



Growth, Jobs and Well-being in Italy (and Europe): Measurement and Policy Issues

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Beyond GDP (1)

“We have used GDP to determine wrongfully what is in fact the state of well-being of a country ... GDP is necessary but inadequate, and we need to develop additional indices that would tell a more comprehensive, a more holistic story about how human society is progressing ... The human being has two needs, the needs of the body and the needs of the mind, and what we have focused on so far is mostly the body, perhaps only the body ... So, it’s a paradigm shift that we need to make”.

Beyond GDP (2)

“We have a very different measure of what constitutes progress in this country. We measure progress by how many people can find a job that pays the mortgage; whether you can put a little extra money away at the end of each month so you can someday watch your child receive her college diploma ... not by the number of billionaires we have or the profits of the Fortune 500, but by whether someone with a good idea can take a risk and start a new business, or whether the waitress who lives on tips can take a day off to look after a sick kid without losing her job an economy that honours the dignity of work”.

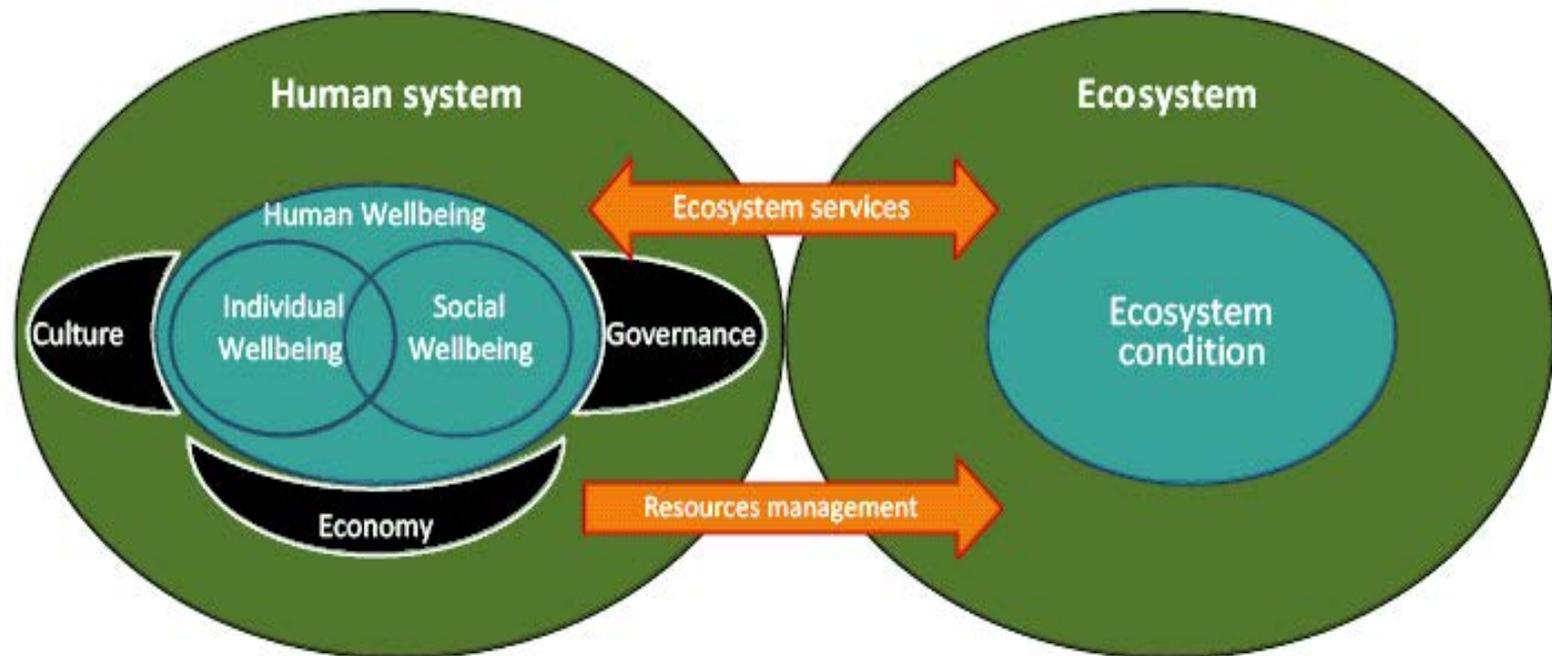
The Istanbul Declaration (1)

