

Abstract

The economic crisis originated in the United States in 2007 and rapidly spread to the rest of the world has produced dramatic effects against which we are still struggling. The growing unemployment rate and the fall of the consumption level are perhaps the most visible results of the recession, even if the change that the crisis has caused is deeper. Indeed it has falsified two convictions which strongly affected the Western economies, that is to say the strong belief in the infallibility of the economic thought and the faith in a persistent growth of the economy. Therefore, when the crisis arose, it triggered off a wave of criticism because of the incapacity of the economic circles to prevent it.

Although a recession is not a new phenomenon, there are some characteristics which make this crisis different from the others. On one hand, it has financial origins, which usually imply a slower recovery because of the extraordinary decrease of the consumption and the investment rate; on the other hand, it is a synchronized crisis, as all the developed countries are facing a difficult economic period, so that the foreign demand cannot be the engine of the economic upturn. Hence the crisis of 2007 joins the two elements which exacerbate the consequences produced by common recessions, that is why it is considered by the majority of the economists the worst financial crisis since the Great Depression of 1929.

The causes of this sort of “perfect storm” are both microeconomic and behavioural. Concerning the first aspect, the main culprit is certainly the sector of subprime mortgages, which are loans that banks grant to less creditworthy borrowers. Against the significant risk taken, the lending rate is obviously higher. The prerequisite of being lent the money is the ownership of a house (even if the mortgage was taken out exactly to buy it), connected with the belief that the prices of the houses will always increase. Indeed, in the case of insolvency, the bank could enter foreclosure and earn anyway.

The subprime mortgages started to multiply rapidly, reaching the peak in 2006. The large diffusion was also encouraged by government policies, as the increasing home ownership was a political goal to achieve. Consequently the economy trapped in a vicious circle, because the growing number of loans given out to potential home owners provoked the escalation of the housing prices. But this growth was just inflated, as there were no concrete reasons to justify it: nor the population neither the building costs had increased. The house-price bubble then burst in 2006, when housing prices started naturally to decline.

In the meanwhile the American subprime and the American regular mortgages had been bundled in financial agreements called mortgage-backed securities (MBS) and collateralized debt obligations

(CDO) and they were purchased by global investors. These innovative and very complex financial products connected more and more actors to a single mortgage, reducing the information on the real risk of the mortgage acquired. The toxic assets rapidly infected the portfolio of hundreds of institutions and companies, even if none of them became aware of it. Moreover, thanks to these instruments and to deregulation, a lot of banks significantly increased their financial leverage, taking higher risk to make bigger profits.

Started as a financial crisis, it quickly diffused its negative consequences in the real economy too, involving not only the housing market, but the whole level of consumption and investment. Indeed, after the notable collapse in September 2008 of Lehman Brothers, one of the most important American investment banks, the confidence in banking dropped dramatically and the credit market froze. In addition, the globalization, both of the financial and of the goods market, allowed the expansion of the crisis to the rest of the world.

Therefore, what it lies at the root of the crisis is a wrong attitude, well-known as neo-liberalism, which consists in an absolute *laissez faire*. According to it, the free market would be capable of giving the best solution, without any intervention of the State. Instead, the role of government is fundamental, as many scholars believe that a better regulation of the market, especially the financial one, would have avoided or at the very least reduced the present recession. Thus, both individual freedom and public regulations are necessary to overcome the economic difficulties.

As regards the consequences of the crisis, firstly it has produced a steady decrease of the global GDP, due to a slowdown in production. Even if it is widely affirmed that the recession finished in 2009, several countries like Italy are still tackling problematic situations. The most remarkable problems deal with the consumption level, which has conspicuously fallen. According to the Consumer Theory, we can expect a reduction of the income following an economic crisis and hence a stricter budget constraint. As a consequence, consumers will spend less and their total utility will decrease. Moreover the rise of the inflation rate, linked to the recession too, could worsen the situation, by depressing further the consumption. Finally, the lending rate as well as the saving rate of banks influence the level of expenditure and savings and could persuade to borrow heavily or not.

Through the data which statistical institutes have elaborated since the origins of the crisis, it is possible to verify if these hypotheses deduced from the Consumer Theory correspond to reality. The analysis of the essay is focused on the Italian economy.

Firstly, data about GDP show that between 2008 and 2009 it reduced by 3,3% and, after a brief recovery in 2010, it flopped again in 2012 by over 2%. Assuming the same trend, the expenditure of families slumped by 4%, which corresponds to around 26 billion of euro. Moreover the increase of

the taxation which lies heavy on citizens has weakened further both families and companies. Then the closure of many of the latter has dramatic effects on the unemployment rate, which climbed from the beginning of 2013 by 12%. The job loss together with the slight depreciation of the euro in comparison to the dollar and the growth of the inflation rate have lead to a severe restriction of the disposable income, which reduced by 2,2%. With regard to the interest rates of banks, the most significant value deals with the residential mortgage rate, which went up from 3,69% of December 2012 to 3,76% of February 2013. Hence the demand of loans is constantly reducing, even if also the saving level is likewise shrinking, because the saving rate is low and the predictions about the improvement of the economy are still pessimistic.

