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BEYOND SUPPLY-SIDE EXPLANATIONS: ITALY'S GROWTH TRAJECTORY IN POST-KEYNESIAN AND CPE FRAMEWORKS

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Beyond Supply-Side Explanations: Italy's Growth Trajectory in Post-Keynesian and CPE Frameworks

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Abstract

Since the seminal work of Baccaro and Pontusson (2016), the Comparative Political Economy (CPE) literature has increasingly reintegrated aggregate demand as a central determinant of growth trajectories in advanced economies. This paper contributes to this burgeoning Growth Model (GM) research agenda by applying the Supermultiplier decomposition to analyze Italy's economic growth from 1960 to 2022. Our approach provides a granular examination of the demand components driving growth, distinguishing between autonomous and induced expenditures, a critical separation often overlooked in traditional decompositions. By situating our empirical findings within the institutional and political context of each identified sub-period, we offer a comprehensive analysis that bridges post-Keynesian economic theory with the CPE focus on the "politics of growth."

Keywords: Italy's Economic Growth, Demand-Led Growth, Post-Keynesian Economics, Comparative Political Economy (CPE), Growth Models.

JEL Codes: E12, O52, B50, P16

1 Introduction

The Italian economy presents a compelling paradox: once celebrated as a post-war "miracle," it has subsequently experienced a pronounced slowdown and virtual stagnation over the past quarter-century. The mainstream economic narrative predominantly attributes this decline to a slowdown in labor productivity growth, locating the core problem on the economy's supply side.

This research offers a different explanation, rooted in the post-Keynesian tradition within Comparative Political Economy (CPE). We argue that demand-side factors are central to understanding Italy's trajectory. Among these, the fiscal constraints adopted as a cornerstone of European economic integration are identified as a potential impediment to demand expansion.

The CPE field, dedicated to explaining divergent national growth patterns, has long been dominated by the supply-side framework of the Varieties of Capitalism (VoC) approach Hall and Soskice (2009). However, the critique advanced by Baccaro and Pontusson (2016) has decisively reoriented the debate, reaffirming the paramount importance of aggregate demand. Building on this growth models perspective, we utilize the Sraffian Supermultiplier model (Serrano (1995), Freitas and Serrano (2015)). This model is particularly well-suited for CPE analysis as it provides a rigorous

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framework for disentangling the contributions of autonomous demand (e.g., exports, government spending, autonomous investment) from induced components, a distinction obscured in traditional national accounting decompositions.

This paper analyzes Italy's growth path from 1960 to 2022 through a historical decomposition based on the Supermultiplier model. Each distinct sub-period identified is then examined in detail, with its institutional and political context analyzed to illuminate what Baccaro and Pontusson (2023) term the "politics of growth"—that is, how the institutional context and the balance of power between social groups influenced the recognition of growth regimes and the economic policies that ensued.

This work seeks to contribute to two literatures. First, it enriches the CPE field by providing a structured analysis of the Italian case, comparable to studies on other advanced economies (e.g., Passos and Morlin (2022); Morlin et al. (2024)). Second, it engages with the specific literature on the Italian economy, positioning a post-Keynesian, demand-led explanation in direct contrast to prevailing supply-side theories.

The article is structured as follows. Section 2 reviews the literature on Varieties of Capitalism and Comparative Political Economy, outlining their evolution and synthesis with post-Keynesian theory. Section 3 presents the historical decomposition of Italian growth, identifies the primary demand contribution to growth for each period, and analyzes the corresponding political and institutional landscape, focusing on the influence of social class power on economic policy. Section 4 provides a detailed examination of the key parameters of the Supermultiplier model. Finally, Section 5 concludes and suggests avenues for future research.

2 The Evolution of Comparative Political Economy: from Varieties of Capitalism to Post-Keynesian Economics

2.1 The Varieties of Capitalism approach in CPE

Comparative Political Economy (CPE) emerged as a distinct sub-field of sociology in the 1970s, spurred by the need to analyze the political determinants of national economic performance. Its genesis is intimately tied to the period of "stagflation" that challenged advanced economies, as scholars sought to understand the interplay between political decisions and economic phenomena. As Baccaro and Pontusson (2016, p. 6) note, early CPE literature aimed to "map out how national economies were adjusting to changes in world markets and production technologies and to explain 'industrial adjustment strategies' in terms of political institutions and producer-group coalitions."

This initial focus shifted significantly with the influential work of Hall (2001) and Hall and Soskice (2009) and their Varieties of Capitalism (VoC) framework. Moving away from analyses centered on the state, the VoC approach privileged the firm as the central economic actor, examining how businesses coordinate with each other and other entities. It proposed a fundamental dichotomy between Liberal Market Economies (LMEs), exemplified by the United States, and Coordinated Market Economies (CMEs), typified by Germany. As Baccaro and Pontusson (2016, p. 8) critically observe, this framework presented these institutional configurations as coherent and harmonious equilibria from which no rational actor would deviate.

However, the VoC taxonomy faces several conceptual limitations due to its restrictive criteria. Its binary classification struggles to account for the complex realities of economies integrated within supranational entities such as the European Union. Furthermore, it often overlooks critical factors

such as economic size, the role of labor unions' bargaining power, and the distinct characteristics of economies that fit neither ideal type.

These limitations have prompted scholars to develop alternative classifications, particularly for economies that diverge from the LME/CME model. The Italian case exemplifies this trend and generates a rich debate among VoC scholars. Proposals for its categorization are varied, each emphasizing distinct institutional features. Rhodes (1996) and Rhodes (1998), for instance, classifies Italy within a "Mediterranean" or "Southern Model" capitalism, emphasizing shared traits with other Southern European economies. In contrast, Amatori and Colli (2012) proposes the label "Political Capitalism," highlighting the pervasive role of the state and political mediation in economic affairs. A further nuanced perspective is offered by Della Sala (2004), who characterizes the Italian system as a "Dysfunctional State Capitalism." This classification argues that while Italy may share some features with Coordinated Market Economies, its coordination is fundamentally based on non-contractual, clientelistic relationships rather than formal institutionalized cooperation. Della Sala deems this model dysfunctional, primarily due to the absence of cohesive social partners and robust, effective institutions.

2.2 The Post-Keynesian models in CPE

Methodologically, Baccaro and Pontusson grounded their comparative analysis in neo-Kaleckian models, notably invoking the Bhaduri and Marglin (1990) framework that classifies economies as either profit-led or wage-led. Baccaro and Pontusson utilize growth contributions —decomposing aggregate output growth into components attributable to net exports, consumption, public expenditure, and investment— to categorize economies into export-led or domestic demand-led (typically consumption-led) growth regimes. Thus, while shifting the focus to demand, their approach retains a dichotomous classificatory logic.

Despite its influential status within post-Keynesian thought, the neo-Kaleckian model has attracted substantive criticism. Scholars have highlighted its difficulties in coherently incorporating autonomous demand components beyond induced consumption and investment (Pariboni (2016)) and its theoretical challenges in reconciling the actual degree of capacity utilization with its normal rate (Skott (2012); Cesaratto (2015)). These limitations have prompted a growing number of economists to turn to an alternative model within the post-Keynesian tradition: the Sraffian Supermultiplier (SSM).

The application of the Supermultiplier model to growth decomposition in CPE was pioneered by Freitas and Dweck (2013) in their study of Brazilian growth. It has since become an increasingly used tool for descriptive growth analysis, prized for its ability to reveal information obscured by the neo-Kaleckian lens (Passos and Morlin (2022); Morlin et al. (2024)). A key analytical advance of the Supermultiplier is that it replaces the wage-led/profit-led dichotomy with the growth of autonomous demand components as the primary determinant of economic activity. This framework formally recognizes a role for autonomous demand that is often underappreciated in neo-Kaleckian models (Morlin, 2024, p. 5).

The autonomous components identified in the Supermultiplier model typically include public expenditure, exports, residential investment by households, and credit-financed consumption. The model posits these elements as the proximate causes of a country's economic growth, while the ultimate causes are to be found in its social, political, and institutional fabric[1]. It is this capacity

[1]For a more detailed analysis of the model see the paragraph 3.2. For the analysis of the original model, see Serrano (1995) and for the analysis of the stability of the model Freitas and Serrano (2015). See Morlin et al. (2024)

to bridge economic analysis with deeper institutional factors that makes the Supermultiplier model not only compatible with, but also a significant potential contributor to the Growth Model Approach and the broader CPE research agenda.

3 The historical decomposition

3.1 Premises

The primary objective of this article is to perform a historical decomposition of Italian economic growth. This process aims to identify different phases of development by examining the changes in the underlying economic, historical, political, and social conditions. By periodizing Italy's growth trajectory, we can move beyond a monolithic narrative and instead analyze its evolution through a series of defined regimes.

Empirically, this decomposition is designed to identify the principal demand-side contributor to growth in each period, following the analytical framework of the Sraffian Supermultiplier model. The analysis utilizes time series data from the AMECO and OECD databases. Methodologically, we adopt the growth decomposition structure formalized by Freitas and Dweck (2013). This approach offers a significant advantage over traditional demand decompositions by rigorously separating the growth contributions of autonomous demand components - such as exports, public spending, and residential investments - from those that are induced by income, a critical distinction for understanding demand-led growth dynamics.