- A **culture of evidence-based decision making** has to be promoted at all levels of government, to increase the welfare of societies.
- We affirm **our commitment to measuring and fostering the progress of societies** in all their dimensions and to supporting initiatives at the country level.
- We **urge statistical offices, public and private organisations, and academic experts** to work alongside representatives of their communities to produce high-quality, facts-based information that can be used by all of society to form a shared view of societal well-being and its evolution over time.

The Istanbul Declaration (2)

- To take this work forward we need to:
 - **encourage communities** to consider for themselves what “progress” means;
 - **share best practices** and **increase the awareness** of the need to do so using sound and reliable methodologies;
 - **stimulate international debate**, based on solid statistical data and indicators, on both global issues of societal progress and comparisons of such progress;
 - **produce a broader, shared, public understanding of changing conditions**, while highlighting areas of significant change or inadequate knowledge;
 - **advocate appropriate investment in building statistical capacity**, especially in developing countries, to improve the availability of data and indicators needed to guide development programs and report on progress toward international goals, such as the MDGs.

OECD Framework to measure progress



The progress of a society comes from an increase in equitable and sustainable well-being

Existing frameworks to measure progress

MDG

OECD

CMEPSP

Income/Poverty

Material well-being

Economic well-being

Employment and work

Work

Personal activities

Health

Health

Health

Education

Knowl. and underst.

Education

Freedom /self-deter.

Pol. voice and govern.

Interp. relationships

Social connections

Environm. Sust.

Ecosystem condition

Environment

Partnership for dev.

--- Cross cutting

Vulnerability

Insecurity

Inequality/poverty

Inequality/poverty

Gender equality

Special populations

What is important for your well-being?

Score from 0 to 10 given to wellbeing dimensions – Year 2011

	Mean	% of 10
Being in good health	9,7	79,9
Guarantee the future of your children socially and economically	9,3	66,1
Have a decent work of which being satisfied	9,2	59,5
Have an adequate income	9,1	56,0
Good relationships with friends and relatives	9,1	53,2
Be happy in love	9,0	53,6
Feeling safe with respect to criminality	9,0	56,3
Good education	8,9	48,8
Present and future environmental conditions	8,9	48,3
Live in a society in which you can trust others	8,9	48,8
Good governance	8,8	46,6
Services accessible and of good quality	8,7	43,9
Adequate free time and of good quality	8,5	37,4
Be able to influence local and national policies	7,8	30,6
Participation to community life	7,1	18,7

