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OECD Reviews of Regulatory Reform: Italy
Better Regulation to Strengthen Market Dynamics

Executive Summary

Key messages

- A renewed commitment to regulatory reform in Italy in recent years is well-timed, due to the need to speed up recovery from the current economic crisis and the large potential benefits from addressing the micro-economic challenges facing the country.
- Regulatory reforms in Italy should aim primarily at improving the competitiveness of the national economy. Improving competitiveness involves boosting productivity through a variety of different channels, which will help increase living standards over the long term. Because of the broad-based benefits of regulatory reform, this is an agenda that citizens, businesses, consumers, and investors can support nation-wide.
- As part of the mix of reforms needed to address productivity and other growth constraints in the economy, regulatory reform is particularly beneficial to Italy. The strong role of SMEs in the Italian economy, on the one hand, and the pervasiveness of regulatory issues through the economy, on the other hand, mean that regulatory simplification, cost-cutting, and quality improvements will have a concrete and direct effects across the whole of the economy.
- Political commitment for regulatory reform is now strong, and technical capacities are being built to match the difficulty and scale of the reforms ahead. Remarkable efforts have been made through the cutting law exercise and the measurement and reduction of regulatory burdens, as well as in terms of modernising the management of public administrations. However, scope for improvement remains, as some areas could still come closer to best international practice in important respects. Capacities need to be enhanced for carrying out reforms effectively in sectoral ministries and speedily across a complex multi-level administrative environment. Sustaining an effective regulatory framework requires modernising the administrative culture to overcome inertia and promote a client-oriented approach.
- Decentralisation of the public sector creates new opportunities and risks for regulation and market performance. The framework for co-ordination, coherence, and respect for good regulation principles is emerging, but risks are becoming clearer, and key national interests, such as the need for ensuring competition and the development of core infrastructure in terms of transport or energy, need to be more strongly enshrined. This is important if efforts at the national level are to be translated into effective actions and incentives at the local level, and also help the country strengthen core infrastructures such as future energy plants or high speed rail tracks.

Economic growth and competitiveness are at the top of the national economic agenda

Over 15 years, successive Italian governments have pursued a range of initiatives to address the post-war legacy of state intervention and heavy regulation, in line with the efforts in neighbouring European countries. However, over the past decade, Italy's economic growth rate remained below the European average. After 2000, by some measures, labour productivity in Italy began to decline relative to other large European economies. Total factor productivity appears actually to have fallen. This reflects some of the challenges faced by the country in terms of boosting growth, wages, and competing outside its borders. Addressing these long term trends requires continued efforts and is vital if Italy is to tackle the big challenges ahead of securing resources and capacity for a rapidly ageing population, as well as facing up intense European and global competition.

Formal indicators of investment in innovation and R&D are less favourable than those of key trading partners, such as Germany, Switzerland or France. The Italian economy has traditionally been export-oriented, but Italian export performance has been mixed. Although Italy's share of the value of OECD exports has been stable since 2000, export volumes have been growing more slowly than demand, reflecting implicitly a higher value added for Italian exports. FDI in Italy also remains quite a bit lower than in other countries of similar size. This could reflect a business environment that is difficult for foreign investors in relation to regulatory, administrative and other hurdles.

The question now being addressed in the range of regulatory reforms already underway is how Italy's regulatory framework could help its businesses, large and small, to compete with their peers on a world scale, to innovate and grow, and to benefit from the productivity-enhancing effects of FDI.

Policy responses: The government strategy for reinvigorating growth and competitiveness

As in other countries, the economic crisis prompted the new government to accelerate microeconomic reforms. Regulatory reform plays an important role in the various recovery packages that have been announced. The Strategic National Framework contributes to improve the multi-level framework for regulatory reform and to speed up the reform processes. A burst of reforms was initiated. A Minister for Normative Simplification is now in place. A push to modernise public administration by the Minister for Public Administration is tackling needed reforms.

Integration into the European Single Market and monetary union has provided Italy with both incentives and tools to move ahead with these tasks. Regulatory and fiscal reforms are now inextricably part of Italy's performance in Europe. Joining the euro zone brought significant benefits in terms of financing the public debt but also has implications for maintaining a competitive economy.

