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The Italian government's economic-policy response to the Coronavirus crisis

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Abstract

The Italian government economic policy response to the Covid-19 pandemic crisis has included large public programmes supporting households' income and firms' balance sheets, alongside a limited expansion of public health expenditures. The macroeconomic response has been in line with other European countries; Europe's new approach to fiscal policy has opened up new possibilities for addressing the crisis. However, beyond the pandemic emergency, the government policy approach has lacked a longer term perspective on economic reconstruction, environmental sustainability, welfare expansion and distributional outcomes. The fragility of Italian politics has contributed to this lack of vision and to a growing uncertainty over the country's economic future.

Keywords: Economic policy, Covid-19 pandemic crisis, public expenditures, Italy

The Covid-19 pandemic led to a rapid change in the Italian government's economic policy. In line with EU goals aimed at reducing budget deficits and the public debt, austerity had dominated the economic policy-making of every government that had held office since the 2008 financial crisis. The result had been a long-term deterioration in the country's economic performance: just before the start of the pandemic, in 2019, gross domestic product (GDP) per head in Italy was no higher than it had been twenty years previously and industrial production was 19% lower than it had been in 2008[1].

In February 2020, the arrival of the pandemic in Italy – the first of the European countries to be hit by it – led to a change of direction. Giuseppe Conte's government quickly introduced measures to safeguard citizens' health and to ensure social distancing by restricting economic activities, which in turn brought about a massive economic crisis, managed through emergency measures to support enterprises and household incomes. During the course of 2020, deficit spending grew to meet the crisis, completely changing the parameters of fiscal policy. After a few months' delay, Europe too changed course, suspending the terms of the Stability and Growth Pact and the Directives on state aid, and combining a strongly expansive monetary policy with the introduction of new instruments of fiscal policy.

In this article, we shall describe the main features of the crisis triggered by the pandemic, the measures taken by the Conte government to meet it, the significance for Italy of the new European policies and the lack of an economic policy vision beyond the crisis. The Government's European strategy is considered in more detail by Jones in this special issue.

The economic crisis triggered by the pandemic

In 2020, Italian GDP fell by 8.9%, which was in line with the falls experienced by the other worst-hit countries but above the Eurozone average[2]. In the spring, the measures introduced to contain the spread of the virus temporarily shut down large numbers of enterprises; some never reopened and entire sectors – from transport to tourism and culture and the arts – saw turnovers decline throughout 2020. The lockdown in force from 9 March until 4 May involved the temporary closure of 45% of enterprises employing at least three people, of over half those in the construction and service sectors and of more than 30% in industry and commerce. In March and April, more than 70% of firms registered a decline in turnover (Istat 2020a).

The grave impact on employment and salaries was initially cushioned by the Cassa integrazione (Temporary Layoff Fund), by a ban on dismissals and by subsidies to the self-employed. Given the collapse of production and the risk of redundancy, domestic demand fell, while foreign demand fell even more precipitously due to the slowdown in world trade. Figure 1 shows that in the first six months of 2020, GDP fell by an unprecedented 17.8%[3]. In the following months, the easing of restrictions enabled productive activities to resume but created the conditions for the second wave of infections, which began in October and led to a worsening of the crisis. According to the Organisation for Economic Cooperation and Development (OECD, 2020), it will take the Italian economy two years to recover to the levels of 2019 and the European Commission (2020) has made similar predictions, emphasising the likelihood that disparities in rates of growth between member-state economies will grow still further.

The collapse in household expenditure mirrored the collapse in GDP, falling by more than 17%, while the propensity to save rose by 11 percentage points. In the first quarter, disposable incomes (measured as earnings minus taxes plus transfer payments) fell by just 6.3%, thanks to the Government's income-support measures, and during the six months covering the summer period returned to their 2019 levels. In the first six months of the year, the collapse in world trade led to a decline in the export of goods of over a third in value, while commercial investment, affected by the uncertainty and the growth of firms' indebtedness, declined by more than 20%.

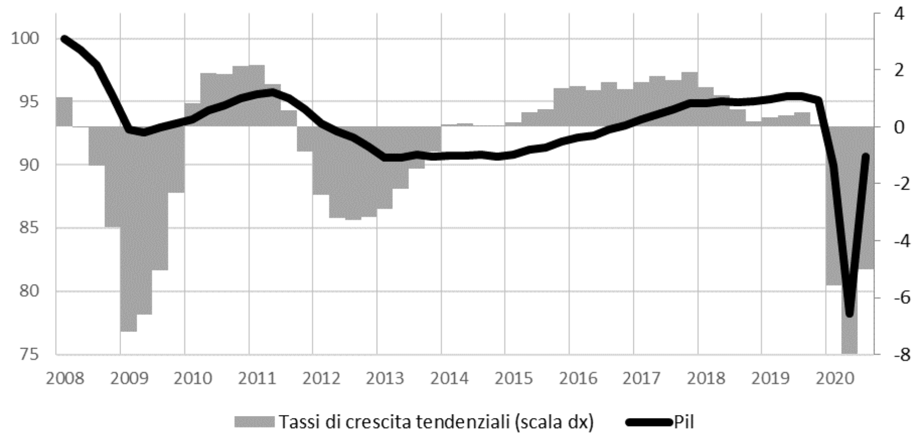

Figure 1. Changes in Italy's GDP at constant prices, 2008-2020 (third quarter)
Source: Istat, National accounts.
Note: Quarterly figures seasonally adjusted – first quarter 2008=100 – and trend growth rates.

