Abstract

Since the launch of the euro, Italy has had the slowest growth among EU Member States and has generally been regarded as a laggard in structural reforms aimed at overcoming its long-term weaknesses. Governance and policy shortcomings are partly to blame, but there are also deeper societal factors which have affected the scope for transformation of Italy. This background is not conducive to successful transitions in the domains examined in the NEUJOBS project, but it is also important to recognise that Italy has a social cohesiveness and capacity for finding solutions that belie its negative image. This report explores the policy challenges and prospects for Italy in relation to the four transitions at the heart of the NEUJOBS project, starting with the economy overall.
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ITALY’S SOCIO-ECOLOGICAL TRANSITION: POLICY REPORT

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Summary of key points

Since the launch of the euro, Italy has had the slowest growth among EU Member States and has generally been regarded as a laggard in structural reforms aimed at overcoming its long-term weaknesses. Governance and policy shortcomings are partly to blame, but there are also deeper societal factors which have affected the scope for transformation of Italy. This background is not conducive to successful transitions in the domains examined in the NEUJOBS project, but it is also important to recognise that Italy has a social cohesiveness and capacity for finding solutions that belie its negative image. This report explores the policy challenges and prospects for Italy in relation to the four transitions at the heart of the NEUJOBS project, starting with the economy overall.

The economic context

- The lack of dynamism of the Italian economy has had a number of debilitating effects. It has meant that the country has become trapped in a low-growth/high public debt equilibrium. Although it has avoided the asset bubbles and high private debt which have characterised the crisis in some other Member States, the sheer cost of debt service has required a sizeable primary surplus in the public finances, limiting the room for growth-orientated public spending.

- Erosion of competitiveness has also been an enduring problem, even though it has not resulted in the sort of balance of payments problems that arose in Greece or Spain. However, unlike the latter, Italy has made virtually no progress in reining-in unit labour costs over the crisis period, and has struggled to push through labour market reforms.

- Youth unemployment has become an increasingly intractable problem in recent years. Latterly, Italy has become a country of immigration, raising new policy issues for the welfare system.

- Administrative weaknesses are regarded by many as an underlying obstacle to transformation. These affect the judicial, fiscal and economic development systems and impose a burden on the economy and on society as a whole. Even where ambitious policy innovations are put forward, implementation difficulties often undermine their impact.

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Energy and climate change

- The overall approach of Italy to energy and dealing with climate change is in line with that of other Member States, as is the concern about energy security which is visible in the (successful) efforts made to obtain favoured access to Caspian Sea gas supplies.

- There is a long-term energy plan and achievements in promoting energy savings and the development of solar power, and investment in reducing energy efficiency in buildings was a prominent feature in the 2014 budget. But there are also still incentives which support petroleum use and some doubts about the role of lead-in tariffs in supporting renewables.

- It is hard to detect much recognition of the potential long-term impact on the labour market of the sort of socio-ecological transition envisaged by NEUJOBS Skills for the new economy

- There are acknowledged shortcomings in investment in skills which do not augur well for the Italian economy, especially relative to other EU Member States.

- As in many other areas, public funding cuts will be an obstacle, but the need to support both more and (perhaps more important) better spending on educational attainment emerges strongly from some of the comparative analysis undertaken by NEUJOBS researchers.

- More effort is needed on life-long learning and in promoting job quality, as well as in rethinking apprenticeships, not least as part of a strategy to counter youth inactivity.

Societal change

- The outlook for ageing emphasises the urgency of boosting the employment rates of women and reducing youth unemployment. Recent policy initiatives offer some answers, but further measures are required.

- Child-care and care for the elderly have traditionally been provided more through family networks, rather than social services of general interest, although there has been a steady improvement in public provision.

- Work-life balance faces greater challenges than in many northern European countries and, as noted by NEUJOBS researchers, derives from socio-cultural as well as financial constraints.

- Italy faces new challenges in integrating the growing number of non-EU immigrants.

Spatial trends

- The longstanding north-south divide in Italy has proved to be very hard to transform. Many of the problems flow from shortcomings in public administration, but securing improvements will be time-consuming, especially in the regions afflicted by endemic corruption and organised crime.
Evidence from an OECD study that there may be areas characterised by a low-skills equilibrium is a cause for concern and a policy implication is that innovative approaches to economic development are required.

In conclusion, the reform agenda in Italy today is lengthy and demanding, but progress has been hampered by political instability and a pervasive reluctance to deal with the harder issues. That two governments with ambitions to push through major reforms have fallen in quick succession since the end of 2011 testifies to the magnitude of the political challenge. EU governance processes can potentially support transformation, sometimes by offering an analysis and perspective that transcends entrenched local interests. However, a recent focus from ‘Brussels’ on short-term reform is misplaced, as it fails to address some of the underlying challenges, and may aggravate an existing tendency to neglect longer term transformations.
1. **Introduction**

All European countries are faced with a need to tackle far-reaching economic and social challenges, and to adopt and implement appropriate policies to equip them for a transformed socio-ecological system. The NEUJOBS project has identified four long-term transitions which will have profound effects, and is particularly concerned with how these changes will influence employment in the period up to 2025 and beyond. The four transitions are:

- A shift towards a more sustainable socioeconomic future, motivated by linked concerns about the climate changing effects of carbon emissions and a recognition that, irrespective of worries about the climate, fossil fuels cannot continue indefinitely to be the main source of energy for a growing global economy.
- A wide-ranging societal change deriving from, on the one hand, well-known demographic trends and, on the other, a plethora of social transformations.
- The transition towards the new skills that will be required for the knowledge economy of subsequent decades of the 21st century.
- A new balance between agglomeration and dispersion effects in territorial dynamics that results from developments which affect the costs of flows of information and ideas.

Since the project was launched, the ‘crisis’ has manifestly deepened and intensified for some EU Member States, to the extent that its effects and aftermath have, themselves become a significant transition, as explained in a previous NEUJOBS policy report (Begg, 2013). This policy report examines how Italy is evolving in relation to these transitions and offers an assessment of the nature of the policy responses to date and future policy imperatives. The next section discusses the economic context, then section 3 presents relevant findings from the wide range of research in progress as part of the NEUJOBS project, as well as some complementary work. Section 4 considers EU level and other assessments of Italy, and section 5 explores Italy’s capacity for change. Conclusions complete the report.

2. **Economic context**

Italy has been the slowest growing of the EU economies over the last fifteen years and is widely acknowledged to be in need of a range of reforms. Figure 1 shows the growth of the Italian economy since the mid-1990s, relative to the euro area, itself hardly the most dynamic part of the world. Between 1997 (by when the major adjustments to enter the euro had been undertaken) and 2013, the Italian economy grew by just 7%, compared with 23.5% for the euro area as a whole. Even Greece, despite its six years of recession, has outperformed Italy over this period, because of relatively strong (if manifestly unsustainable) growth earlier in the 2000s. More worryingly, compared to the year 2000, Italian GDP in 2013 will be a tiny 0.3 percentage points higher. A decidedly moderate long-run trend of 2% per annum growth would have meant some 30% growth since the launch of the euro, making clear the extent of the growth foregone as a result of the stagnation of the Italian economy over this period.
Guerrieri (2013) argues that the problems of the Italian economy are long-standing and that the most acute ‘include weaknesses in the production system and research, the lack of infrastructure, the inefficiency of the welfare system and public administration, and territorial rivalry between north and south’. He believes that these all contribute to the stagnation of total factor productivity and are the fundamental explanation for the slow growth and loss of competitiveness.

Figure 1. Italian growth relative to the euro area, Greece and Spain, 1997-2013

Source: own elaboration from AMECO database.

2.1 Projections

According to forecasts from the likes of the European Commission and the IMF, the short- to medium-term outlook for the Italian economy is not encouraging, with at best slow growth and little improvement in the labour market. However, such forecasts are dominated by the legacy of the crisis and say little about the longer-term. By contrast, projections from NEUJOBS research are intended to elucidate how countries are likely to evolve in relation to the four transitions central to the project. These projections are predicated on two scenarios labelled ‘tough world’ and ‘friendly-world’, the main distinction between them being the intensity and pace of the change in the most crucial drivers of developments (see Fischer-Kowalski et al., 2012). For example, oil prices would be twice as high in the tough scenario, whereas little progress would be visible in developing second-generation bio-fuels (engendering conflict with food production in land use).

Using the long-term NEMESIS model as developed for NEUJOBS, Boitier et al (2013) forecast GDP growth for Italy in successive five year periods as shown in table 1 for the two scenarios. In both scenarios, the projected growth is lacklustre, largely because of

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Data for 2013 are projections
the interplay between the size of the working-age population and the skills composition of the workforce. The main difference between the two scenarios is the effect of immigration on labour supply. Coming after an already extended period of negligible growth in the last fifteen years, even the projections for the friendly scenario signal that there will be a continuing squeeze on public spending and that ‘achieving more with less’ will be a pervasive theme for Italian policy-makers.

