



Italy like Ryanair: can it exist with oil over \$ 100 per barrel?

Posted by [Ugo Bardi](#) on August 14, 2008 - 10:15am in [The Oil Drum: Europe](#)

Topic: [Economics/Finance](#)

Tags: [collapse](#), [crude oil](#), [italy](#) [[list all tags](#)]

The screenshot shows the Ryanair website interface. At the top, there are navigation links: DOMANDE SUI VIAGGI, DESTINAZIONI, ULTIME NOVITÀ, CHI SIAMO, Prenotazione | Orari | Rivedi prenotazioni. Below this is the RYANAIR.COM logo and a 'RYANAIR BARGAIN DOWNLOAD NOW' button. A secondary navigation bar includes: PAGINA INIZIALE, NOLEGGIO AUTO, HOTEL, HOSTEL WORLD, ESCURSIONI, RYANAIR VILLAS, ASSICURAZIONE, VOUCHER, DONO. The main content area is divided into 'LA MIA PRENOTAZIONE' (with 'ONLINE CHECK-IN' sub-link) and a flight search form. The search form includes fields for 'Ritorno' (selected) or 'Sola andata', 'Origine', 'Destinazione', 'Data di partenza' (26 Jul 2008), 'Data di ritorno' (26 Jul 2008), and 'Numero di passeggeri' (1 Adult, 0 Bambini, 0 Neonati). A 'CERCA VOLI' button is at the bottom. To the right of the search form is a large advertisement for Ryanair. The ad features a photo of Mr. Umberto Bossi and the headline 'IL MINISTRO BOSSI AI PASSEGGERI ITALIANI'. The text below reads: 'IL GOVERNO... SUPPORTA LE ALTE TARIFFE DI ALITALIA', 'SUPPORTA I FREQUENTI SCIOPERI DI ALITALIA', 'SE NE FREGA DEI PASSEGGERI ITALIANI'. At the bottom of the ad, it says 'CHEAPER THAN ANY OTHER AIRLINE' and 'GUARANTEED'.

Ryanair and the Italian government at odds with each other. This Ryanair advertising shows Italy's ministry for reforms, Mr. Umberto Bossi, in an occasion where he was expressing his disagreement with the words of the Italian national anthem. In the text, the Italian government is accused of "supporting Alitalia's high tariffs", "supporting the frequent Alitalia strikes" and "not caring about the Italian passengers". Ryanair is understandably angry at the preferential treatment that the Italian government is reserving to Alitalia, Italy's national air carrier. Alitalia is in danger of bankruptcy and has been recently saved by a hefty injection of public money.

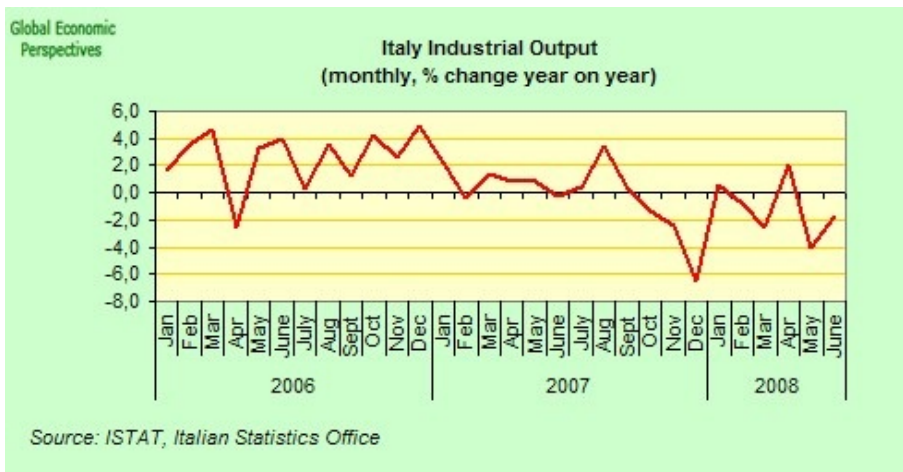
An airline is a small economic system that uses fuel derived from oil in order to carry on activities that generate profits. If oil is too expensive, profits disappear and, eventually, the system must disappear, too, bankrupted. Low cost airlines have appeared during the period of relatively low oil prices that ensued after the first oil crisis, in the 1980s. Can these airlines exist with oil over \$100 per barrel?