The country's productive system found itself facing a serious crisis for the third time in little more than a decade. The impact on enterprises is likely to be severe: the less efficient firms, with lower profit margins and larger debts, risk closure; only those that had invested in enhancing the quality of production and in up-skilling may be able to retain their market shares. In May 2020 at the end of the lockdown, a third of Italian manufacturing enterprises reported that they were 'at risk of closure' owing to the fall in demand, a situation that was widespread especially in traditional sectors (such as textiles, ceramics, wood products and furniture). A further third reported being at the start of a process of change and reorganisation (Istat 2020b).

In social terms, the impact of the crisis was greatest on the weakest categories, such as the young, women and migrants, who suffered the heaviest falls in employment. Consequently, the pandemic widened income disparities and other labour-market inequalities (Istat 2020c). For these categories and for the self-employed and workers in insecure employment, the Government's measures were less effective in protecting incomes and employment opportunities. In the Mezzogiorno – where the number of infections was initially lower – the economic impact of the pandemic was greater because of its larger proportion of low-paid workers and workers on temporary contracts. The pandemic also created new pockets of poverty. Caritas reported that of those turning to its crisis centres during the initial months of the pandemic, 45% were first-time applicants – as compared to 31% for the preceding period – and that there had been an increase in the proportion of Italian as compared to migrant applicants. These were families with children, women, young people, workers on wages below subsistence levels: together they provided a picture of the new poverty resulting from the pandemic (Caritas 2020).

The Conte government's emergency economic measures

Between March and August 2020, the Government passed four decrees containing a series of measures to combat the economic consequences of the pandemic. They included: the 'Decreto cura Italia': literally, the 'Decree to Cure Italy' (Dl n. 18/2020, subsequently converted into legislation by law n. 27/2020); the 'Decreto liquidità', or 'Liquidity Decree' (Dl n. 23/2020, law n. 40/2020); the 'Decreto rilancio' or 'Recovery Decree' (Dl n. 34/2020, law n. 77/2020) and the 'Decreto agosto' or 'August Decree' (Dl n. 104/2020, law n. 126/2020). During the final months of the year, the Government also introduced further measures of support for enterprises and their employees, as well as further restrictions on the catering and leisure industries that were contained in four 'Decreti ristori' or 'Emergency Relief Decrees' (Dl n. 137, Dl n. 149, Dl n. 154, Dl n. 157). The Nota di aggiornamento del Documento di economia e finanza (Update to the Economic and Financial Planning Document, Def) presented by the Government in October 2020, set out further measures to deal with the crisis (Ministero dell'Economia e finanza 2020). The budget for 2021, then revised these measures in the expectation of a slow process of economic recovery.

Figure 2 shows the sequence of economic measures introduced by the Government between March and November 2020, together with an indicator of the stringency of the lockdown measures and the numbers of infections and deaths arising from Covid-19. The first four decrees, of the period from March to August 2020, mobilised resources of more than €100 billion, mostly in the form of increased spending. The composition of expenditure, based on data from the Ministero dell'Economia e finanza (Ministry of the Economy and Finance, Mef [Camera dei deputati, 2020]), is shown in Figure 3. In October and November 2020, the four 'Emergency Relief Decrees' made available €16.5 billion, of which €13.4 billion came from increased deficit spending, the remainder being financed by the savings of the other emergency decrees (Ufficio parlamentare di bilancio 2020b).

There were other important funding allocations made outside the framework of the budget, such as the loan guarantees made to banks and enterprises, which represent a financial commitment, though not actual outlays: actual expenditure will arise if the growth in private debt leads to a rise in bankruptcies. So in six months as many resources were mobilised as had been mobilised by the budgets passed in the preceding three years. It involved a level of expenditure that was very similar to that of other European countries[4].

The speed with which the measures were introduced and the scale of the resources involved were important for getting to grips with the effects of the measures taken to contain the virus' spread. Problems arose in the first instance from the way in which they were implemented by an administrative apparatus that was wholly unprepared for the gravity of the crisis after years of under-investment in qualified personnel and in the health service. In the second place, as we shall see, the Government confined itself to emergency-response measures without considering longer-term measures setting out a path to economic recovery.

