The Crisis of Italian Industry in the European Union Framework

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Due to the lack of time, I have just provided few notes concerning the situation of the Italian industry in the European framework. Data and information are taken from a series of publications which will be properly quoted in subsequent revisions of this text.
Further investigations will address the issue of the instruments of Industrial Policy, also starting from a recognition of what already exists. In this respect, it is worth to carry out some sectoral insights (steel, chemical, telecommunications, automotive industry etc.).

Brief Notes on the Historical Trajectory of the Italian Industry after World War II

There are at least four traits that characterize the economic development right after World War II. First of all, the full membership to the new international agreements and the progressive liberalization of trade: this has helped to guide permanently most of the Italian Industry towards the export. The second aspect, concerns the renunciation of the State, through the government, to carry out the functions of planning and control. This planning abandon has not meant the total rejection of Keynesian policies but rather the renunciation of the Public Administration to perform the task to guide the Economy. Anyway, the State did not withdraw from the economy: the intervention in support of industrialization has been entrusted to the Autonomous Public Bodies (through IRI and ENI, strategic sectors fostered the process of industrialization: iron and steel, petrochemical, telecommunications, infrastructure etc. .).
The third aspect is given by the policy of special laws, subsidies, exemptions for the private sector and especially for the small business. The fourth element is given by the low wage growth (much lower than in other European countries), which allows companies to have a high cash flow for investments.
The fact that Italy has chosen to follow a path of growth based mainly on exports was not mandatory, so much so that in 1954 the Finance Minister Ezio Vanoni had submitted to parliament a plan for the employment and income growth for the decade 1955-64, which provided a different approach to growth, a model based on full employment, reduction of the North-South divide and the elimination of the deficit of the balance of payments through a program aimed at giving priority to domestic consumption.
Since 1958, when the Country joined the European Union's Internal Market and could benefit from the International Trade take off, the Italian growth was based on the opposite model to that proposed by Vanoni: instead of economy regulations, has been preferred a growth that followed the classical patterns of trade policies based on net exportations and gross capital formations increase (partly funded by public spending), in a regime of reduced domestic consumption compared to GDP growth. Export growth was addressed to the demand for goods of mass consumption by encouraging the development of relevant industries. Later, this industrial pattern and wage growth (due to the workers' struggle) defined the peculiar model of domestic consumption in the sixties and in the following years. In this context, private consumption rose much more than the investments in public goods.

Devaluation of “Lira” was used as a tool for gaining competitiveness and filling the gap but it brought to an objective impoverishment of the technology and the quality of production.
The so-called "internal protectionism" of the '70s, made of tax benefits and credit facilities, went in the same direction, weakening capacity for growth and innovation even further. In the 70s there was the break with the first oil shock, followed by the second shock of 1979. Since 1979/80 the new liberal policies were applied; Italy is crossed by industrial restructuring processes of growing importance (also for the Italian participation in the European Monetary System (EMS) and the "divorce" between the Treasury and the Bank of Italy on the issue of government bonds. The purpose was to force the enterprise system to look for competitiveness without being dependent on the currency devaluation. But companies restricted their actions to investments in technological upgrading whose fundamental ratio was cutting costs through productivity gains. The 80s are those of the "floating": without any restructuration of the technological and production apparatus, there is just a consolidation of the trajectory of transformation of the production system with the extension of small and micro-enterprises, especially in products with low value added, with low levels of research and development and a corresponding - i.e. low - productive specialization.
The dramatic crisis of 1992 and the devaluation that followed, rather than an actual reorganization of the Italian production system, produced, once again, a policy to support the industry through the devaluation and not through technological advancement. The restructuring processes have gradually changed the composition of the Italian industry, marginalizing certain sectors or resetting them deeply. But - especially during the 90s - globalization hit the weak Italian manufacturing. While the gap between our development path from that of the main industrialized countries grows, a substantial proportion of companies reacted to the new international framework emphasizing the processes of relocation of production to areas with lower labor costs (from Romania to China whole industrial districts were delocalized) and with the wave of privatizations entire industries were destroyed, even the strategic ones, including those likely to expand if appropriately supported with investments. With privatization in key industrial sectors, investments collapsed as the new owners were exclusively committed to squeeze the last margins of profits from increasingly obsolete facilities and productions.
For exporting countries, such as Germany and Italy, export growth requires a demand able to give an outlet to European production and is thus addressed to the conspicuous consumption of the new wealthy and rich class in the developing Countries. The internal market, depressed by wage deflation, can give partial outlet to the flow of goods only through a growth in the private debt.
With the birth of the Eurozone, the construction of a single market and the total liberalization of the movement of capital and competition, plus the push for privatization, causes a heavy reorganization of all economic activity in the EU.
Investments in foreign Countries (especially in those with low labor costs), particularly the ones made by German companies, help to determine, in the major industrial sectors, a real structural overcapacity. A new division of labor through concentration processes, made possible by financial capital, has been established without implying centralization and verticalization of the leading companies that, on the contrary, have decentralized everything possible through real hierarchical chains of suppliers. This has contributed to the impoverishment of the value of work and production of a large part of these supply chains, with consequences on wealth and social cohesion of entire regions, even in rich zones.

Italian Industry Nowadays

A major share of the manufacturing products in Italy is made from traditional, low-tech and low value added industries: 31% against 18% in Germany. In 2009 the share of manufacturing value added produced by the sectors using medium and low technology reached 62% (44% in Germany). The high-tech sector in 2011 did not exceed 6.7% of the industrial value added. Moreover, it is worth noticing that the traditional sectors have suffered a major loss in terms of production: in the "Made in Italy", the shoe industry have lost, if compared to the 90s, the 70% of its value, while the textile industry dropped by 50%: this trend is shared by France and Germany, but in Italy is worsened by the very high weight they had these industrial sectors on the system as a whole. For this reason, the mix of goods produced is very similar to those intended for export produced by BRIC, able to count on cheap labor, incomparable with that of Western European standards. At the same time, it should be noted that even in the most high-tech exports, BRICs have done better than Italy. Furthermore, as shown well by Gallino, this tendency to the progressive loss of industrial base (which in some cases involves whole sectors) affects the entire industry: from electronics to chemicals. Adding more considerations on the average size of the Italian companies, we discover that 95% of them have a micro-enterprises size (less than 10 employees), covering 48% of total employment. If we consider small companies as well (less than 49 employees), we will get 99% of businesses.

In Italy the industrial system is the part of the economy in which the decline in production was stronger. Today, the industrial production is around 25% lower if compared to the pre-crisis levels: a drop that has also involved sectors - cars, appliances and footwear - that have characterized the specialization of the Italian economy for a long time.

As mentioned above, the crisis of the industrial system is long-running and has been exacerbated by several factors: the "globalization", the process of European integration through the adoption of a single currency, the change in the technological pattern (new technologies of information and communication). A fourth factor is determined by the weakness of domestic demand. These factors will be examined below.

Despite all these problems, Italy is still an Industrial Country: in 2012 the industry produced 257 billion euro of value added with 4.7 million employees, determines 70% of expenditure on research and development of the private sector, contributes for 80% of exports. The industry is also very important for the service sector: exported industrial products, embody a large part of the added value produced by services (40% of the added value of exported goods is represented by the value produced by the services and incorporated in the exported goods).

But that is not all.

A major study of *Intesa San Paolo*'s Research Department shows, in the last 40 years, a growth, in all industrialized countries (including Italy), directly related to the services industry (communications, research and development, information technology, transportation, other services companies etc.).

What is changed, therefore, is the relationship of interdependence and integration between industry and services with the increasing use of assets classified as services, but integrated into the industrial production process.