Table 1. Tough and friendly scenarios in the NEMESIS model

<table>
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<tbody>
<tr>
<td><strong>Tough Scenario</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>0.62</td>
<td>1.16</td>
<td>0.70</td>
<td>0.57</td>
</tr>
<tr>
<td>EU</td>
<td>1.31</td>
<td>1.44</td>
<td>1.08</td>
<td>1.18</td>
</tr>
<tr>
<td><strong>Friendly Scenario</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>0.67</td>
<td>1.87</td>
<td>1.71</td>
<td>1.72</td>
</tr>
<tr>
<td>EU</td>
<td>1.33</td>
<td>1.99</td>
<td>1.98</td>
<td>2.01</td>
</tr>
</tbody>
</table>

*Source: Boitier et al. (2013).*

Italy has a low fertility rate and is projected to see it increase only marginally according to data quoted in a NEUJOBS study of demographic scenarios (Huisman et al., 2012). Ageing of the population is, in part, attributable to a substantial increase in life expectancy that saw an increase for Italians (both men and women) of eleven years between 1960 and 2009. By 2030, the projections suggest that life expectancy for both sexes will rise by a further 2 years.

Having switched from being a country of net emigration, Italy (along with the UK and Spain) is projected to be the most significant net destination country over the next two decades and has become a significant policy challenge. According to a commentary from the International Organization for Migration, ‘Italy is one of the most important destination countries for migrants to Europe: Around 5,000,000 regular migrants live in the country (about 8 per cent of the total population) and the annual growth rate of migrant presence is – together with Spain – the highest in the European Union’.

2.2 The public finances

In spite of the image sometimes portrayed elsewhere, Italy has not failed to raise government revenue, as Greece most egregiously has. Indeed by 2007 (the last observation before the crisis struck), it was in the top quintile of the EU for the share of current tax revenue in GDP, at 43.0%, compared with an EU27 average of 40.1%. It was slightly below the EU average in 2007 for subsidies as a proportion of GDP, at 1.02% of GDP, and that figure is expected to fall marginally as austerity policies bit. The lack of fiscal room for manoeuvre is highlighted by the fact that unlike Germany and France which allowed subsidies to rise in 2009 and 2010, Italy did not. It is in relation to the share of GDP spent on interest on public debt that Italy is most distinctive. Membership of the euro conferred very substantial windfall benefits on the Italian

public finances as can be seen from the halving of the interest rate burden between the mid-1990s and the early years of the euro (figure 2). However, what the chart also shows is the adverse effect on Italian public finances of the sovereign debt crisis. Despite record low interest rates set by the ECB, the Italian debt burden has edged upwards, at a time when the debt servicing costs of others has fallen.

The extent of the drag of the high debt on Italy is emphasised by looking at data on the implicit debt burden as measured by the interest paid as a proportion of debt in the previous year (figure 3). Many readers will be familiar with charts showing that interest rates converged in the early years of EMU, with spreads against the benchmark German bund falling close to zero, but widening again as the sovereign debt crisis hit. What this chart makes clear is the significance of this trend for the public finances of the more heavily indebted countries for which the markets have doubts about their fiscal sustainability. Italy, in particular, is saddled with a sizeable risk premium which substantially increases its interest payments. Greece, by contrast, has seen its debt service burden fall because of the bailout terms, despite the marked worsening of its debt to GDP ratio. A comparison with Belgium is instructive: the figures show that it tracks the euro area average closely, with the implication that markets have greater faith in the sustainability of Belgian public finances.

*Figure 2. Interest on public debt, % of GDP*

*Source: own elaboration from AMECO database.*
The fact that these measures of the debt burden initially improved before worsening again emphasises the policy challenges faced by Italy. In the early years of EMU, the windfall gain for the Italian economy from the falling debt burden meant that fiscal sustainability pressures diminished and that discipline in the public finances could be relaxed. But with the recent turnaround, against a backdrop of recession, the position is reversed: windfall gain has become a windfall loss. Thus, Italy will have to pay out two and a half times as much as Germany as a percentage of GDP in 2013, even though Italian gross debt is only about 50% higher than German debt. The chart reveals how Belgium, which entered EMU with a debt level similar to Italy’s relative to GDP, has seen its relative debt burden progressively ease.

2.3 The supply-side: evidence from Europe 2020 targets

Italy stands out from many of its EU partners for the distance it is going to have to travel to achieve the smart, sustainable and inclusive growth envisaged in the Europe 2020 strategy. It is a laggard in relation to the main Europe 2020 headline targets, while its prospects of smooth progress on the transitions identified in the NEUJOBS project are not promising. It should be noted that Italy has national targets for the Europe 2020 strategy which are significantly lower than for other countries, although still ambitious in national terms. Thus, in a simple comparison of the EU and national Europe 2020 targets, alongside the most recent actual indicators, it can be seen that:

- EU target: 75% employment rate; Italian target, 67-69; actual value in 2012, 61%
- EU target: 40% of 30-34 year old people with higher education; Italian target, 26%; actual value in 2012, 21.7%
- EU target: below 10% of early school leavers in 18-24 year old group; Italian target, 15%; actual value in 2012, 17.6%
• EU target: 3% of GDP spent on R&D; Italian target, 1.53%; actual value in 2011, 1.25%

• EU target: 20% share of renewables in gross energy consumption; Italian target, 17%; actual value in 2011, 11.5% (but increasing quite rapidly)

• EU target: lift 20 million people out of risk of poverty (pro rata Italian share would be around 2.4 million); actual change in Italy since 2008 UP by 3.37 million

3. The NEUJOBS transitions

Many NEUJOBS papers have touched on aspects of transitions in Italy and are reported throughout this section of the report, drawing out some of their implications for policy.

3.1 Energy and resources

According to data presented by Fischer-Kowalski et al (2012) in a major study for NEUJOBS, Italy is towards the lower end of the EU spectrum in its consumption of energy, as well as of exhaustible materials. However, according to Ecologic (2013), Italy is the third biggest CO$_2$ emitter in the EU, although it has managed to decrease its emissions by 6% since 1990 and has the fourth lowest energy intensity in the EU. Italy has taken steps to meet its commitments to the 20-20-20 strategy for energy. There have been some successes, notably in having increased the share of renewables in primary energy supply from 6.6% in 2004 to 11.7% in 2011, still a long way short of the 20% target, but significant progress towards it (OECD, 2013). Ecologic (2013) argues that the emerging National Energy Strategy initially presented in October 2012 could enable Italy to surpass its Europe 2020 targets in a scenario with additional measures. A separate green agenda had eight targets which focus on decarbonisation, green technology development and a switch away from labour taxes towards penalising the use of resources. This was achieved through a combination of efficiency measures, substitution of gas for oil and a shift to less energy intensive economic activities.

Italy has made particularly good progress in achieving energy savings, in line with the Piano d’Azione Italiano per l’Efficienza Energetica (PAEE), first agreed in 2007. This plan envisaged staged reductions in energy use and are higher than expected in the household sector. The approach has combined regulatory measures (the award of energy savings certificates) with subsidies to promote more efficient electric motors or building works which result in energy savings. Yet there is a concern, articulated by Cammi and Assanelli (2012), that Italy may have already picked most of the low-hanging fruit and that further savings will become more difficult. Significant investment will be needed in transmission networks to make better use of some forms of renewables but risks being inhibited by budgetary pressures.

Security of supply has, though, appeared to be a more urgent imperative for Italian energy policy than paving the way for a much more extensive energy transition. Although the Monti government produced an energy plan, it is at an early stage of implementation and therefore hard to judge. Having renounced nuclear as an option in 2011, Italy has recently announced changes to the incentives for renewable energy, but it is unclear whether these are motivated primarily by cost savings associated with
fiscal discipline or new directions. However, photovoltaic electricity generation is seen as the preferred source, although the International Energy Agency (2013) argues that adjustments to incentive schemes and the difficult economic context make it likely that the growth of renewables will moderate in Italy (and in Spain), in contrast to northern European Member States. The upshot, according to Cammi and Assanelli (2012: 68) is that ‘the strong dependence of Italy on the fossil fuels, and natural gas in particular, is expected to continue in the coming years’.

In the geopolitics of gas, Italy had looked vulnerable because the apparent support for the Nabucco project from Brussels and many Member States would have left Italy exposed. However, the decision to opt instead for the TAP project to deliver Caspian gas leaves Italy and Greece as major winners, to the cost of the Balkan countries. Italy will now be able to diversify its energy supply, ‘enhancing its ambition to become - as stated in its national energy strategy - a gas hub for Europe, according to Sartori (2013: 7).

An OECD assessment of energy subsidies for fossil fuels found that Italy in 2010/2011 was giving tax reliefs worth about €2 billion per annum, nearly all for petroleum. In the provisional data for 2011 the main beneficiaries of these subsidies were trucking companies (€346 million), agriculture (€908 million), shipping (€547 million) and ‘users living in disadvantaged areas’ (€231 million). There is a regional dimension to energy taxation, with those in the South paying lower rate and also some reduction for people living in oil producing areas. In addition, there are cheap loans, grants and relief from royalty payments for depressed regions, such as Basilicata in the South.