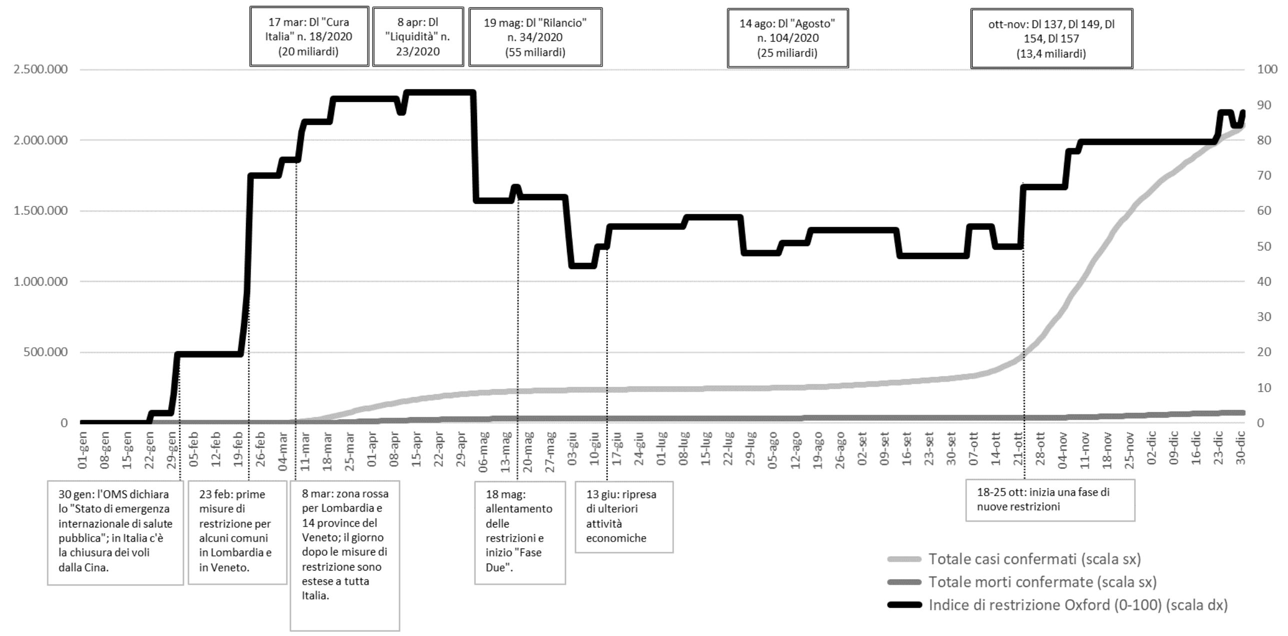

Figure 2. The Italian government's economic policy and lockdown measures

Source: The data for the numbers of confirmed cases and the numbers of deaths, as well as the stringency index, have been taken from the Coronavirus Government Response Tracker of the University of Oxford (https://www.bsg.ox.ac.uk /research/research-projects/coronavirus-government-response-tracker#data).

Note: The figures in billions of euros refer to the changes in budget deficit implied by the various decrees.

The measures to support employment, households, public and social services. The measures for employment contained in the six decrees shown in Figure 3 accounted for more than a third of the resources made available, almost €35 billion, while almost €5 billion were allocated to the enhancement of public and social services, to households and to the provision of emergency income support.

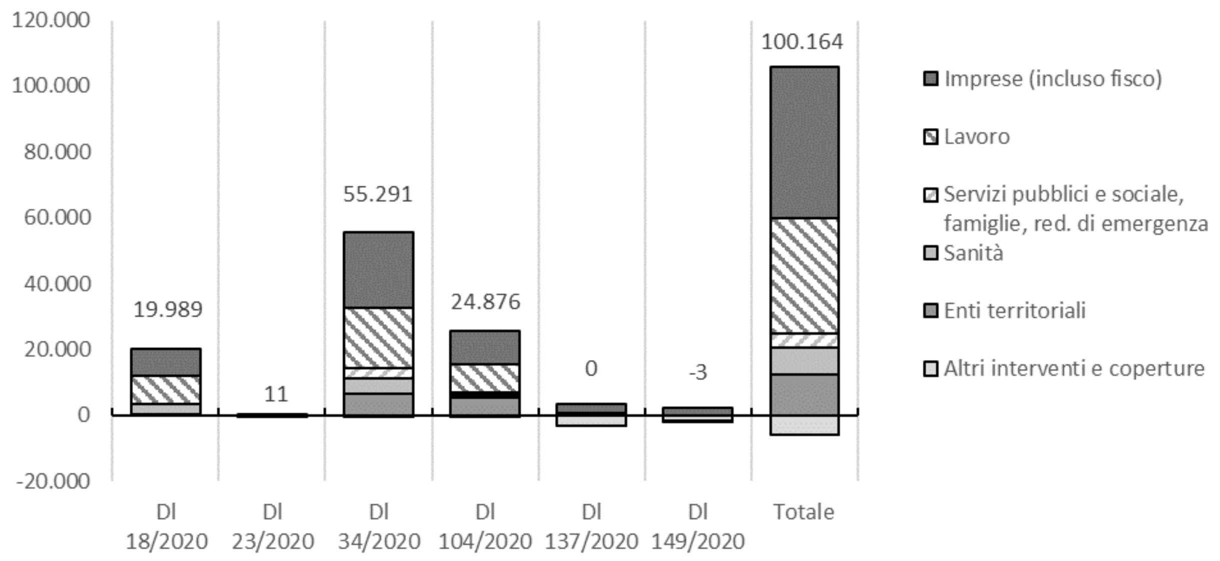

Figure 3. Government expenditure on pandemic response measures: Change in the deficit in millions of euros

Source: Ministry of the Economy and Finance (Mef) table accompanying the minutes of Budget Commission (Camera dei deputati 2020, 12).

Note: The table shows the changes in the deficit, not the value of allocations, which were partly financed by larger revenues and by transfers or residuals arising from other spending categories.