Beyond the statistical identification of growth contributions, this study seeks to explain the conditions that precipitated changes in the key parameters and variables of the model over each period. Furthermore, and with direct reference to Baccaro and Pontusson (2023) concept of "the politics of growth," this analysis investigates how the prevailing economic theory of the time and the relative bargaining power of social classes influenced the recognition of the decisive growth component. This focus allows us to trace how these factors shaped subsequent institutional decisions and economic policies, thereby linking economic outcomes directly to their political and social determinants.

3.2 Theoretical Framework: The Sraffian Supermultiplier

Our historical decomposition is grounded in the theoretical apparatus of the Sraffian Supermultiplier model. Initially formalized by Serrano (1995) and subsequently refined with a robust stability analysis by Freitas and Serrano (2015), this model provides a demand-led framework for understanding long-term growth.

The core proposition of the Supermultiplier is that the trajectory of an economy's output is ultimately determined by the growth of its autonomous demand components. These components —primarily public expenditure, exports, and autonomous consumption— constitute the parts of aggregate demand that are not directly financed by current income and do not generate productive capacity. The model synthesizes three key principles: (1) growth is demand-driven; (2) income distribution is exogenous to the model (a classical hypothesis); (3) there exists a tendency for the economy to converge towards the normal utilization of productive capacity, a process analyzed within a steady-state framework. Below we report the fundamental equations of the model that refer to an open economy with the public sector.

p. 3-8, for a more in-depth discussion of the Supermultiplier model in CPE.

In the following equations, Y is the aggregate product and M are the imports. C_H is the consumption of households, I_{PE} are the investments of enterprises, I_H are the residential investments, part of the autonomous consumption [2], G_c and G_I are respectively public spending in consumption and public spending in investments and X are exports. μ represents the complement to the imports' share in demand. The the sixth equation is the equilibrium condition between supply and demand; α is particularly important as representing the Supermultiplier.

$$Y + M = C_H + I_{PE} + I_H + G_C + G_I + X \tag{1}$$

$$M = (1 - \mu)(C_H + I_{PE} + I_H + G_C + G_I + X) \tag{2}$$

$$C_H = cY \tag{3}$$

$$I_{PE} = hY \tag{4}$$

$$Z = I_H + G_C + G_I + X \tag{5}$$

$$Y^* = \frac{\mu}{1 - \mu(c + h)} Z = \alpha Z \tag{6}$$

$$\alpha = \frac{\mu}{1 - \mu(c + h)} \tag{7}$$

The first equation establishes the fundamental macroeconomic identity between aggregate supply and demand in an open economy with a government sector. The second equation specifies that imports are a linear function of total income, reflecting a propensity to import. The third equation defines induced consumption, which is determined by disposable income and the marginal propensity to consume. The fourth equation incorporates the accelerator principle, positing that the private investment of companies is driven by the need to adjust the productive capacity to meet demand; thus it is modeled as a function of income, with the coefficient h representing the marginal propensity to invest. The fifth equation aggregates the autonomous components of demand, which are independent of current income levels. The sixth equation expresses the equilibrium condition of the model, where output adjusts to match aggregate demand. Finally, the seventh equation introduces the Supermultiplier, which captures the total expansive effect of autonomous demand output.

3.3 Data and Methodology

For the purpose of our accounting decomposition, the analysis employs annual time series data sourced from the AMECO and OECD databases. From the AMECO database, we extracted key macroeconomic variables—including Gross Domestic Product (GDP), Final Demand, Private Final Consumption Expenditure, General Government Final Consumption Expenditure, Changes in Inventories and Net Acquisition of Valuables, as well as Exports and Imports of Goods and Services—all measured in constant 2015 prices to ensure real-term comparability. Additionally, the OECD database was utilized to supplement the dataset with corresponding time series for Gross Fixed Capital Formation, also in constant prices, thereby providing a comprehensive basis for the decomposition of aggregate demand components[3].

[2] Autonomous consumption consists of residential investments and credit-financed consumption. We don't consider the latter in the model, because the data are not available for its application in the decomposition of Italian growth.

[3] For further details, see annex A.2.

Regarding the treatment of autonomous consumption, certain data manipulations were required. It is important to note that the validity of this conceptualization remains a subject of ongoing scholarly debate, with significant critiques raised concerning the empirical and theoretical foundations of autonomous demand components (Nikiforos (2018); Skott (2019); Thirlwall (2021)). In the present study, due to the absence of direct data on credit-financed consumption, residential investment was utilized as the empirical proxy for this autonomous component.

Through a disaggregation of investment data, we derived three distinct categories: private non-residential investment, which corresponds to the standard theoretical conception of investment as the demand component responsible for accumulating productive capacity; residential investment, which, following the established literature, is classified as an autonomous component of demand; and public investment, which constitutes another autonomous element within public expenditure.

The decomposition methodology follows the model developed by Freitas and Dweck (2013), which operationalizes Supermultiplier theory for growth accounting purposes. The core of this approach is represented by the following equation:[4]:

$$g = \alpha(1)\frac{C_H(0)}{Y(0)}g_c + \alpha(1)\frac{I_{PE}(0)}{Y(0)}g_h + \alpha(1)\frac{I_H(0)}{Y(0)}g_{I_H} + \alpha(1)\frac{G_C(0)}{Y(0)}g_{G_C} + \alpha(1)\frac{G_I(0)}{Y(0)}g_{G_I} + \\ + \alpha(1)\frac{X(0)}{Y(0)}g_X + \frac{\alpha(1)}{\mu(1)}g_\mu + \alpha(1)\frac{E(0)}{Y(0)}g_E \tag{8}$$

It is important to recall that the Supermultiplier α is defined by equation (7). In the decomposition, C_H represents household consumption, and g_c denotes the growth rate of the propensity to consume. I_{PE} refers to private enterprise investment, with g_h being the growth rate of the propensity to invest. I_H signifies residential investment, which is categorized as part of autonomous consumption, and g_{I_H} represents its growth rate. G_C and G_I denote government consumption expenditure and public investment, respectively, with g_{G_C} and g_{G_I} as their corresponding growth rates. X represents exports, with g_X as their growth rate, and E denotes the change in inventories, which serves as the residual term in the accounting framework. The parameter μ, which complements the import share in aggregate demand, reflects the domestic content share of total demand.

A key distinction in this framework is that for induced demand components—such as consumption and productive investment—the growth rates of their respective propensities (e.g., g_c, g_h) are used. In contrast, for autonomous components—including residential investment, government spending, and exports—the growth rates of the components themselves (e.g., g_{I_H}, g_{G_C}, g_X) appear directly in the decomposition. The notation (1) denotes the current period for which growth is measured, while (0) refers to the previous period.

The results of this theory-based decomposition, grounded in the Supermultiplier framework, are subsequently compared with a more conventional demand-side decomposition following the approach of Baccaro and Pontusson (2016). Although this alternative method is termed "traditional" here for clarity, it remains situated within the demand-side tradition of growth analysis and should not be conflated with mainstream supply-side methodologies. This comparative exercise aims to highlight the analytical value of explicitly disentangling autonomous and induced demand components, a refinement that the Supermultiplier approach offers.

$$g = \frac{C(0)}{Y(0)}g_C + \frac{I(0)}{Y(0)}g_I + \frac{G(0)}{Y(0)}g_G + \frac{X(0)}{Y(0)}g_X - \frac{M(0)}{Y(0)}g_M + \frac{E(0)}{Y(0)}g_E \tag{9}$$

[4]For a formal discussion of the equations see Annex A.3.

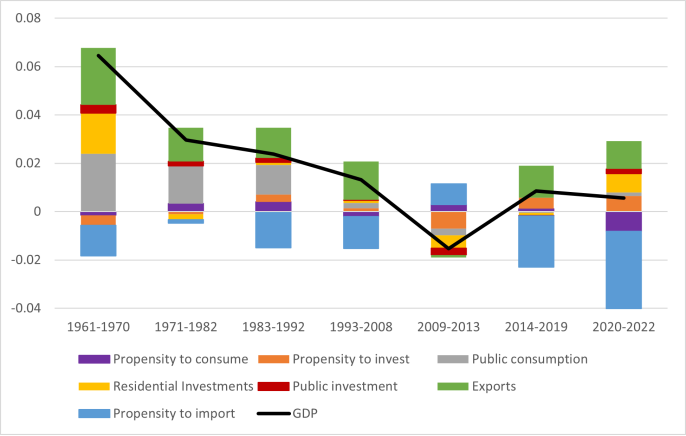

Figure 1: Supermultiplier decomposition of the Italian Growth by period averages (1961-2022). Data source AMECO and OECD, own elaboration.

In the conventional growth decomposition framework in equation (9), the overall growth rate of GDP is represented as the sum of the contributions from each demand component. Each contribution is calculated as the product of the component's growth rate and its respective share in total output. This method incorporates total consumption, total investment, government spending, exports, imports, and changes in inventories. However, a significant limitation of this approach is its inability to distinguish between the autonomous and induced nature of these components. As Morlin, Passos, and Pariboni (2024, p. 10) aptly demonstrate using the example of consumption: "if induced consumption grows at the same pace as GDP, the propensity to consume remains constant. The growth of consumption is therefore interpreted as induced by the income generated by the growth of autonomous expenditures. In this case, the Supermultiplier decomposition does not assign a growth contribution to consumption, but attributes the impact on growth to the autonomous demand combined with its Supermultiplier effect. However, if the propensity to consume changes, it has a separate impact on GDP".