The growth in services is due, therefore, to the transformation of the production model of the advanced economies. Many stages of the production process have been outsourced and are now

classified as "services"; many services that were previously managed directly by industrial companies have now been outsourced and appear as "tertiary"; manufacturing sectors, in advanced economies, focus on high-tech products, relocating the low-tech phases (to handle these complex supply chains specific services are needed); innovations require a higher share of services in research and development and the use of information technologies; the export orientation has led to the growth of transport and handling services, as well as analysis, market research and advertising.
All these aspects help to clarify the importance the industrial system in Western Europe, including Italy, has.
Unfortunately today the Italian industry is experiencing a harsh crisis, losing 25% of production and dropping below the 20% of the total GDP.
We must remember that until 1990 the industry accounts for 26% of value added and employment. When, in the 90s, the world economic system radically changed (also by opening up the International Trade), the specialization of the Italian industry was mainly concentrated in traditional products (textiles and clothing, leather and footwear, the food).
However, sectors for the manufacture of machinery and equipment, for the production and distribution of electricity and gas but also electrical and electronic machinery and metal products maintained a significant weight.
Already in 1999 the weight of industry falls to 23% of both the value added and the employed.
With the start of Monetary Union, economic policy loses the ability to use currency devaluation. Previously, the devaluation was used as a competitive tool to support exports: in particular it was crucial to support exports of specific regions, especially those in the North East of Italy, home to many industrial districts of the Made in Italy: the correlation between currency devaluation and export increase in the North East was clear. Indeed, the last great surge of exports from the North East came in 1992 with the severe currency crisis leading to the devaluation of the lira.
In the period 2001-07 the average annual increase in GDP per capita in Italy amounted to just 0.7%; this result was also due to the difficulties of the manufacturing sector, whose value added grew slowly (0.8% per year on average). Its impact on the total economy went down by 2 percentage points, to 21%.
To understand the gravity of the Italian industry crisis, a comparison with other European Countries is required.
In France production levels at the end of 2012 are lower by only 14 percent from the cyclical peak of early 2008. In Germany the recovery of 2009-11 allows to almost catch up with the pre-crisis levels. Between the second quarter of 2011 and the fourth of 2012, the value added of the Italian industry is reduced by 6.3%, while the decline was 3.0% in France and 1.5% in Germany.
The production weakening is reflected by a significant loss of jobs in the labor market.
There are sectors in which the loss of production depends on a long-term trend: this is the case of typical *Made in Italy* products, such as textiles and footwear. This long-term negative trend also covers less traditional productions, characterized by higher levels of technology and significant economies of scale, such as the electronics and motor vehicles. Compared to the 90s, electronics has lost about 40% of production levels and the car sector 60%.
In the decade that preceded the global crisis, the weakening of the Italian industry was also present in most of the other industrial sectors, characterized by essentially stagnant or only moderately positive production trends. Even in these cases (industries of electrical appliances, machinery and equipment, chemical and pharmaceutical sectors) the comparison with Germany is negative.

Factors of Change

Let's recap, briefly, the main drivers of change in the overall picture.
Among these, the key element was the increasing international integration, with the entrance on the world markets of large emerging countries such as China, India, Russia, Brazil and Turkey. Moreover, costs in international trade (such as tariffs) decreased and quantitative restrictions were also removed especially with the dismantling of the *Multi Fibre Arrangement (MFA)* , which, from 1974 to 2004, imposed restrictions on the amount of textiles and clothing that developing countries could export to the developed world. This has radically changed the competitive context in which the businesses from the more developed countries were operating, particularly for those less technologically advanced and more exposed to the competition (especially in price) with the emerging countries.
The adoption of the euro has also put an end to the possibility for individual Countries to promote devaluation as a tool to compensate losses in competitiveness.
The spread of new information and communication technologies (ICT) has helped to reduce the cost of transport and communications and made possible the management of production and distribution processes on a global scale.
Industrialization and the opening to trade of large emerging Countries, particularly China and India, have rapidly increased the demand for energy resources, like other commodities, putting pressure on prices: between 2000 and 2011 the import price for gas and oil in Europe has almost tripled; that of coal has more than doubled. This is also an element that has affected Italian companies.
Regarding the trends from 1993 to 2011 in labor productivity (measured as GDP per hour worked) and in total factor productivity (TFP), estimated by the OECD for France, Germany, Japan, Italy, United Kingdom and United States , it is shown that Italy remains roughly in line with the other countries up to 1997-98; from then on, it take a lonely path of stagnation. Between 1998 and 2011, GDP per hour worked grew by over 20% in Japan, in the United Kingdom and in the United States, 17% in France and Germany, only 3.6% in Italy. Despite the high degree of approximation that surrounds the measurement and interpretation of total factor productivity, this result suggests that the analysis should be directed mainly to the variables that influence the technical and organizational progress.
In the case of Italy, a survey conducted by the Bank of Italy had shown that in 2006-07 a part of Italian companies had launched an intensive restructuring process with investments in the upstream and downstream sectors of production, even in those activities that precede, go along with and follow the production: technology, design, marketing, product marketing and after-sales service.
This does not necessarily mean that development stand for high technology.
A recent research based on footwear districts in Marche shows that companies that have pursued a strategy based on raising the quality of products, investment in the brand, research and development and in commercial networks, have achieved a better performance in both the pre-crisis period (2007-08) and in the course of the same recession than companies that have focused on keeping down the cost of medium quality productions, even relocating abroad. The same goes for a no-luxury clothing company in the Carpi district.
These positive results occurred for companies that have invested in R & D in the years 2006-08 and which allowed to introduce product, process and organizational innovations.

Anyway in Italy the total expenditure on R & D, according to the OECD, amounted to 1.3% of GDP in 2010, below the EU average (2.0%): being the last of the EU15 countries, the Italian data is far from those of the most innovative Scandinavian countries (Finland and Sweden with 3.9% and 3.4% respectively) and Germany (2.8%). Spending on R & D in Italy is still far from the 3% goal set out in the EU 2020 strategy. While public spending in R & D is only slightly lower than the other major European countries, in Italy is especially the one of the privates (companies) to be very low, being equal to 0.7 percent of GDP, against 1.2 of the EU average, 1.4 in France and 1.9 in Germany.
In Italy is dominant the presence of small and medium-sized companies, which often innovate without officially register expenses in R & D. Italian companies who claim to realize product or process innovations without explicitly performing R & D have a lower ability to realize patents, register industrial designs, trademarks or copyrights. They also have a lower share of revenues from innovative products, as it is more reduced their ability to create new products.
The delay of Italian companies in terms of innovation is comparable to the adoption and use of ICT technologies. This delay has been partly filled in over the past decade, but in the meantime the technological perimeter has moved forward: there is still an Italian lag in the use of technology and more advanced services.
The innovation and technological gap affects economy a lot.