3.2 The labour market in relation to the skills and societal transitions

The Italian labour market exhibits a number of distinctive characteristics but is generally recognised to have been one of the least reformed in the EU. Successive governments have tried to make changes and the evidence collected by the Fondazione Rodolfo de Benedetti suggests that there has been no shortage of initiatives.³ However, the aggregate effect has been disappointing. Table 2, presents a range of relevant indicators of the labour market.

Despite the slow growth over such an extended period, unemployment has been in single figures, although with a very marked and persistent North-South divide. It is now become more sensitive to recession and increased at above average pace in 2012 (relative to the EU), but may now be moderating. Job finding rates are low in Italy in common with several other southern Member States. Job losses have increased, offsetting the moderation of reduction of job finding. Youth unemployment saw a marked rise in 2012 and, at over 30%, mean that Italy is in a second tier for these rates among EU countries. Nevertheless, Italy has had a net inflow of migrants, mainly from Africa and other EU Member States, and the flow continued as the economy shrank in 2011.

³ See the inventory of labour market reforms available at www.frdb.org. Reforms are also documented in the Commission’s LABREF database at http://ec.europa.eu/economy_finance/indicators/economic_reforms/labref/
Table 2. Some key labour market statistics for Italy

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>Italy</th>
<th>% of Euro Area average</th>
<th>Change in Italy from 2008-2012, percentage points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity rate total, 2012</td>
<td>63.7</td>
<td>88.5</td>
<td>-0.7</td>
</tr>
<tr>
<td>15-24</td>
<td>28.7</td>
<td>68.8</td>
<td>2.2</td>
</tr>
<tr>
<td>55-64</td>
<td>42.6</td>
<td>80.5</td>
<td>-7.1</td>
</tr>
<tr>
<td>Female</td>
<td>53.5</td>
<td>81.3</td>
<td>-1.9</td>
</tr>
<tr>
<td>Employment rate, 2012</td>
<td>56.8</td>
<td>89.0</td>
<td>1.9</td>
</tr>
<tr>
<td>15-24</td>
<td>18.6</td>
<td>57.9</td>
<td>5.8</td>
</tr>
<tr>
<td>55-64</td>
<td>40.4</td>
<td>83.0</td>
<td>-6</td>
</tr>
<tr>
<td>Female</td>
<td>47.1</td>
<td>80.9</td>
<td>0.1</td>
</tr>
<tr>
<td>Low-skilled</td>
<td>43.5</td>
<td>94.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Medium-skilled</td>
<td>64.2</td>
<td>93.2</td>
<td>3.7</td>
</tr>
<tr>
<td>High-skilled</td>
<td>76.6</td>
<td>94.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Self-employment rate, 2012</td>
<td>22.7</td>
<td>157.6</td>
<td>0.2</td>
</tr>
<tr>
<td>Temporary employment rate, 2012</td>
<td>13.8</td>
<td>90.2</td>
<td>-0.5</td>
</tr>
<tr>
<td>Part-time employment rate, 2012</td>
<td>16.8</td>
<td>80.4</td>
<td>-2.8</td>
</tr>
<tr>
<td>Female</td>
<td>31.0</td>
<td>86.6</td>
<td>-30</td>
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<tr>
<td>Unemployment rate, 2012</td>
<td>10.7</td>
<td>93.9</td>
<td>-4</td>
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<tr>
<td>15-24</td>
<td>35.3</td>
<td>154.1</td>
<td>-14</td>
</tr>
<tr>
<td>Female</td>
<td>11.9</td>
<td>102.6</td>
<td>-3.4</td>
</tr>
<tr>
<td>Low-skilled</td>
<td>13.9</td>
<td>71.6</td>
<td>-5.3</td>
</tr>
<tr>
<td>Medium-skilled</td>
<td>10.1</td>
<td>103.1</td>
<td>-3.9</td>
</tr>
<tr>
<td>High-skilled</td>
<td>6.8</td>
<td>98.6</td>
<td>-2.2</td>
</tr>
<tr>
<td>Hours worked, 2012</td>
<td>39.5</td>
<td>97.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Labour cost index change, 2011-12</td>
<td>2.0</td>
<td>0.2</td>
<td>16.7 (cumulative since 2007)</td>
</tr>
</tbody>
</table>


The Europe 2020 target of a 75% employment rate for those aged 20-64 is a demanding one for many Member States, including Italy. In 2010, according to data quoted by Greve (2012) in a NEUJOBS assessment, Italy’s employment rate was just 61.1%, making it the third lowest in the EU with only Hungary and Malta having slightly lower rates. The main reason for this is the very low female employment rate which was still below 50% in 2010, even after a decade of being emphasised in the European Employment Strategy and the Lisbon strategy, compared with the EU-27 average of 62.2%. Only Malta had a lower female rate. By contrast, the employment rate for men was just a couple of percentage points below the EU average.

A possible explanation could be that Italian women face greater institutional obstacles to working. Yet as Greve also shows for 2009, the proportion of Italian children in...
formal childcare was in line with the EU average for those aged under 3 and above it for children aged between 3 and the compulsory schooling age. Italian women are marginally less likely than average to work part-time. Although Greve’s case studies do not include Italy, it is nevertheless instructive to look at his conclusions in relation to Italian circumstances. He argues that the role of the state is central in reconciling work and family life, especially by ensuring that day care is available and by facilitating working arrangements that are sufficiently flexible to be consistent with family obligations. He argues that the role of employers is primarily in offering flexibility.

As part of a NEUJOBS review of labour market institutions, Van Vliet et al. (2012) find that unemployment replacement rates in Italy became much more generous over the last two decades, from having replacements rates of under half the OECD average in 1990 to exceeding it in 2009, whether for single unemployed persons or one earner couples with two children. The phenomenon of discouraged workers – those available to work, but no longer seeking jobs – is greater in Italy than most other Member States. However, it has not been increasing as much as in other Member States most affected by the euro crisis. The ECB (2012) nevertheless argues that the unemployment rate in Italy would be significantly higher if discouraged workers were taken into account. Loss of headcount has been mitigated by declining hours worked, suggests that some dampening effect (consistent with some interpretations of flexicurity – examined for NEUJOBS by Nelson, 2012) has occurred. The number of self-employed people fell between 2008 and 2012, although its share in total employment remained well above the EU average and even increased marginally.

Italian social partners concluded a collective agreement in 2012 that acknowledged the need to reflect competitive conditions in pay deals, and not just the cost of living. However the latest data show that hourly labour costs continued to increase, in contrast to the other southern European countries, although real take-home pay fell, reflecting consumer price inflation (Commission, 2013a).

Other points to note include:

- Passive support for jobseekers increased, again in contrast to other southern Member States
- The labour tax wedge has grown slightly, whereas EPL has declined marginally, albeit still a comparatively high score on the OECD index. It is an aspect of labour market policy which has again been the subject of Commission recommendations.
- There has also been some reform of benefit schemes, notably unemployment benefit
- Short-time working has been encouraged in the last year as a means of maintaining employment, but there is evidence of increased mismatch, and the Beveridge curve has shifted outwards
- A somewhat distinctive feature of Italy is that job losses have arisen more in industry than in construction which was the case in Spain and Ireland.
- According to Sirovatka and Greve (2014), in a volume drawing on NEUJOBS work, Italy is at the lower end of EU15 countries in its current level of employment in
social services of general interest (SSGI), with less than half the employment share of the Nordic countries. Over 60% of these jobs are filled by women, although this proportion is significantly lower than most other Member States. Similarly, SSGI in Italy do not employ as many low skilled workers.

- Data reported by Koster et al. (2012) in a NEUJOBS state of the art report show that the average age of exit from the labour force in Italy is also at the lower end of the scale of EU Member States, at an average of just over 60 years of age for the period 2006-9, albeit marginally above France.

3.3 Skills

Italy’s spending on education is substantial, though lower than many EU partners, but questions arise about its effectiveness because of relatively poor outcomes in terms of employment prospects. Polarisation in the labour market in which there is likely to be a reduction in middle-level skills has been identified across the EU as a potential trend (Eurofound, 2011), and could be of particular concern for Italy given its relatively large proportion of middle skilled jobs (Maselli, 2012). A finding for Italy during the recession is, though, that there has been what Eurofound calls ‘downgrading’, that is an increase in the share of low-skilled jobs and an erosion of the highest skilled. In another NEUJOBS analysis, Nelson (2013) finds that Italy is one of a small number of Member States in which low wage employment has declined.