Italian businesses must now compete directly on the basis of quality and price, but, Italy's product market and labour markets are often hindered by unnecessary regulations and lack of competition. These regulatory issues are faced all over Europe and are also addressed at the EU level. The renewed drive for regulatory reform that occurred in Italy after 2005 was fully in the mainstream of European good practices and was responsive to

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the mid-term review of the EU Lisbon Strategy. Italy's strategy for regulatory reform adopted in June 2008 – based on "cutting-laws", "cutting-burden" and "cutting bodies" initiatives – demonstrates the political importance of regulatory reform and simplification. Italy has also moved to speed up integration with European markets by closing the transposition deficit, which fell from 2.7% to 1.3% in 2007 – in line with the EU average. These kinds of regulatory reforms should contribute to creating a more flexible and lower-cost business environment. All over Europe, similar initiatives are under way to slash regulatory costs and impediments to business, while taking into account social and environmental objectives.

Core targets for improving competitiveness: Productivity, labour markets, R&D, education, and integration of immigrant workers

- The competitiveness agenda is, in essence, a call to improve productivity growth. Turning around slow productivity growth is a complex phenomenon that requires a multi-faceted reform agenda addressing labour regulations, regulatory barriers, entrepreneurship, education, innovation, and integration of immigrants into the workplace.
- Sustaining wages in Italy depends on boosting productivity. Despite important reforms in labour markets over the past 15 years, unit labour costs in Italy have risen faster than in other countries as a result of lower productivity growth. Aggregate real wage rates have increased even when there have been little or no productivity gains. The sharp rise in unit labour costs is not because wages have risen faster than elsewhere, but because productivity growth has been lower in Italy. Productivity should therefore be the main focus of reforms.

Low labour market participation rates also need to be taken into account. The employment rate in Italy is still well below the average for OECD countries for several age groups, though the participation rate has steadily increased and recorded unemployment had declined from over 11% in 1998 to 6% by early 2008 before the economic crisis. Innovation has a strong effect on economic growth, but expenditure on R&D in Italy remains low. This has resulted in, for example, the slow introduction of ICT in many sectors in Italy. Factors explaining this include the small size of Italian firms, regulatory hurdles for example in commercial distribution, and limited access to external capital, as well as under-developed research institutions.

- Education is also an issue, as human capital, measured by years of education, has a powerful effect on productivity, but the level of educational attainment in Italy remains comparatively low, with significant regional variation in student performance.
- It should be recognised that integration of large numbers of immigrants into the workforce has been a success story for the Italian labour market and economy. Immigration appears to have been responsible for part of the considerable increase in average participation rates in Italy, and hence for boosting output.

Regulatory reforms are particularly suited to Italy, since SMEs will benefit more than other firms

Italy has a high proportion of employment in small firms, often family firms, which represent about 11.5 employees in 4.4 million firms. Reforms that increase entrepreneurship will be important for the future dynamic of this sector. The long-lasting small family firm should be supplemented in Italy by a host of new small firms and growing medium-scale firms in areas where Italy can compete and seize new market opportunities.

Ease of entry (regulatory and financial) and exit are crucial to making this happen. Further work to speed up business creation will help, as will reforms to improve the adjudication of civil law. The 2006 reform of the bankruptcy legislation was a useful reform that will ease the exit of firms, increasing the flexibility and speed of economic recovery. Italian rules of transparency and investor protection have been increasingly brought into line with European standards. Venture capital has also been slower to develop in Italy than elsewhere, and continued removal of constraints on the growth of high-performing firms might stimulate its growth.

- SMEs are more sensitive than big firms to regulatory burdens. The focus on reducing operating costs for businesses, streamlining implementation, and removing barriers to market competition are clear principles directly relevant to the Italian economy dominated by SMEs. The goals, performance targets, and tools of the Italian regulatory reform programme should be focused rigorously on these issues.