The Temporary Layoff Fund, which was the main instrument used to support the incomes of employees, assisted around 3.5 million workers up to the month of November 2020 and was extended until the beginning of 2021[5]. In addition, the Government introduced a ban on dismissals until March 2021. For other categories of workers – professionals, the self-employed and those in atypical employment – the Government provided subsidies amounting to an average of €500 per month for around 4.1 million beneficiaries (Camera dei deputati 2020). The Government underwrote an extension of the unemployment benefits – Naspi (Nuova assicurazione sociale per l'impiego: New Social Insurance Provision for Employment) and Dis-coll (prestazione a sostegno dei collaboratori coordinati e continuativi: services in support of free-lance workers) – relaxing the criteria of access and increasing the numbers eligible for social welfare.

Far less support, amounting to €1.3 billion, was provided to households; however, the measures included a 'babysitter allowance', as well as an extension of special parental leave and paid time off to care for the disabled and to allow the families of employees, the self-employed and free-lancers to meet the costs of caring for children as a result of the closure of schools and nurseries. Large numbers of people in difficulty were ineligible for the employment benefits or for the Citizen's Income introduced in 2019, and for these a new Reddito di emergenza (Emergency Income, Rem), financed to the tune of around €1 billion, was introduced.

An analysis of the income distribution impact of the first three decrees, carried out by the parliamentary Budget office (Ufficio parlamentare di bilancio 2020a), shows that the measures provided support to a third of Italian households, and on average supplied almost a half of the disposable incomes that had been available to them prior to the crisis. 70% of the benefits paid out went to support the employed, a third to support the self-employed and 5% to finance the Rem. Among families in the bottom 10% of the distribution of household income, only one in two received support from the Government, one half of them through the Rem, suggesting that large numbers in severe difficulty received no assistance whatsoever. Vice versa, among the households in the highest decile, one in four received support, in most cases through the Temporary Layoff Fund, this to the tune of 20% of the incomes they had had before the crisis. 54% of the available resources went to households living in the North, 19.5% to those in the central regions and 26.5% to those in the South. The universality of the benefits increased the speed with which they could be made available, but reduced their potential to support workers in insecure employment, part-time workers and those on low wages, most of whom were women and young people.

The measures to support enterprises. If the Temporary Layoff Fund relieved firms of the burden of wages and salaries, a further €12 billion of assistance was provided to cover a range of additional costs, such as rent, utilities and workplace safety. A number of taxes and employer contributions were deferred, at a cost of €1.3 billion. The resources going to firms included the much-debated across-the-board reduction in outstanding payments of the Imposta Regionale sulle attività produttive (Regional Business Tax, Irap) for 2019 and of the first instalment for 2020, costing a total of €3.9 billion. Finally, one-off payments for a total of 6.2 billion were made available to small firms and self-employed contractors. In total, including the tax breaks, the measures in support of enterprises included in the six decrees shown in Figure 3 increased the budget deficit by more than €46 billion.

The liquidity of banks and enterprises was underwritten by the expansive monetary policies of the European Central Bank (ECB): see the article by Jones in this issue; the Government provided the banks with credit guarantees for a total of €8 billion, and the Italian export credit agency, Servizi assicurativi del commercio estero (Sace), was given an off-balance sheet injection of €30 billion for similar guarantees to large enterprises. Istat's (2020a) survey of enterprises reveals that 43% had recourse to new loans, with small firms being the most heavily represented among them.

The Government also intervened to support the capitalisation of private enterprises in difficulty. The Recovery decree set up a fund called 'Patrimonio desitinato' ('Earmarked capital') amounting to €44 billion and managed by the Cassa depositi e prestiti (Deposits and Loans Bank, Italy's public investment bank) – though separately from its other capital – whose remit, in the absence of private investors, was to kick-start firms in difficulty if they were in strategic sectors and with the potential to return to profitability. In addition, the 'Fondo per la salvaguardia dei livelli occupazionali e la prosecuzione dell'attività d'impresa' ('Fund for the Protection of Employment and Enterprise') was set up. This had €100 million available to assist firms of over 250 employees in difficulty and was a new instrument of public intervention set up to address the almost 150 cases of business crisisdealt with by the Ministero dello sviluppo economico (Ministry of Economic Development, Mise).

Targeted subsidies went to sectors especially hardly hit by the crisis – namely tourism, catering, culture and the arts – involving more than €4 billion. €2 billion were supplied to the transport sector and almost €1 billion went to agriculture, publishing and sport.

To encourage innovation, subsidies were provided to support the launch of new start-up companies, innovative small- and medium-sized enterprises and enterprises investing in the South. There was an increase of €200 million in the size of the Mise venture capital fund and €500 million was made available for technology transfer between university research centres and private enterprises. The August Decree made available tax exemptions to firms hiring employees on permanent contracts in the South. Of the €100 billion made available through the first four decrees, less than €4 billion were earmarked for innovation and post-Covid development.

Between October and November, the Emergency Relief decrees sought to assist firms in particular. Those most severely hit by the pandemic received subsidies totalling around €6.7 billion and were allowed to postpone until 2021 around €8.5 billion in tax payments. The Emergency Relief decrees extended the ban on dismissals and payments from the Temporary Layoff Fund until April 2021. Enterprise subsidies were four times higher than those made available through the preceding decrees, and there were fewer conditions attached to them[6].

It should be stressed that almost all the measures were 'indiscriminate' in that they distributed resources to enterprises without the application of any selection criteria (such as the scale of losses or the nature of the activities undertaken) and in the absence of any strategy for industrial reconstruction after the pandemic. The case of Irap was emblematic: the grace period was extended even for firms that had suffered no losses of turnover (Ufficio parlamentare di bilancio 2020a).