The Small Size of the Enterprise

Among the reasons stands out the strong fragmentation of the Italian economy.
In 2007 the average company size in Italy amounted to 4 employees. There is a huge spread of businesses with less than 20 employees and of micro enterprises in particular: the former have a manufacturing employment share higher by 16 percentage points to the EU average and almost two and a half times higher than those of Germany, United Kingdom and Switzerland, while the latter have a weight that exceeds the EU average of 10 points and is equal to more than three times the German one.
On the other hand, there is an extremely limited presence of businesses with 250 or more workers, which absorb a little more than a quarter of the whole manufacturing employment, compared to 40 percent of the EU average and 52 percent in Germany. The decrease in the number of large companies, in particular, represent, since the early seventies, an essential element of the Italian industrial crisis.
Small and medium enterprises have given and still give relevant flexibility to the Italian production system. However, today more than ever, the reduced size of the company is holding back the capacity to innovate products and production processes, to incorporate new technologies, to increase efficiency; this situation, at the same time, makes companies more vulnerable to changes in the international context, exposing them even more to competition from emerging countries.
According to 2008 data from the CIS, in all major European Countries, the share of enterprises with innovative activity is higher among larger companies; the same can be said for the use of new technologies.
In the four major European Countries the same data also show that the probability that a firm has undertaken R & D increase according to the company size: in Italy it goes from 13.8% of companies with fewer than 50 employees to 50.7% of those with over 250 employees. The

probability of patenting is significantly correlated with company size: patent activity is, in Italy, heavily concentrated in a few large companies, 40% of them are held by companies with a turnover of over 10 million euro. Finally, for bigger enterprises, there is not only the ability to produce innovation within the company, but also to establish cooperation agreements with other companies and especially with the University and the public sector.
Firm size is not exogenously given; it reflects the choices of entrepreneurs. In this sense the performance of Italian companies is also affected by their ownership structure and, above all, by their management, both of them usually family-run.
Ownership and control over the Italian production have changed little in the past fifteen years. Italian companies that are owned by a family are 86%, a figure only slightly higher than what was recorded in France (80%), Spain (83%) and the UK (81%), but lower than the German one (90%). But what differentiates the Italian family businesses from those in other countries is mainly the low inclination to choose executives from outside: family businesses where all management is an expression of the owning family are two-thirds in Italy, a third in Spain and about a quarter in France and Germany, only 10% in the UK. Economies in which the spread of family businesses is high show a lower productivity and investment growth and a lower business birth rate in the most risky sectors.

Sectors and Districts

For many years worked a pattern of division of labor characterized by the presence of small firms specialized in single workings and concentrated at the local level: with these local sectors, Italy has tried to get those economies of scale and those advantages typical of large size, while maintaining a high degree of production flexibility.
But the benefits of a territorial organization of production based on industrial districts do not extend to all areas: not all productions, indeed, fit the division of the production process between a large number of small and micro enterprises; it follows that the dimensional structure and specialization are not independent one another. Within each sector, then, some particular functions - R & D, innovation, marketing - still require a bigger company size and higher organizational resources. Industrial districts are much more present in Italy than other major European Countries: three times as much as Germany in terms of employees and ten times compared to France.
Industrial districts - characterized by small company size, local productive chains, informal organizational patterns - have suffered from globalization and technological change. In particular, the opportunities offered by new technologies to separate particular stages of the production, until recently enclosed within a company or an industrial district, allows nowadays to transfer more standardized tasks and production phases in countries with low wages. While many “final” enterprises of the districts for their characteristics are struggling to take advantage of the chances of the market offered by globalization and new technologies, district firms that specialize in providing intermediate inputs (but also those that produce machinery and investment goods) are exposed to the risk of being put aside by productions from Countries with low labor costs.
A particular model of organizing production is in crisis.
Between the 70s and 80s, industrial production grew more flexible through a significant decentralization of the activity, giving rise to forms of work organization and production network.

This flexibility did not reduce the importance of economies of scale. In this process of productive and territorial reconstruction of manufacturing, small flexible production units and without any trade union representation, were included in the production cycle of large enterprises. The control of the production process in the upstream sector remained firmly in the hands of the Strongest Companies. Decentralization was mostly related to the activities of the producers of intermediate goods and of lower value-added consumption, more and more subject to price competition

In the most industrialized European Countries, big enterprises became more flexible within a solid production and organizational structure, related with system of small complementary firms integrated to the big factory. In Italy, the relationship between small and large enterprise was changing in a different way: the Italian production system became characterized by a very large number of small businesses while large companies were declining. The districts appeared on the international market as a standalone system, whose performance totally depended on the orders from other production systems. The extraordinary ability of Italian companies to introduce technical and organizational innovations, based on the enhancement of learning processes at the local level and virtuous interaction between users and producers of capital goods, has given rise to innovation processes based essentially on a sort of "creative adoption" of technology.

The specialization economies, emblematic of the industrial districts, still showed their dependence on certain traditional economies of scale. Only the largest companies, able to take advantage of traditional economies of scale, can industrialize basic knowledge underpinning a new technological paradigm; in this way, they may well affect the production processes of other companies that make up the district and can therefore ensure that this knowledge is effectively used. With the '"flexible automation", made possible by electronics and information technology, it was possible to design ever more sophisticated technological solutions, able to compete with those of the economies of the district which is now entering into competition with innovative exogenous potentialities. But in those Italian districts, where the size of scale necessary to do research and development is insufficient, the outcome is the exit from the market or the relocation along the European and international production chain. Small and medium-sized enterprises in the district lose their decision-making autonomy, becoming 'dependent' from major European companies, also through ownership changes.

How does Italy Fit in the Restructuring Process of the International Industry.

First, it seems useful to draw a distinction, as Garibaldo does, between decentralization (Outsourcing) and delocalization (Offshoring). Depending on the choices made by the "enterprise leader", you can get four cases:

1. "captive onshore outsourcing": means a shift of supplies in favor of a subsidiary company within the country;
2. "non-captive onshore outsourcing": it is the movement of supplies to a non-affiliated company but in the same country;
3. "captive offshoring" occurs when supplies come from a foreign affiliate;
4. "non-captive offshoring" is when the supplier is not affiliated and overseas.

The main reasons justifying the choice of outsourcing are:

1. relieve portions of investments and logistics expenses on other subjects;
2. relieve portions of responsibility on employment on other subjects;

3. The difference in hourly labor costs between the home country and other countries;
4. relieve the "just in time" model costs on the outside: subcontractors must be ready, also through a specific organization of work, to absorb all the variations of the contractor, both in terms of volumes and, primarily, in terms of response speed in the mix change in a few hours;
5. optimize investments and the work process for both the contractor and suppliers, who specialize focusing on defined activities.
These processes allow to take full advantage of the possibility of organizing production through functionally connected parallel loops, significantly reducing the overall time, both that of the design and the delivery market. Facilities or resources mutually usable are involved and this leads to forms of strategic integration between suppliers and subcontractors.
When the OEMs relocate within Europe, they do not chase the low wages, but the different protection schemes of work, as the investment rush in Spain shows. In the case of Asia, however, they detect the low wages and low levels of labor protection.

Centralization Without Concentration

This led to the phenomenon, as defined by Bellofiore and Halevi, of the "centralization without concentration" which consists of two aspects: one the one hand, is the fact that the strategic functions of a company become more centralized; on the other, production operations are highly disjointed and reorganized through a new pipeline concept. Contrary to what it may seem, the disarticulation of the production process, hides a very high level of concentration of capital power. Indeed, businesses that are located in the upper part of the production chain put into effect the classic prerogatives of the management: for example, they have the power to decide how to plan the production of other companies in the chain in a given period of time, the delivery speed of products, etc. The network structure / chain of European industry (with its interconnections) and its geographical dispersion, implies that the flows of products and services within each network / chain sequences consist of import and export. It is therefore extremely useful to know "for whom" and "what" is exported within a chain of international production; to figure out if what you are exporting is a final product for consumption or if it is an intermediate product which is imported from one Country to complete its pipeline. In some cases, the analysis must be completed by an assessment of the value added that is realized in the different steps of the production chain: this requires the "dismantling" of the product and the description of the actual flow of the specific production process.
In Europe there has been a process with record levels of mergers and acquisitions in the two years (2006-07) immediately preceding the beginning of the current crisis. Many "offshoring" operations also occurred, both through Foreign Direct Investment (FDI), either through externalization of production parts ("outsourcing"). The opening of Eastern Europe to the Western Europe capitals after the fall of the Berlin Wall in 1989, has accelerated the industrial restructuring that began in the late '70s, while a further stimulus came from the entrance of China in the global market. This is what led to the new social division of labor in Europe: an integrated industrial system with an uneven geographical distribution of "core" skills and "headquarters": companies of the Eastern European countries within the EU27 are mostly under the control of Western corporations. From the point of view of the manufacturing process, these business networks are a fully integrated production process: there is similarity between the internal organization and the relationship