The persistence of substantial regional disparities has long been a characteristic of Italy and has been extensively documented by both Italian and European Commission studies and reports (see for example successive Cohesion Reports). But there are also specific differences that bear on transitions in skills. De Stefanis (2012) reports the very large difference between the Mezzogiorno and the Centre North in irregular work, citing evidence that in manufacturing only 1.8% of workers are in the hidden economy in the North, compared with 13% in the South; in construction, the corresponding figures are 3.6% in the North East, 6.9% in the North West and 8.6% in the South. Although hidden employment in agriculture is much more even, it is very high at around a quarter of the workers in the sector, while in services, the difference is from 11.5% in the North and Centre to 18.4% in the South.

Other evidence presented by De Stefanis (2012) reveals a range of structural weaknesses which inhibit innovation and, arguably, lie behind the low rate of GDP growth noted above. They include:

- A preponderance of small firms in relatively low technology industries
- Poor hourly productivity growth
- Deficiencies in on-the-job-training
- Low expenditure on active labour market policies

What De Stefanis suggests is that some regions, especially in the South of Italy, may be stuck in a low-skills equilibrium in which employers only demand low skills, prompting workers with better qualifications to seek work elsewhere. As a result, only low skills are offered and the region becomes stuck in a stable, but low productivity cycle.
Case studies undertaken by De Stefanis (2012) exemplify some of the strengths and weaknesses of the Italian system. One, in the Veneto region of north-east Italy, focuses on the transformation of a local area specialising in footwear. In the face of global competition, the cluster of local producers has moved up-market and, in so doing, has shifted its skill demand towards higher qualifications. A privately-funded training organisation, in which the unions have a say as well as the employers, has played a crucial role in assuring a flow of skills. Public agencies, by contrast, have been criticised for weak contributions. The case study refers to a number of initiatives such as for facilitating contracts with female workers consistent with work-life balance. Local institutions have manifestly played an important role in this regard. All this poses awkward questions about the quality of public provision.

His conclusion is that past policies have neglected the demand side of skills, an issue explored as part of the NEUJOBS project by Maselli (2012) who identified a vulnerability in Italy in the relatively high proportion of the economically active population with low skills. Moreover, in the face of mutual recriminations among employers, unions and government, the hard fact is that the Italian training system under-performs. Part of the problem is that the public employment service is not well-funded and there is little active support for the unemployed. Discouraged workers are also more prevalent in the South, a reason being the low mobility of relatively less skilled workers.

In relation to low skills, complementary NEUJOBS research by Kurekova et al. (2013) notes that the Italian National Reform Programme for 2008-10 claimed that reforms in earlier years had stimulated job creation and lower unemployment, but that vocational training and lifelong learning lagged behind compared with other Member States. The authors identify low skill in Italy as a characteristic, especially, of women, older workers and early school-leavers. Some policy efforts have been directed at finding remedies, such as by adjusting social charges or remedial educational programmes, but the well-known regional disparities continue to be a source of difficulty.

Italy is shown to share with other Mediterranean countries the fact that high youth unemployment is across the spectrum of educational attainment, in contrast to other parts of the EU where a higher qualification is associated with a lower risk of unemployment. Low skill is characteristic of a higher proportion of employed men than women in Italy, but can probably best be explained by the low female employment rate – in other words, unskilled Italian are economically inactive.

What can be read into these findings from a policy perspective is that persistent youth unemployment, even of the more skilled, means that some of the investment in skill is being squandered and that the human capital of younger cohorts is being poorly used. Italian spending on education, at 4.70% of GDP in 2010, was among the lowest in the OECD, compared to an OECD average of 6.26%. Within this total the combination of public and private spending on tertiary education was just 1% of GDP, compared with an OECD average of 1.6% and figures in excess of 2.5% in North America, Korea and Chile (OECD, 2013b). To the extent that detachment from the labour market leads to hysteresis which erodes existing human capital, the problem is compounded for a country like Italy which starts with a low stock.
The educational attainment of the adult population is one of a number of likely predictors of skills availability in the labour force. NEUJOBS research by Beblavy et al. (2013) quotes OECD data which show that Italy’s population in 2008 had the fifth lowest proportion among OECD members of adults with at least an upper secondary education, whether measured for those aged 25-34 or aged 25-64, although the proportion is higher across the OECD for the younger cohort. They also show that those with the lowest educational attainment are also the least likely to engage in adult learning, leading to the policy message that ‘education begets education’. Across all educational categories, Italy is at the lower end of the OECD spectrum, so that is faced with double-whammy of low participation rates generally and an adverse educational base – a message reinforced in the PIACC findings (Commission, 2013b) which show Italy at the wrong end of many of the rankings.

Further analysis, based on micro-data from the European Labour Force Survey, reveals that younger Italians – those aged 25-29 – are much more likely to participate in adult education than older age groups, with rates similar to several other EU Member States in 2000 (although well below the leaders in the Nordic countries, the Netherlands and the UK. Moreover, for the younger cohort, there was a very substantial increase between 2000 and 2010, taking Italy above the UK rate. However, the overall rate of participation by Italians only improved marginally between 2000 and 2010 highlighting the fact that the great mass of Italian workers is not making much use of adult education.

Tertiary education is also part of the picture, albeit one needs to be looked at with subtlety. A standard policy prescription (for example in the Europe 2020 strategy) is that Member States should ensure that more students should be steered towards STEM (Science, technology, engineering and mathematics) subjects, with the corollary that other disciplines are less worthy. NEUJOBS research by Beblavy et al. (2013) finds that despite frequently articulated claims that students who obtain degrees in specific subjects do better than those taking general arts and humanities degrees, the story is more complex. They also observe that although women are now the majority of students, they only make up a third of STEM subjects. What the research shows is that the calculation of the private benefits of study has to encompass factors other than the direct employment and salary prospects to provide an accurate calculation of the returns. Differences between subjects in the time commitment involved in obtaining a degree should be taken into account, as should the discount rate to arrive at a true net present value (NPV) of the student’s ‘investment’ in human capital enhancement. Once these adjustments have been made, other disciplines, such as social studies are shown to make financial sense, signalling that the choices made by students are rational. For women, especially, STEM subjects do not offer attractive rates of return. For Italy, the research shows that for male students, the NPV for STEM students is lower than for social studies or for studying health and related services, mainly because of the longer period of study required for STEM. For females, the cost of STEM education outweighs the benefits.

Three questions for Italian human capital policy arise from these results. The first is whether the organisation of STEM courses can be improved to reduce the private cost of undertaking them, not least because of the uncertain duration identified by the
researchers as one of the drawbacks of the Italian system. Second, to the extent that female students are deterred by relatively low earnings in occupations requiring STEM qualifications, can the post-education incentives be improved? More fundamentally, a third question is whether an emphasis on STEM is warranted to the extent implied in many policy statements.

3.4 The welfare system

A NEUJOBS analysis of changing welfare states by Hemerijck et al. (2013) identifies Italy ‘as an almost emblematic case of multi-dimensional recalibration in the 1990s’ citing the U-turn in labour market approach in the late 1990s. However, they also cite findings from Jessoula and Vesan (2011) which cast doubt on the substance of the reforms, despite their apparently dramatic scope.

Hemerijck et al (2013) adduce evidence that the reform momentum diminished in the 2000s and, moreover, became less coherent, with the result that provision was lacking against new social risks; while implementation fell short of ambitions. Echoing many others, they contrast the willingness to engage in welfare state recalibration when sound public finances were critical to achieve participation in the first wave of EMU, with the subsequent much more lethargic approach once the carrot of EMU accession ceased to be an incentive. They note, too, that Italy has been slow to copy the lead of the Nordic countries in adopting policies to facilitate work-life reconciliation. In the last decade, the EU has championed the flexicurity model, but it is clear that there has been considerable national diversity in how the model has been interpreted and implemented. A NEUJOBS finding for Italy is that measures taken in the late 1990s and early 2000s to make the Italian labour market more flexible appear to have left a deficiency on the security side (Cippolone et al., 2012).

A damning view from Hemerijck et al (2013: 1) is that ‘after these three decades of reforms, only a small minority of European polities, notably Greece and Italy, still fit the notion of change-resistant passive welfare states’. A fundamental policy difficulty, according to Vandenbroucke et al. (2011: 12), which Italy has in common with Greece and Portugal (though not Spain) is that is has ‘shied away from making social investments’. Italy currently faces the dual challenge in relation to social investment of starting from a relatively low level of public expenditure on the spending that can be categorised as social investment and now having to deal with budgetary cuts. For a country like Italy, the conclusions drawn by Dräbing (2013) in a NEUJOBS Policy brief make sombre reading. She argues that converging towards the EU average will be doubly difficult because it would entail exceeding the rate of social investment in the Nordic ‘leaders’ at a time when public expenditure is being cut by austerity policies. While the obvious retort is to ring-fence such expenditure, political reality suggests that it is a difficult to achieve.

A further dispiriting message Dräbing conveys is that in the absence of social investment, youth unemployment will prevent gains in human capital while inadequate child-care may result in postponement of family foundation. This conjunction, she argues, will make it harder to address the problem of an ageing society. An implication of her analysis is that an urgent challenge for Italian policy-
makers is to break this negative cycle, but also that EU policy instruments (such as the European Social Fund) could do more to break these sorts of vicious cycles.

