



The Rise and Fall of the Italian Economy

Carlo Bastasin and Gianni Toniolo provide a much-needed, up-to-date economic history of Italy from unification in 1861 to the present day. They show how, thirty years after unification, Italy began a long phase of convergence with more advanced economies so that by the late twentieth century Italy's per capita income reached the levels of Germany, France and the UK. From the mid-1990s, however, the Italian economy declined first in relative and then absolute terms. The authors describe the intertwined financial and institutional crises that eroded trust in the political system and in the economy at the exact juncture when new technologies and markets transformed the global economy. Long-standing problems of uneven levels of education and obsolete bureaucratic and judicial practices deepened the division between economically vibrant regions and the rest, causing polarization, political instability and rising public debt. Italy's contemporary malaise makes the country a test case for understanding the implications of protracted declines in productivity and the flattening of GDP growth for the stability of western democracies, resulting in populism, mistrust and political instability.

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In memory of Gianni Toniolo

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Preface

This brief history of the Italian economy originates from a question: What happened to the economy that between 1890 and 1990 had caught up with the income and productivity levels of the most advanced countries in the world and then suddenly stopped growing at the end of the twentieth century?

The book finds that the relationship between political uncertainty, financial instability and economic growth is crucial to the functioning of a democratic society. We identify Italy's loss of confidence in itself in the early 1990s when a series of distinct crises, which had been building for many years, simultaneously rocked the country. Following the crises, financial and political instabilities fed into each other and eroded the citizens' trust in their economic and political systems.

In the succeeding decades, symptoms that were similar to those appearing in Italy – economic stagnation, social fragmentation, political polarization and democratic vulnerability – emerged in several other advanced societies. What happened to Italy after the 1990s is revealing of the quality of public life in western democracies and around the world. However, understanding Italy's recent economic parabola requires an investigation of some of the country's secular characteristics.

Even after its unification in the nineteenth century, Italy remained a divided country. Geographical, cultural and economic differences have run deep through Italy's society, typically between the country's North and South. Mending those differences required a difficult political exercise, distributing the costs and benefits among citizens. When resources were scarcer, or social cohesion was under pressure, public indebtedment became the government's favorite tool for keeping the country together.

However, at the beginning of the 1990s, the level of Italy's public debt became a source of financial instability, augmenting the unprecedented shakiness of the political system at the time. According to our

findings, political and financial precarity concurred in causing a sharp decline in investment and technology. In 1996, after surpassing America's level, Italy's productivity started losing pace with respect to the other advanced economies.

In the following decades, Italy's economy slowed down until it stopped growing completely, and even declined in absolute terms. The predicaments of the last few decades have forced one part of the economy to become increasingly resilient and another part increasingly weak. Those divides are reminiscent of the century-old rooted distance between individual economic vitalism and public authorities and they explain why the country is both reactive and difficult to govern.

By studying the Italian malaise over time, this book often mixes economic and political interpretations. This is slippery terrain, especially when analyses span across centuries.

We would like to thank Manuela Mischitelli, who helped us verify the consistency of the interpretations in the data, and our colleagues at LUISS University for contributing with ideas and comments. Special thanks go to Giuseppe Laterza, who allowed us to use here some of the reflections from our earlier book, *La Strada Smarrita* (Laterza 2020).