between the companies involved in the network. These new businesses can organize their networks using the different systems of social obligations, tax regimes, as well as the different skills and expertise to develop their internal division of labor.
In summary, two closely related processes have profoundly changed the situation of the 'industrial capital': on the one hand, centralization without a concentration process; on the other hand, a "neomercantilist" competition model based on the infinite expansion of consumption, creating the need to seek new markets. In this framework we have seen the set up of new production facilities, although existing ones possessed considerable spare capacity: the current crisis is also characterized by an excess of supply in key areas. The production capacity of the new plants in competition with that of the same companies in the euro-15 countries has led to a state of endemic overproduction guided by over-investment in key areas, such as in the "white appliances" and in the automobiles. This situation has been aggravated by huge investments in "green fields" to create industrial bridgeheads: a path made easier thanks to the liberalization of capital movements that has affected potential new markets such as China, thus building even more in a situation of excess capacity.

The German Model

The main elements of the German export-oriented model are: 1) the increase in cost competitiveness through wage restraint; 2) binding to the growing markets of emerging economies (especially China and India); 3) an increase in the export of capital goods in response to increased investment in emerging Countries; 4) the formation of regional platforms of supply through the relocation of parts of production.
We should not forget that behind the German export boom there are not only exports but also imports of parts and component products that are later exported: These supplies are made thanks to the German relocation in low wages Countries, especially in Eastern Europe. At the same time, while in Germany there was a decrease in the percentage of investment in GDP, there was a sharp increase in foreign investments through the relocation of production activities. Germany, therefore, has invested a lot in neighboring Countries, those over-curtain, creating industries that were integrated into their value chains. The German model of relocation is based on keeping "at home" the final stages of production, shifting in Countries with low labor cost the component production; unlike the Italian one that (mainly) relocates the whole process. In this way, Germany has reoriented its trade flows for imports to Eastern Europe by reducing those with Southern Europe, but this area still represents a major share of the surplus realized by German exports. German demand for intermediate goods favors only the closest Countries in Eastern Europe and Central Asia.
Like many other Western economies, the German one was confronted with economies that compete through low wages, this has caused these precise reactions from German companies. On the one hand the factories have replaced workers with robots (this is the result of the intensification of the capital in the 70s and 80s), on the other hand, they reacted with this new international organization of production.
Sinn stressed that net investments abroad are higher than 50% of those in Germany: German companies are engaged in a "strike of investments" in their own home. The majority of German companies has been restored by replacing workers with machines and using intermediate products

manufactured abroad, even relocating plants to use the advantages of the former communist countries' low wages.
German SMEs are repeating in Eastern Europe what the big companies have made in the 80s in Asia; 60% of SMEs have already built plants outside the old Europe since 2002, while, according to *Deutschebank*, German companies abroad have created 3.5 million jobs. Germany has become the largest direct investor in Eastern Europe, largest than Britain, France and the US put together: German entrepreneurship created in Eastern Europe between 800 thousand and 1 million jobs.
As already seen, most of the manufacturing phases are relocated, the final ones are kept in Germany. This is also the case of the auto industry: the lines of the Porsche Cayenne are in Bratislava (Slovakia), while only the engine, or a little more, is added in Leipzig. In short: only a third of the value of this car is produced in Germany.

Relationships Between Italy and Germany

Since 1990 in Germany, indeed, the strategy of employers has changed radically, in order to overcome the situation of high wages typical of postwar Germany. There has been a huge change: from the automation strategy of the 70s and 80s to the relocation of part of production activities, mainly to Eastern Europe and partly, as it is also the case for the Northern Regions Italy, towards the old EU-15. German imports consist of intermediate products that are used later in German industries to make products for export; these components are produced in factories overseas where the phenomena of relocation of parts of "supply chain" occurred. The geography of the German production and business system has changed, as China and neighboring Eastern European Countries (increasingly integrated into the value chain of production) have become key partners. On the contrary, this integration is far less developed in the Southern European Countries, with the partial exception of some sectors of the Italian industry, especially in the Northern regions. This is the case of parts and components for the car. The case of the top ten markets in Piedmont for parts and components for cars, which represent 90% of total exports, shows that among the most important outlets are France, Spain and, of course, Germany. This course of action is reinforced by the fact that the process of independence (of component suppliers from the domestic auto manufacturers), who was born spontaneously, has strengthened over the past decade. This is due primarily to the decline in FIAT production in Italy: consequently orders to domestic suppliers decreased. In just one year, from 2012 to 2013, the producers of the car chain - that no longer have FIAT among their customers - jumped from 32 to 55%, while manufacturers in the supply chain that provide Fiat (in Italy or abroad) fell 68-45% of the sample.
This is the bond that holds together the supply of "Italian" components to the German industries and that justifies recent operations by German companies in Italy.
Italy is the second country in the world (after the US) in which German companies invest with operations of acquisitions and mergers. While 35% of these are made in Germany itself, 24% occurs in the US and 19% in Italy (16% in France and Poland). German acquisitions of Italian companies (typically those with a turnover that is placed between 10 and 100 million euro), are primarily related to the automotive, mechanical engineering, electronics, pharmaceutical and food. Besides the German interest, in the decisions of sale by the Italians, has its weight also the difficulty of Italian firms to compete in global markets, because of the effects of the crisis or because of their small size. These mergers and acquisitions frame the picture of a new German hierarchy which is

building global production platforms: today at least 7% of the value added embedded in German exports has a close Italian origin. In the automotive industry or mechanical engineering, this value tends to rise.
There are regions in northern Italy, in fact, who have closer and closer ties with Germany. After speaking about Piedmont automotive, it is necessary to recall the mechanical production in Emilia Romagna: recently there was a meeting between Emilia Romagna's Confindustria and BDI to strengthen a partnership that already sees 144 Emilian firms with German participation (starting from Lamborghini and Ducati) and an export that sees Germany as the first trade partner. Emilia's manufacturing sector is akin to that of German: Emilian industry is moving towards the medium-high technology segments in which 60% of industrial workers are employed (as in Bavaria). A total of 2,800 German companies operate in Italy (2,500 Italian ones in Germany), those who do business with Italy are 50 thousand. Industry associations of the two countries speak explicitly of a German-Italian industrial pole.
In general, in the period 1999-2008 the share of exports to Germany from the South of Europe in total trade has decreased, while the share of imports has increased; Meanwhile, diversification and specialization of Southern Europe weakened. In Germany, the decline in wages and the inequalities were made bearable by the increase in consumption of goods at low prices and lower quality: this affects exports of consumer goods of higher quality made in the advanced Countries of Southern Europe that have been displaced by those coming from emerging areas.
The competitive advantage of Germany in the euro area is mainly based on product quality and the consistency of the production system with the foreign trade demand, particularly from China, with its new middle class. In this perspective it is clear the strategic importance, for the German model, of the industrial reorganization, which we described earlier, namely a European networks of providers made possible by transferring abroad parts of production, that is, in the East of EU. For this reason, an expansion of the German domestic demand, although necessary, is not sufficient to provide a valid response to the long-term sustainability of the euro zone as any increase in demand would be forwarded first to the transnational value chain system of the German production .