Italy’s health-care system has many of the same features as the other large EU Member States, although the evidence assembled on Italy by Coda Moscarola (2013) as part of a NEUJOBS assessment of future labour demand and supply trends in the health sector shows that Italy’s expenditure on health-care in 2010 of 9.3% of GDP was a little below that of the other largest EU countries. Employment in the health and social work sector had been increasing throughout the 2000s to reach 1.6 million workers in 2010, around 7.2% of the workforce. The detailed information presented by Coda Moscarola reveals that the Italian health service workforce is older than in the economy as a whole, especially for doctors who had an average age of 50.8 in 2010. Over the 2000s, there was a substantial increase of 16% in the number of women employed by the Italian NHS in professional jobs, offset by a 5.5% fall in the number of men, and just under two thirds of health service professionals are women.

Projections of supply and demand by Coda Moscarola (2013) signal that there will be growing shortages of all categories of health professionals in the years to 2025, partly because of increased demand resulting from ageing of the population, but also because of retirements and insufficient entry into the sector which limits supply, especially in a context of public expenditure constraints. Over a five year period, these supply trends could result in problems in assuring effective health-care, even if demand for the services in question is stable. These specific findings for Italy in health care exemplify a more general challenge around social services of general interest in the EU (work for NEUJOBS by Sirovatka and Greve, 2014) by demonstrating how the conjunction of funding pressures and the age/skill profile of the current workforce can shape service provision.

4. Italy assessed

The difficulties Italy has to confront, both in making progress on attaining its Europe 2020 targets and in paving the way for the longer term NEUJOBS transitions, have been extensively analysed in official reports by the Commission, the OECD and other international bodies, as well as in specific studies. This section briefly summarises the latest opinions from the Commission and other sources, complementing the relevant findings from NEUJOBS research.

4.1 The Brussels verdict

As part of the new governance framework introduced since 2010, aimed at closer scrutiny of Member States for which examination of statistics reveals potentially worrying imbalances, the Commission conducted an in-depth review of the Italian economy. While the results of this review are, in many respects, unsurprising, they provide a useful starting-point for assessing the needs, reform priorities and outlook for Italy. The broad conclusion of the review is that Italy is confronted by imbalances that will require determined policy responses. These imbalances result from the conjunction of high public debt, a pronounced loss of external competitiveness and lacklustre economic growth (Commission, 2013c).
Further recent analysis of the Italian economy was conducted by the Commission in fulfilling its obligations under the 2013 European semester, leading to country-specific recommendations (CSR), published at the end of May 2013 (Commission, 2013d). Following the usual format, the CSR comprise an overview of the Italian economy’s prospects and a range of recommendations for action, the latter summarised in box 1.

The macroeconomic assessment is that Italy’s projections of its public finances are optimistic for 2014 but plausible thereafter, although the Commission mentions the reliance on the proceeds of privatisations for which details are awaited. The bind that Italy finds itself in because of its high debt is demonstrated by the fact that Italy expects to continue recording a ‘primary’ surplus (the net public finance before payment of debt interest), yet will remain in deficit. Improvements in public finances will require that Italy succeeds unambiguously in implementing announced changes, something that cannot be taken from a government based on a second fragile coalition.

A particular problem with direct bearing on the public finances is the quality of public administration which not only inhibits the implementation of reforms, but has also limited the effective use of Cohesion Policy funding from the EU budget. According to the CSR (paragraph 11) corruption costs Italy 4% of GDP and ‘severely hinders the potential for economic recovery’.

Box 1. Overview of 2013 country-specific recommendations to Italy

The 2013 CSR contains 6 recommendations, each of which is quite far-reaching in scope. This box summarises these recommendations and, where appropriate, offers a brief comment on them from the standpoint of the NEUJOBS project and the transitions it investigates.

- **Recommendation 1** is about the public finances and calls for the efforts on fiscal consolidation to be maintained while being growth-friendly. It also emphasises the efficiency and quality of public spending.

- From a NEUJOBS perspective, it is somewhat surprising that the discussion of public finances and growth makes no reference to ecological objectives. Nor does the text refer to the longer-run sustainability of public finances, despite the fact that Italy’s demographic profile is such that the inter-play between the high debt and future social spending will be of great importance.

- **Recommendation 2** refers to the implementation of administrative reforms aimed at simplifying the business environment and the legal framework and judicial procedures, as well as tackling corruption. It also asks for improvements in the management of the Structural Funds.

- **Recommendation 3** is about the financial system, highlighting the need for improved corporate governance and for banks to support greater flow of credit to productive activities. There is also a call for development of capital markets, relating this to innovation capacity in firms.

- **Recommendation 4** covers the labour market, paying particular attention to the participation rates of women and youths, and pointing to a range of obstacles to higher employment rates, including the efficiency of the PES, counselling services of students in tertiary education, financial disincentives for second-earners and the need for better care services. The effectiveness of social transfers should be improved, notably for low-income households with children.
Other than a general statement about strengthening vocational education and training, the recommendation does not say anything about skills, an issue that the NEUJOBS project deems to be central to longer term economic prospects. Societal change and its implications for social provision is also absent from the discussion, and it is striking that there is no reference to integration of immigrants or to gender equality.

- **Recommendation 5** is shifting the tax base towards consumption, property and the environment, with some specific suggestions on VAT and on property taxes, but not on environmental taxes. Further points concern tax compliance, evasion and the need for ‘decisive steps against the shadow economy and undeclared work’.

Although environmental taxes are mentioned, no connection is made with the issue of energy transition, another focus of the NEUJOBS research.

- **Recommendation 6** covers a range of market opening initiatives, notably around the service professions and network industries, with some reference to out-sourcing of public services. In the last sentence, there is a brief phrase about tackling North-South disparities in relation to transport and communications infrastructure, but no elaboration.

There is no mention of social services of general interest, a topic covered by the NEUJOBS project, and their role in a range of societal objectives, nor of whether any new directions are envisaged for the spatial balance of the economy.

Source: Commission (2013d).

The CSR reports on the wide-ranging labour market reform undertaken in 2012, commenting again on the imperative of effective implementation, a point also made about the wage setting framework agreed by the social partners in a series of agreement over the last three years. A particular concern mentioned is that the public employment service has yet to be integrated with the unemployment benefit administration.

On various social indicators, the CSR simply states the bald facts that youth unemployment had risen to 37% by the end of 2012, while the rate for those not in employment education or training had increased to 21.1% The Commission has little to say on the gender dimension of the labour market, beyond observing that ‘the participation of women in the labour market remains weak and the employment gender gap is one of the highest in the EU’ (CSR, paragraph 15). In fact, according to work by NEUJOBS researchers, Italy has in common with a number of other southern European countries, that not only are female participation rates lower, but the jobs filled by women are typically lower quality (Cippolone et al., 2012).

They also observe that mothers with children are far more likely to become detached from the labour market in Italy than in northern European countries. A policy issue for Italy is, therefore, whether its labour supply is held back by a lack of policies to support mothers wishing to work. Similarly, Cippolone et al. find that female participation rates are negatively affected by caring for elderly relatives. They find that, as expected, better child-care provision by the state is associated with higher female employment. Especially for younger women, more flexibility is employment-enhancing, but the effect dissipates for older women. All these effects are lower for more highly educated women.
A general comment is that the recommendations are predominantly about short-term measures which, while intended to consolidate broad directions for wide-ranging reform of Italy’s economic and social system, do not do enough to anticipate future demands associated with the transitions at the heart of the NEUJOBS project. Although a tenable case can be made that the reform agenda is already sufficiently heavy and that Italian decision-makers need to concentrate on delivering what they have initiated, the lack of reference to an energy transition or to new skills is puzzling. Other Europe 2020 headline targets such as R&D or poverty reduction are not discussed.

Although the period of low interest rate spreads in the mid-2000s meant that Italy enjoyed relatively benign fiscal pressures, high debt and vulnerable public finances have long cast a shadow over Italian social policies. In the much bleaker economic environment of recent years, the problems have multiplied. Italy’s public debt service burden of over 6% of GDP in 2012 shows why the country has to run a substantial primary surplus, as a result of which public spending is constrained and taxes become more of a competitiveness burden.

4.2 A comparative perspective

Large scale exercises to assess the relative performance of countries have also been carried out by different bodies. These tend to be unflattering to Italy, as can be seen in two examples.

4.2.1 The World Economic Forum

The WEF ranked Italy 42nd in its Global Competitiveness Index, just ahead of Turkey, placing it in fifteenth place among the EU Member States. Although the WEF rankings are more flattering to Italy for what is called the ‘innovation and sophistication’ sub-index (Italy is 30th) and for ‘efficiency enhancers’ (ranked 41st), than for ‘basic requirements’ (51st), the actual scores for Italy are lower on the former two (see table 3).

