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Are Italian wages set in Berlin?

Abstract

Sluggish productivity growth and stagnant real wages have characterised Italy's latest decade, and especially so since EMU's inception. The explanations that have been put forward stress the role of technology, organisation, institutions. By equating decline with productivity slowdown, these various explanations focused on the supply side, and especially on the structure of production: its pattern of specialisation and its firms' size.

The goals of the paper are twofold. First, to critically review the facts behind the view of the Italian decline as well as the factors leading to a reassessment of this hypothesis in the years just before the recent financial crisis. Second, to broaden the view to take into account the effects of the macroeconomic stance on the costs of restructuring and on growth. In fact, the role that the adoption of the euro, and the end of competitive devaluations, has played in encouraging a reallocation of activity within and across sectors, has just started to be recognised. Less investigated is the role played by the deflationary bias of the German economy, within a currency union, in setting the growth rate for the whole area. In Italy, the sluggish growth of domestic demand has shaped the restructuring process of the Italian industry and forced an outward orientation of the Italian small and medium enterprises (SME), that materialised in an increasingly dramatic "wage question".

This past experience validates a pessimistic outlook for the exit strategy out of the present crisis: without a change in the macroeconomic governance, the only source of growth will be sought in exports. And, with a common currency, the only mechanism to increase external competitiveness will be through price (wage) declines.