In conclusion, the data demonstrate that the theorised hypothesis were reasonable: the budget constraint reduced as well as the level of consumer's utility; next, the consumption rate was further depressed by the taxation and the high inflation; finally both savings and consumption decreased as a result of the savings and mortgage rates.

To face the crisis, families have developed some strategies to contain the expenditure: they not only reduce the amount of money spent on durable goods, but they also lower the quality of the provisions. In addition they prefer doing the shopping in hard discounts rather than in supermarkets or traditional shops where the prices of goods are higher.

Concerning the market of durable goods, one of the sectors which mostly suffers the consequences of the recession is certainly the automotive industry, whose sales have rapidly dropped. Its losses are connected also to the price of fuel, which is a complementary good to cars. Indeed it has consistently increased in the last few years, forcing many people to cut the use of private vehicles.

Tourism market is another sector particularly stricken by the crisis, as most consumers have limited their leisure activities.

These markets (the automotive and the tourism one) deserve a deeper analysis, because they are fundamental resources for the Italian economy. However, we can already affirm that a great change in consumer behaviour happened, consisting in the prior research for the best quality/price relation and in the revision of the needs scale. Therefore the low cost industry which also guarantees a high level of quality has a head start over others, because it is able to satisfy the modified demand of consumers.

Coming back to the automotive market, the fall of its sells is not only due to the economic crisis, but also to some characteristic which weaken it. In fact there are problems of market saturation, as the number of vehicles in Italy is one of the highest in Europe. Besides the fixed costs linked to the car's ownership are high too, such as the costs for having a car insurance, whose price increased in 2012 by 3,2%. Finally, the escalation of the fuel price and the costs of fines and tolls worsen the

economic condition of consumers. As a result, most people renounce to take their own car and choose the public transportation or the car sharing, causing a dramatic plunge in car registrations. Moreover a lot of consumers who buy a new vehicle prefer alternative fuel sources, like natural gas or LPG, while became indifferent to the origin of the car. Indeed the people aged 30-44 make no more difference between an Italian car or a foreign car, as the crucial element is the price/quality relation. In general 89% of Italians judge the car a rational good, namely a product where the rationality is more important than the emotional factors. In accordance with this tendency, the low-cost automotive industry enlarged its European market share by 42% in 2011. The leader of this sector is undoubtedly the Dacia company of Renault group, which has fused the economic advantages with the good quality of its products. Its success depends also on a new social attitude which does not consider anymore the low-cost car as a car of lower level, but, on the contrary, as a valuable alternative to traditional vehicles and to second hand cars.

To sum up, a new concept of car is rapidly affirming so that the Italian automotive industry should adapt to it and hence transform itself to survive.

The analysis concerning the tourism market shows similarly that a change in the consumer habits is happening. The number of journeys has decreased by 44,2% from the beginning of the crisis, as well as fewer tourists decide to stay overnight. The most suffering sector is the one of pleasure trips, which reduced more significantly compared to business travels. As the employment in the tourism industry corresponds to 6,5% of the national employment rate, it is clear that such a diminution is very critic for the whole Italian economy. However not only the recession, but also other reasons caused these effects. Indeed, uncertainty deeply affects the tourism market, because tourists have great sensitivity to external events. This is shown for instance by the wreck of the cruise ship Costa Concordia, which provoked an enormous fall in the sales of the cruise ships sector.

Instead, as a consequence of the reduction of incomes, consumers decide to substitute journeys with other kind of entertainment or choose nearer and cheaper destinations, like Spain and Greece. Moreover they book the flights and the hotels online, because this guarantees a better comparison of prices and hence substantial savings. In addition the websites specialized in this type of services are very reliable and offer excellent customer assistance. For example Volagratis.it has a great success thanks to its thousands of proposals and to the security of the economic transactions. It is also a model of successful low cost company in this area, as it provides low cost flights too. Therefore, together with Dacia in the automobile industry, it demonstrates that producers could make big profit by reducing costs even in a recessive period, if they are able to meet the consumers' needs and to guarantee high quality.

In conclusion, the economic crisis of 2007 is an exceptional event, not just because of the negative effects it has produced, but also because it has completely changed the way people conceive the whole economy and hence behave in markets.

In particular, the States understood that the economic system needs to be regulated, otherwise excesses and abuses could be committed. In addition they are carrying out reforms which have long since been postponed and they are limiting wastes in public administration.

On the other hand companies are incited to improve themselves and to introduce innovation in production, following the example of low cost firms which have a great success. Indeed their ability to join low prices and quality together perfectly satisfies the new demand of costumers.

Finally consumers too, who are at the core of this essay, have deeply modified their consumption habits, becoming shrewder and capable of comparing the companies' offer through digital instruments. Accordingly, communication is now strictly interwoven with the success of a firm, because the dialogue with the costumer is essential to create a product suitable for people's needs.

In short, the economic crisis cannot be described as a unique economic phenomenon, because it has social, cultural and political implications. For this reason all the social studies could be a valuable aid, because they analyse the whole human nature and the economic system is above all a creation of man. As this mechanism stopped working, we have now the possibility to reinvent and improve it. Therefore what is required is a new era of responsibility to face the challenge of creating a new world, with a different economy, society and politics. This challenge will not be met easily, but certainly the contribution of everyone is needed. Hence the economic crisis is both a risk and a chance of radically changing before the complete ruin, let's take this opportunity.