The WEF commentary highlights the contrast between the relative sophistication of Italian business, associated with ‘producing goods high on the value chain with one of the world’s best business clusters’, with the low ranking on labour market efficiency and on financial sophistication. Significant institutional weaknesses, according to the WEF, include corruption and organised crime, as well as an ineffective judicial system. Further indicators constructed by the WEF cover social and environmental sustainability leading to a ‘sustainability adjusted’ competitiveness index. These adjustments do not materially alter the assessment of Italy, unlike many other European countries which score highly on these two criteria, whereas most emerging markets (as well as the United States) are marked down in this respect.

Table 3. Italy as assessed by the World Economic Forum, 2012-13

<table>
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<tr>
<th>Component of global competitiveness index</th>
<th>Rank</th>
<th>Score</th>
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<tbody>
<tr>
<td>Basic requirements</td>
<td>51</td>
<td>4.81</td>
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<tr>
<td>Institutions</td>
<td>97</td>
<td>3.56</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>28</td>
<td>5.19</td>
</tr>
<tr>
<td>Macroeconomic environment</td>
<td>102</td>
<td>4.23</td>
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4.2.2 The Bertelsmann Sustainable Governance Indicators

In the 2011 edition of the Bertelsmann Sustainable Governance Indicators, Italy is ranked 27th out of the 31 richer countries covered on the ‘Status’ index. This combines scores on democracy (half the aggregate weighting) with equally weighted components for, respectively, the economy/employment, social policies, security and resources. It is ranked 30th, only above Greece, on the economy/employment indicator, and, within this indicator, scores poorly on the enterprise and tax variables.

Reinforcing the evidence of Cippolone et al. (2012), the authors of the Italian report for Bertelsmann draw attention to the deficiencies in family policy and highlight the vacillations in government policy initiatives, citing the example of planned changes in the tax treatment of families which were abandoned during the crisis. They also (Cotta et al., 2012: 22) note that a ‘large number of immigrants are still involved in the black economy and are thus subject to economic exploitation’ and they observe that in ‘many cities there are ghetto-like areas where immigrants live in extremely poor housing conditions’. However, the 2011 report also identifies some positive trends for immigrants through the schooling system and the recognition that immigrants represent an asset for employers, rather than a burden for the state. Provision of private care for the elderly and for children, as well as cleaning services, are especially dependent on immigrant labour. Another element of the index shows that Italy has been poor at dealing with inequality and that tax evasion has weakened well-intentioned redistributive policies.

The ‘resources’ component of the index covers environment, R&D and education, in all of which the low scores given to Italy are the result of inadequate funding and lack of political commitment. Although Italy has a relatively good record on CO₂ emissions, it is poor on the management of waste and water resource. Low spending on R&D is compounded by what Cotta et al. describe as ‘a strong brain drain of professionals in high tech fields to other EU countries or elsewhere abroad’.

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<tbody>
<tr>
<td>Health and primary education</td>
<td>25</td>
<td>6.27</td>
</tr>
<tr>
<td><strong>Efficiency enhancers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher education and training</td>
<td>41</td>
<td>4.44</td>
</tr>
<tr>
<td>Goods market efficiency</td>
<td>45</td>
<td>4.73</td>
</tr>
<tr>
<td>Labour market efficiency</td>
<td>65</td>
<td>4.29</td>
</tr>
<tr>
<td>Financial market development</td>
<td>127</td>
<td>3.29</td>
</tr>
<tr>
<td>Technological readiness</td>
<td>111</td>
<td>3.57</td>
</tr>
<tr>
<td>Market size</td>
<td>40</td>
<td>4.71</td>
</tr>
<tr>
<td><strong>Innovation and sophistication factors</strong></td>
<td>30</td>
<td>4.24</td>
</tr>
<tr>
<td>Business sophistication</td>
<td>28</td>
<td>4.75</td>
</tr>
<tr>
<td>Innovation</td>
<td>36</td>
<td>3.73</td>
</tr>
<tr>
<td><strong>OVERALL COMPETITIVENESS</strong></td>
<td>42</td>
<td>4.46</td>
</tr>
</tbody>
</table>

Source: WEF (2013).
A second component of the Bertelsmann index considers the ‘management’ capacity of the national system, which assesses the ability to develop strategic solutions and, in so doing, to foster dialogue. Italy also ranks poorly overall on this index, at 29 out of 31, and is adjudged to be towards the bottom end of the distribution on three of the main sub-indices: the steering capability of the government, implementation and institutional learning. All these rankings point to the weak ability of the Italian system to achieve change and a weak commitment to techniques such as regulatory impact assessment.

More generally, the Bertelsmann report paints a picture of a system which has been slow to embrace good European practice, such as what they call Scandinavia-style concepts in relation to family policy, or decisive reforms in areas such as social inclusion or pensions. Funding and administrative shortfalls are mentioned repeatedly as explanations. The 2011 report also highlights the well-known concentration of television ownership as a weakness, while applauding the plurality of print media, though mafia action against journalists is also seen as a constraint on press freedom. The slowness of the legal system is a further problem.

5. Capacity for change

Although the Italian system of governance typically finds a way to muddle-through when it has to confront difficult challenges, it seems to lack the ability to make decisive changes and to push through radical innovations. This does not augur well for the transitions identified by the NEUJOBS project. However, the pace of reform has picked up since the end of 2011 and, as Lorenzo Codogno stated in evidence to the House of Lords⁵, there has been progress in dealing with the structural weaknesses. He identified the recent pension reforms as an example of a politically difficult change that the Italian system proved able to deliver, despite entrenched obstacles, and that pressure from European processes supports ‘our own reform process and will be beneficial over time’.

The low standing of the political class in Italy and the success of the essentially anti-government cinque stelle movement in securing a substantial share of the vote in the 2013 election, coming after the political disarray of the last Berlusconi government, help to explain the weakness of governance. But it is important not to be too negative and to recognise that, despite a plethora of problems, Italy has strengths. Italian public debt is, undoubtedly, uncomfortably high and financing it is costly, but the country has

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⁴ This section draws on very helpful off-the-record discussions the author had with a number of people with profound knowledge of Italy and its system of governance, and also draws on as-yet unpublished material from the latest round of the Bertelsmann Foundation’s Sustainable Governance Indicators, generously made available in advance. No views are attributed directly and any errors of interpretation are my responsibility. I am grateful to the following for their insights, information provided and for their patience in answering my questions: Giuliano Amato, Fabrizio Barca, Susan Battles, Lorenzo Codogno, Steve Cook, Alessandro Fusacchia, Elsa Fornero, Paolo Rebani, Angelo Riccaboni and Beppe Severgnini.

⁵ Evidence session on 15th October 2013 to the European Select Committee’s sub-Committee on Economic and Financial Affairs, as part of its inquiry into genuine economic and monetary union.
become accustomed to dealing with it, has kept its public deficit under control, and has not seen private borrowing surge to anything like the extent of other vulnerable Member States. The country continues to perform well in international markets and retains a sizeable industrial sector. As Severgnini (2011: 8) explains in his highly engaging and entertaining book on the former prime minister he calls “Mr. B”, ‘Italians are pragmatic. Before selecting what they think is right, they take what seems useful’.

However, the breadth of the shortcomings is alarming and is likely to have a debilitating effect on Italy’s trajectory towards a transformed socio-ecological system. Echoing the Commission views in the CSR for Italy, public administration is considered by many commentators to be an area of particular concern and there are well-known difficulties in the legal system. The relatively high reliance on labour taxes, but also on corporate income tax (see figure 4) highlights the problem for the economy as a whole, while the extent of evasion is part of the explanation for inequalities.

**Figure 4. Corporate income tax as a proportion of GDP**

![Graph showing corporate income tax as a proportion of GDP from 1995 to 2010 for Italy, France, Germany, and OECD average (unweighted).](source)

Despite notionally strong laws and enforcement mechanisms, efforts to counter corruption have been disappointing and are often been blocked by parliamentarians. More generally, the pace of structural reform has been slow and is frequently hampered by strong vested interests. As a result, product market reform has been slow and labour market reforms have not produced the expected effects. Adding to the difficulties is the persistence of the North-South divide which not only has an adverse effect on economic balance, but also creates its own governance difficulties.
Successive governments have struggled to make much impact on job polarisation in which ‘insiders’ enjoy considerable protections, while outsiders have much more precarious conditions. While job preservation has been a priority through the cassa integrazione, a mechanism which offers subsidies to keep workers employed, the net creation of new jobs has suffered helping to explain the surge in youth unemployment. Compared with other countries, the Italian labour market (at least the formal sector), is lacking in incentives to create low-income jobs, suggesting that a dimension of the flexicurity/social investment paradigm that needs attention. Tax policy aggravates the problem because of the relative concentration of the tax burden on the productive sector, notably on labour and the extent of tax evasion.