Conversely, the traditional decomposition mechanically attributes a growth contribution to consumption whenever its level changes. Given that consumption typically constitutes the largest share of aggregate demand, it often emerges as the predominant contributor of GDP growth in this accounting exercise. This fundamental methodological difference means that the results produced by the two decompositions can diverge not only quantitatively but also qualitatively. In particular, they can imply different growth regimes—such as export-led versus consumption-led—for specific sub-periods, a distinction that our empirical analysis clearly reveals.

3.4 Results and comparison

Figures 1 and 2 present the outcomes of the Supermultiplier-based decomposition and the Traditional decomposition, respectively. These results were derived by applying equations (8) and (9) to Italian GDP growth data from 1960 to 2022, enabling the calculation of annual demand-side contributions to growth.

To structure the analysis, the yearly results of the Supermultiplier decomposition were aggre-

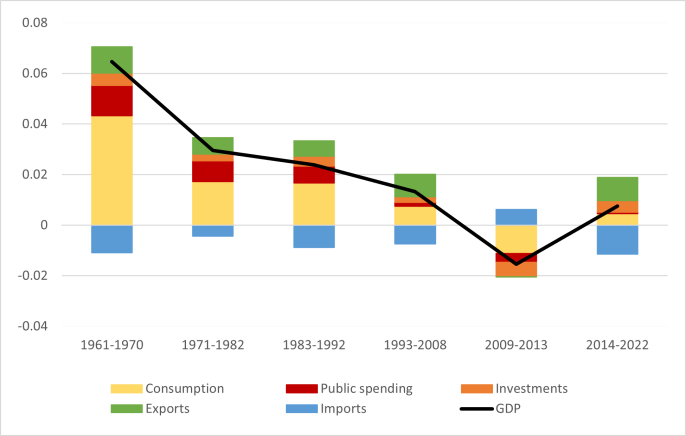

Figure 2: Traditional decomposition of the Italian Growth by period averages (1961-2022). Data source AMECO and OECD, own elaboration.

gated into distinct sub-periods. This periodization was based primarily on the identity of the dominant demand-side contributor to growth, while also accounting for major institutional and political turning points. For each resulting sub-period, the average contribution of each demand component was computed.

To ensure a meaningful comparison, the same historical sub-periods were applied to the results of the Traditional decomposition, and average contributions were similarly calculated. This methodological consistency allows for a clear contrast between the two approaches, highlighting how the treatment of autonomy and induction in demand components shapes the interpretation of Italy's growth regimes across different eras[5].

The periods identified are six:

1. Years 1961-1970: Post-war, reconstruction and end of the economic miracle
2. Years 1971-1982: Trade union struggles, oil crises and flexible exchange rates
3. Years 1983-1992: The European monetary system
4. Years 1993-2007: The European Union, constitution and implementation
5. Years 2008 – 2013: The Double deep
6. Years 2014 – 2022: Recovery and Pandemic

We acknowledge that this aggregation combines eras with differing monetary regimes and institutional features. However, this choice is justified by the theoretical framework of a demand-led growth model and the paper's primary objective: to isolate and analyze the contributions of demand components over time.

The Traditional decomposition suggests that Italy was a consumption-led economy until the Global Financial Crisis (GFC), with exports becoming the predominant contributor thereafter. In

[5]The full annual decomposition is available in Annex A.4.

stark contrast, the Supermultiplier decomposition reveals a markedly different narrative. Its central insight is that until the establishment of the European Union, growth was domestically driven not by consumption, but by public spending. Subsequently, exports emerged as the principal—and often sole—driver of growth. This divergence underscores, what in our view is, the superior analytical clarity of the Supermultiplier approach.

A key distinction lies in the treatment of consumption. The Traditional decomposition, in our view, systematically overestimates its role. For instance, in the first sub-period, the Supermultiplier decomposition (Figure 1) reveals a substantial positive contribution from autonomous consumption (residential investment, yellow bar) alongside a negative contribution from the propensity to consume—a nuance completely obscured in the traditional accounting. This prominent role of autonomous consumption is a unique feature of the early period with significant implications, further explored in the following section.

Furthermore, this decomposition starkly illustrates how European Union institutions have constrained Italy's growth by limiting fiscal policy space. As will be detailed in Section 3.4.4, exports become the singular engine of growth after 1992, with all other components contributing negligibly outside the GFC. This finding raises a critical question: within the European macroeconomic framework, is there room for positive growth contributions from demand components other than exports? The Supermultiplier decomposition provides the necessary granularity to pose such pointed questions about the structure and constraints of Italy's growth model.

Before proceeding to a detailed period-by-period analysis, it is crucial to contextualize our findings within the broader evolution of economic thought on Italy's development. Mainstream economic narratives regarding Italy's growth and its determinants have shifted significantly over time, not only in their characterization of the country's trajectory but also in their core explanations for economic phenomena.

Analyses prevailing until the Global Financial Crisis often portrayed Italy as a success story, focusing on its post-war "economic miracle" and convergence with advanced economies. In the face of subsequent stagnation, however, mainstream theory has struggled to reconcile its frameworks with this reality, frequently resorting to ad hoc complications and constraints—such as emphasizing structural rigidities or institutional deficiencies—to explain the shortfall in performance.

In contrast, the post-Keynesian approach has maintained a consistent analytical focus over the same period. Its central preoccupation has remained the study of demand—whether analyzing its deficiencies as a cause of stagnation or its contributions as a driver of growth. This theoretical continuity provides a stable lens through which to examine Italy's entire post-war history, offering a coherent and parsimonious account of both success and decline.

It is within this consistent demand-led framework that we now analyze each sub-period identified by our decomposition. The following sections will examine each era in detail, integrating economic, historical, and political perspectives to illuminate how shifting demand drivers interacted with Italy's evolving institutional landscape to shape its distinctive growth path.

3.4.1 Years 1961-1970: Post-war, reconstruction and end of the economic miracle

As outlined previously, the periodization is based on the dominant demand-side contributions to growth. For this initial period, our decomposition reveals that public expenditure—particularly public consumption—played the leading role, accounting for approximately 40% of positive growth contributions. Exports followed at 35%, while autonomous consumption, primarily in the form of residential investment, contributed the remaining 25%.

This finding challenges a common narrative in the historiography (e.g., Graziani (1998); Felice (2017) in Vasta et al. (2017)), which often identifies exports as the primary engine of growth during the 1960s. While exports were indeed significant, the Supermultiplier decomposition shows they were not the predominant contributor; that role belonged to public spending.

A distinctive feature of this period is the substantial contribution of autonomous consumption, a phenomenon not replicated in subsequent eras. We argue that the roots of this singular trend lie in the socio-political and institutional transformations of the time. The post-war decades were characterized by a profound reconstruction of the social fabric and a transition from a war economy to an industrial, mass-consumption society. Concurrently, sustained growth, rising incomes, and specific policy reforms—such as the expansion of local banking networks, which increased access to mortgage credit—made homeownership more accessible, fueling residential investment.

It is commonly noted that this period contains an internal watershed around the year 1963. Historians (Graziani (1998); Comei et al. (2017); Magnani (2017)) often mark this as the end of the "economic miracle," a point at which growth slowed and monetary policy—under Bank of Italy Governor Guido Carli—shifted direction, albeit temporarily. While this specific turning point is not sharply delineated in our aggregated decomposition, it is crucial to acknowledge from an institutional and political economy perspective that the period was not monolithic. The "politics of growth" evolved significantly within these years, setting the stage for subsequent transitions in Italy's economic model.

The period was characterized by the ascendancy of the neoclassical synthesis in economic theory, which advocated for policy intervention to correct market imperfections. This theoretical shift was reflected in the Italian political landscape. The 1963 general elections marked a notable decline in support for the Christian Democracy party, while the Italian Liberal Party—advocating for free-market policies on the right wing of parliament—gained influence, despite remaining the fourth-largest party.

In September of that year, the Bank of Italy, under Governor Guido Carli, implemented a decisive monetary tightening to address growing macroeconomic imbalances. These included consumption fueled by rapid wage growth, a deteriorating balance of payments, and rising inflation Magnani (2017). This episode illustrates the interplay between economic ideas, political power, and policy action—a core focus of our "politics of growth" analysis. The spread of liberal economic thought, embodied by the neoclassical synthesis, aligned with the interests of specific social classes and helped legitimize restrictive policies that would shape Italy's economic trajectory.

From an industrial perspective, this era profoundly influenced Italy's long-term development. Historians have criticized major firms, particularly in the petrochemical sector, for failing to capitalize on the opportunities afforded by the post-war boom. As noted by Comei et al. (2017), "Private entrepreneurship, the great families of Italian capitalism, were asked to make a commitment, for the reallocation of huge resources that had been entrusted to them, which in many respects would have been disregarded." At the same time, the prevailing liberal ideology discouraged state intervention in industry, resulting in the absence of an "innovative state" that could support technological advancement through research funding and strategic public investment Segreto (2017). This lack of public support for innovation contributed to the failure of several frontier technological projects.

It is noteworthy that mainstream interpretations of this period have evolved significantly. Until recently, the post-war era was often portrayed as a success story Felice (2017). Today, however, it is increasingly viewed through the lens of "missed opportunities." The liberal consensus that once celebrated the state's withdrawal from economic activity is now being reassessed in light of subsequent technological stagnation and slower growth. Our decomposition, which highlights the

critical role of public spending during this period, adds empirical weight to this reassessment, underscoring the potential importance of state leadership in fostering sustained development.