Euro and Industrial Issues

As pointed out by Bellofiore and Garibaldo, both mainstream and heterodox analysis assume that the euro has been crucial in determining the growing trade imbalances: the euro would create problems for the price system by reducing the export capacity of the periphery Countries. The euro is part of a broader strategy to reorganize the capital and compress the rights of the working class, through financial liberalization and exposure of national economies to international competition; the pillars of this strategy were the previous processes of financialization and liberalization. The common opinion of the imbalances in Europe as imbalances due to the Euro is biased and inaccurate. The changes in trade flows predate the introduction of the euro. In deeds, in Countries such as Portugal or Spain exports rose more than imports after the creation of the single European currency. The role that the cash flows have in imbalances is crucial for the impact they have on investment and production in different economies.
Surely, the limitations imposed by the institutional framework of the euro has worsened the situation, but it is equally important to analyze what happened before and after the introduction of the euro. The liberalization and integration of financial markets began before the introduction of the

single currency, at least since the early 90's, as well as the growing importance of the Central and Eastern European Countries. For this reason, quitting the Euro is a proposal that must be called into question. Moreover, it is unlikely that it will be followed by measures of anti-austerity (it could be the other way).
Incidentally Marcello De Cecco has recently stressed that Germany could also benefit from a stronger euro (in contrast, then, with those who support the thesis that Germany's strength is derived from the weakness of the euro against the mark). Germany, in fact, having delocalized and decentralized production of intermediates and components in Central and Eastern Europe (satellites), with currencies still independent from euro (plus devaluated by a short-term capital flight), could buy at ever lower prices.
If we look at trade imbalances through the glasses of industrial restructuring and the geography of trade flows in Europe, it is evident that quitting the euro, and the recovery policies as well, do not seem to go to the heart of the matter. The first option would probably be negative, not only because the alteration in the exchange rate could worsen the financial budget further, but also because the most important factors of the imbalances are structural in nature. They concern the way in which Germany has built a transnational value chain through a complex network of companies beyond national borders; its production matrix, changes in the geography of trade, the composition of output and import in different Countries, the impoverishment of the ties between periphery Country etc.
Therefore, to just resurrect a generic Keynesianism made of anti-austerity and the strengthening of effective demand, even if necessary, is not enough. The problems are also structural, they concern financial, industrial and commercial policies on a continental scale (inside and outside the euro area) and they are related to the issue "how, how much, what, and for whom" to produce, i.e. to the industrial policies.

Relocation and Labor Productivity

The phenomenon of industrial relocation is intimately connected, at least rhetorically, that the dynamics of labor productivity. Garbellini's recent works do not use the concept of productivity as that of real gross domestic product per worker or that of unit labor cost; but rather, the number of hours worked per unit of product. The question is: a possible decline in labor productivity is caused by a lower 'efficiency' in the application of the work itself to the production processes, or perhaps, can be determined by a change in the structure of the national product in terms of its sectoral composition? In deeds, if there is an expansion of low productivity sectors, the aggregate productivity decreases, even if nothing changes in the single production processes.
In contrast, a Country that is able to increase the weight of sectors with high productivity, would see its productivity grow without connections to any improvement in the processes or the organization of the same.
This is the point that concerns relocations: move the more labor intensive production stages abroad results in a relative decrease of the weight of such activities. This will make appear increased, even substantially, labor productivity, whereas the Countries towards which the relocation occurs show instead a decline in their productivity. In addition, this situation lead to the emergence of center-periphery- style relations, with a specialization which tends to stand still and thus making it difficult to create, in the second category of Countries, a developed industrial system. Moreover, in

the first category of Countries, those who relocate, phenomena of hardly absorbable unemployment without an intervention may occur. Production processes now extend well beyond national borders, and it is therefore reasonable to ask how many hours of work are needed, not only in the Country that produces goods for final demand, but also in those in which the other phases of the production process are carried out.

In the period 1996-2011, in basically all industrial sectors, France is the Country that achieves the greatest productivity gains, followed by Austria and Germany. Italy and Spain are characterized by a much less dynamic performance - with the exception of the automotive sector, where Spain has shown positive gains in productivity. In the period 2004-2007 (i.e. at the time of the Hartz implementation reforms), Germany recorded increases in productivity in nearly all manufacturing sectors.

The dynamic sectors are characterized by a growing productivity bringing with them an increase in employment. Instead when productivity increases are accompanied by reductions in employment, increasing labor productivity can simply stand to report the reduction of the corresponding sector, for example as a result of the relocation of labor-intensive and low value added activities. Data shows that, in nearly all industrial sectors, France and Germany see a high prevalence of the case "increased productivity and reduced employment" (in Germany the exception is the automotive industry, with both increasing productivity and employment). To a lesser extent, also Austria follows a similar dynamic. In Italy, Spain and Greece a configuration with rising productivity and declining employment is less frequent. However, there is a greater frequency of the case in which both variables go down.

But it is necessary to look at the overall figures of an international chain of value. In international terms - that is, the whole transnational production chains -, the trend that emerges is that productivity gains are much less apparent when one takes into account the production chain as a whole. This means that all the considered Countries, although to a different extent, have outsourced parts of their production process. Or vice versa, have been the target of such processes.

It is also interesting to consider the domestic workload on the total of the final production realized internationally. In Austria, a very low proportion of domestic work arises, followed, in almost all manufacturing sectors, from Germany and then from France. Different are the cases of Italy and Greece which have higher rates of domestic work. Italy has followed a different pattern of relocation: i.e. instead of relocating individual parts, it often outsourced the entire production process (with some exceptions in the North East that we will see later). Again in Italy, in the North, the phenomenon of component suppliers (which therefore export) for German industry (the automotive case, for example) occurs.

In Greece, instead, for each sector vertically integrated, the proportion of the domestic work on the total has always been extremely high compared to other Countries considered here, and for many sectors is even increased. This might suggest that Greece ranks rather low in the value chain, that is, its industries produce mainly components that are assembled elsewhere, but few final goods. Therefore, the phases of the production chain that take place in Greece require few imports, resulting in a decline of the labor embodied in them.

In all major European Countries (except Greece) production processes have been extensively reorganized through the international division of labor. This phenomenon seems to have been particularly marked in Germany and France (as well as in Austria); Germany was the first to take a greater advantage of the chance to relocate production phases with a high labor content and low

value added. The nature of the process subject to such relocation is likely to raise concerns about the possible effects on employment.
The increases in productivity that have followed these reforms are mostly due to the relocation of much lower productivity phases of the processes. This was possible thanks to the massive reorganization of production chains not as much directed to greater efficiency, but rather to the change in the international division of labor. In Germany this choice led to an increase in unemployment - or the proliferation of so-called mini- jobs, implying however a reduction in working hours – and blocked wages. The conclusion is simple: implementing such policies in Italy - or Spain - would likely have disastrous consequences on employment, already at historical lows because of crisis and austerity.
Interesting is the comparison of the structure of exports and imports of Italy and Germany in the period 1995-2011. The industries that export more, both in Italy and in Germany, are those of the hi-tech sector. While the differences between the two Countries are little in medium-tech, they are significant in the fields of low-tech and vehicles. These differences show that Germany is specialized in the production and supply of vehicles, while Italy in textiles and in the food industry.
The largest share of imports, both in Italy and Germany, is represented by the products of high-tech industries. While German imports in hi-tech comprise almost 28% of intermediate and 23% for fixed capital formation; in Italy the situation is the opposite with 22.2% of imports consisting of intermediate and 27.3% of fixed capital.
Using some specific indicators proves that Germany has a greater dependence on imports compared to Italy.
The difference between the Italian and the German productivity is clear: with the exception of two low-tech sectors (wood and food), German productivity has increased much more. In particular, the Italian productivity growth started to decline since 2001, while the performance of Germany has been steady and positive about most of the period.
However, considering only the evolution of labor productivity, can be misleading when assessing the performance of a country; it is important to observe the evolution of employment as well. In fact, productivity may be accompanied by reductions in employment: this is the case, as seen, of relocations.
While the joint growth in productivity and employment was more frequent in Italy than in Germany, in the latter Country in almost all sectors the pair "productivity increase / employment decrease " prevails. These results suggest that the highest productivity of Germany does not depend on changes in technology, but rather on a change in the international division of labor. In fact, if we look at the international production chains, it should be noted that the differences between Italy and Germany in terms of productivity become much smaller. In the case of the international chain, indeed, while the Italian case does not record significant changes compared to the national picture, the productivity of Germany is much more moderate when considering the entire production process organized at the international level.
This confirms that the German production chains are highly related to the relocation of labor-intensive processes, with low value added. From collected data, we can notice that the "own" labor component (that is homemade, "domestic") on the overall product (that is realized in international chains) is lower in Germany than in Italy and is decreasing in both countries by 1995 to 2008. As for German products, the "domestic share" in the chemistry has decreased from 54.2% to 41.6% (in Italy from 56.1% to 49.6%), in the machinery from 60% to 45.5% (Italy: 67.4% - 59.8%), in the

