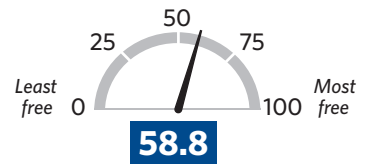


ITALY

Economic Freedom Score



World Rank: **92**

Regional Rank: **36**

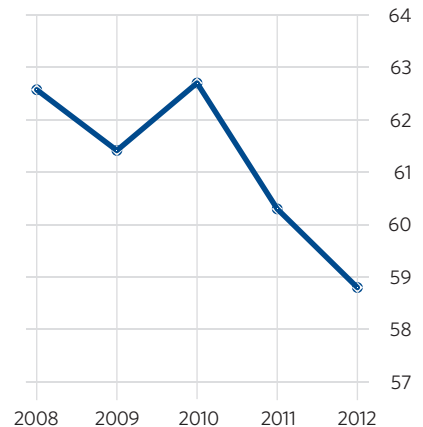
Italy's economic freedom score is 58.8, making its economy the 92nd freest in the 2012 *Index*. Its overall score is 1.5 points lower than last year, with significant declines in freedom from corruption and the control of government spending. Italy is ranked 36th out of 43 countries in the Europe region, and its score is slightly below the world average.

Despite repeated reform attempts, Italy's moves toward institutionalizing greater economic freedom have been uneven and relatively ineffectual. Short-term fixes have not been effective. Worse, the foundations of economic freedom remain weak in the absence of an efficient judicial framework to provide effective and timely resolution of cases. Corruption, often involving government officials, is a growing concern, severely undercutting confidence in the government.

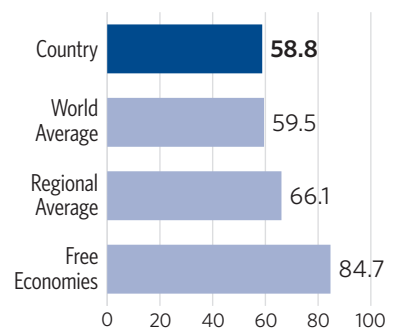
The ongoing European sovereign debt crisis has taken a considerable toll on macroeconomic stability. Sharp increases in the debt burden, aggravated by structural weaknesses, are undermining long-term competitiveness. With public debt around 120 percent of GDP and growing, policy options are increasingly constrained. Due to the complexity of the regulatory environment and the high cost of conducting business, considerable economic activity remains in the informal sector.

BACKGROUND: Center-right Prime Minister Silvio Berlusconi, elected for a third time in 2008, announced his resignation in November 2011 after challenges to his economic leadership and recurring personal scandals distracted attention from urgently needed reforms. The 2011 uprisings in North Africa caused a massive wave of immigration, and Italy granted short-term visas to many immigrants who were then encouraged to emigrate to other European Union Schengen member states. Although Italy emerged from recession in mid-2009, its deficit has grown above the euro zone's standards, its economic growth rate is one of the EU's lowest, and unemployment is high. Other persistent problems include organized crime, illegal immigration, and the long-standing imbalance between the prosperous and industrialized North and the less-developed, agricultural South.

Freedom Trend



Country Comparisons



Quick Facts

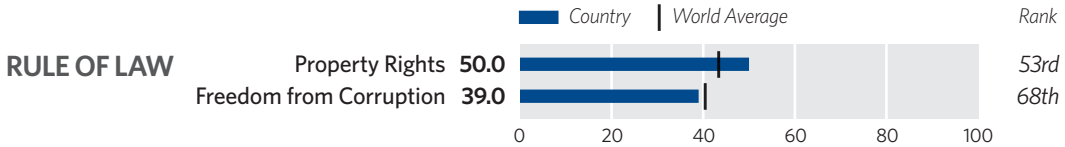
Population: 60.3 million
GDP (PPP): \$1.7 trillion
 1.3% growth in 2010
 5-year compound annual growth -0.4%
 \$29,392 per capita
Unemployment: 8.4%
Inflation (CPI): 1.6%
FDI Inflow: \$9.5 billion
Public Debt: 119.0% of GDP

How Do We Measure Economic Freedom?

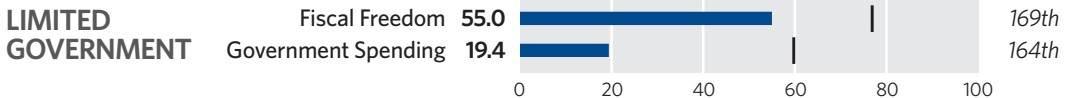
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

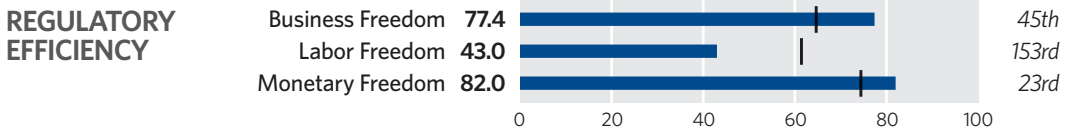
THE TEN ECONOMIC FREEDOMS



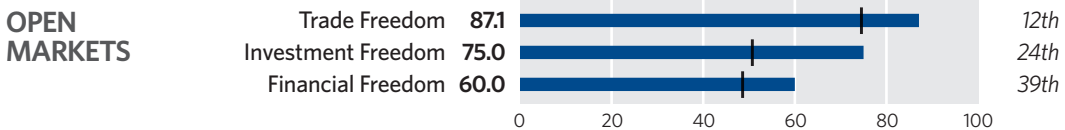
Property rights and contracts are secure, but court procedures are extremely slow, and many companies choose to settle out of court. The legal system is vulnerable to political interference. Enforcement of intellectual property rights falls below the standards of other developed Western European countries. Widespread corruption has bred a culture of lawlessness and tax evasion and has weakened respect for the judiciary.



The top income tax rate is 43 percent, and the top corporate tax rate is 27.5 percent. Individuals also pay small regional and municipal income taxes. Other taxes include a value-added tax (VAT) and an inheritance tax, with the overall tax burden equaling 43.5 percent of GDP. Government spending has increased to a level equaling 51.8 percent of total domestic output. The deficit remains high, and public debt exceeds the size of the economy.



Organizing new investment and production remains a cumbersome process. Inefficient administration and regulatory complexity cause delays and increase the cost of entrepreneurial activity. Lingering labor market rigidities constrain dynamic job growth, and the informal labor market accounts for a large part of employment. Monetary stability has been relatively well maintained, with inflation under control.



The trade weighted average tariff rate is low, but cumbersome non-tariff barriers raise the cost of trade. Foreign investment is officially welcome, but complex bureaucracy and arbitrary enforcement of regulations remain impediments to dynamic investment growth. The financial system, although relatively well developed, is subject to political interference, and banks have been highly strained by the impact of the European sovereign debt crisis.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.4	Business Freedom	+0.1	Trade Freedom	-0.5
Freedom from Corruption	-4.0	Government Spending	-9.2	Labor Freedom	-1.4	Investment Freedom	0
				Monetary Freedom	-0.1	Financial Freedom	0