Key domains for the Italian BES

The individual sphere

1 ENVIRONMENT

2 HEALTH

3 ECONOMIC WELL-BEING

4 EDUCATION AND TRAINING

5 WORK AND LIFE BALANCE

6 SOCIAL RELATIONSHIPS

7 SECURITY

8 SUBJECTIVE WELL-BEING

The context

9 LANDSCAPE AND CULTURAL HERITAGE

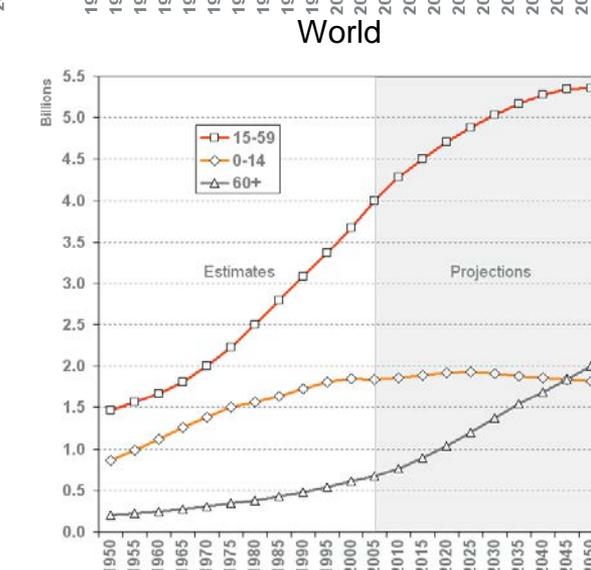
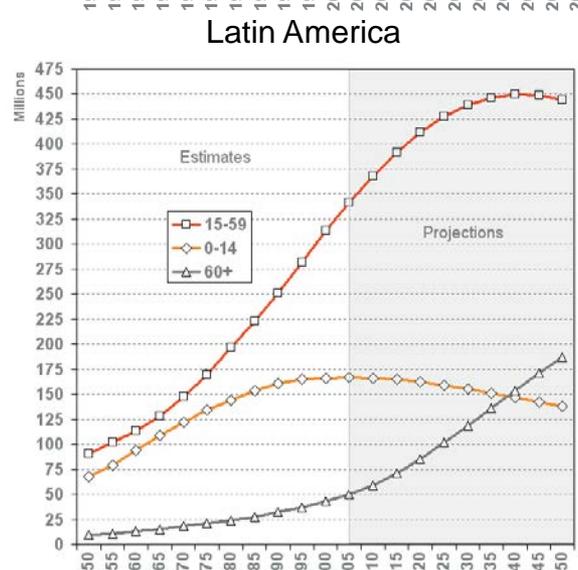
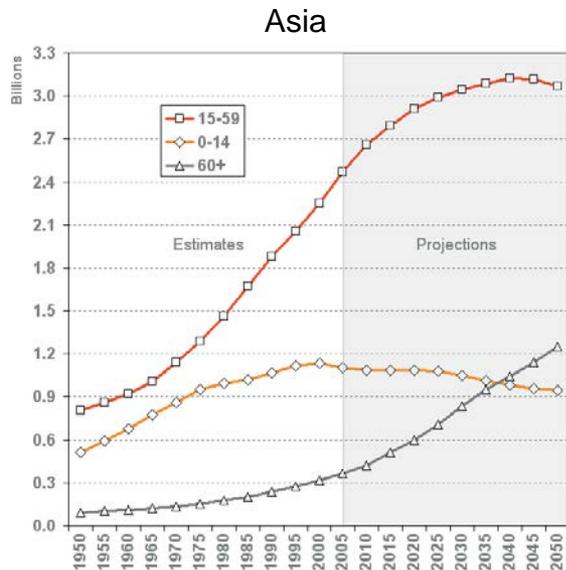
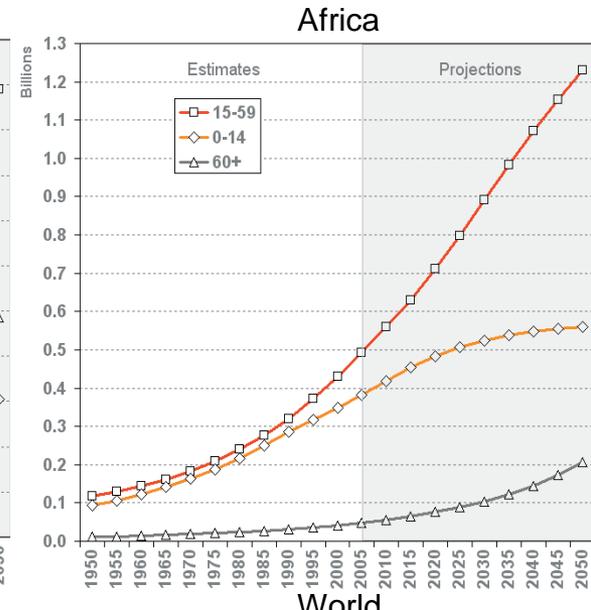
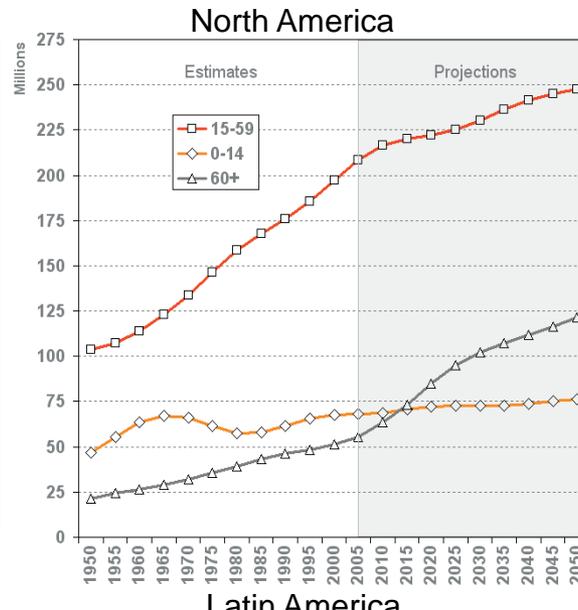
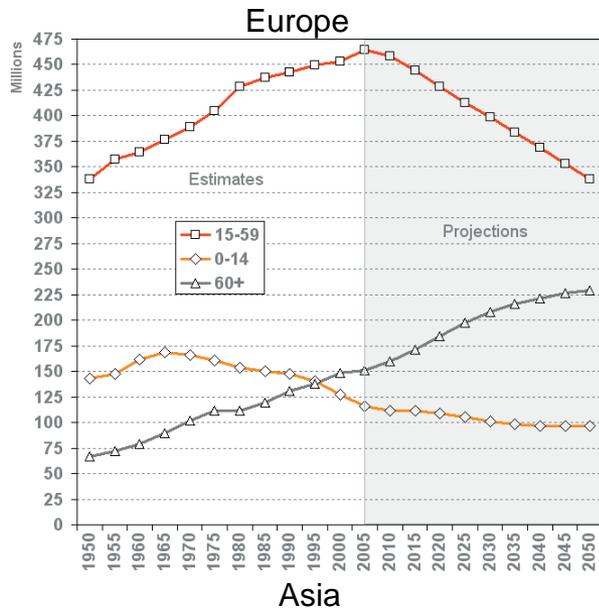
10 RESEARCH AND INNOVATION