A country is larger than an airline but it, too, needs fuel for its economic activities. And, if deficits run too high, countries can go bankrupt as well. Italy's industrial economy had its moment of maximum growth in the 1950s and 1960s; in a period of low and stable oil prices. Can Italy's industry exist with oil prices over \$100 per barrel?

At TOD, we have been discussing economic collapse for a long time and Italy may provide for us an interesting test case (although Spain, too, may be in the race). Maybe collapse is too strong a word, but it is clear that things are not going well in Italy. We can find plenty of data about the Italian economy in the excellent blog by Edward Hugh "[Italian economy watch](#)". His posts of the last months read like a horror story. Here are a few examples; first, Italy's inflation:



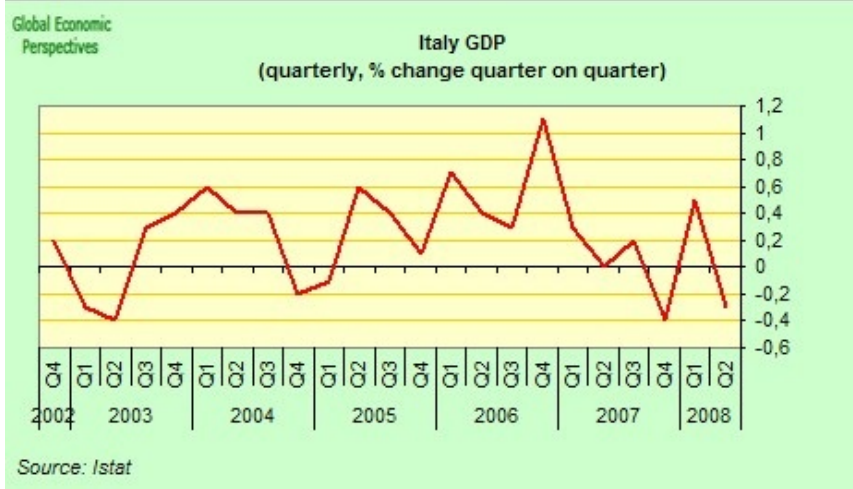
Here is Italy's industrial production:



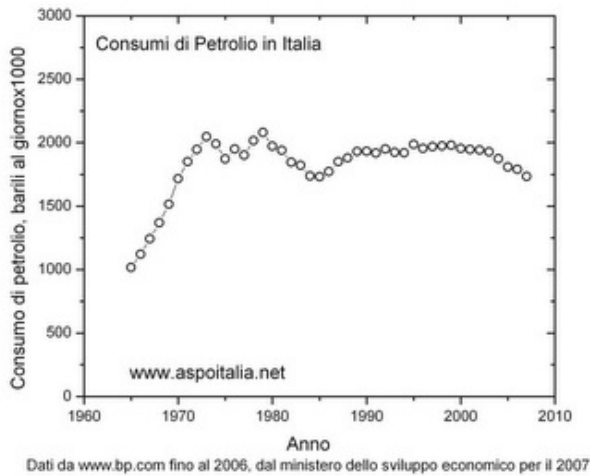
And Italy's business confidence:



Here is Italy's GDP:



There are many other chilling data that you can read in Hugh's blog, but let me show you a graph that I made myself about Italy's oil consumption. I am sorry that the captions are in Italian, but I think you understand what it is about: Italy is using less and less oil; a sure sign of a slowing down economy:



And there is much more. For instance, we may give a look to the status of that ancient Italian organization which is the *Mafia*. On that, I found this graph made by the Italian ministry of interior.

