

ITALY



A TIME GONE BY: A poster of an old factory near Olivetti's offices in Ivrea. REUTERS/ GIORGIO PEROTTINO

The story of a one-time Italian tech giant offers a window into an economic reversal that has few parallels in the developed world

Why Italy's economy is stuck in reverse

BY GAVIN JONES AND JAMES MACKENZIE



MEMORIES: “Gradually at first and then suddenly, everything fell apart,” says Benedetto, here inside a former factory in Ivrea. **REUTERS/ GIORGIO PEROTTINO**

IVREA, ITALY, JULY 14, 2014

Economic decline takes many shapes. In the northern Italian town of Ivrea, it looks like the abandoned, overgrown tennis courts where the employees of electronics giant Olivetti SpA once played.

In the 1980s, Ivrea was a European version of Silicon Valley. Of the 50,000 people employed by Olivetti, half worked in the town, enjoying generous salaries and plush corporate recreation facilities. Today Ivrea’s biggest employers are the state health service and two call centres. Together they employ 3,100 people.

Olivetti still exists, but these days it is a small office machinery company. Its former factories, jewels of 20th-century industrial

architecture, have been refashioned as museums. Most of Ivrea’s 30-year-olds have little work and live off their parents’ pensions.

“They were exciting times. But gradually at first and then suddenly, everything fell apart,” says 59-year-old Massimo Benedetto, who has worked at Olivetti for 30 years, most recently in customer support, and is about to retire.

Ivrea offers a window into a nationwide economic reversal that has few real parallels in the developed world. Italy’s economy has barely grown since 1994 and has shrunk since 2000. That is worse than any other country in Europe or any of the 34 rich and developing nations in the Organisation of Economic Co-operation and Development. Economists look at a mix of factors to explain the long-term

rise of the world’s emerging economies: population and employment trends; private and public investments; the productivity of workers; and the strength of a state’s legal, administrative and institutional environment. On each one of these counts, Italy has regressed since the 1980s.

More than 120,000 Italian manufacturers have closed shop and 1.2 million industrial jobs have disappeared since the start of the century, according to business association Confindustria. In the last 20 years even Japan, with its so-called “lost decades” of stagnation, has grown almost twice as fast as Italy.

The short-term snapshot looks a little better. Investors are giving markets a respite from the turbulence that threatened Italy’s future in the single currency in

ITALY STUCK IN REVERSE

2011. Matteo Renzi, an energetic 39 year-old prime minister, has made ambitious promises and was one of the few European Union leaders to emerge stronger from May's European parliamentary elections. Renzi is using his new political clout to lead calls for more growth-friendly policies in the European Union, though his ability to bring real change is still an open question.