optical equipment from 58.6% to 38.9% (Italy: 66% - 59%), in transport equipment from 50.7% to 36.4% (Italy: 65.4% - 51.9%).
These data suggest that the higher productivity growth in Germany is due to a different production (internationally organized) than by technological differences in production processes.

The Internationalization Process of Italian Enterprises

The internationalization of Italian enterprises happens via foreign direct investments, and with the so-called "intermediate forms" also known as "soft internationalization strategies" which include both business or technical-productive agreements, more structured collaborative projects (joint-venture), until the birth of foreign companies made by Italian entrepreneurs.
2013 data show a substantial stability of the consistency of subsidiaries activities abroad. This marks a profound difference compared to what happened during other economic crises of global relevance, in particular those of 1973-1974 and 1980-1981 and the beginning of the millennium linked to the new economy bubble, when the recession was in fact always followed by a more or less large contraction in the overall activities abroad of the Italian companies' subsidiaries.
Certainly the crisis has led many Italian enterprises to make cuts and restructuring but there were no significant cases of large-scale disposals of foreign operations, as was done in previous situations of negative international economic situation. Given the sharp decline in the domestic market, Italian firms have all reacted trying to keep the foreign positions reached in previous years.
From a geographical point of view, in the period from the beginning of the crisis to date (2007-2013) the main trend is one that sees a reduction in the weight of the EU-15 Countries, losing both in terms of number of investee companies, both the number of their employees (from 510,400 to 429,700 units), while remaining anyway by far the area of greater presence of Italian companies. All remaining areas of the world economy, registered a growth in the number of enterprises with Italian participation, with balances of particular importance for the EU-27, East Asia, other Countries of Central and Eastern Europe, North America and Latin America.
It is therefore taking place a gradual shift towards new markets, where most of the new investments go to.
From a sector perspective, the contribution of small and medium enterprises is much higher than the average in the low-tech manufacturing sectors, typical of the "made in Italy" (food, textiles, clothing, leather and footwear, wood, furniture, other industries manufacturing, metal products). In many areas the contribution of small and medium-sized enterprises (up to 249 employees) to foreign activities with Italian participation, in terms of employees and turnover, increased further in recent years, partly as a result of the downsizing of Italian companies in the sector, which in some cases have drastically reduced production activities in Italy, transferring a large part of them in Countries with lower labor costs and maintaining in Italy the most valuable assets of the value chain, such as management activities, coordination of business, marketing activities and technology and product development activities (including in general the realization of models and prototypes).

The place of Italian companies in the GVC

The place of Italian companies within the GVC is not very positive: compared with Germany, the number of intermediate companies is higher, and, among them, those in a subordinate position too.

It is an element of fragility, whereas intermediate enterprises usually undergo more pronounced fluctuations in demand. Italian intermediate companies are also smaller than the corresponding German ones.
Moreover, compared to Germany, there are signs of difficulties as intermediate Italian enterprises undertook with less continuity these actions that should reduce the subordination of businesses to their clients.
The Italian economy has experienced a growing integration in the GVC also through a more intensive use of foreign suppliers. In fact, the share of value added generated abroad and incorporated - through imports of intermediate products – into the exports of Italian manufacturing has grown with a similar trend to that of Germany, but less than this. The index of participation in the GVC used by the OECD shows that Italy has a value slightly below that of Germany and in line with that of France.
Some works show how the functions of greater value are confined upstream (research and development, design) and downstream (assembly; marketing; imposition of the brand). In the middle of the curve fits the manufacture itself, a phase often standardized, usually with high-intensive work, subject to strong competitive pressure, where companies are easily interchangeable. Italian companies are located, in the vast majority, in this "middle land", but the performance of evolved intermediate companies is not statistically different from that of the final firms. Therefore, the positioning in the "middle ground" does not imply an indistinct negative tract of the Italian companies involved in the GVC.
Participation in the GVC is geographically concentrated and prerogative of a few: it therefore appears a further worrying sign of the gap between the production structure of the South with that of Central and Northern Italy. An obvious weakness of the Italian industrial system also lies in the small number of large companies, because there is no agent that coordinates, which transmits impulses to other components of the GVC, which promotes the strengthening of the local segment of trade etc.
With reference to the purposes of the foreign production: the enterprises in North America, in South America and in the euro zone have as their main target the sale on the local market. In other cases, the production made abroad is likely to be re-imported to Italy for final use - mainly when it comes from factories located in EU Countries outside the euro area and in China. In some other cases, the Country of settlement performs a function of "platform" for the export to other Countries; this is especially true in the case of the companies present in South America, and in Asian economies (excluding China and India). There is also the case of the use of FDI to produce goods to be imported in Italy for subsequent re-export or for intermediate uses in Italian manufacturing processes (18.3 percent). Firms that adopt forms of “soft” relocation, mainly orient foreign production to import in Italy for final use (43.2 per cent of firms), mostly from Asia. To the extent that this phenomenon involves activities typical of the Italian model of specialization - and, among the sectors in which the businesses claim to sell in Italy, the most represented are textiles and clothing - the risks of "crowding out" of domestic production related to this kind of phenomena are higher.

In this study only the production activities with a business volume abroad over 2.5 million euro were considered. Depending on the size of enterprise as defined by the EU, are not included in this analysis firms with less than 10 employees:

Delocalizzazione: evoluzione delle partecipazioni italiane all'estero

Dati al 31/12 di ciascun anno	**Nr di imprese estere partecipate da imprese italiane**	Nr di dipendenti delle imprese estere partecipate da imprese italiane	Fatturato delle imprese estere partecipate da imprese italiane (in mln di euro)
2000	**16.477**	1.152.365	220.860
2005	**21.740**	1.323.327	379.091
2006	**23.023**	1.348.761	409.164
2007	**24.941**	1.485.054	513.824
2008	**26.005**	1.498.714	560.279
2009	**26.714**	1.562.158	520.836
2010	**27.157**	1.581.525	567.457
2011	**27.191**	1.557.038	583.762
Var. assoluta 2011-2000	**+10.714**	+404.673	+362.902
Var. % 2011/2000	**+65,0**	+35,1	+164,3
Var. assoluta ultimo anno (2011-2010)	**+34**	-24.487	+16.305
Var. % 2011/2010	**+0,1**	-1,5	+2,9

Elaborazione Ufficio Studi CGIA di Mestre su banca dati Reprint, ICE–Politecnico di Milano

Competition cases on the attraction of businesses.