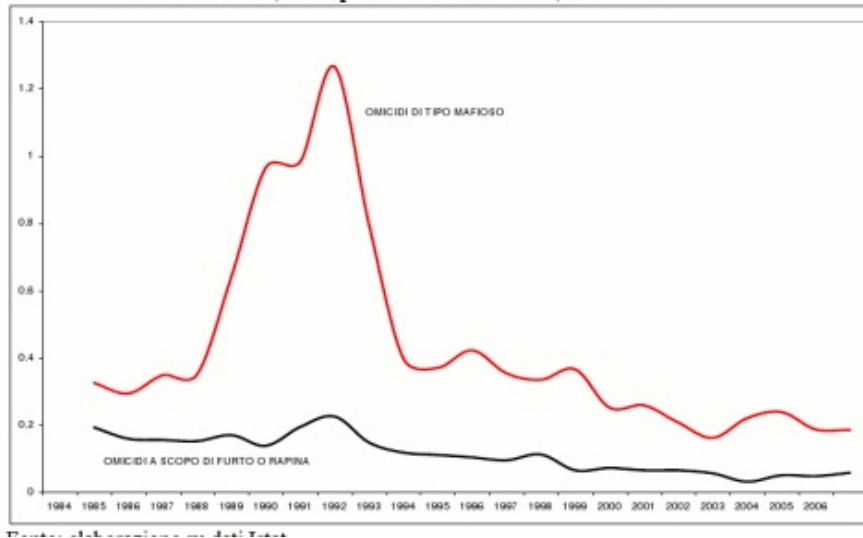


Image from the site of [Italy's ministry of interiors](#), The red line shows mafia-related homicides, the black one all the other crime related homicides.

"Peak Mafia", apparently, took place in 1991. Maybe Mafia methods are becoming gentler, but it might also be that even Mafia is in economic decline. After all, Mafia is an economic organization, although engaged in quite different activities than those of a typical airline. So, it may suffer because of the high oil prices, too. Of course, you might argue that homicides are a diseconomy for mafia and that the less homicides there are, the more efficient the organization is. Could be, but it is also true that number of all violent crimes in Italy seem to be stagnating or in decline, according to the report of the ministry of the interior. Maybe Italian criminals are becoming too poor to buy ammunition.

The economic decline seems also to be taking a toll on the health of the Italians themselves. Life expectancy had been constantly growing in Italy for the past 50 years. But, recently, the trend has stopped (see this [article of mine](#), unfortunately in Italian). Is it due to a natural limit of to the deterioration of the Italian health care system and in general of the quality of life in Italy? We can't say for sure, but the second hypothesis cannot be ruled out.

Now, I am not an economist and I am not qualified to interpret such things as macroeconomic indicators (or mafia trends). But, surely, what we are seeing needs to be explained. I can see two main possible reasons for the decline of the Italian economy. One is demography, the other the high prices of oil. About demography, there is no doubt that Italy is becoming a nation of old people. You can see that in statistics, but you also can get a visual impression of the large number of aged people by walking anywhere in Italy. Old people, of course, don't produce goods and tend to buy less. That would explain, at least in part, the general economic decline of the country.

But, of course, high oil prices are also playing a role; perhaps the most important one. Although some oil and gas are being produced on the national territory, Italy is nearly completely dependent on imports for its energy production. Most of the electric power in the country is made using imported natural gas; Italy has no nuclear plants although it does import nuclear energy from France and Switzerland. Renewable energy exists mainly in the form of hydroelectric plants in the north of the country. Italy has been very slow in moving towards the new renewable technologies: wind and photovoltaics. So, high prices of fossil fuels badly damage an economy that needs to export manufactured products to survive. With high energy prices, Italian products become more expensive and therefore less competitive on the international market. So, exports decline and Italy is less and less able to pay for energy imports. In addition, high oil prices are also adversely affecting tourism; a traditional source of revenue for the Italian economy. With less money available and more expensive energy imports, what ensues is the deadly spiral of

From here, I could tell you a lot on how Italians are reacting (actually, non-reacting) to the situation. In this hot summer of 2008, Italians are enjoying their vacations. They seem to be worried mainly about sports and convinced that all problems are due to crime, speculation and immigration. Most people seem to believe that the Euro currency is the culprit for the decreasing purchasing power their salaries. Nobody is discussing the possibility of an economic collapse. Whenever some data show that the economy has improved a bit, it is hailed with enthusiasm in the front pages of the newspapers. When the data show that it has gone down (much more often) it is written in small characters in an inner page. Italians may be unpleasantly surprised on coming back from their vacations, this september.

The government of Mr. Berlusconi has been elected a few months ago on the basis of plenty of promises that - as usual for governments - will be hard to maintain. Besides cutting deeply on expenses, including privileges of public employees, the government seems to think that all problems can be solved by a grand plan of public works that includes new nuclear plants, a giant bridge over the strait of Messina, high speed railways, highways, waste incinerators and more. The plan seems to be considered a good idea by most people, including the main opposition parties. But, of course, a lot of energy will be needed to carry out the plan. This energy will have to be imported and someone will have to pay for it. It doesn't really matter whether the money will come from the government or from private funds, it is money that Italy doesn't have. And you know what happens if you keep spending money you don't have.

A slow collapse is a decline and a fast decline is a collapse. Whatever it is, as an Italian citizen, I am seeing it unfolding right around me. At least, I am fortunate enough in not being also an employee in a low cost airline.



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