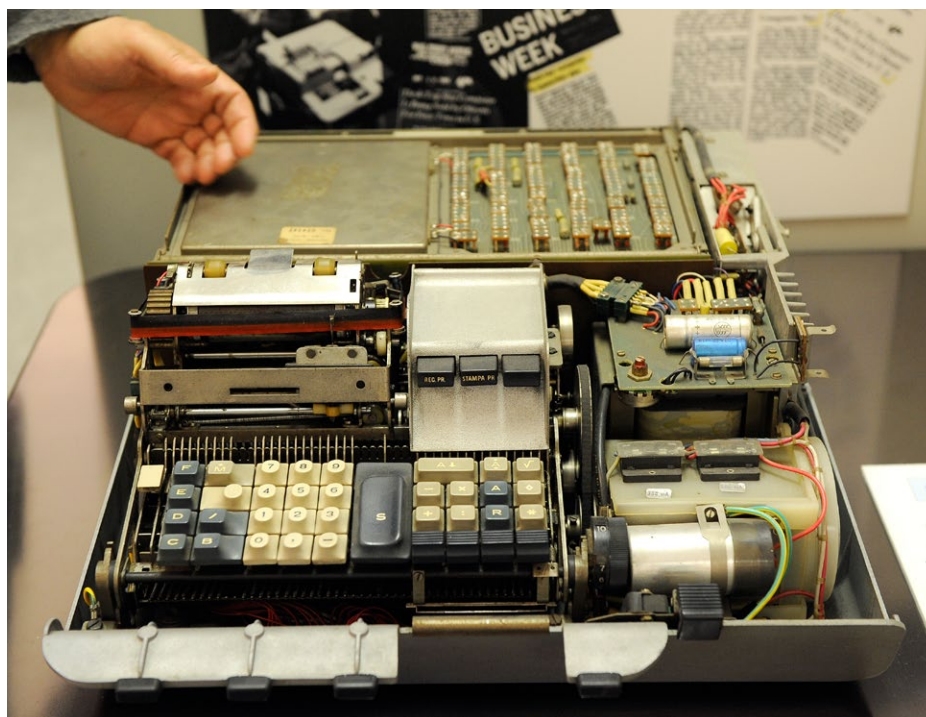
Italy also remains Europe's second largest manufacturer after Germany. Home ownership and household wealth are among the highest in the OECD and private debt levels are relatively low. Italy Inc. has world leaders, including eyewear-maker Luxottica SpA and Ferrero SpA, which makes Nutella.

Yet all the fundamentals that drive the economy are headed in the wrong direction. Think of it as a "submerging" economy, whose degeneration could have as transformative effect on society as globalisation has in China, India or Brazil.

Italy's chronically precarious situation is a threat to Europe. Nearly three years after the euro zone came close to collapse because of fears about financial stability, Italy's public debt has climbed to 134 percent of its economic output, more than any other country in the OECD apart from Japan and Greece. Unless it starts growing again, Rome will be unable to cut that debt – at the risk of default and exit from the euro.

Like Italy, Ivrea has sunk over the last two decades. Nestled under snow-capped mountains north of Turin, the town is not poor. Many of its 24,000 inhabitants are affluent, just as Italy remains the ninth largest economy in the world. Average bank deposits are among the highest in the country.

But thousands of young people have left the town, cutting its population by a quarter since the 1980s. The average age in Ivrea is now 48. That's four years older than the national average, eight years older than in Britain and France, and 11 years older than in the United States.



CUTTING EDGE: The Programma 101, launched in 1964, was Olivetti's first desktop computer.

REUTERS/ GIORGIO PEROTTINO

“How can we hope to compete in a globalised world with companies of a dozen people?”

Marcello De Cecco

Economics professor, LUISS University

As Olivetti crumbled it spawned a few small- and medium-sized businesses. But a crushing mix of high taxes and red tape makes it increasingly hard to operate, entrepreneurs in Ivrea say.

Stefano Sgrella, 58, is a former Olivetti engineer who in 2009 founded Salt & Lemon, a company that uses drones to take aerial footage for cinema, advertising and topography. He complains about bureaucratic procedures that “stupefy” clients outside Italy and the painfully slow train that takes more than an hour to cover the 50 km (30 miles) to Turin.

“Trying to compete abroad is like

running a 100 metre race with a 20 kilo rucksack on your back,” he says.

SUBMERGING ECONOMY

Italy's woes are myriad. Its birth rate is the tenth-lowest of 236 countries and territories ranked by the OECD. Little more than half its working-age population has a job, and public and private investments as a proportion of economic output in 2013 were at the lowest level since World War Two, according to the Bank of Italy. Investment in research and technology, an important factor for growth, is about half the level of France and Germany as a proportion of economic output and a third of the level of Sweden, according to the OECD.

