From Miracle to Decline: Italy's long-term development trajectory between core and periphery

Dario Guarascio, Università La Sapienza, Rome

Abstract
This talk focuses on the evolution of the Italian economy in the post-WWII period, highlighting how the factors allowing the 1960s Italian 'economic miracle' – i.e. the macroeconomic convergence towards the levels of advanced European economies such as Germany, France, and the UK - revealed their inherent weakness as well as the inability to withstand external constraints as the latter become more binding. Since the 1990s, the Italian economy began its decline, pushing it from the centre to the periphery. Crisis after crisis, Italy's vulnerability start epitomizing the self-defeating nature of the European export-led growth model, as internal core-periphery divergence deepens while Europe kept losing positions vis-à-vis major world economies. In this context, the role played by Germany is crucial. The asymmetric complementarities linking the two countries are fundamental to understand the structural evolution of the Italian economy, in good and in bad times alike. The German influence on the build-up of the European institutions is another important piece of the puzzle. Being the austerity 'poster child', Italy has shown how adhering to the EU rulebook – e.g., fiscal restraint, wage moderation and labor market fragmentation, State retrenchment and abandonment of selective industrial policies, etc. – may perhaps support exports but at the cost of undermining the structural prospects of the economy in the medium long-run.

A new industrial policy for the EU and old problems with Germany

Mario Holzner, WIIW, Vienna

Abstract
A Catalytic Industrial Policy (CIP) is imperative to simultaneously optimize positive outcomes on three crucial fronts: environmental sustainability (the green axis), technological advancement (the digital axis), and societal well-being (the social axis). This concerted effort aims to accelerate the realization of these goals. Investments in each domain must be strategically directed, and the benefits of the CIP should be inclusively distributed, incorporating conditionalities as necessary. Vigilant and continuous monitoring of the bold CIP is essential, utilizing pertinent outcome indicators with pre-defined selection criteria. These indicators play a pivotal role in elucidating interdependencies. Concurrently, Germany, the cornerstone of Europe's core economy, is grappling with self-imposed challenges, particularly evident in its adherence to a debt break policy. The country finds itself in a self-mutilation mode, facing the repercussions of its over-reliance on car manufacturing amid a global shift in industry dynamics. Struggling to fully embrace the digital revolution, Germany's energy infrastructure is also deteriorating. It is evident that Europe, as a whole, requires a new, catalytic industrial policy to navigate these challenges and foster sustainable economic growth.

European strategic autonomy and the reconfiguration of European value chains: implications for the German export-oriented model

Valentina Meliciani, LUISS, Rome

Abstract
The Russian invasion of Ukraine and the COVID-19 pandemic have prompted the discussion surrounding the vulnerability of global value chains and the necessity of safeguarding European strategic autonomy within the new geopolitical landscape.

The European, and particularly the German, market-based export-oriented model began to be questioned in a world where China and the United States are increasingly using trade and industrial policy measures to ensure technological leadership in critical value chains.

In this context we look at the reconfiguration of European value chains after the financial crisis considering both the sourcing and the destination of value added from within and outside the European region and the position of Europe within selected strategic green value chains, focussing on the strengths and weaknesses of the German export-oriented model.

We discuss the long-term feasibility of this model and its consistency with the broad objective of reducing strategic dependences while adopting restrictive fiscal policies with contractionary effects on the final demand that generates economic activity in Europe.

The winter of German discontent. And the risks for the whole of EU

Annamaria Simonazzi, Università La Sapienza, Rome

Abstract

German output contracted 0.3 per cent in 2023. Europe's largest economy was the worst performer in the world, according to the IMF. -- All components of demand fell. Wages and workers' unrest. Redistributive effects of inflation reduced consumption and higher interest rates and Increase in borrowing costs triggered a 10 per cent fall in German house prices. Fractious German coalition fed growing popular anger, boosting support for the far-right AfD.

The German economy's 'business model'.

Export-led: geopolitical risks and increasing protectionism increases vulnerability

Focus on manufacturing: more energy intensive sectors require greater effort to decarbonize

Weak digital innovation

The example of the automotive industry. Delay in innovation and heavy dependence on the Chinese market

Macroeconomic and financial stance. Industrial policy is no longer demonized, but the debt brake enshrined in the German constitution in 2009, requiring balanced budgets, makes it very difficult for Germany to restructure its economy successfully.

Implications for the EU. Germany's problems will affect its member countries, possibly with amplified effects. What are the consequences for the rest of Europe, and specifically for Italy? Is a solution possible? Is it probable? Can Germany go it alone?