The health, education and local government measures. Public expenditure on health had been reduced from 7% of GDP in 2009 to 6.4% in 2019, unlike Germany, France and the UK where it had increased (OECD-European Union 2020). Just before the start of the pandemic, Italian hospitals had 3.1 beds per thousand inhabitants, and 8.6 intensive care places per 100,000, proportions well below the European average.

During the emergency, the Government set aside €9 billion for the national and regional health services drawing on money from the Fund for National Emergencies. Of this money, €5.8 billion went to finance contracts for the supply of health related goods and services, protective equipment, intensive care, diagnostic tests and sanitising equipment; almost all of the funds were spent directly by the Commissario straordinario per l'emergenza (Special Emergency Commissioner) without recourse to competitive tendering (Anac 2020). Around €1.5 billion was spent on supplies of locally-delivered pharmaceuticals and on contact tracing but the latter was subject to delays not least because of a lack of coordination with the regions. The 'cura Italia' decree set aside more than €1 billion for the recruitment of 20,000 new doctors and nurses in order to compensate for the decline of 25,000 that had taken place between 2012 and 2018; it is estimated, moreover, that around 11,000 Italian physicians had migrated to work abroad (Corte dei Conti 2020, 299; OECD-European Union 2020, 78). In addition, the Government provided for subsidies to firms manufacturing medical equipment, dispensations from the normal requirements for recruitment to the health professions and the power to requisition private health facilities.

During the course of 2020, transfers to the regions and local authorities filled the gaps in their budgets created by the fall in their revenues and financed essential services such as public transport and education. However, the implementation of several of the emergency measures requiring action of the part of the regions, such as those involving the Temporary Layoff Fund, was delayed.

Further resources were set aside for education, with funds being made available to increase the number of teachers and improve school buildings. The Recovery Decree provided for increased funding for universities and publicly financed research activities, with €278 million being set aside for 2020, €612 million for 2021, €750 million for 2022 and €450 million in subsequent years. If one adds applied research and innovation, in 2020 the Decree allocated a further €530 million. These resources did not, however, take spending back to its pre-2008 levels.

The 2021 budget law. The 2021 budget law was drafted with the aim of mobilising the resources required by the earlier decrees. It raised €40 billion for the three-year period from 2021 to 2023, by assuming an advance of €15 billion from the European programme, 'Next Generation EU' (Nge), and mobilised the remaining 25 billion by borrowing.[7] The most important heading concerned the reduction in the tax burden, with €26 billion in three years being earmarked for reform of the income tax, Irpef (Imposta sui reditti delle persone fisiche), for tax exemptions for the South, for the hiring of women and young people, for the extension of those entitled to family allowances and to reductions in social contributions. Support for firms was the centrepiece of the finance bill: Nge funds were used to support firms investing in the South, to finance the automation strategy, 'Transizione 4.0' – heir to the earlier 'Industria 4.0' – and, specifically, to provide for a tax credit of 110% of the costs of energy efficiency and structural seismic improvements to Italian properties.

In addition, €3.8 billion were allocated to the sectors most severely hit by the crisis (catering and tourism) and there was a three-year extension to loan guarantees and to support the capitalisation of enterprises.

There were modest measures of support for employment, incomes and public services. The Temporary Layoff Fund was re-financed as was the simplified retirement scheme for women and for workers at risk of poverty or social exclusion. €3.1 billion were allocated to health and specifically for the purchase and roll-out of anti-Covid vaccines, while over 30,000 doctors and nurses recruited in 2020 were confirmed in post. The national health fund was increased by just €1 billion to bring its annual budget to €121 billion. Schools received €1.2 billion to take on new support staff; €3.9 were to be made available over the next fifteen years for school buildings, €1 billion for universities and research.

The role of Europe

The deepest recession in a century triggered the adoption of a significant new approach to fiscal policy on the part of the EU (see the article by Jones in this special issue). After months of difficult negotiations, on 21 July 2020, the member states agreed to a new EU budget covering the seven-year period from 2021 to 2027 and to a temporary fiscal stimulus programme, the Nge, in order to revive European economies reeling from the pandemic, with ratification taking place in December 2020. The agreement made available €390 billion in the form of grants and €360 billion in the form of loans, while reducing the size of the budget for 2021 to 2027 to €1,074.4 billion (1.1% of the combined national incomes of the EU27) smaller than the budget for 2014-2020 (when, however, the UK was a EU member). EU spending over the next seven-year period as a whole will therefore amount to more than €1,800 billion.

The greatest novelty is that the funds will be mobilised through the financial markets by the issue of common, EU-wide bonds: a form of Eurobond introduced after having, for years, been vetoed by Germany. They will be able to be bought, at least in part, by the ECB, creating an important link between fiscal and monetary policy.

The principle that was agreed to is that the resources will be allocated to member states on the basis of the impact of Covid-19: Italy and Spain will therefore receive the largest shares. Grants will be repayable over a thirty-year period beginning in 2027. Overall, Italy will receive over €200 billion (at 2018 prices) – almost 12% of its GDP – of which more than €80 billion will be provided in the form of subsidies, the remainder in the form of loans. Net of Italian contributions to the EU budget, the funding allocation will probably amount to over €46 billion, equivalent to 2.6% of GDP in 2019 (Ufficio parlamentare di bilancio 2020a). The spending programmes provide for 70% of the resources to be used in 2021 and 2022, the remaining 30% by the end of 2023, with the loan repayments being made by the end of 2028. In order to access the funds, each member state is required to present a 'National Recovery and Resilience Plan' (NRRP) to the Commission and the European Council for their approval.