Company size is one of the problems. Italy's economy is increasingly lopsided, dependent on a shrinking pool of successful small firms but with only a couple of companies – carmaker Fiat is the most

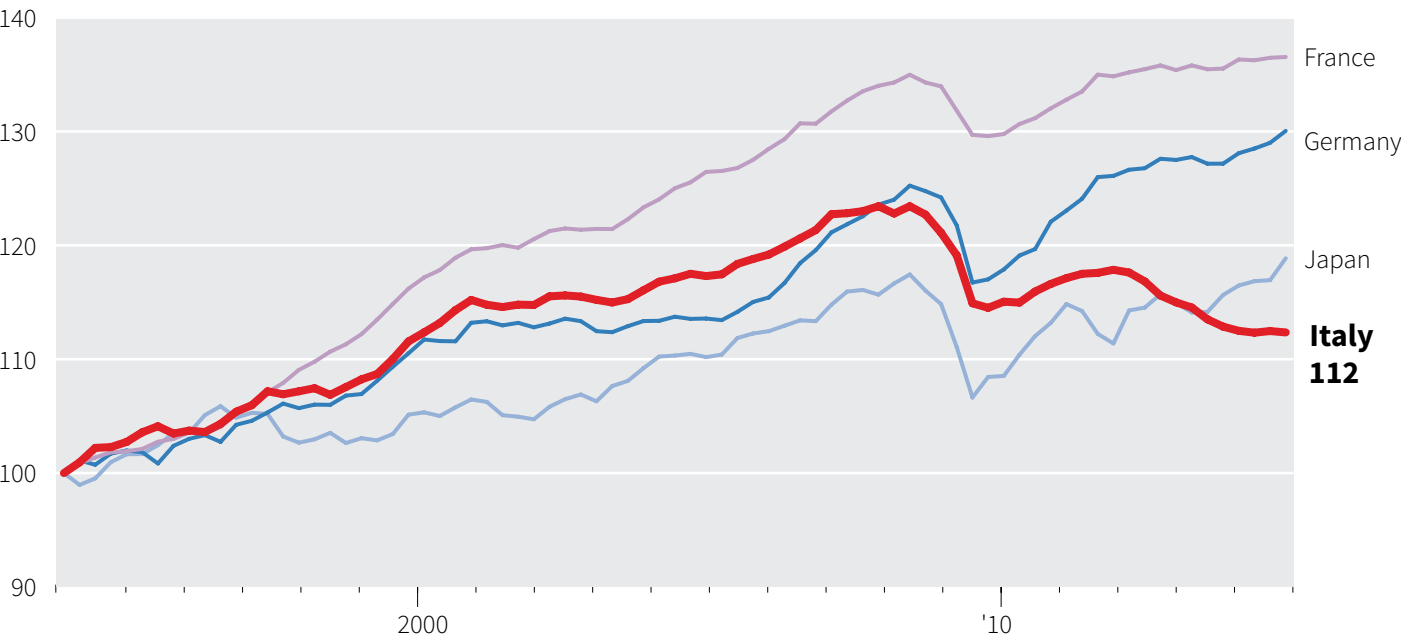
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Falling behind