Regulatory reform becomes an even more important micro-economic strategy in the current crisis, and could stimulate a burst of productivity

- These challenges become even more important in the current economic situation. In the mix of policy tools needed to face the crisis, defining and implementing a clear and consistent strategy for regulatory reform – involving national and regional governments – can improve long-term growth prospects. According to OECD product market regulation indicators, the role of the Italian state in the economy was significantly reduced from 2003 to 2007, but regulation still remains high compared with a large share of the OECD membership.
- Efforts to move ahead should yield substantial benefits. The Italian investor, consumer, and worker have already enjoyed significant benefits from regulatory reforms linked to markets and growth. OECD scenarios in which Italy converges with good European regulatory practices predict that Italy would gain an additional increase in productivity of 13.75% over the next decade if it was in a position to fully converge with these European practices. While such estimates only provide an order of magnitude, a large body of evidence supports the conclusion that, under realistic circumstances in Europe, Italian regulatory reforms would stimulate a burst in productivity gains, setting the stage for a more competitive, innovative, and flexible private sector.

A high priority is to sharply cut the high regulatory burdens facing Italy's private sector. Already, progress is being seen

- The lower-cost regulatory reform that Italy needs is fully compatible with maintaining high levels of safety, health and environmental protection, the quality of urban centres, and the identity of food products. But regulatory costs in Italy are also placing a high burden on small and family run businesses. According to data from the Union of

Chambers of Commerce (*Unioncamere*) Red tape costs an average Italian business about EUR 11 800 annually, which is the cost of hiring a part-time employee. Eliminating regulations that are unjustified or no longer needed, and simplifying the rest, is a high priority.

- In recent years, Italy has accelerated the simplification of administrative procedures and reduction of burdens. Simplification initiatives reduced energy tariffs for citizens and enterprises, reduced administrative costs facing enterprises, and streamlined fiscal administrative burdens and procedures for storing documents. The "guillotine clause", introduced by the 2005 Simplification Act, repealed 7 000 laws. Targets for reducing administrative costs by 25% by 2012 have been set and significant results have already been achieved in terms of reducing administrative burdens, with over EUR 4 billion of annual savings for businesses. These reforms represent positive significant steps and should be further broadened, sharpened, and sustained over time.

Creating a political economy that supports regulatory reform from the top to the bottom of the public administration

Success on the regulatory reform agenda requires broad consensus over years to ensure that political commitments are translated into concrete changes from the top to the bottom of the public administration. Successive Italian governments have found it difficult to maintain the focus and investments needed to keep the reforms moving at an effective pace. As a result, formal reforms and commitments have not always yielded all the expected benefits in terms of concrete changes in regulatory costs and risks for enterprises. For example, in the past, one-stop shops have not worked in practice as well as expected. Regulatory impact assessments have not been of high enough quality to detect unneeded regulations. Dissemination and implementation of reforms remains uneven across regional jurisdictions.

- The current political leadership and the economic crisis, with its sense of urgency, both represent an opportunity for further reforms. In particular, the efforts of the Minister for Normative Simplification and the Minister for Public Administration and Innovation will determine the success of these efforts.

Political involvement must be supported on a day to day basis by stable, expert, and well resourced institutions at the centre of government that can promote, oversee, and enforce the regulatory reform commitments of the government. Italy's Better Regulation bodies – in particular, the units serving the Minister for Normative Simplification, an administrative simplification office serving the Minister of Public Administration and Innovation, and the Legislative Office (DAGL) with a regulatory impact analysis unit – are a big step forward. These are accompanied by useful consultative bodies, such as the permanent board for simplification.

Other drivers of reform that will help improve implementation include using benchmarks and reports by the OECD and other economic organisations, and better communication with government and public about the need for and benefits of reforms, particularly when reforms encounter resistance from specific interests.

Continued vigilance from one of Europe's most effective antitrust agencies is needed to expand market pressures for productivity and innovation

Antitrust safeguards support a more productive economy. Italy is making progress towards eliminating numerous protections, impediments and distortions to competition that reduce productivity and hamper growth. The effectiveness of the Italian Antitrust Authority compares well to international good practice and it now wields the power to apply competition law in all sectors and to control mergers. The authority acts as a watchdog within the government, using its advocacy powers frequently to criticise regulatory practices that undermine free markets.

Regulatory reforms have corrected or eliminated many competition problems identified in the 2001 OECD Report. For example, the Authority has promoted competition in major infrastructure sectors. Reforms introduced in 2006 and 2007 improved transparency, consumer choice and competition in a wide range of sectors, such as bakeries, banking, insurance, retail trade and restaurants, taxis and pharmaceutical products and services

The job is not complete. For example, costly constraints in competitively structured industries such as retailing and professional services are still an issue.