In addition to the Nge funding, the package of EU measures includes loan facilities within the framework of the European Stability Mechanism, or ESM (providing around €37 billion for health expenditure), and the Sure (State Supported Short-Time Work) programme to cover temporary layoff payments (with Italy having requested over €27 billion, the first tranche of which was paid in the autumn of 2020). Meanwhile, the European Investment Bank's European Guarantee Fund will mobilise €200 billion for investment in European small- and medium-sized enterprises.

Public debate in Italy was dominated by the question of whether or not the ESM facilities should be used. On the one hand, they would provide additional funds at a lower cost than those that would be available by issuing new Italian public debt, with a saving of around €300 million. On the other hand, there was uncertainty about the conditions attaching to the loans and the possible negative effects they would have on market expectations concerning the Italian government's own debt. In the end, neither Italy, nor any other European country have so far asked for ESM funding[8].

In terms of the economic effects of Nge-financed expenditure, the Bank of Italy estimated that the funds would add between 1.1 and 3% to GDP in three years; that the greatest impact would occur if the funds were used for new, rather than for existing expending programmes, for productive investment rather than for current expenditure. However, Italy's actual spending capacity remains uncertain given that between 2014 and 2020 it drew on 80% of the resources available to it from the EU but managed to spend only 40%. The threat of delays, ineptitude and inefficiencies must not be underestimated (Banca d'Italia 2020). There is, in addition, the problem of the governance of the investment programmes, touching on the distribution of authority between the Prime Minister's office, the special commissions responsible to it, the individual Ministries, and the regions.

Economic policy after the pandemic

The macroeconomic context. It is worth asking what overall picture of economic policy emerges from this variety of fragmented economic interventions. In the first place, the size of the 2021 budget package was in line with the similarly large packages of the other major European countries. Starting with those of March, the emergency measures taken by the Conte government during the course of 2020 were essential for the financial survival of both firms and households. In this crisis, Italy for the first time carried significant weight in EU negotiations, with both the minister of the Economy, Roberto Gualtieri, and the EU commissioner, Paolo Gentiloni, playing an important role in shifting the balances of power in European circles.

The outcome of the negotiations was in no sense a foregone conclusion given the economic policies pursued by Italy and Europe in the past. However, once one looks beyond the emergency at the larger macroeconomic picture, a number of problems are apparent. They include the size of the public deficit; the massive expansion in the size of the public – as well as private – debt; the need to increase revenue while ensuring that the tax system is more equitable; the constraints arising from the balance of payments.

The economic policy measures in most cases involved deficit spending financed through the issue of new public debt, with the Government repeatedly asking Parliament for authorization to override public-expenditure reduction plans before introducing each decree. Between 2018 and 2019, the deficit declined from 2.2% of GDP to 1.6%, while in 2020 the Government predicted that it would rise to 10.1% before declining to 7% in 2021 (Ministero dell'Economia e finanza 2020).

The public debt rose from 134.8% of GDP in 2019 to 158% in 2020, while the Government set a target of bringing it back to the 2019 level by the end of the decade. Given the low interest rates set by the ECB, the costs of debt servicing should remain low, rising from 3.4% of GDP in 2020 to 3.5% in 2021 before declining again from 2022 onwards (Ministero dell'Economia e finanza 2020). Though Italy's public debt in 2019 was the largest among the Eurozone countries, the debt has become an unresolved problem for the whole of Europe. Between 2008 and 2019, the public debt grew by 39 percentage points in Italy, as compared to a Eurozone average of 50 percentage points. Half way through 2020, seven countries had debt-to-GDP ratios of over 100%, while during the first six months of the pandemic, the ratio grew by more than 15 percentage points in the cases of Spain and France, and by 8 percentage points in the case of Germany. Innovative measures across the Eurozone as a whole are now urgently required if Europe is to be shielded from the threat of financial instability.

According to the note updating the Def (Ministero dell'Economia e finanza, 2020), tax revenues were expected to fall by 8.1% in 2020, with revenues from indirect taxes falling by an even greater proportion. A reform of the tax system – aimed at reducing evasion and increasing progressivity, while making it easier to tax high incomes and conspicuous holdings of wealth – will be essential if there is to be greater equity while mobilising the resources required for higher expenditure.

Finally, balance of payment data included in the note updating the Def show a fall in exports of 17.4% for 2020 – much higher than the corresponding fall for imports (less than 13.8%), but the trade balance is forecast to remain positive and among the most favourable in Europe (Ministero dell'Economia e finanza, 2020).

Inequality and the shortcomings of the welfare system. With the arrival of the pandemic, all the shortcomings of the Italian model of welfare provision, blighted by the major spending cuts of the previous decade, stood out in sharp relief. The underlying problem was its lack of funding: as a percentage of GDP, public expenditure on pensions, health and social security amounted to 28% in 2015 as compared to 32% in the case of France, spending on health amounting to 6.7% as compared to 8.8% in the case of France (Giorgi and Pavan 2021). In addition, social welfare expenditure in Italy is accounted for mainly by transfer payments rather than by the provision of public services.

