day nurseries, public schools, migrant inclusion and housing policies since these measures represent the real struggle against poverty and vulnerability, as well as a counter-cyclical economic policy to work against the effects of the crisis.

Labour

The moral imperative for every government is to prevent the main consequences of the crisis falling on the workers. Priority measures include defending the less protected workers from a contractual point of view, through the activation of both a social security cushion plan for precarious workers and incentives for companies that decide to retain their employees.

To shape a different economy, support is urgently needed to enable the public and private research sectors to embark on innovative processes. Moreover, a massive investment plan on renewable energies is essential in order to reduce dependency on fossil fuels, fight against climate change and support those sustainable economic sectors that look to the future.

In response to the crisis, more and more account holders in Italy are entering the world of ethical finance. The ethical finance client cares about how his own money is used, but also about his bank going bankrupt. Many banks today are thus multiplying their efforts to improve their reputations. Returning to the original mandate of the banking system to sustain the real economy has to be a constant reference for finding a way out of the crisis.

The dismantling of development cooperation

The Ministry of Foreign Affairs' guidelines for development cooperation 2009–2011 establish clear priorities.[9] Sub-Saharan Africa will receive 50% of bilateral funding with priority countries identified for each region. Agriculture, water and the environment, global health, education and governance will be – in that order – at the centre of Italian international cooperation, with gender and the rights of children and people with disabilities as cross-cutting issues.

These issues are at the centre of Italy's development agenda for the 2009 G8, which it is hosting.[10] However, despite these ambitious statements, Italian development cooperation is at a historic low. If overseas development assistance (ODA) stalled at 0.20% of GDP in 2008,[11] according to the budget for 2009 resources for ODA will be reduced by 56%, going from EUR 733 million in 2008 to EUR 322 million in 2009. These amounts will again be reduced in the next two years to EUR 215 million in 2011.[12] NGOs and analysts agree that the ODA commitment for 2009 could be as low as 0.09% of GDP unless new resources are added.[13] This is a far cry not only from the general objective of 0.7%, but also from the European commitment of 0.51% that Italy should reach by 2010. On the way to the G8, Italy has also tried to advance a new aid accountability concept that seeks to track down the contributions made by "the Italian system as a whole" (State, local authorities, non-profit actors, foundations and private firms), thus minimizing the importance of ODA, as a way to hide the country's poor record in keeping its promises.

NGOs will suffer particularly from this trend, since their resources will be halved. In addition, funds for international organizations have been cut by 68%, risking failure to fulfil most Italian commitments to the United Nations. Particularly at risk is the financing for the Global Fund to Fight Aids, Tuberculosis and Malaria, which the Government promoted at the G8 meeting in Genoa in 2001.

Moreover, scarce Italian aid is still far from being efficient and remains strongly tied to the purchase of Italian goods and services, as underlined in the recent OECD-DAC Aid peer review. Italian external policies need serious revision. The Government must understand the fundamental role played by development cooperation in building a country's reputation. ■

8 Pisani, S. and Polito, C (eds.). *Analisi dell'evasione fondata sui dati IRAP Anni 1998-2002*. Agenzia delle Entrate, 2006. Available from: <www1.agenziaentrate.it/ufficiostudi/pdf/2006/Sintesi-evasione-Irap-06.pdf>.

9 Ministry of Foreign Affairs. *La cooperazione italiana allo sviluppo nel triennio 2009-2011*. Available from: <www.cooperazioneallosviluppo.esteri.it/pdgcs/italiano/Cooperazione/Pdf/Programmazione%202009-2011.pdf>.

10 See: <www.g8italia2009.it>.

11 OECD-DAC. "Development Aid at its highest level ever in 2008", Paris, 30 March 2009.

12 *La cooperazione italiana allo sviluppo nel triennio 2009-2011*.

13 See: Viciani, I. and de Fraia, L. (eds.). *Aiuto pubblico allo sviluppo italiano nel 2009. Previsione dopo la finanziaria.* ActionAid. 2009 <www.actionaid.it>.