Decentralisation to regions can boost innovation in the public sector, but also requires planning and co-ordination of regulatory policies and reforms

New challenges are emerging due to the recent constitutional reforms to decentralise the state. Decentralisation provides more scope for experimentation and innovation, but it results in an increasingly complex layering of regional and state competences, where responsibilities risk becoming fragmented and where co-ordination is required to preserve policy coherence. For example, skills and capacities for better regulation are an issue in some jurisdictions. In addition, local regulations have implications for liberalisation and market competition. Local and regional authorities have significant regulatory powers in retail trade, energy, and transport, where these are strongly related to local vested interests. It is important that competition principles are not only affirmed at the national level, but also translated into practice at sub-national levels.

The Italian apparatus for co-ordination is well developed compared with many other countries, but the magnitude of the challenges in the decentralised state may call for further efforts. In areas such as commercial distribution, local transport and energy, the various authorities will have to invest more in safeguarding market and "better regulation" principles.

Strengthening capacities for reform: institutions and tools

- Significant steps to strengthen capacity have been taken at the centre of government, and the process needs to continue. Convergence with best OECD practices can only be achieved through long term efforts. The costs and barriers thrown up by the regulatory environment and competitive conditions are pervasive across the economy, and affect incentives, and competitiveness. Other countries are also moving ahead, and therefore Italy needs to maintain the effort and move even faster. A sustained, institutionalised, and long-term effort should be based on development across a number of fronts:

- Sustaining the impressive administrative simplification programme, and ensuring that removal of old burdens is not offset by adoption of new burdens. This is very important given the number of new regulations adopted either at EU or national level.
- The array of central quality control bodies for regulation is a good start, but more authorities and resources are needed. A lesson that has been learned over and over again in Europe is that reforms based on RIA, consultation, and other regulatory quality tools are crucially dependent on the support by active quality control mechanisms at the centre, with incentives for compliance. Staffing and expertise in these units still need to be consolidated and increased in comparison with best European and OECD practices. More investments are also needed at several levels. Resources and economic and analytical skills in the line ministries also need to be increased for these institutions to implement the "better regulation" tools.
- The experience of Italy with RIA still leaves scope for improvement. Recent steps to rejuvenate RIA might help, but mechanisms for quality control still need to be consolidated. The methods of RIA should be more explicit and more precise. The Ministry of Public Administration is making bold attempts to professionalise public services, but further investment in staffing and RIA training will be necessary to enable the ministries to conduct analysis sufficient to compare options and understand the consequences of their actions before they act. Finally, a targeted approach of "proportional analysis" would help build skills and support over time.
- The Italian policy process still needs to improve its transparency mechanisms to reflect good practice by OECD countries. The Government has sought to improve procedures for consultation, but there still is no general requirement for ministries and regulatory agencies to consult with stakeholders and there are no formal legal requirements to publish the results of consultations, reveal the parties consulted, or provide feedback. Adoption of a clear government-wide consultation policy, which mandates minimum standards for consultation on all regulatory decisions with effects on businesses and citizens, is a much-needed reform.
- Further strengthening of enforcement and application of competition law in all sectors. Enforcement would be more effective with stronger sanctions against associations that are vehicles for anti-competitive agreements, and with individual or criminal penalties against hard-core cartels. Competition implications of the emerging multi-level system of governance warrant close oversight.
- Consolidating the sectoral independent regulators while retaining their independence and credibility also remains a core issue, which is even more important now in core sectors such as financial services, or energy and energy prices.
- Developing co-ordination mechanisms, oversight capacities, financial incentives, technical capacities, and co-operative principles and frameworks to embed "better regulation" principles in the development of the multi-level regulatory system. Many issues are emerging, and others not yet anticipated will develop. The diverse range of initiatives underway in Italy to improve the quality of public services of all kinds in the decentralised system is impressive. Continued work is needed in vital areas such as

the quality of services and policy areas that are significantly devolved to local and regional authorities, including local public services, and the development of core economic sectors such as commercial distribution, transport and energy, which are key to the economic future of the country and its competitiveness. Overall, there is greater potential to introduce benchmarking practices among regions, stimulating the diffusion of best practices.