As far as health is concerned, the national health service was revealed to be an essential weapon in the battle to contain the pandemic while guaranteeing equality of access to health care. On the other hand, the 'counter-reforms' introduced from 1992 onwards had done much to undermine the coherence of the institutional arrangements relating to the system, driving it in the direction of increasing marketisation and giving too large a role to regional autonomy and private health care. Preventive medicine, local health services and attempts at integrating health and social care were all cut back in favour of a model of health-care provision centred on the hospitals (Taroni and Giorgi 2020; Giorgi 2021). During the pandemic, the negative effects of these characteristics became obvious, heightening its impact and increasing the social and geographical inequalities in health (Agnoletto 2020; Costa *et al*. 2004).

Social assistance is an area that is exceptionally weak, suffering from a lack of public leadership, and from provisions that often rely on 'third sector' organisations providing outsourced services at low cost, with staff in insecure conditions of employment. The result is a failure to respond to social needs, extreme fragmentation in service provision and massive regional inequalities.

Another long-standing problem of the Italian welfare system is the inadequacy of its income safety nets, a problem that was not resolved by the modest interventions for the unemployed, by the citizen's income introduced in 2019, or by the Rem introduced during the pandemic: many of the old and new forms of poverty remain untouched by the existing policies.

These gaps in the Italian welfare system have contributed to the growth in inequality and poverty, a problem that continues to be ignored by economic and social policy makers (Franzini and Pianta 2016). In approaching the problem, the Government has failed to give priority, in any of its measures for post-pandemic reconstruction, to achieving a reformed and extended public welfare system, an essential instrument if inequality is to be reduced.

The absence of an industrial policy. The tens of billions of euros transferred to enterprises in the form of subsidies, tax breaks, loans and loan guarantees were allocated unconditionally. Large companies in particular should have been able to access economic support only on condition of agreeing to programmes of investment, research and employment in Italy, along with objectives of environmental sustainability, technological enhancement and greater regional equality – as is the case in other countries. An example was the guarantee provided to Fiat Chrysler Automobiles, Fca (the former FIAT) underwriting a government-backed loan of €6.3 billion agreed by the company, the Government, Sace and Banca Intesa. The company was required to suspend dividend payments and share buy-backs for one year, 'to manage hiring and redundancies by agreement with the trade unions' and to use the finance to meet the costs of labour and plants in Italy. These conditions were insufficiently binding to influence Fca's commercial strategies – as many social welfare and environmental organisations have emphasised – given the changes taking place in the automotive industry, the strategies of other European countries and Fca's unforgivable delay in investing in the production of electric vehicles[9].

Public support for enterprises was thus massively extended, but without any overall strategy of the sort that would be involved in an overarching industrial policy. This lacuna was especially apparent in the cases of the most important firms – Ilva, Alitalia, Autostrade – and in the 150 cases of business closures, which ranged from Whirlpool based in Naples to Blutec based in Termini Imerese currently being dealt with by the Mise. The latter cases affect almost 300,000 of the four million workers employed in industry; 80,000 of the affected workers are employed in the metalworking and engineering sector alone. The ongoing crisis affects entire industrial sectors, but each case has been considered separately, in the absence of any overall approach. Even when provision is made for the injection of public capital through the Deposits and Loans Bank or the National Agency for Inward Investment and Economic Development (Invitalia), there is a lack of any vision of the role public enterprise might have in promoting industrial recovery and development.

The issue of environmental sustainability. It is particularly unfortunate, finally, that references to commitments on climate change, sustainability and the Green Deal disappeared from the Government's agenda during the pandemic emergency. For the environment, €3 billion was to be made available from 2021 for the above-mentioned tax credit of 110% for energy efficiency and structural seismic improvements with the scheme subsequently being extended. There were also measures to incentivise sustainable transport – such as the €50 million, to cover 60% of the costs, towards bicycles and electric vehicles, and the €500 million for the purchase of new low-emission cars, together with other, smaller measures. However, the measures deferring tax payments included postponement of the introduction of the plastic tax, whose inclusion in the budget law had been opposed by business interests.

In total, somewhat less than 3% of the resources allocated by the Government through the decrees can be considered as contributing towards the green transition; among the G20 countries, only 4% of the spending arising from the Covid emergency will make a positive contribution to the green transition (Hepburn *et al*. 2020). Other governments integrated measures to deal with the emergency and those to deal with the environment. Germany, for example, drew up in the spring of 2020 a plan for economic recovery, which, in addition to the anti-Covid funds, allocated €50 billion to sustainable investment, renewable energy, digitalisation and transport, with significant investment in the production of electric vehicles. During the same period, France announced investments of €8 billion in the automotive sector designed to make the country the world leader in the production of electric vehicles. Italy sorely lacks a strategy integrating sustainability and industrial policy in its plans for revival of the economy post-Covid (Cresti *et al*. 2020).

From economic policy to politics. The Conte government's economic policy responded well to the crisis, especially in the spring of 2020, with the introduction of adequate support measures. As the months passed however, it became clear that the predominant feature of its policy was support for enterprises, while measures to support households and the welfare system took second place. Relations between the Government and the regions were a critical element, leading to a lack of coordination, implementation delays and greater regional disparities.