3.4.2 Years 1971-1982: Trade union struggles, oil crises and flexible exchange rates

This period was marked by a pronounced economic slowdown, with growth declining from over 6% to below 4%. Conventional economic narratives attribute this deceleration primarily to wage-driven inflation, resulting from strengthened trade union activity during these years Modigliani and Padoa-Schioppa (1977). However, the results of our Supermultiplier decomposition suggest a more nuanced interpretation.

While export contributions increased slightly—from 35% to 40% of positive growth contributions—the most striking feature is the continued dominance of public spending, which accounted for 51% of positive demand contributions through consumption and investment. At the same time, the negative impacts of the propensities to invest and import diminished. These findings challenge the view that wage increases undermined external competitiveness and served as the main cause of Italy's slowdown. Similarly, they complicate claims that growth during the 1970s was primarily export-led or driven by industrial districts Felice and Vecchi (2015).

Politically, the period was defined by widespread labor mobilization, culminating in events such as the Hot Autumn and the passage of the Workers' Statute in 1970. These struggles redefined class relations and workplace dynamics Bologna (2017). Rather than causing economic decline, high wages and expanded worker rights helped sustain domestic demand during this phase. The close of this cycle—marked by the 1973 contract renewals and the onset of the oil crisis—ushered in a new era of constraints. Ultimately, this analysis reframes the role of wages: not as a source of decline, but as a key component of the demand-led growth model that characterized the era.

The second period was characterized by the onset of "stagflation"—a combination of stagnant growth, rising unemployment, and inflation—which marked a rupture from earlier post-war economic patterns. This phenomenon exposed theoretical limitations in prevailing Keynesian-inspired models and prompted a shift toward monetarist policies, emphasizing money supply control and inflation targeting. Central banks, notably the Bundesbank and later the Federal Reserve, adopted this new orthodoxy from the mid-1970s. As Ciocca (2017) notes, the influence of this theoretical shift profoundly shaped the long-term trajectory of economic policy across advanced economies.

In Italy, the Bank of Italy emerged as a key institution promoting monetary discipline and market-oriented reforms. Its governor, Guido Carli, became a symbol of technical authority and stability. Concurrently, efforts to reshape economic culture—such as the creation of Luiss University and the newspaper La Repubblica—sought to legitimize liberal policies and integrate left-wing and union actors into a framework of fiscal and monetary constraint. This period thus reflects a broader political and intellectual realignment that prioritized macroeconomic stability and market rationality over earlier demand-led growth models (Bologna (2017)).

Returning to the growth decomposition, during this period, public spending's role in growth became more constrained despite maintaining a significant share of positive contributions. Its absolute impact, however, declined under the influence of monetarist policies and ideological shifts favoring fiscal restraint. Numerous restrictive policies were implemented to reduce fiscal deficits, reflecting the new ideological consensus against state intervention. As Felice and Vecchi (2015) note, the retrenchment of public spending was also accelerated by the crisis of Italy's state-shareholding system. The growing discontent with the state's role in the economy was mirrored in the policy objectives of Bank of Italy Governor Baffi in 1975, which aimed to end fiscal dominance—seen as

undermining central bank autonomy and causing allocative distortions. This agenda was reinforced by two key institutional changes: the 1981 "divorce" between the Bank of Italy and the Treasury, which curtailed direct monetary financing of public deficits, and Italy's entry into the European Monetary System in 1979, which introduced an external anchor for monetary policy (Piluso et al. (2017), p. 274).

Thus, even as public spending remained a significant contributor to growth in relative terms, its scope and effectiveness were increasingly constrained by ideological, institutional, and external factors. This laid the groundwork for a gradual reorientation of Italy's growth model away from domestic public demand and toward external and market-led drivers.

3.4.3 Years 1983-1992: The European monetary system

The onset of this period, while not perfectly aligned with Italy's entry into the European Monetary System (EMS) in 1979, is marked by the tangible economic consequences of earlier political decisions—particularly those promoting monetary discipline and fiscal restraint—which became fully visible by 1983. This year thus serves as a meaningful starting point for the third phase in Italy's economic evolution.

Following the stagnation induced by the second oil crisis in 1982, the economy resumed growth, with rates fluctuating between 1% and 4% through the rest of the decade. A closer examination of demand contributions reveals notable shifts in both composition and scale. Public spending and exports remained the dominant contributors, accounting for 40% and 36% of positive contributions to growth, respectively.

This period marked a transitional phase in Italy's growth model. While public spending and exports remained key contributor of growth in relative terms, their absolute contributions diminished compared to earlier decades. New dynamics emerged, including stable household consumption —potentially influenced by shifting credit conditions— and a renewed role for private investment, particularly technology-led upgrades in sectors like automotive. These investments aimed to boost competitiveness and manage labor relations through productivity gains. At the same time, rising import contributions signaled reintegration into global trade and growing external dependency. Together, these shifts reflect a gradual move toward a more open, investment-sensitive, and externally influenced economic structure.

From a political-economic perspective, this period was defined by the constraints and policy adjustments necessitated by Italy's participation in the European Monetary System (EMS). Membership required Italy to maintain the Lira within a predetermined exchange rate band—albeit wider than those of other EMS currencies—effectively eliminating exchange rate policy as a tool for macroeconomic adjustment, one that had been actively used in earlier decades.

Adherence to the EMS also institutionalized a broader shift toward pre-Keynesian and neoclassical macroeconomic principles, emphasizing stability through discipline rather than stimulus. This was operationalized through three key measures:

- Monetary Policy Autonomy: The 1981 "divorce" between the Bank of Italy and the Treasury formally ended direct central bank financing of public deficits, granting the Bank full autonomy in monetary decisions and reinforcing the priority of price stability.

- Wage Moderation: Policies aimed at curbing inflation led to the progressive weakening and eventual abolition (1992) of the wage indexation mechanism, facilitated by rising unemployment and declining union leverage.

- Fiscal Consolidation: Mounting pressure to reduce public debt legitimized austerity-oriented measures, narrowing the scope for expansionary fiscal policy.

Together, these moves embedded monetary discipline, wage restraint, and fiscal consolidation into Italy's economic governance—prioritizing stability and convergence with European norms over domestic demand-led growth.

Italy's participation in the European Monetary System (EMS) and the global shift toward monetary restraint—epitomized by Paul Volcker's policies at the Federal Reserve—imposed strict limits on fiscal expansion and public debt. These constraints marked a decisive break from earlier economic strategies and heightened financial fragility across both public and private sectors (Piluso et al. (2017), p.266-267).

A central and still-debated reform was the 1981 "divorce" between the Bank of Italy and the Treasury, which ended direct central bank financing of public debt. Mainstream economists viewed this as necessary for fighting inflation and ensuring monetary independence, while heterodox critics saw it as a catalyst for stagnation through higher borrowing costs and constrained public investment. Some scholars, however, interpret the move as part of a broader international trend toward central bank autonomy rather than a uniquely Italian phenomenon.

3.4.4 Years 1993-2007: The European Union, constitution and implementation

From this period onward, Italy's growth model underwent a radical transformation. Exports emerged not only as the main contributor to growth, but effectively as the sole significant, accounting for 76% of the positive contributions to the demand side. Public spending, on the contrary, was drastically reduced to a mere 10% of the positive contribution- almost entirely in public consumption, with public investment contributing only 1%. This shift reflects not merely a change in the composition of demand but a fundamental reorientation of the economy under tightening European constraints.

The comparison with earlier periods reveals a stark contrast: While domestic demand - particularly public expenditure - had previously played a leading but balanced role, Italy now transitioned to a fully export-led growth regime. This structural change coincided with a decline in both the level and stability of growth. Average growth rates fell by about one percentage point to just 1%, with increased volatility due to speculative attacks—most notably the 1992 lira crisis and exit from the EMS—and further turbulence in the early 2000s.

This phase was dominated by policies aimed at meeting the Maastricht convergence criteria, which prioritized inflation control and public debt reduction above all else. In our interpretation, these restrictive measures directly suppressed domestic demand and slowed growth. Italy's public debt, exceeding 100% of GDP and consistently overshooting projections, was perceived as the nation's most urgent economic problem. The 1992 crisis, though manifesting as a currency collapse, was deeply intertwined with concerns over debt sustainability and financing.

Additionally, the full liberalization of capital movements intensified external pressure on Italian macroeconomic policy, further limiting the scope for autonomous national decision-making and reinforcing the dominance of externally-imposed discipline. Together, these factors locked Italy into a low-growth, export-dependent trajectory, with diminishing policy space to stimulate other components of aggregate demand.

The imperative to reduce Italy's elevated debt-to-GDP ratio during this period triggered two parallel processes: a continuation of state shareholding divestments and an extensive program of privatizations and liberalizations, particularly in strategic sectors such as telecommunications (e.g.,

Telecom Italia), energy, and transport. While the prevailing economic orthodoxy of the early 1990s justified these measures in the name of efficiency and competition, their effectiveness is now widely contested. As noted by Lavista et al. (2017), evaluations by Italy's Corte dei Conti suggest a more nuanced assessment: improvements in corporate performance often preceded rather than followed privatization, and gains in profitability frequently came at the expense of consumers through higher tariffs rather than genuine gains in productivity.

Alongside privatizations, fiscal consolidation efforts included the abolition of the Cassa per il Mezzogiorno—a key institution for regional development in the South—as well as hiring freezes in the public sector and restrictions on replacing retired workers. These measures proved largely ineffective in sustainably reducing debt and instead contributed to the proliferation of precarious fixed-term contracts Daveri (2017).