By most measures, Italy has struggled to keep up with other rich countries

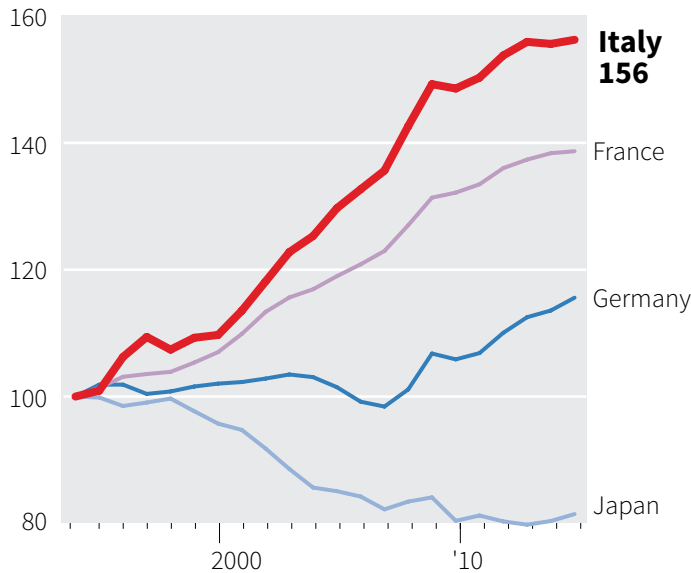
GDP

Real quarterly GDP rebased to 100 - last 20 years



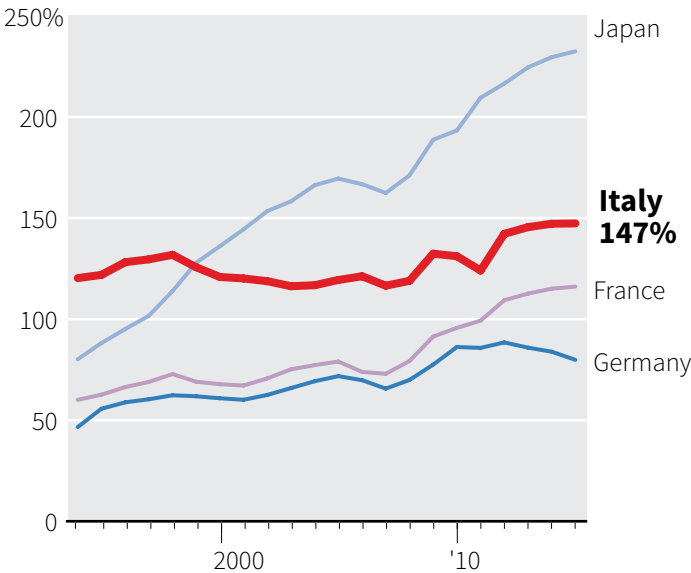
LABOUR COSTS

Rebased unit labour cost in total economy



DEBT TO GDP

General government gross debt as % of GDP



Source: OECD

ITALY STUCK IN REVERSE

obvious – left to match European champions such as Siemens, Daimler or Alcatel or U.S. giants like Apple or Google. Even Fiat, which this year announced it was moving its administrative headquarters to the Netherlands and its tax base to Britain, is not the economic driver it used to be. Fewer cars are produced in Italy than in Spain, Britain, or even Slovakia.

The average Italian firm has just four workers and only about one in 100 has more than 50, according to statistics agency Istat. The millions of small companies once seen as Italy's great strength are now a handicap. Faced with increased competition since the 1990s, they lack economies of scale or the resources to invest in new technologies.

"How can we hope to compete in a globalised world with companies of a dozen people?" asks Marcello De Cecco, economics professor at Rome's LUISS university.

Italian products have also gone down-market. Italy specialises in medium and low-tech sectors like clothing and machine tools that offer little growth potential. High-tech goods like computers, electronics and pharmaceuticals make up only six percent of its exports, compared with an EU average of 16 percent, according to EU statistics agency Eurostat.

Italy's education system churns out fewer university graduates as a share of the population than any other EU country, according to the OECD. Computers are rarely used in high schools. An under-skilled workforce is one reason growth in Italy's labour productivity – the amount that workers produce – has stagnated for more than a decade and is the worst in the EU.

Italy's overall productivity is even worse. Economists call the combined efficiency of a country's courts, market rules, tax systems, bureaucracy and other elements that help business 'total factor productivity'. It's a wonkish term that measures how well an economy works. Italy is the only EU country whose total factor productivity has



VISIONARY: A portrait of Olivetti founder Camillo Olivetti inside a company factory.

REUTERS/ GIORGIO PEROTTINO

1.2 million
Number of industrial jobs that
have disappeared since 2000

Source: Confindustria

declined since the start of the century, according to the European Commission.

That has hit living standards. In 1994, Italy's per capita gross domestic product adjusted for the cost of living was about the same as that in Britain and France, according to the International Monetary Fund. Today, it is just 80 percent of those countries. Italy is the only EU country whose per capita GDP has fallen since 2000.