Istria

There are growing signs of "competition" on the setting up of enterprises from Countries bordering the Northern Italy. The Istro-Veneta Chamber of Commerce has been established and it announced that 50 companies in the Veneto and Friuli are ready to move in Istria (Croatia) complaining of the Italian State "inefficiency". Actually to attract businesses from Veneto and Friuli is the cost of the work: in Istria is around 450 Euros per month per worker, plus 250 euro for social contributions. In addition, Croatia, in the next eight years, will be the recipient of a billion euro a year in European funds. The mayors of the local communities of Istria are planning industrial areas with tax exemptions for those who will settle down there. A hundred Italian companies have already moved in Istria, headed by Benetton.

Serbia

In Serbia, the new Prime Minister Aleksandar Vucic announced measures to attract companies: among them also stands the reform to make the labor market more flexible. For Serbia, Italy is the first trading partner (import / export almost at the same level: 1.5 billion euro each) and in the former Yugoslav country there are already 800 Italian companies. Italy is in first place for the level of FDI, on a percentage basis, is more than double of Germany. In addition to the low cost of labor, as in the case of Croatia, the Italian companies use the location in the former Yugoslavia to reach markets in other Balkan Countries and Russia.

Austria
In 2013, the presence of Italian companies has increased with 35 new settlements (22 in 2012). To facilitate these settlements, an agency for foreign investment was established by the government. Italy is the second largest investor after Germany, currently the Italian enterprises are 800. The Agency for investment, in publicizing the opportunities, emphasizes the figure of the tax burden: the single tax of 25% on the profit of enterprise and the flexibility of layoffs.

Relocations supported by regional governments. The case of Lombardy

Several Regional Governments in Northern Italy, in recent years, have even financed the transfer abroad of industrial activities. The Lombardy Region in 2010, along with the Lombardy Chambers of Commerce, has allocated € 2.15 million (with voucher) to support the so-called "internationalization" of Lombard SMEs. With these resources are also financed actions for the creation or strengthening of a direct presence in foreign country, namely the installation of productive activities abroad that, being SME, will not be an addition compared to the production in the region, but a replacement. With the Revolving Fund for Internationalization ("FRI") Lombard SMEs are financed to realize, through direct investment or joint ventures with foreign enterprises, new production facilities, after-sales service centers or logistics facilities permanently abroad; the initial allocation of the FRI is 8 million Euros.

Veneto's relocation model

Venetian Midsize businesses build networks that have little to do with those typical of big corporations. In particular, they try to use local partners abroad with direct experience of the place of settlement and to reproduce, in the foreign Countries in which they settled, the local network of subcontractors. The Venetian SMEs have tried to organize their presence abroad, not so much with the expansion of their property borders as by extension of supply chains and their context of relationships. In this case individual companies do not expand abroad, but it is the network organization to spread, resulting in small systems working in conjunction with the network of origin. A significant feature of the process of internationalization is therefore the "export" of the districts.
The best known and most populous Italian / Venetian district, also because of its older foundation, is in Timisoara, Romania, where there are many subsidiaries of Venetian companies active in the fields of the "Made in Italy", but also in the woodwork. Another attempt going in the same direction is activated by the Industrial Association of Vicenza in Samorin, Slovakia. In this district are hosted more than 60 companies from Vicenza (in this case the sector is electromechanics), in an area of 500 thousand square meters. In confirmation of the above said, *Assindustria* from Vicenza provides not only the establishment of branches, but also a continuous integration with the local system, in order to "reproduce" the area-system of the Venetian mechanics. The choice of Samorin, among the countries of the East Europe, was dictated not only by the availability of cheap labor (20% the cost of the Venetian), but also by the collaboration with the local authorities (the government provides

grants of up to 65 % of costs for the urbanization of the industrial areas) and the proximity to the Austrian border.
The relocation is realized through different modes:
• recourse to independent suppliers for the purchase of products designed by the customer. A special case is the outward processing trade (*Traffico di Perfezionamento Passivo*: TPP) with which companies are exporting raw or semi-row materials in the country with low labor costs where they are processed and then re-imported as finished or semi-finished.
• partnership agreements with foreign companies - with contract -, without the participation in venture capital;
• joint ventures and other agreements with the participation in venture capital;
• Foreign direct investments (acquisition or creation out of nothing of enterprises): this type is used mainly by large companies or corporations.
The relocation of Venetian companies is through intermediate forms, such as collaboration agreements and commercial subcontracting, or, in a much less relevant way, through capital investment.
Taking the example of Romania, the main recipient Country of relocation processes in the field of textile, clothing and shoes, it is interesting to note that the average Venetian capital invested is about 20,000 euro per factory, less than the half of the average investment by Italian companies and even 40 times lower than the Dutch ones. Moreover Venetian enterprises in textile-clothing sector, relocate also through international subcontracting. The sector concerned, in fact, is characterized by a production cycle already deeply segmented in the vertical direction, in which the single stages of production have a high degree of independence. It is possible to organize the production in different places than those in which the design is realized. All of this, facilitates the breakdown of production and, in this way, the relocation. During the sixties, in all the industrialized Countries, the clothing/textile sector was dominated by vertically integrated companies that held every phase of the production process, but since the seventies, there has been an intense phenomenon of decentralization of manufacturing steps made by the final enterprises in favor of smaller laboratories still generally located within the regional or national boundaries. Until the nineties, the fragmentation of the sector was reflected mainly in the form of a national subcontracting. Until the second half of the eighties, the relocation has covered a small part of the Italian production of clothing and footwear. Already in the early nineties the relocation has become a significant phenomenon. By far the most widespread form is that of international subcontracting that most of the time resulted in a substitution of Venetian subcontractors with foreign subcontractors. In some cases, the relations of production were based solely on simple agreements with local foreign producers. These agreements presumed the purchase by the Venetian company of a final product made of raw materials purchased directly by the contractor on the place of production. In most cases, however, the subcontracting took the form of export of the raw material and the subsequent re-importation of the final product.
The models of the textile & clothing relocation take on different characteristics depending on the geographical areas concerned. The relocation as international decentralization of production, which still allows a logistic control of the functions of supply and distribution, mainly concerns the area of Eastern Europe and the Mediterranean region (Romania, Bulgaria, Hungary, Croatia, Slovakia, Tunisia, Morocco). In the Central and Eastern Europe, advantages from relocation not only come from the low labor costs, but by the presence of a large number of skilled workers in the labor

intensive processes and by its geographical proximity with Italy. In this way, it is also possible to outsource single production stages, providing the raw material under processing to the foreign manufacturer and resetting relatively quickly finished or semi-finished products, which are then sold on the domestic and international market. The manufactured is relocated.
Another model of integration of the production occurs in the emerging and fastest growing economies in the South-East Asia (China, India, Thailand, Vietnam, South Korea, Indonesia). In these Countries, where the dispatch of the raw material would be too expensive because of the distance, subcontracts, aimed at the production of the mercerized, are mostly put into action: in this case are the same foreign producers that ensure the supply of raw materials and accessories on site. It is, in other words, the import of finished products made entirely in another Country, but based on the design of the national enterprises.