Politically, the era was defined by profound instability and fragmentation. The murders of anti-mafia magistrates Falcone and Borsellino, the Mani Pulite corruption trials, and the 1993 referendum that reintroduced a majoritarian electoral system reshaped the Italian political landscape. The collapse of the traditional party system, combined with the marginalization of the left and the rightward shift of political competition, eroded representative structures and weakened the link between left-leaning parties and their traditional working-class base. This political vacuum was compounded by the declining influence of trade unions, which increasingly accepted conditions unfavorable to labor.

These political and economic shifts had lasting distributional consequences. Income increasingly favored capital over labor, suppressing wage growth and dampening household consumption. Meanwhile, austerity constraints limited public investment in education, research, and infrastructure, further undermining long-term productivity. Firms responded to heightened competition not through innovation but by relying on low labor costs, reinforcing a comparative advantage based on price rather than quality or technology.

3.4.5 Years 2008 – 2013: The Double deep

This period encompasses the Global Financial Crisis (GFC) and the subsequent European sovereign debt crisis, representing one of the most severe and analytically contested phases in Italy's recent economic history. The crisis initially entered through the external sector—previously the sole driver of growth—via sharp declines in exports and disrupted trade channels. However, its effects rapidly permeated both the demand and supply sides of the economy, resulting in two major recessionary troughs in 2009 and 2012.

Analysis using the Supermultiplier decomposition reveals nuanced and counterintuitive demand dynamics during this period. The propensity to consume appears to contribute positively, though this reflects a distress-driven response: households allocated a larger share of diminished incomes to essential consumption, reducing savings amid heightened economic uncertainty. Similarly, the apparent "positive" contribution of imports stems from their sharp contraction following the collapse in domestic income—a statistical artifact rather than an indicator of economic strength.

The most significant negative contributions align with theoretical expectations: the propensity to invest contracted severely, consistent with accelerator mechanisms under falling demand, and autonomous consumption—including residential investment—declined markedly. Most critically, however, was the pronounced negative contribution of public spending, particularly public investment. Fiscal retrenchment, intensified during the debt crisis, exacerbated the downturn and was a primary factor behind the second recessionary nadir in 2012.

In contrast to a traditional decomposition, which would simply register declines in consumption and investment, the Supermultiplier approach disentangles these components to reveal the underlying behavior of propensities and autonomous expenditures. This allows a clearer diagnosis: the shift to pro-cyclical fiscal policy during a demand-deficient recession deepened and prolonged Italy's crisis, highlighting the high costs of austerity in the absence of countervailing demand supports.

This period stands as a stark illustration of the interplay between economic ideology, institutional power, and social outcomes. European policy priorities, reinforced by mainstream economic theory, prescribed fiscal consolidation and structural reform as the primary responses to the crisis. Stability of public debt was posited as a precondition for growth, which was in turn assumed to derive mainly from gains in productivity. The resulting policy mix combined sharp reductions in public spending with measures aimed at boosting competitiveness through lower real wages and reduced job protection.

These policies failed to achieve their stated goals. Instead of reducing the debt-to-GDP ratio, austerity suppressed demand and amplified recessionary dynamics, thereby worsening debt sustainability—an outcome predicted by heterodox analyses but overlooked by prevailing doctrine. The attendant social and political costs, including rising inequality and eroding public trust, are now widely acknowledged, even within mainstream circles. Moreover, the suppression of demand also undermined productivity itself, consistent with Kaldor-Verdoorn dynamics, wherein output growth drives productivity rather than the reverse.

Politically, the era was defined by fragmentation, polarization, and a collapse of traditional party structures. The 2008 elections resulted in a strong right-wing majority ill-prepared to confront the global financial crisis. Notably, no candidate from traditional left parties entered parliament, shifting the political center of gravity toward liberal-centrist positions and weakening representation of working-class interests.

From 2008 to 2011, the Berlusconi government pursued tax cuts and business-friendly policies. However, rising sovereign risk and pressure from European institutions led to his replacement by the technocratic government of Mario Monti. Despite its claims to neutrality, the Monti administration implemented deeply political reforms: increasing taxes, cutting public expenditure, reforming pensions, and liberalizing labor markets through greater corporatization of bargaining. These measures further depressed demand, exacerbated recessionary conditions, and intensified social discontent.

The 2013 elections marked a critical realignment: the collapse of bipolarism, the rise of the Five Star Movement, and the Democratic Party's alignment with EU-backed austerity agendas. The cumulative effect of economic distress and political disenfranchisement eroded public trust and fueled mass disengagement from politics, leaving lasting scars on Italy's social and institutional fabric.

This episode underscores a fundamental tension in economic governance: the subordination of democratic choice to technocratic mandates, and the high social price of policies that prioritize financial stability over human welfare.

3.4.6 Years 2014 – 2022: The recovery and the pandemic

This most recent period remains provisional in analysis, shaped by the overlapping crises of COVID-19 and the Russian-Ukrainian war, whose full economic implications are still unfolding. Nevertheless, several trends merit attention, particularly the continuing dominance of external trade and nascent signs of change in investment behavior.

Exports remain the primary contributor of growth, accounting for 62% of positive contribu-

tions—confirming Italy's entrenched export-dependency. However, a notable shift has occurred in the propensity to invest that now contributes to 25% of positive growth, reflecting accelerator effects as demand recovered. Particularly significant is the rebound in residential investment, which averaged 9% positive contributions over the period but reached 27% in the last three years. This surge is largely attributable to policy interventions, such as the Superbonus tax incentive, aimed at energy efficiency upgrades and climate adaptation—though these measures also raised concerns about fiscal cost and effectiveness (Caravella et al. (2023); Crespi et al. (2021)).

Imports also rose, initially reflecting post-pandemic recovery and later amplified by soaring energy prices after the invasion of Ukraine. Meanwhile, public spending remained subdued, continuing the pattern of fiscal restraint established in earlier periods.

The propensity to consume registered a negative contribution—consistent with theoretical expectations during a recovery phase, as households begin rebuilding savings after a period of uncertainty. This nuance is invisible in traditional demand decompositions, which misleadingly attribute a large positive role to total consumption, second only to exports.

Monetary policy also played a crucial role: The European Central Bank's move toward more accommodative policies, including large-scale asset purchases, eased financial conditions and supported demand, especially in vulnerable Mediterranean economies.

This period has been characterized by significant political fragmentation and a notable shift in economic ideology. Against a backdrop of persistent economic anxiety and social discontent, right-wing movements gained substantial influence by capitalizing on cultural grievances and popular disillusionment with established parties. This political realignment reflects deeper tensions within societies polarized by inequality and the perceived failures of globalization.

Contrary to the orthodox narrative that attributed recovery to fiscal discipline and structural reforms, the return to growth in Italy and other vulnerable European economies was largely facilitated by a decisive change in the policy stance of the European Central Bank (ECB). Under growing pressure to address the social and economic costs of austerity, the ECB eventually embraced unconventional monetary policies, including large-scale asset purchases and longer-term refinancing operations, which helped stabilize financial markets and restore liquidity.

This policy shift signaled an important evolution in economic thinking within European institutions—a recognition, however tentative, of the role of aggregate demand and the limits of market self-correction. While the prevailing analytical framework remains rooted in New Keynesian DSGE models, which retain core neoclassical assumptions such as micro-founded optimization and long-run equilibrium, they now incorporate nominal rigidities and allow a limited role for demand-side shocks and policy interventions in the short run.

The Italian political landscape since the global financial crisis has been marked by the erosion of traditional bipolarism and the emergence of new political forces, most notably the Five Star Movement (M5S). Born from widespread discontent with austerity and economic insecurity, M5S capitalized on anti-establishment sentiment and initially positioned itself outside conventional left-right divides. Between 2013 and 2018, center-left governments led by the Democratic Party (PD) continued to pursue labor market deregulation, exemplified by the 2015 Jobs Act, which further weakened job protections and expanded precarious "atypical" contracts—likely exacerbating income instability and dampening household consumption.

The 2018 elections resulted in a populist coalition between M5S and the right-wing League Paternesi Meloni et al. (2018). This government introduced Italy's first minimum income scheme, the Reddito di Cittadinanza, which helped support household consumption during the COVID-19 crisis. However, other promised economic measures, such as the League's flat tax proposal, were

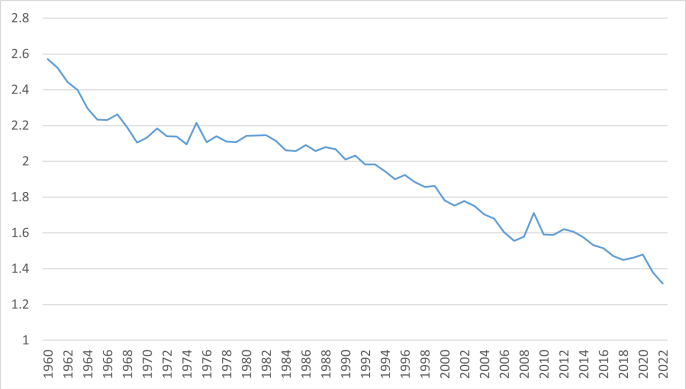

Figure 3: Italian Supermultiplier from 1960 to 2022. Data source AMECO and OECD, own elaboration.

largely unrealized.

Following internal tensions, the government shifted to a M5S-PD coalition, which later gave way to a technocratic administration during the pandemic—a government widely perceived as aligned with EU-backed economic interests. The 2022 elections returned a right-wing coalition led by Giorgia Meloni, which swiftly abolished the Reddito di Cittadinanza and prioritized business-friendly policies such as tax cuts, financed through reductions in education and healthcare budgets.