Deficiencies in family policy have contributed to inadequate policies towards gender equality, but have been associated with a decline in the rate of family formation and in fertility. This, in turn, accentuates the ageing of the population and, may have a negative effect on the propensity to innovate. Immigration could offer a solution, but although Italians are generally reasonably welcoming towards immigrants, the relatively recent upsurge in the scale of immigration has become a difficult policy issue and one, moreover, that requires solutions at European as well as national level. Even so, Italy remains a relatively cohesive society in which family bonds are strong and the resilience and inventiveness of small business are often under-estimated.

NEUJOBS research by Maselli and Beblavy (2013) shows that Italy is one of a small minority of Member States (all in southern European, with the number depending on the particular definition of routine) in which the returns on routine jobs are positive, implying that such jobs are not being supplanted by technology to the same extent as elsewhere as part of the modernisation of employment practices. This does not augur well for labour market development.

Although successive governments, especially those led by Silvio Berlusconi, deserve blame for the slow pace of reform and for a lack of zeal in promoting it, there are cultural and societal obstacles to which the political leadership responded. For example, Severgnini (2011: 38) argues that what Berlusconi recognised is ‘that the only tolerable revolution for most Italians is one that revolutionized nothing at all’.

5.1 Policy initiatives

As a policy to lower youth unemployment, the Letta government proposed what is known as the ‘staffetta generazionale’ – a generational passing of the baton – in which older workers will reduce their hours to provide opportunities for younger workers. In return, their pension entitlements will be assured by the state. Seen through a positive lens, the advantage of the scheme is that it has zero costs for either the state or the employer and ensures that the younger worker can benefit from the knowledge of the experienced worker. However, the proposal has been criticised by, among others, Boeri and Galasso on two main grounds. First, they recall the fashion for early retirement schemes in the 1970s and 1980s which, in the end, had disastrous results because they raised the unemployment rates of youths and ‘seniors’ alike, while raising the costs of social protection. They accept that asking older workers to work part-time will mitigate

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6 In a blog entry
the latter effect, but they argue that the reasons for rising unemployment among youths (and also among women) is explained by the dual nature of the labour market, rising productivity and the squeeze on public spending. Nor do they accept that the scope for substitution is great. This is in essence a variation on the well-understood false logic of the lump of labour argument.

A national energy strategy adopted early in 2013 (the Strategia energetica, or SEN) establishes a long-term framework for energy policy with provisions for action up to 2020 and 2050, respectively. The draft budget for 2014 includes provisions for raising energy efficiency through incentives for energy-saving building renovations. From a NEUJOBS perspective, the proposals explicitly recognise the scope for a double-dividend by stimulating growth at the same time as gains in efficiency. Increasing competition in the gas market is a policy intended to make the market more competitive.

A significant and wide-ranging initiative recently launched in 2013 is Destinazione Italia which claims to be more than legislative proposals to boost investment, as it is also intended to be a means of changing ‘incentives and behaviours, and not just the legal framework’ (Government of Italy, 2013 [English version]). It is also about connecting Italian business to global supply chains. It is clear from two syndromes set in the document as straw men – what it calls the ‘outlet syndrome’ of fearing cheap sell-off of assets, and the ‘Fort Apache’ syndrome of building protective walls against global competition – that a key aim is to embrace rather than resist globalisation. An example is proposed measures to attract human capital through a recasting of the visa regime, as well as attracting tourists and philanthropists. Among the measures described in the document as already having been taken, the opening up of education is highlighted.

Although the focus is inward investment, a broader interpretation of the reforms is that they are intended to shake-up the supply-side of the economy. The long list of fifty specific measures includes labour market reforms, tax reforms and various administrative simplifications. In energy, the liberalisation of markets and investment in infrastructure are proposed primarily to promote competitiveness by bearing down on energy prices paid by businesses, although as noted above the SEN also includes energy efficiency. Privatisation of state assets is scheduled to take place from the end of 2013 following a review by the Ministry of Finance.

Reform of capital markets to facilitate financing of SMEs will include action to boost the bond market and to revitalise the equity market, and tax on capital gains will be removed for investors in small companies. In addition, finance for micro-businesses and co-funding from publicly supported agencies of venture capital are envisaged. Tourism as a source of jobs and foreign earnings is given special attention and the need to make the most of Italy’s rich cultural heritage is underscored, with potential approaches including handing over management of some assets to the private sector.

More competition in property, release of state holdings of land and reform of planning are needed to make more effective use of land and property. Tax credits for R&D and stimulation of university spin-offs are called for to boost innovative activity, alongside opening up to international networks of the university and research systems. A stepping-up of digitalisation of the economy is intended to boost internet use while
also contributing to the modernisation of public administration. An element of industrial policy is foreseen in proposals to deal with companies in difficulty.

Several infrastructure measures are included within the proposals, including reconversion of polluted land, and upgrading of ports and airports. A priority is to attract private funding, building on what is described as an innovative project bond instrument, and more generally to foster private-public partnerships for a wide range of capital projects, from schools to prisons.

Considerable attention is paid to energy and environmental issues in the proposals, but with mixed implications from the perspective of a socio-ecological transition. On the one hand, the document notes that Italy has significant oil and gas reserves and identifies an increase in domestic production as a priority. On the other, measure 42 in the proposals lists initiatives to enhance energy efficiency and to curb CO₂ emissions. Further measures under a green economy heading include action to bolster renewables in the form of solar and geo-thermal resources, to improve water management and to increase recycling while avoiding landfill.

Much of what is in the Destinazione Italia document makes sense in mapping-out what needs to be done, not only to attract inward investment, but also to deal with the many structural problems confronting the economy. However, it conveys a conviction about the feasibility of achieving change that may be over-optimistic and, as a corollary, risks disappointment, especially now that the government which launched it has fallen. Even the reform-minded Monti government, which had the potential political advantage of being constituted to break the deadlock in structural policies, found repeatedly that it was unable to overcome the resistance of vested interests, and consequently had to water down many of its reform proposals. A last set of measures focuses on communication and promotion, and includes ideas such as drawing on Italians abroad as ‘ambassadors’ for Italy as a brand. In parallel, sport and cultural assets are to be mobilised. Arguably, internal mobilisation of support could be even more relevant.

5.2 Policy traps

Italy is caught in a number of traps. First, the indecisive outcome of the spring 2013 elections led to a government that has struggled to push through the tougher measures that are acknowledged to be needed, while the machinations of former Prime Minister Berlusconi have further complicated matters. With a further change bringing a third successive unelected politician to power in February 2014, the risks of continuing political volatility are evident.

Second, it is facing the wrong conjunction for structural reform of lack of growth, a weak external environment and entrenched resistance, even though there have been examples of radical change. A significant reform of pensions which is projected to have an enduring effect on pension sustainability, despite the anticipated rapid ageing of the population, was enacted in 2012. But immigration policy is caught between control of numbers entering Italy and attempts to integrate, although the balance is shifting towards integration.
A third trap is that the country has such a breadth of shortcomings to confront, especially raising productivity and enterprise. Although the imperative of increasing R&D funding and innovation effort is well understood in the policy community, the strains in public finances and insufficient incentives for private investment have been substantial obstacles. With a relatively larger industrial sector than many other EU states, Italy should be able to achieve significantly higher R&D than the 1.25% of GDP recorded in 2011 and while many governments argue the indicator does not capture their country’s distinctive circumstances, the gap between Italian performance and the 3% target is simply too big to ignore. Innovation is also hampered by the comparative under-funding of the university and research systems. Insiders maintain that the standards attained are often high, but that without adequate funding there are inevitably going to be deficiencies. A step towards improvements is an exercise currently underway to evaluate universities – something, it should however be noted, that has long been routine elsewhere.

A further trap is that Italy is currently seeing the emergence (as in other Member States worst hit by the crisis) of a new poor, consisting of groups for which the existing social protection system has proved to be unsatisfactory. Social policy, to use the words of one of those consulted for this section of the report, ‘means in the first place pensions’, but the implication is that other social risks are not adequately addressed. The result has been to shift the burden to families and there is evidence, once again, of a North-South disparity in which the latter under-performs, partly because of weaknesses and corruption in service delivery.

6. Conclusions

‘Every Italian feels like Robinson Crusoe. The beach we have to survive on is a mysterious, inhospitable state with its pointless laws, molasses-slow bureaucracy and enterprise-choking taxes’ (Severgnini, 2011: 34).

Long-term transitions of the sort emphasised in the NEUJOBS project are demanding and all too easy for policy-makers to neglect when immediate and pressing concerns dominate their agenda. Italy, in many ways, highlights the difficulties of adopting and implementing wide-ranging transformation of a system which is resistant to change and in which past shortcomings have left an unhelpful legacy. For much the same reasons, there are few easy answers to the question of how to accelerate reform and it is hard to identify the optimal sequence to adopt. Perhaps a crucial policy question for Italy is how to ensure that the incentives to ‘do the right thing’ are properly aligned, given that it has proved to be difficult in the past to demonstrate the potential benefits.