Aside from the emergency, Italian economic policy seemed inadequate to the task of getting to grips with country's most deep-seated problems. On the macro-economic front, these include the size of the deficit, the management of a record level of public debt and the necessary reform of the tax system. The Government's economic policy failed to get to grips with the social and environmental aspects of the model of development informing it. Growing inequality, the gaps in the welfare state, the weakening of the industrial structure and environmental unsustainability remain unresolved problems with negative implications for the prospects of economic revival.

At the European level, the Covid-19 pandemic made possible an end to the policies of austerity, resulting in the mobilisation of large volumes of public resources to deal with the crisis. However, the future is far from certain on this front. Despite the new departures in terms of monetary and fiscal policy, it cannot be assumed that a Europe that has been severely hit by the crisis and is divided by the short-term interests of the member states will be capable of agreeing a long-term development strategy involving rules changes, a sharing of risks and opportunities and a reduction in inequalities. The re-imposition, in 2022, of the spending constraints inherent in the Stability Pact and of the ban on state subsidies, remains possible, and would lead to the perhaps irretrievable polarisation of the EU member states (see the article by Jones in this special issue).

For Italy, post-pandemic reconstruction offers a crucial opportunity to reverse the country's long-term economic decline (de Cecco 2012; Celi *et al*. 2019) and to initiate a process of development based on an expansion of public and welfare services, a reduction in inequalities, the launching of new knowledge-based enterprises offering high-quality employment and environmental sustainability (Lucchese and Zola 2020). A path of this kind could bring Italy up to the levels of the other major European countries, reducing the centre-periphery gap that has penalised southern Europe during the last decade.

Social and political dynamics within the country's borders will be decisive in this respect. The economic measures taken in 2020 have been essential in dealing with the emergency, but they have also reflected the influence of powerful interest groups as well as resistance to more far-reaching policies. The Government's actions have often seemed to reflect a direct connection between economic interests hit by the crisis and the technocratic measures contained in the prime ministerial decrees, absent any longer-term political vision. Strategies for re-building the country – with structural interventions and major projects – have been deferred to the drafting of the NRRP which the Government must submit to Brussels in the spring of 2021 in order to obtain the funding available within the framework of Nge.

It was precisely the drafting of this plan that was responsible for the considerable political uncertainty that opened up at the end of 2020. Aside from the fragility of the Government's majority, however, the weaknesses of Italian politics – and especially of the parties – were rooted in the absence of a vision for the post-Covid future based on clear aims and objectives around which to mobilise support in the country at large.

In institutional terms, the lack of clarity overshadowing relations between government and the regions weighed heavily, as did the lack of preparedness of many of them, making it more difficult to respond effectively to the crisis. In terms of social dynamics, actions focused on defending existing incomes and living standards, often driven by sectional and locally entrenched interests.. The serious decline of the ability of many regions to carry out effective policies could be seen as a direct reflection of the influence of these particularistic interests. Political fragility led the authorities – at both the national and regional levels – to use the measures designed to contain the pandemic as means of winning consensus, an approach that led to the indiscriminate lifting of restrictions in the summer of 2020, thus creating the conditions for the arrival of the second wave of infections in the autumn. The political void also means that leaders are unable to build a sense of collective identity in support of programmes able to mobilise a new ‘social block’ around any kind of project for change.

At the end of 2020, after a difficult year dominated by the pandemic and the resulting economic crisis, it is difficult to see how such a fragile political system can provide the leadership necessary to steer the economy and society along a path of long-term recovery. The biggest obstacles in the way of a change of direction in Italian economic policy lie precisely in these domestic factors, carrying with them the risk that the country will miss the opportunity to instigate a new process of development and instead fall back on the old ways of the recent past.

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Notes

[1] An analysis of the governments' economic policies can be found in Pianta (2012; 2020) and in Marcon and Pianta (2013). On the industrial crisis see Cresti *et al*. (2020). For a critical evaluation see the annual reports of *Sbilanciamoci! Come usare la spesa pubblica per i diritti, la pace, l'ambiente* from 1999 to 2020, available at https://sbilanciamoci.info/pubblicazioni.

[2] Based on an initial estimate of GDP, of 2 February 2020, contained in press releases available at www.istat.it.

[3] Unless otherwise stated, the figures cited in this article derive from our own elaboration of data taken from Istat, dati.istat.it.

[4] An important provision was the permanent suspension of the 'safeguard clauses' for 2021 and 2022, involving €20 billion and €27 billion respectively. The clauses provided for an automatic increase in VAT on certain goods in the event of revenue shortfalls. The clauses had first been introduced by the Berlusconi and Monti governments during the sovereign debt crisis as a means of postponing deficit reductions to subsequent years while reassuring the financial markets concerning their commitment to policies of austerity.

[5] See INPS: https://www.inps.it/docallegatiNP/Mig/AllegatiNews/Dati_e_grafici_SR41_3_novembre_2020.pdf

[6] The data from the parliamentary Budget office are based on allocations, those of the Mef (Figure 3) on the net effects on the budget deficit resulting from increased expenditure, virement and lower revenues.

[7] *Legge di bilancio 2021*, Rome, Ministero dell'economia e delle finanze, 31 December, available at www.mef.gov.it.

[8] See R. Artoni, 'Voltaire, Einaudi e il MES', www.sbilanciamoci.info, 20 October 2020.

[9] Campagna Sbilanciamoci!, 'Il prestito statale a FCA non sia una cambiale in bianco', www.sbilanciamoci.info, 3 June 2020.