At the European level, the revised Stability and Growth Pact retains the same problematic fiscal parameters as its predecessor. While it offers greater flexibility through multi-annual adjustment paths and more "tailored" fiscal guidance, it continues to enforce stringent controls over net primary spending without addressing the pro-cyclicality of austerity or the need for counter-cyclical public investment. Without deeper fiscal integration or a meaningful relaxation of rules, the EU remains ill-equipped to tackle persistent demand weakness, rising inequality, or the climate crisis—suggesting that little has been learned from the failures of the past decade.

4 The Declining Supermultiplier: Composition and Comparative Analysis

This chapter examines the trajectory and composition of the Supermultiplier in Italy from 1960 to 2022, drawing on empirical decomposition and cross-country comparison with recent work by Morlin et al. (2024). The Supermultiplier captures the total income-generating effect of autonomous expenditures, reflecting the economy's capacity to translate such spending into sustained growth.

As shown in Figure 3, Italy's Supermultiplier exhibits a pronounced secular decline, interrupted only briefly during major crises: the 1975 oil shock, the 2009 global financial crisis, and the 2020 pandemic. These temporary rebounds reflect sharp contractions in import propensities during periods of reduced domestic demand and disrupted trade.

The long-term decline—from 2.6 in the 1960s to approximately 1.3 by 2022—is primarily driven by the rising propensity to import (Figure 4), which enters the Supermultiplier formula with a negative sign. This trend underscores Italy's increasing integration into global markets and its

Sub-periods	**Average Growth Rate**	**Greatest Contribution to Growth**	**Historical events and policies**	**Politics of Growth**
1961 - 1970: Post-war and end of the economic miracle	6.5%	Public Consumption	Restrictive monetary policy in 1963; Spread of liberal idea	Neoclassical synthesis is the prevailing economic thought: policy intervention necessary to correct market imperfections
1971 - 1982: Trade union struggles, oil crises and flexible exchange rates	3%	Public Consumption	Autonomy of Bank of Italy; Restrictive monetary policies	Stagflation, Monetarism: the decline is due to the increase in wages and the resulting high inflation
1983 - 1992: The European monetary system	2.2%	Public Consumption	EMS; Divorce Bank of Italy and treasury; Abolishment escalator process	New Classical Macroeconomics: halting of wage growth to slow down inflation and the fight against public debt
1993 - 2007: The European Union, constitution and implementation	1.3%	Exports	Eu and EMU; Policy for convergence parameters; Abolishment of "Cassa per il Mezzogiorno"	New-Warlasian: external constraint necessary to fight inflation and contain public debt
2008 – 2013: The Double deep	-1.5%	Decline	Austerity policies and a "support" of productivity; 2011: "technical" Monti government; Reform of the pension system, and of job market	The stability of public debt is essential for growth driven mostly by productivity
2014 – 2022: Recovery and Pandemic	0.8%	Exports	The change of direction of the ECB; "third pole"	New-Keynesian: DSGE models. Role for aggregate demand and economic policies recognized in the short term

Table 1: Summary of contributions to growth

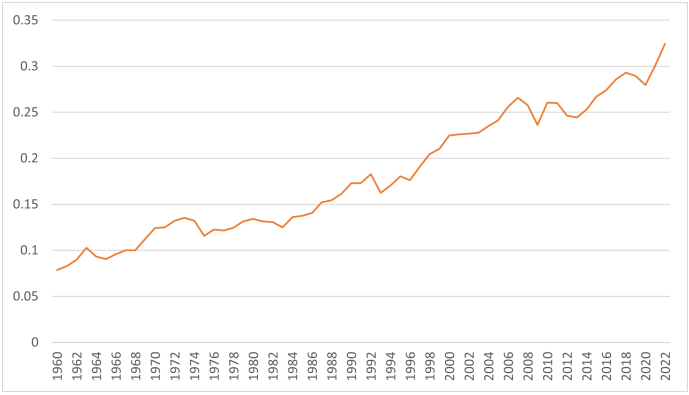

Figure 4: Propensity to import of Italy from 1960 to 2022. Data source AMECO.

growing dependency on imported goods and energy. Although the propensities to consume and invest also play a role—especially during crises, it seems that their influence is secondary to that of imports.

A comparative analysis with Morlin et al. (2024, Fig. 3) reveals Italy's relative position among advanced economies. While the United States maintains the highest Supermultiplier (oscillating between 2.6–2.9), Italy's values align more closely with those of Germany and Sweden. In 2000, Italy's multiplier stood at 1.78, declining to 1.47 by 2017—a path similar to Germany's, albeit slightly higher. This suggests that Italy, like other export-oriented European economies, possesses a limited capacity to translate autonomous demand into domestic growth compared to more closed economies such as the U.S. or Japan.

The declining Supermultiplier implies that autonomous expenditures—such as exports, public investment, or residential investment—must grow increasingly faster to sustain a given rate of output growth. It also reflects a structural shift in Italy's economic model: a rising share of autonomous demand in total output, coupled with heightened import leakage.

The following sections delve deeper into the individual components of the Supermultiplier—the propensities to import, consume, and invest—to illuminate the structural and policy determinants behind these trends and their implications for Italy's growth regime.

4.1 The Rising Propensity to Import and Its Impact on Italy's Supermultiplier

This section analyzes the trajectory of Italy's propensity to import, a key determinant of the Supermultiplier's secular decline. As illustrated in Figure 4, the propensity to import exhibits a strong upward trend over the six-decade period, rising from 0.08 in 1960 to 0.32 in 2022. This parameter enters the Supermultiplier formula negatively, meaning its increase directly suppresses the multiplier effect of autonomous demand on domestic output.

The trend is remarkably persistent, with only mild and short-lived declines during major economic crises—such as those in 1975, 2009, and 2020—when falls in income led to proportional reductions in import volumes. The relative stability of the import propensity even during downturns suggests deeply entrenched structural dependencies rather than cyclical behavioral shifts among

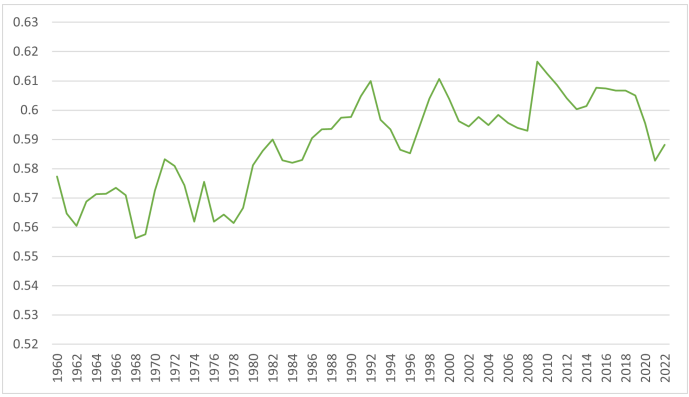

Figure 5: Propensity to consume of Italy from 1960 to 2022. Data source AMECO.

economic agents.

A notable acceleration in the growth of the import propensity occurs from the 1990s onward, aligning with Italy's deeper integration into global and European markets. This period marks a structural shift in Italy's growth model, where external demand became the dominant—and often the only—supporter of economic expansion.

The rising import dependency can be attributed to several interrelated factors, including trade liberalization and globalization, which reduced tariffs and expanded supply chain integration; European Integration, which facilitated cross-border trade under single market rules; and deindustrialization, which reduced domestic production capacity and increased reliance on foreign goods. Additionally, Italy's energy dependency, given its limited domestic resources, amplified imports of oil, gas, and electricity, particularly during the energy transition. Although not the sole driver, relative price effects, such as exchange rate movements and divergent inflation rates with trading partners, also influenced import competitiveness.

4.2 The Propensity to Consume: Income, Real Wages, and Social Change

This sub-section examines the evolution of Italy's propensity to consume and its relationship with income, real wages, and broader societal transformations. As depicted in Figure 5, the propensity to consume has fluctuated within a relatively narrow band—from 0.56 in 1968 to 0.61 in 2009—yet these variations reveal meaningful patterns when contextualized within institutional and social shifts.

A closer inspection suggests that dividing the series around 1980 offers greater analytical clarity. The pre-1980 period exhibits an average propensity of 0.57, while the post-1980 average rises to 0.60. This increase aligns with the expansion of mass consumption and the proliferation of new goods and services, facilitated by the growth of large-scale retail distribution and rising consumer aspirations. As noted by Capuzzo et al. (2017), this was part of a broader European trend toward heightened consumption norms and greater household access to consumer markets.

The trajectory of the propensity to consume also reflects how households responded differently to various types economic crises. During episodes such as the oil shocks or the global financial crisis—which severely eroded real incomes and purchasing power—the propensity to consume in-

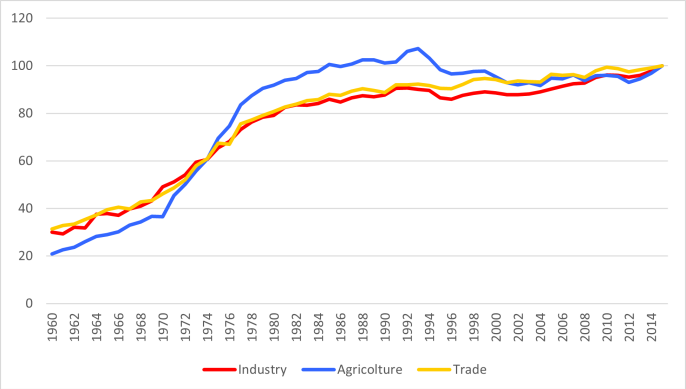

Figure 6: Real wages of blue collars workers by sector of activity for Italy. Data source ISTAT, own elaboration.

creased. Households allocated a larger share of their diminished incomes to essential consumption, reducing savings in response to economic uncertainty and inflation.