Vito Tanzi, an economist and former government undersecretary who spent 26 years working with emerging economies at the IMF, says the closest comparison is Argentina, which was among the world's largest economies in the early 1900s. After decades of political upheaval, corruption

and repeated financial crises, Argentina is now 26th, just below Belgium, which has a quarter of its population. Italy may not be a serial defaulter like the South American nation, but "you can learn a lot about Italy by looking at Argentina," says Tanzi.

OLIVETTI, ITALIA

There is no single reason for Italy's economic decline, just as there is no one explanation for Olivetti's downfall.

Camillo Olivetti founded the firm in 1908 to make classy typewriters. It blossomed as a pioneer of electronics under his son Adriano in the 1950s, producing one of the world's first fully-transistorised computers in 1959. Its first personal computer, unveiled in 1965, was used by NASA to help plan the Apollo 11 moon landing. It also made the world's first electronic typewriter in 1978.

In the 1960s and 1970s Italy flourished, undergoing a remarkable post-war transformation from a poor, largely rural economy, to a founder member of the Group of Seven industrial nations. It became known

for its energy and style thanks to figures like Fiat chief Gianni Agnelli and Enzo Ferrari, founder of the sports and racing car company. Its national carrier Alitalia was among the world's most admired airlines.

In its heyday, Olivetti's cutting-edge products enjoyed profit margins of up to 35 times production costs. It ploughed that income into research and innovation at laboratories in Ivrea and in California.

Sales and profits peaked in the mid-1980s, when Olivetti's M24 computer sold more than 200,000 units in the United States, helping make it the second-largest computer maker in the world behind IBM.

"We worked flat out to meet demand," said Massimo Benedetto as he walked around a deserted site that once housed the factories and offices of 8,000 workers.

Business magnate Carlo De Benedetti bought Olivetti in 1978, and enjoyed initial success. But in the early 1990s, as competition from the United States and Asia grew, De Benedetti began to focus on the rest of his portfolio: finance, food and publishing. He left in 1996 and the company sold its personal computer division the next year and moved into telecommunications.

It was the beginning of the end. After a series of complex restructuring moves, Olivetti ended up as a division of Telecom Italia, which tried to re-launch the office machinery business, even brushing off Olivetti's seventies-looking red "O" logo.

The new company never got off the ground. Olivetti now has fewer than 700 workers globally. It posted 265 million euros in sales last year, selling cash registers, printers and its own iPad, known as an "Olipad."

STRUGGLE TO EMERGE

Many in Ivrea blame the Italian state for not promoting a tech-savvy culture. The crucial failure, however, was what came after Olivetti's demise: nothing.

Companies around the world are born and die regularly. Olivetti's fate has been

Italian textiles struggle to weave a new spell

BY GAVIN JONES IN THE SERIANA VALLEY

Italy has fallen behind two groups of rivals in recent years: high-tech, high-end competitors in countries such as Germany and the United States, and low-end producers in places like China, Bangladesh and Turkey.

The best place to see the latter is in Italy's textile industry. A central driver of the country's economic growth in the 20th century, Italian fabric manufacturers have struggled since globalisation opened the sector to cheap Asian competition at the end of the 1990s. Though Italy's fabric industry

“In 2002, everyone suddenly woke up.

Eugenio Borella

Union representative

has improved productivity in recent years, it has not been able to compete on wages.

The result is fewer jobs, lower living standards and abandoned factories, such as a trail of empty shells along the Seriana Valley outside the northern Italian city of Bergamo. The area prospered from textiles for more than a century. Until 20 years ago most locals either built or operated the machines that transformed cotton into thread, or thread into curtains, sheets, towels and clothes.

It had no unemployment and was known as "the Golden Valley" because of the high average income of its famously industrious inhabitants.

Now people are lucky if they can find a job in Bergamo. Children move out of the valley (current population: 130,000) as soon as they can, leaving a dwindling and rapidly

ageing local population.

