Unemployment Rate in Italy

The overall state of the current Italian economy has been largely affected by the 2008 Great Recession. According to Stefanie Moya from Trading Economics, the unemployment rate in Italy during January (2018) has decreased to 11.1% compared to January 2017 which resulted in 11.7% unemployed. This illustrates an overall decrease of 0.6% unemployment over a one year period, showing that the economy is slowly recovering from the 2008 Great Recession. Nonetheless, this unemployment rate is extremely high and suggests that the labour force in Italy is not extremely active. The unemployment rate in January 2008 had reached an all time low of 6.5% before it began rapidly increasing as a consequence of the recession, to a peak of 12.8% in January 2014. Italy now has one of the highest unemployment rates in Europe, with France recovering at a slightly faster rate since January 2014. The Great Recession greatly impacted all European countries and employment rates began to recover after a period of six years from the recession. Currently, Italy still has a higher unemployment rate than most G20 countries as only Spain (16.74 in March 2018) and Brazil (13.10 in
March 2018) surpass Italy’s current overall unemployment rate. Furthermore, the continuously low rates of production in Italy are another cause of continuing high unemployment rates. These rates are especially affecting the youth population, and are displayed through the high NEET (not in employment, education or training) levels compared to most other European countries. This was especially seen from 2002 to 2010 where Italy had the highest NEET levels out of all other European countries. This includes the two years following the 2008 recession. However, it is important to consider that there are likely many discrepancies in the unemployment rates as factors such as underemployment are not part of the unemployment statistics.

**Governmental Policies**

In order to help lower the NEET levels and provide increased economic growth in Italy, past Prime Minister Matteo Renzi formed a reform package to free the labour market from increased restrictions brought upon by the recession. These policies had been initially implemented to improve the flexibility of the labour force and therefore reduce structural unemployment in Italy. He claimed it was one of the only ways to approach the economic decline brought upon by the 2008 Great Recession. These reforms, that were initially issued in 2014, were ultimately believed to further slow the economy’s recovery from the stagnation.

**Solutions for a Faster Recovery**

Matteo Renzi’s reforms did not in fact help the Italian economy recover at a fast pace. Therefore injections such as subsidies and tax breaks could help firms recover faster, possibly decreasing the unemployment rate in the process. These forms of government spending could help increase the aggregate demand levels in Italy, helping reduce the gap caused by the large fall in aggregate demand during 2008. This fall was
caused by the recession, which led to demand-deficient (cyclical) unemployment. Normally, stimulating aggregate demand through incentives and government spending is one of the most efficient ways to eventually lower unemployment rates and help increase the levels of aggregate demands in the overall economy. Additionally, if these methods prove efficient, they will increase the government’s tax revenues and therefore be extremely beneficial to the Italian economy. This is because as individual’s incomes rise, the government is able to receive more revenues from taxation. For individuals, there would be less social consequences of unemployment such as increased crime rates and stress levels for families.

Economic Growth
The economy is expected to grow at a 1.5% rate in 2018, resulting in the same growth as 2017. This rate is at a high since early 2010 although it is expected to decrease to 1.4% in 2019 due to an increase in sales tax (VAT). Furthermore, Trading Economics shows that the economic growth rate in January 2018 was 0.3%, a slight decrease from the 0.4% economic growth rate in January 2017. Nonetheless, it is an improvement from precedent years, such as 2014 which had a -0.1% economic growth rate. Furthermore, the Istat statistics show that there was a stable GDP growth of 1.5% at both the end of 2017 and beginning of 2018. However, in January there was a decrease in consumer confidence following a large increase in December 2017. The consumer confidence is expected to further decrease but it seems as though it is overall
increasing in the first months of 2018. Additionally, as the unemployment rates have been improving since 2014, the GDP is recovering and growing at a faster rate than past years.

**Governmental Policies**

The slow down in Economic Growth, planned to continue throughout 2019, is largely due to the negative effect that the increased sales tax will have on the economy. The Italian Government has imposed this increased sales tax since 2013 and it has reached an all time high of 22%. Italy is now first out of all the other G20 countries with the highest VAT tax, which is negatively affecting the country’s growth. Furthermore, a further increase in the VAT tax is expected in early 2019, likely leading to further economic slowdown.

**Inflation**

The inflation rate in Italy began increasing after 2015 which resulted in an inflation rate of -0.6%, meaning the economy was in a deflationary stage. Most recently, the inflation rate of January 2018 was 0.89%, a slight decrease from January 2017 which resulted in a 1% inflation rate. The correlation between inflation and unemployment shows that as inflation rates increase, the economy’s unemployment levels are more likely to decrease unless the economy is facing a stagflation. This can be seen in Italy’s economy as the inflation rates have generally increased since 2015, while the unemployment rates have been decreasing since that same year. Nonetheless, the current inflation rates in Italy are relatively low although they have been increasing at a steady rate. This is illustrating the recovery from the past deflation that was a main cause of the high unemployment rates.

**Governmental Policies**

The cause of generally low inflation rates in Italy are largely due to the prices of transport, restaurants, hotels and housing utilities which have dropped in the past few months. In comparison, the food sector in Italy has become more expensive. Generally, Italy’s inflation rates in the long term are lowering, indicating that it is likely increasing in competitiveness. Furthermore, as of recent times, Italy’s money supply from the National Bank has most recently increased and this is likely to cause increases in
Inflation rates. Nonetheless, the Italian inflation rates are quite low and therefore increasing the money supply in the country could be beneficial.

**Equity Distribution**

In order to calculate how equitable the income distribution is in Italy, the Gini Coefficient can be calculated using a Lorenz Curve. Nonetheless, the most recent available data for Italy’s equity distribution is from 2014 (World Bank). Data from 2014 suggests that the Gini Index during that year was 34.70% (0.347). This is a quite equitable value and was a decrease from 2013 which resulted in a 34.9% (0.349) Gini Index. This could also link to the unemployment values. As unemployment decreases, the disparity in Income Distribution is also expected to lower. However, the disparities in Income Distribution are considered low while the unemployment rate in Italy is still considered extremely high.

**Governmental Policies**

Similar to the other macroeconomic goals, the Gini Index increased after the 2008 recession from an all time low of 32.9% in 2007. The Index then began to lower after 2012 which resulted with a 35.2% Gini Index. Policies such as those issued by Matteo Renzi were also set to decrease the disparities in income distribution that were a large consequence of the recession. This is because it is more likely that an economy becomes less equitable when it is experiencing a large recession or depression. Furthermore, income is being largely redistributed through direct taxation in Italy. Specifically, the 22% VAT tax which is a form of regressive taxation. This is not the most efficient method of redistributing income as this form of taxation causes low income individuals to pay a higher percentage of tax.
Overall, the Italian economy is one of the slowest economies to recover from the 2008 Great Recession but has been progressing ever since 2014. Italy’s unemployment rate has decreased, indicating a slow recovery. Furthermore, there seems to be a quite equitable distribution of income using the Gini Index and although the Inflation rate is quite low, it is not necessarily damaging to the economy. Finally, there is a slow economic growth rate that can be aided with some government spending in order to increase the rate at which the economy is growing.

Diagram #2: Lorenz Curve

The Lorenz Curve shows the relationship between the line of perfect equality and the equity of income distribution in Italy. The line of perfect equality is equal to 0 while Italy’s most recent rate was 0.347 Gini Index. To calculate this index, one must place the area of inequality (A) divided by areas A + B. The closer the value is to zero, the more equitable the income distribution.
Works Cited