There is a fair degree of consensus around the diagnosis of the critical problems Italy faces. High debt, an unsatisfactory tax mix and inefficient public administration all impose considerable deadweight costs on the economy. The undoubted innovativeness of some small businesses and selected segments of industry continue to confer benefits and, together with tourist earnings, mean that Italy has not suffered the same sort of balance of payments crisis as other southern Member States of the EU. But the economy as a whole has a poor record of innovation, a rate of R&D investment that is far below what would be expected of a modern industrial economy, and under-investment in knowledge and skills, despite an overall investment rate close to the EU
average. The consequence is low productivity growth and stagnating GDP growth. Regional disparities have proved to be very stubborn and even the Mezzogiorno regions (such as Basilicata) which made visible progress prior to the crisis have seen new vulnerabilities exposed subsequently.

On the four NEUJOBS transitions, Italy has a patchy record, but is taking many of the necessary steps, albeit slowly and sometimes rather grudgingly. The conjunction of slow growth and constrained public finances has been inhibiting, because transformations aimed at reshaping the socio-economic system are costly, take time and require perseverance and consistency in policy-making. Political reluctance to embrace reform has exacerbated these problems, but (in common with a number of other southern Member States) a further factor has been slow percolation of the relevant ideas into the policy debate. Social investment, for example, is widely regarded as being a paradigm which, though plainly not to be regarded as a panacea, can facilitate the sort of transitions that a country like Italy will have to undertake, but it is clear that Italy lags behind in this respect. An obvious reason is, again, fiscal capacity, especially in light of the debt service burden, because a reorientation towards social investment is not a cheap option which will save public resources, especially in the short-term. Indeed, moving towards social investment may well result in initial adjustment costs before savings kick-in.

Equally, pressure from EU coordination processes seems to have been instrumental in stimulating change. A synoptic assessment on each of the NEUJOBS transitions is as follows:

- **The SEN energy plan** is recent, but contains elements that are consistent with an energy transition away from fossil fuel use. It is expected to allow Italy to reach its Europe 2020 targets on schedule and contains measures to promote diversification away from a reliance on PV and wind sources to embrace a range of other approaches. A major effort on investing in reducing energy efficiency in buildings is included in the 2014 budget. At the same time, Italy is boosting its use of natural gas and there are measures to increase competition in the sector with a view to reducing the burden of energy costs. These risk being contradictory measures from the long-term perspective of an energy transition.

- **Skills undoubtedly represent a headache for Italy.** Public investment in skills is not achieving strong results and there is both a gap relative to better performing Member States and compared to what Italy needs to underpin the jobs of the future. Again, especially at the tertiary level, a shortage of funding is a difficulty which pervades the policy area, but there is also a need to examine the nature of the provision. More effort is needed on life-long learning and in promoting job quality, as well as in rethinking apprenticeships as part of a strategy to counter youth inactivity.

- **Policies to support societal change** are also open to the criticism that they have not been pursued with the necessary vigour. While some progress is visible on aspects of work-life reconciliation, the evidence reveals that Italy is a long way from achieving results on a level attained elsewhere. Given that Italy is one of the most rapidly ageing societies in the EU, the continuing low employment rate of women and older workers, as well as the burgeoning youth inactivity invite rapid policy
action. That there are cultural and social explanations (in addition to gaps in provision resulting from policy choices and funding decisions) for these difficulties, as noted by Cippolone et al. (2012), only adds to the necessity of a fresh approach. In addition, Italy now faces the challenge of integrating a growing immigrant population.

- The North-South divide in Italy is a long-standing phenomenon which has multiple roots and has proved to be stubbornly resistant to decades of policy initiatives. The inference that can be drawn (notably from the work of De Stefanis, 2011) that Italy has areas characterised by a low skill equilibrium is a specific worry in relation to territorial balance. To the extent that many of the problems flow from shortcomings in public administration, the prescription is obvious, but far from easy to implement, especially where (as is the case in some of the Mezzogiorno regions) endemic corruption and organised crime compound the difficulties.

EU governance processes can be supportive of transformation in Italy and have been acknowledged by some actors in Italy to have been helpful in promoting change. For this reason, the short-term emphasis in the country-specific recommendations addressed to Italy in the last two annual rounds is open to the criticism that they do not give enough weight to the longer term goals central to the Europe 2020 strategy, let alone the NEUJOBS transitions. Indeed, a fundamental dilemma for Italy is how to ensure that longer-term transformations are not neglected in a context in which many immediate priorities undoubtedly need policy attention. The combination of slow growth, over-stretched public finances and an extended list of structural flaws does not augur well for a shift of gear, but could be partly offset in two ways:

- First, because public policy will have to do more with fewer resources, careful sequencing of policy measures will be essential. While some structural changes incur unavoidable upfront costs for the public finances (pension reform being a prime example) many of the more acute problems in Italy require legislative or cultural changes or a new approach to public management. An early emphasis on such measures, though politically difficult, could be highly cost effective.

- A second orientation would be to favour policy interventions able to contribute to two (or, better still, more) policy objectives. For example, substituting (so-called Pigouvian) environmental taxes for taxes on labour eases pressure labour costs and helps to deter polluting behaviour. The advantages such ‘double dividend’ policies may be self-evident, but they are rarely emphasised, and often only hinted at obliquely, in strategy documents.

Many of the policy orientations in the Destinazione Italia proposals are what Italy needs, not just to attract inward investment, but also to boost and transform the supply-side of the economy, and to promote internationalisation. Several of the measures would, in addition, be consistent with the NEUJOBS transitions. For Italian policy-makers the core challenge will be to implement the proposals in a way that ensures effective delivery, not an easy task. But there is also a need to look beyond today’s agenda of raising productivity and restoring growth, and to anticipate the more profound transformations that will be required for longer-term socio-ecological and societal transformations.
For this latter purpose, great care will be needed in managing the tensions between initiatives with predominantly short-term objectives and the necessity of decisive breaks from past patterns. The adoption of the ‘staffetta generazionale’ is an example in which there are risks that the pressing current priority of reducing youth unemployment over-shadows longer-term human capital and fiscal sustainability concerns. In the design of the staffetta, the element of passing-on of skills from older to younger workers is an imaginative means of bridging the gap by inculcating skills in younger workers, but pushing older workers prematurely into inactivity could have damaging repercussions for labour supply and loss of human capital. Similarly, in reshaping the energy market, according to the strategy laid out in the SEN, the risk is that the (wholly understandable) aim of reducing the cost burden in the interests of competitiveness will dominate longer term objectives of energy rebalancing consistent with a shift to low-carbon.

Italy has been a laggard, not only in tackling some of the structural weaknesses which other countries have previously undertaken, but also in embracing paradigms such as social investment. The hard fact remains that, four years into the euro crisis, Italy is the only southern Member State yet to register an improvement in competitiveness, for example as measured by relative unit labour costs (Moody’s Investor Services, 2013), although this has not manifested itself in a worsening trade imbalance because domestic demand has remained weak. The reform agenda today is lengthy and demanding, and progress has been hampered by political instability and a pervasive reluctance to deal with the harder issues. With the clock ticking, it has to be hoped that politicians and stakeholders will now say ‘basta cosi’! Over to you, Matteo Renzi…..
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ABOUT NEUJOBS

“Creating and adapting jobs in Europe in the context of a socio-ecological transition”

NEUJOBS is a research project financed by the European Commission under the 7th Framework Programme. Its objective is to analyse likely future developments in the European labour market(s), in view of four major transitions that will impact employment - particularly certain sectors of the labour force and the economy - and European societies in general. What are these transitions? The first is the socio-ecological transition: a comprehensive change in the patterns of social organisation and culture, production and consumption that will drive humanity beyond the current industrial model towards a more sustainable future. The second is the societal transition, produced by a combination of population ageing, low fertility rates, changing family structures, urbanisation and growing female employment. The third transition concerns new territorial dynamics and the balance between agglomeration and dispersion forces. The fourth is a skills (upgrading) transition and and its likely consequences for employment and (in)equality.

Research Areas

NEUJOBS consists of 23 work packages organised in six groups:

- **Group 1** provides a conceptualisation of the socio-ecological transition that constitutes the basis for the other work-packages.
- **Group 2** considers in detail the main drivers for change and the resulting relevant policies. Regarding the drivers we analyse the discourse on job quality, educational needs, changes in the organisation of production and in the employment structure. Regarding relevant policies, research in this group assesses the impact of changes in family composition, the effect of labour relations and the issue of financing transition in an era of budget constraints. The regional dimension is taken into account, also in relation to migration flows.
- **Group 3** models economic and employment development on the basis of the inputs provided in the previous work packages.
- **Group 4** examines possible employment trends in key sectors of the economy in the light of the transition processes: energy, health care and goods/services for the ageing population, care services, housing and transport.
- **Group 5** focuses on impact groups, namely those vital for employment growth in the EU: women, the elderly, immigrants and Roma.
- **Group 6** is composed of transversal work packages: implications NEUJOBS findings for EU policy-making, dissemination, management and coordination.

For more information, visit: [www.neujobs.eu](http://www.neujobs.eu)

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