Italy remains the world's third-largest exporter of clothes and fabrics. But its market share has halved to just 4 percent since 2000, while employment in textiles has fallen every year for 25 years. It is now around 60 percent of what it was in 1990, down 370,000 jobs, according to employers' association Confindustria. The lower end of the market, which the Seriana Valley specialised in, has been hardest hit. China now exports eight times as much.

MOVING AWAY

The international agreements to dismantle trade barriers in textiles were signed in 1995, but China only signed up in 2001. That meant Seriana Valley had a head start to move up-market or convert its factories to supply machines to the Chinese. Nothing was done.

"In 2002 everyone suddenly woke up and said, 'Oh God, the Chinese are producing what we produce at half the price,' like it was a bolt from the blue," said Eugenio Borella, a local union representative.

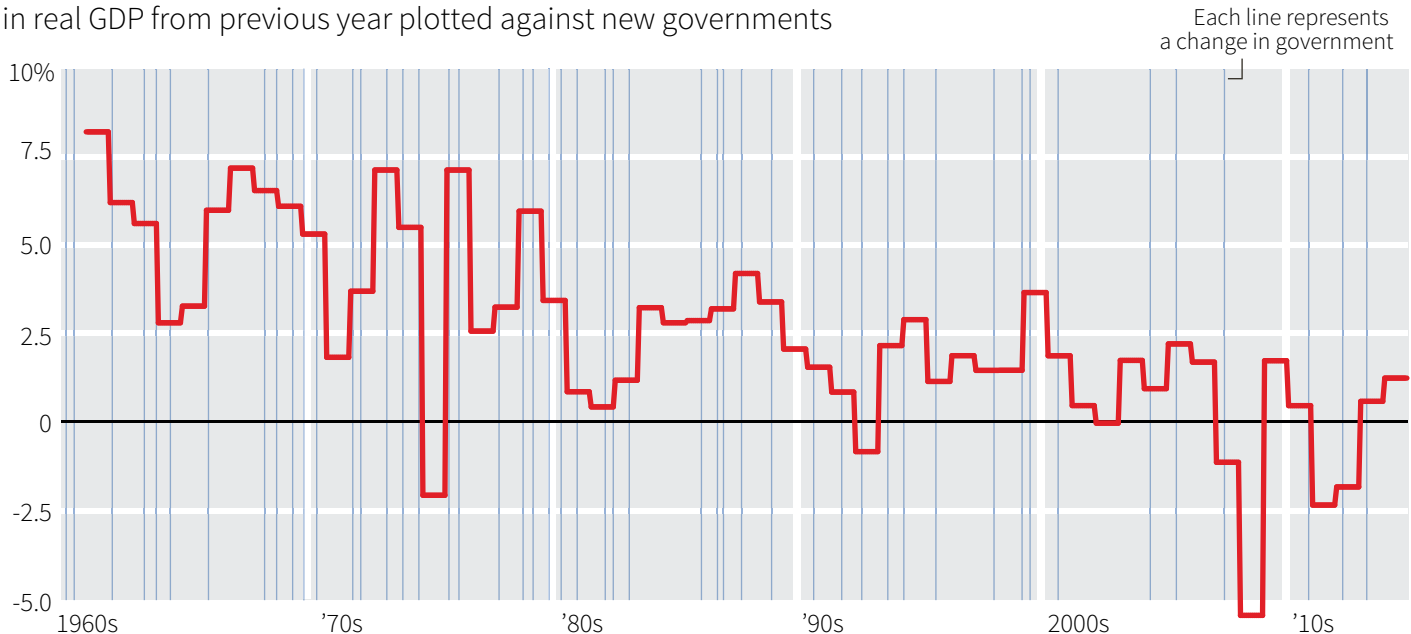
Silvano Franchina, a mechanic at Itema, an industrial loom-maker and one of the few surviving companies in the region, has spent half the last seven years at home on reduced pay. Itema had 1,000 workers when he joined 14 years ago. It now has 389.