By contrast, the COVID-19 pandemic—primarily a supply-side and public health crisis—resulted in a sharp decline in the propensity to consume. Despite a significant drop in income, lockdowns, restrictions on mobility, and heightened uncertainty led to a collapse in consumption opportunities and a surge in precautionary saving.

These divergent responses underscore that the propensity to consume is not solely determined by income fluctuations but is also shaped by institutional settings, social norms, and the specific nature of economic shocks. The long-term rise in consumption norms since the 1980s highlights the role of socio-cultural factors in driving household behavior, while crisis-period variations reveal the interplay between economic structures and household resilience.

Now compare the propensity to consume with the development of real wages in Figure 6.

The information that we can retrieve is that due to the very limited growth in real wages, in particular we dedicate ourselves to the analysis of the real wages of blu-collar workers, these do not seem to have acted as a stimulus to consumption, which has been fluctuating around the same average since the 1980s. For the agricultural sector, on the other hand, we have a fall in real wages since the 1990s.

4.3 The Propensity to Invest: Accelerator Effects and Institutional Influences

This analysis examines the behavior of the propensity to invest in Italy from 1960 to 2022, evaluating its alignment with the accelerator theory of investment and its sensitivity to institutional and cyclical factors. Within the Supermultiplier framework, the propensity to invest represents a flexible parameter that captures how firms adjust their productive capacity in response to demand conditions, while also reflecting broader economic and political influences.

As shown in Figure 7, the propensity to invest fluctuated between 0.08 (1965) and 0.14 (2002), with an average value of 0.11. The overall trajectory offers considerable support for the accelerator theory: declines in the propensity to invest consistently coincide with major economic downturns,

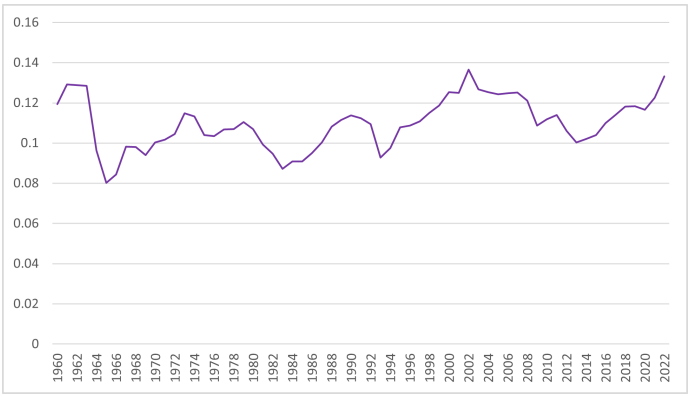

Figure 7: Propensity to invest of Italy from 1960 to 2022. Data source AMECO and OECD.

such as those following the second oil crisis (1982), the currency crisis (1992), and the global financial crisis (2009). In each case, falling output led firms to reduce investment expenditures, consistent with theory. Notable exceptions include the decline in 1965, which may reflect monetary tightening and social reconversion efforts in the post-war period, and the unexpected rise during the pandemic, largely driven by fiscal incentives like the Superbonus—a tax credit for energy efficiency and seismic upgrades that stimulated investment despite the economic contraction.

The highest sustained values occurred during the fourth period (1996–2008), a phase of relative stability and institutional support for private enterprise within the European Union framework. The importance that the European Union increasingly gave to private enterprise, as an engine of development, to the detriment of public enterprise could be the reason why in this phase we have a higher-than-average propensity to invest. Furthermore, companies may have perceived this as a fairly stable period to do investments, supported by European institutions, as well as their aversion to inflation and wage protection policies. This may have consolidated the closeness of the institutions to private companies and favored their investments.

A distinctive pattern emerges in the dynamics of the propensity to invest: negative deviations from the average tend to be sharp and short-lived, while positive deviations are milder but more prolonged. This asymmetry suggests that firms react abruptly to demand contractions but expand capacity more cautiously during recoveries.

For modeling purposes, these observations imply that a single parameter for the propensity to invest may be insufficient to capture its full behavioral range. A more accurate representation of investment dynamics in Italy might require distinct parameters for expansionary and contractionary phases, reflecting how firms' responses are mediated not only by demand signals but also by financial conditions, policy interventions, and structural factors. This approach would align with the Supermultiplier's flexibility while offering greater empirical precision in replicating Italy's economic trajectory.

5 Conclusion: Reassessing Italy's Growth Model Through a Supermultiplier Lens

This study has revisited the trajectory of Italian economic growth through a demand-led analytical framework centered on the Supermultiplier model. While existing Comparative Political Economy (CPE) literature has often emphasized consumption or exports as Italy's primary growth drivers, our decomposition reveals a more nuanced narrative.

From the 1960s until the deepening of European integration, public spending—encompassing both consumption and investment—served as the principal engine of Italy's growth. This finding challenges accounts that overlook the formative role of the state in sustaining demand during Italy's post-war expansion. However, from the 1990s onward, Italy's growth model underwent a profound structural shift. Under the constraints of European economic governance, including monetary integration and fiscal rules, exports emerged as the dominant—and often sole—contributor to growth. This transition reflects not only Italy's increased exposure to international markets but also the deliberate curtailment of domestic policy tools, such as exchange rate adjustment and discretionary fiscal policy.

Methodologically, this article has combined a historical decomposition of growth with an institutional analysis of what Baccaro and Pontusson term the "politics of growth." By examining how international, European, and domestic political forces shaped economic policy choices in each sub-period, we have illustrated the recursive relationship between economic structures and political decisions. The analysis of the Supermultiplier's components—particularly the propensities to consume, invest, and import—further enriches this picture, revealing how social preferences, corporate behavior, and structural openness evolved over time.

Several policy implications emerge from these findings. Italy's heavy reliance on exports as the primary growth contribution has rendered its economy vulnerable to external shocks and limited the effectiveness of national counter-cyclical policies. The loss of monetary and exchange rate autonomy within the Eurozone has compounded this constraint, leaving few buffers during downturns.

Future research should extend this work by investigating the composition and qualitative drivers within the broad categories of demand examined here. For instance, following the approach of Kohler and Stockhammer (2022), a granular analysis of public spending could distinguish between the growth impacts of infrastructure investment, education, health, and social transfers. Similarly, the role of exports could be further dissected to assess the contributions of price competitiveness, non-price factors such as quality and innovation, and sectoral specialization. Such an approach would not only refine our understanding of Italy's growth model but also offer more targeted insights for economic policy in an era of persistent stagnation and ecological transition.

In sum, this article contributes to a growing body of heterodox scholarship that seeks to reunite economic analysis with political and institutional inquiry. By explicitly linking demand dynamics to the "politics of growth," it offers a framework for understanding not only Italy's past development but also its future constraints and possibilities.

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Variable	Propensity	Rate of growth
Y: Aggregate product, income		g
Z: Autonomous component of the aggregate demand		g_Z
C_H: Consumption of households	c: Propensity to consume	g_c: Rate of growth of propensity to consume
I_{PE}: Investment of private enterprises	h: Propensity to invest of private enterprises	g_h: Rate of growth of propensity to invest
I_H: Residential investment		g_{I_H}
G_C: Public consumption		g_{G_C}
G_I: Public investment		g_{G_I}
X: Export		g_X
E: Inventories		g_E
M: Imports	μ: Imports share, propensity to import	g_μ: Rate of growth of propensity to import
	α: Supermultiplier	

Table 2: Summary of symbols

Annex

A.1 Summary of symbols

- Table 2

A.2 Data sources of empirical analysis

- Gross Domestic Product (Y): AMECO database; GDP, at constant prices (OVGD), (constant prices, 2015 as base year).
- Private non-residential consumption (C_H): AMECO database; Private FCE, at constant prices (OCPH), (constant prices, 2015 = 100).
- Public consumption (G_C): AMECO database; Total FCE of general government, at constant prices (OCTG), (constant prices, 2015 = 100).
- Residential investment (I_H): OECD database; gross fixed capital formation, housing (constant prices, 2015 = 100).
- Public investment (G_I): OECD database; General government fixed capital formation, (nominal value), Gross fixed capital formation deflator.
- Private non-residential investment (I_{PE}): OECD database; Private non-residential and government fixed capital formation (constant prices, 2015 = 100), General government fixed capital formation (nominal value), Gross fixed capital formation deflator.
- Inventories (E): AMECO database; Change in inventories and net acquistion of valuables, at constant prices (OIST), (constant prices, 2015 = 100).

- Exports (X): AMECO database; Exports, at constant prices (OXGS), (constant prices, 2015 = 100).
- Imports (M): Imports: AMECO database; Imports, at constant prices (OMGS), (constant prices, 2015 = 100).
- Real Wages: ISTAT database; Serie Storiche Istat; Tavola 10.21 - Numeri indice delle retribuzioni contrattuali orarie lorde per alcuni settori di attività economica e qualifica professionale - Anni 1955-2015; Tavola 21.5 - Indici dei prezzi al consumo per le famiglie di operai e impiegati - Anni 1861-2015.