Is Public Intervention Possible in Italy? Privatization and Liberalization

To define the forms and objectives of a possible public intervention in the economy, we must necessarily start from the current framework schematizing some of the main characteristics of the Country: 1) Italy is a Country where every year have been provided substantial resources to businesses, but at the same time is: 2) the Country that has privatized the most in Europe, especially since the 90s; 3) the Country that introduced the major liberalization in key industrial sectors (energy, telecommunications, transport etc., implementing the European directives in the most liberal way; 4) a country devoid of programming tools, sectoral in particular .
Regarding the amount of public resources to businesses, the first difficulty which we encounter is to precisely define the total amount of public funds made available to them: there are accounting problems, lack of availability of data and lack of knowledge of the interventions themselves. Some estimates indicate 25 billion per year the amount of public aid to enterprises, a study commissioned by the Italian government in 2012, however, "merely" se this amount to 16, but to these, incentives for green energy and tax rebates should be added (probably about € 30 billion a year). in addition, all the contributions made by regional and local levels of government should be added.
Are missing, however means of verification of how these resources are used, most often delivered without the prior definition of industrial or social objectives.
Italy is the country who - from 1992 to 2007 - has privatized more in Europe, globally second only to Japan. Between 1985 and 2007 in Italy were made privatization able to generate a revenue of 152 billion euro: the denser phases of operations are those that the Ministry of Finance called the "launch" (1992-1996: 16 billion),"acceleration" (1996-2000: 79 billion), "consolidation" (2001-2005: other 50 billion).
There was no area that was spared from the privatizing fury: banks, steel, chemical, energy, food industry etc. The banking sector recorded the greatest operation of privatization because it was considered a prerequisite to the success of the whole process. In the early '90s Italy was the European country in which public control of the banks was the highest; the reform process implemented has brought down to zero the public property in Italian banks, going far beyond Germany and France that have maintained a more than significant public presence in the banking system - respectively 52% and 31%. This wave of privatization was largely due to the great pressure on the consolidation of public finances imposed by the Maastricht Treaty. Privatizations

were basically intended as a tool to "make money", that is, to get useful resources from the sale of public shareholdings in order to break down the national debt.
It was approved a specific law (Law no. 432 of 27 October 1993) to set up the fund for amortizing government bonds with the sole purpose of reducing the public debt: in this way has been established by law the principle that privatization outcomes were to be used solely for debt reduction.
To argue the need to "make money" to reduce the public debt, it has been always said that public enterprises were less efficient and less profitable than the private ones. It is actually a meaningless comparison: the State-controlled enterprises were designed as an instrument of industrial development and social policy, with essentially different purposes than the pursuit of profit. In this way it was possible to overcome the limits of the private sector, support investment in certain sectors or areas of the Country, create jobs, sometimes rescue companies in distress. No reasoning has been done about the strategic nature or otherwise of the companies that were being privatized.
Moreover, Italy is the Country that has taken, in the most liberal way possible, EU directives on the liberalization of three strategic sectors such as energy, telecommunications, transports.
The model followed is similar for all three areas: 1) establishment of an Authority (with function of regulation, definition of the price model, definition of rules for the use of infrastructure and facilities, control of the market); 2) separation of infrastructures for transport and for distribution (energy, voice and data traffic, people and goods traffic) and making them available to competitors in each market; 3) cancellation of exclusive rights or special rights and, therefore, the opportunity for more businesses to exercise the same service simply on the basis of acts of authorization issued by the authority.
This is what actually happened, for example, in the energy sector with the Bersani Decree of 1999, whose first article states the liberalization of the activities of production, import, export, purchase and sale of electricity.
Basically the same thing happened in the telecommunications sector (the suppression of exclusive and special rights, the right of every enterprise to operate telecommunications services and install networks, the submission of companies only to an authorization) and in the transports in which there is not only the separation of the infrastructure from the service, but even the segmentation of the service (passenger, local-regional, goods, sections of the market), depending on the profitability of each segment.
In this way it happened that in the segments subsidized by the public (as unprofitable) the procurement of public transport services has resulted in a further pressure to cut staff and in the worsening of the contractual and working conditions, while in "rich" sections (high speed) individual privates (Montezemolo - Della Valle) were able to make their entry into the field without the universal service obligations to make their profits (and they also get the cancellation by law of the national sector contract for its employees). So the market has developed only where the conditions of profit were guaranteed by the State.
In other European Countries the situation is very different. In Germany, with regard to rail transport, scene is dominated by the national incumbent: the DBAG holds, indeed, through its subsidiaries, about 90% of the market share in the passenger and cargo compartments, and through the DB Regio (passengers regional transport), about 88% of the market share of the services of regional / local transport. In France, the actual opening of the national rail market continues to be hampered by the presence of high barriers to entry. The ability to carry out the transport activity in

the passenger segment is almost exclusively the prerogative of the SNCF: at present, indeed, the French legislation features the inapplicability of the principle of free access. In Italy, instead, everything is done in order to weaken Trenitalia and indeed foreign companies are becoming part of this Country. The same thing happened in the energy sector.
Moreover, the Bersani Decree determined that "no one is allowed to produce or import, directly or indirectly, more than 50 percent of the total electricity generated and imported into Italy." This has meant the gradual reduction of the scope of ENEL, forced to sell some of its power plants. Consequently, the market share (of energy production) covered by ENEL sharply declined: now we are even less than 30%.
In France, the national *Electricité de France* (EDF) covers about 90% of energy production. A similar presence it is also shared by the other great French champion (GDF) in the gas sector. In Italy, however, to the fragmentation of the local multi-utilities now also corresponds an attempt to weaken the ENI with the spin-off of *Snam*. In Germany, instead, for strengthening the system of local companies operating in the energy sectors, RWE (which was supposed to represent the reference model for the northern multi-utilities) was created. So, while Italy liberalize and open its markets to foreigner buyers, France and Germany strengthen their national enterprises who work in the strategic sectors. Another disaster can be recorded in the telecommunications sector.
Italy is ranked 22th in terms of the spread of digital technology, with reference both to infrastructure improvements in broadband in the area, and to the use of the internet by the final users.
There is, as we can see, a great space for investment, but so far it has always failed.
The reason for these failures has been shown by Bernabè, the former Executive Chairman of *Telecom*: "what we will never make are investments of a public nature. We cannot bring the infrastructure in areas subjected to market failure if there are not subsidies provided by European rules. "
So: the networks are built in Italy only if the profit margins are high.
In addition, Italy has no tools for sectoral programming, with serious damage to the overall industry base, for example in the steel and chemistry industry. These are two key areas, because their products are related to many industrial sectors. In both cases, over the years, the productive system has become more and more deprived losing factories and productions. For example, in chemistry Italy has a high trade deficit of the sector amounted to 9.5 billion euro (in 2010, while in Europe, the trade balance of the chemical sector recorded a surplus of 47 billion euro, 14 of which came from basic chemicals, in Italy there was a deficit of 9.5 billion euro attributable to basic chemistry, which has a negative balance of more than 10 billion).
A negative situation is also reflected in the steel industry.

Which tools for a Possible Public Intervention in the Economy?

From the point of view of the presence of the public in the economy, any further privatization should be blocked and a real and effective political orientation must be introduced in companies in which the state still holds significant stakes, above all, stands the case of ENI. For this purpose, a pattern of "golden share", able to switch from a purely defensive to an active function, should be defined.

The failure of liberalization cannot be overcome unless defining sectoral plans and programs, whose main objectives could be realized by public investment and put concretely into practice by public or semi-public bodies. The Italian Strategic Fund of Deposits and Loans should intervene in this area, to financially support programs in the field of energy, transport, telecommunications, utilities.
What is it a stake here, is the need to put hand to the structure of the Italian production, to recompose networks but through a size growth of the enterprises, thus ending the pulverization and dwarfism of the company: the Italian Investment Fund (participated by *Cassa Depositi e Prestiti*, *Abi* and the major banks) could, in this sense, become a tool to implement industrial policies to structurally reform the productive system.
Also in this context, with regard to the many industrial crises present in the area, the regional financial institutions (*Finlombarda*, *Veneto Sviluppo*, *Finpiemonte* etc.), The Italian Strategic Fund and IFI - with functions of re-industrialization and / or capital input in the industrial companies - should be used: these financial public bodies should serve to achieve active interventions of re-industrialization, upgrading and industrial restructuring with strategic aims, including of course employment and qualification of the productive system.

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