Franchina speaks with pride as he asks a colleague to switch on the company's latest model, which he helps produce. He hates the uncertainty these days, he says, but at 44 considers himself lucky to still have a job.

"Now 20-year-olds with much better qualifications than mine can only find temporary work in call-centres," he shouts as the machine roars into action.

Down, Down

Growth has slowed, especially in the past two decades. Below, Italy's change in real GDP from previous year plotted against new governments



Source: OECD

shared by other European industrial giants like Finland's former mobile phone maker Nokia, Sweden's carmakers Saab and Volvo or British Leyland in the UK.

In Ivrea, little thought was given – by the government or private individuals – to regeneration. The state, which runs most of the country's pension schemes, offered generous retirement packages to Olivetti workers who lost their jobs. Early retirement schemes are one reason Italy spends more public money on pensions as a share of national output than any other EU country: 15 percent compared to 11 percent in Germany and seven in Britain. It is also why laid-off workers have little incentive to retrain or seek new jobs.

Former Olivetti employees in Ivrea who have reinvented themselves as entrepreneurs have focused primarily on exportable products. Antonio Grassino, a one-time Olivetti engineer who left the company in

1986, now runs a firm that tests electronic circuits. Seica SpA employs 110 people and has an annual turnover of 21 million euros, 80 percent of it from exports. Clients include Boeing, Samsung and Thales.

Grassino, like many of Italy's successful businessmen, says working there makes life harder. Political instability, he says, makes it impossible for companies and individuals to plan ahead. Italy has had 65 governments in the 69 years since World War Two. New governments regularly rip up their predecessor's efforts and start again.

"You never know if a tax incentive that has been announced is really operative or how long it will last," he says. "At the same time I don't want to hire someone now if I think there are going to be tax breaks on new hires in the near future."

For foreigners, it's even harder to navigate the changing rules and regulations. Foreign direct investment in Italy has fallen

by 58 percent in the last six years and is less than half that in Germany, France or Britain, according to the OECD.

Stefano Sgrelli, the Salt & Lemon founder, got a job with Olivetti in 1980 after he designed software for a computer game. He spent three years at Olivetti in California, before leaving in 1993 to set up his own computer services company with a former colleague. Since 2009 he and his four partners have dedicated themselves to Salt & Lemon, operating drones for a growing range of clients from cinema to agriculture. Like many in Ivrea he is exasperated by red tape. Before he can bill his customers in Italy, he says, he has to prove he paid his workers' welfare contributions. Yet it's hard to get that information from state agencies whose records are not up to date.

"That is why so many Italian businessmen are successful abroad. They can't

CLOUDY HORIZON Olivetti was once Ivrea's biggest employer. No more.

REUTERS/ GIORGIO PEROTTINO



believe how easy it is," chuckles the moustachioed Sgrelli.

His 22-year-old daughter Diana studies engineering at Turin University, ignoring her father's advice to study abroad. He hopes she will leave after graduation.

If she does, she will be joining an exodus. Italian emigration, which virtually dried up in the 1970s as living standards improved, has jumped again in the last 10 years. Since 2011 an estimated 250,000 Italians have moved to London alone, making it the sixth most populous Italian city after Genoa. Most of those who leave have high-school diplomas or university degrees.

"When you are faced with an organisation or a country that doesn't work there

are two solutions: protest or departure. Departure reduces the pressure of protest and therefore also reduces the possibility of internal change," says Luigi Zingales, economics professor at Chicago University and one of Italy's most prominent economists.

Renzi is the latest to promise reforms. He is working to free up the rigid labour market rules, has unveiled an anti-corruption package, and vowed to make it simpler for businesses to operate, even naming a minister for "simplification."

Sgrelli tries to be optimistic. "I think that, with a terrible slowness, things will evolve," he says. "But we are talking in terms of generations, not years."

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