A.3 Decomposition equations using the Supermultiplier

The equations are taken from Freitas and Dweck (2013), p.189-191.

$$Y + M = C_H + I_{PE} + I_H + G_C + G_I + X + E \tag{10}$$

$$M = (1 - \mu)(C_H + I_{PE} + I_H + G_C + G_I + X + E) \tag{11}$$

$$C_H = cY \tag{12}$$

$$I_{PE} = hY \tag{13}$$

$$Z = I_H + G_C + G_I + X \tag{14}$$

$$Y = \mu cY + \mu hY + \mu(Z + E) \tag{15}$$

$$\begin{aligned} Y(1) - Y(0) =& \mu(1)c(1)Y(1) - \mu(0)c(0)Y(0) + \mu(1)h(1)Y(1) - \mu(0)h(0)Y(0) + \\ &+ \mu(1)[Z(1) + E(1)] - \mu(0)[Z(0) + E(0)] \end{aligned} \tag{16}$$

$$\begin{aligned} gY(0) =& \mu(1)c(1)gY(0) + \mu(1)h(1)gY(0) + [\mu(1)c(1) - \mu(0)c(0)]Y(0) + [\mu(1)h(1) - \\ &- \mu(0)h(0)]Y(0) + \mu(1)[\Delta Z + \Delta E] + \Delta\mu[Z(0) + E(0)] \end{aligned} \tag{17}$$

$$\begin{aligned} g =& \mu(1)c(1)g + \mu(1)h(1)g + \mu(1)c(1) - \mu(0)c(0) + \mu(1)h(1) - \mu(0)h(0) + \mu(1)[\frac{\Delta Z}{Y(0)}] + \\ &+ \mu(1)[\frac{\Delta E}{Y(0)}] + \Delta\mu[\frac{Z(0) + E(0)}{Y(0)}] \end{aligned} \tag{18}$$

$$g = \mu(1)c(1)g + \mu(1)h(1)g + \mu(1)\Delta c + \Delta\mu c(0) + \mu(1)\Delta h + \Delta\mu h(0) + \mu(1)[\frac{\Delta Z}{Y(0)}]+ \\ + \mu(1)[\frac{\Delta E}{Y(0)}] + \Delta\mu[\frac{Z(0)+E(0)}{Y(0)}] \tag{19}$$

$$g = \alpha(1)\Delta c + \frac{\alpha(1)}{\mu(1)}\Delta\mu c(0) + \alpha(1)\Delta h + \frac{\alpha(1)}{\mu(1)}\Delta\mu h(0) + \alpha(1)[\frac{\Delta Z}{Y(0)}]+ \\ + \alpha(1)[\frac{\Delta E}{Y(0)}] + \frac{\alpha(1)}{\mu(1)}\Delta\mu[\frac{Z(0)+E(0)}{Y(0)}] \tag{20}$$

Considering that:

$$\Delta Z = \Delta I_H + \Delta G_C + \Delta G_I + \Delta X \tag{21}$$

$$g = \alpha(1)\Delta c + \alpha(1)\Delta h + \alpha(1)[\frac{\Delta I_H + \Delta G_C + \Delta G_I + \Delta X}{Y(0)}]+ \\ + \frac{\alpha(1)}{\mu(1)}g_\mu[\frac{\mu(0)c(0)Y(0) + h(0)Y(0) + Z(0) + E(0)}{Y(0)}] + \alpha(1)[\frac{\Delta E}{Y(0)}] \tag{22}$$

We arrive at:

$$g = \alpha(1)\frac{C_H(0)}{Y(0)}g_c + \alpha(1)\frac{I_{PE}(0)}{Y(0)}g_h + \alpha(1)\frac{I_H(0)}{Y(0)}g_{I_H} + \alpha(1)\frac{G_C(0)}{Y(0)}g_{G_C} + \alpha(1)\frac{G_I(0)}{Y(0)}g_{G_I}+ \\ + \alpha(1)\frac{X(0)}{Y(0)}g_X + \frac{\alpha(1)}{\mu(1)}g_\mu + \alpha(1)\frac{E(0)}{Y(0)}g_E \tag{23}$$

A.4 Annual analysis of the decomposition

- Figure 8
- Figure 9

A.5 The Public Expenditure-to-GDP Ratio: An Alternative Perspective on Fiscal Policy

Figure 10 presents an analysis of the public expenditure-to-GDP ratio, an indicator that offers a valuable alternative to the conventional debt-to-GDP metric for evaluating the scale and economic impact of government spending.

Two critical insights emerge from this analysis. First, the period from 1982 to 1992—largely corresponding to the third period in our growth decomposition—stands out for its exceptionally

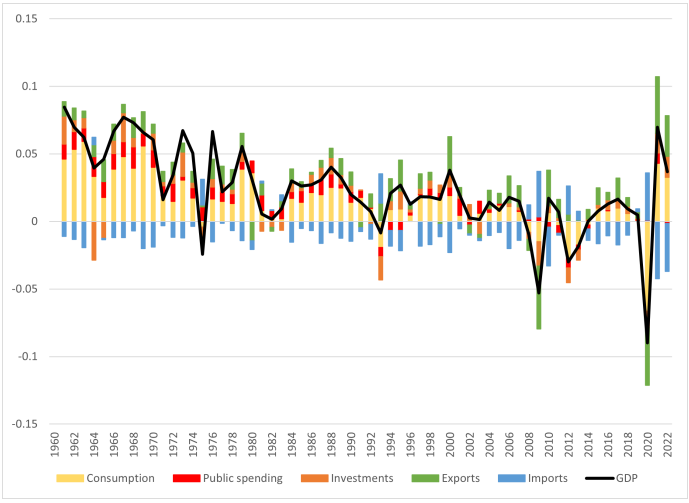

Figure 8: Annual traditional growth decomposition from 1960 to 2022. Data source AMECO and OECD, own elaboration.

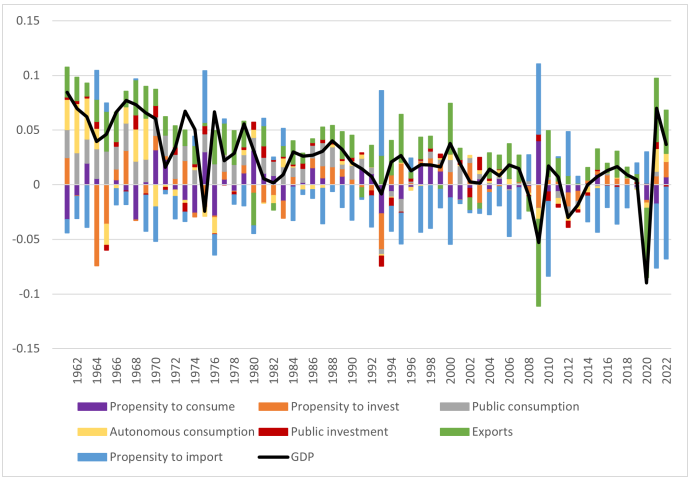

Figure 9: Annual Supermultiplier growth decomposition from 1960 to 2022. Data source AMECO and OECD, own elaboration.

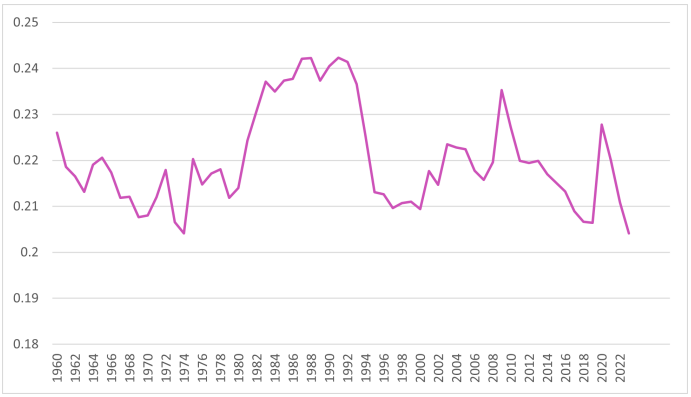

Figure 10: Ratio beetween Public spending (consumption ad investments) and GDP from 1960 to 2022. Data source AMECO and OECD, own elaboration.

high ratio values, culminating in a peak in 1991. Conversely, the ratio reached its minimum in 1974, a finding of particular note given that this era is often characterized in prevailing narratives as one of excessive public expenditure aimed at accommodating wage demands.

The elevated ratio during the 1982–1992 period was not primarily a result of discretionary fiscal expansion. Rather, it was driven by a dramatic increase in debt servicing costs due to historically high interest rates. As public spending on interest payments surged and GDP growth failed to keep pace, the ratio increased mechanically. This phase concluded with the run-up to European Monetary Union, which imposed stringent convergence criteria—including limits on public deficits and debt—that formally constrained fiscal policy from the 1990s onward.

Second, the analysis clarifies the dynamics during the crisis years of 2009 and 2020, which also show sharp peaks in the ratio. In these instances, the increase was not caused not by a rapid rise in public spending (the numerator), but rather by a severe contraction in GDP (the denominator), triggered by the Global Financial Crisis and the COVID-19 pandemic, respectively.

This examination underscores that the public expenditure-to-GDP ratio is a complex indicator whose movements can reflect vastly different underlying realities: from high debt servicing costs to deep economic contractions. It challenges simplistic interpretations that equate a high ratio solely with fiscal profligacy, highlighting instead the role of external financial constraints and macroeconomic volatility in shaping fiscal outcomes.