11 QUALITY OF SERVICES

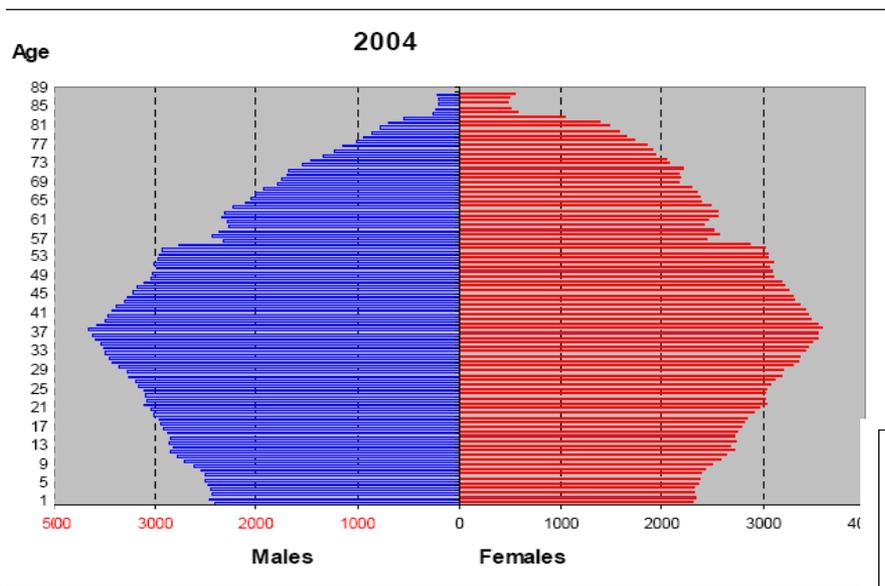
12 POLICY AND INSTITUTIONS

Europe's demographic decline

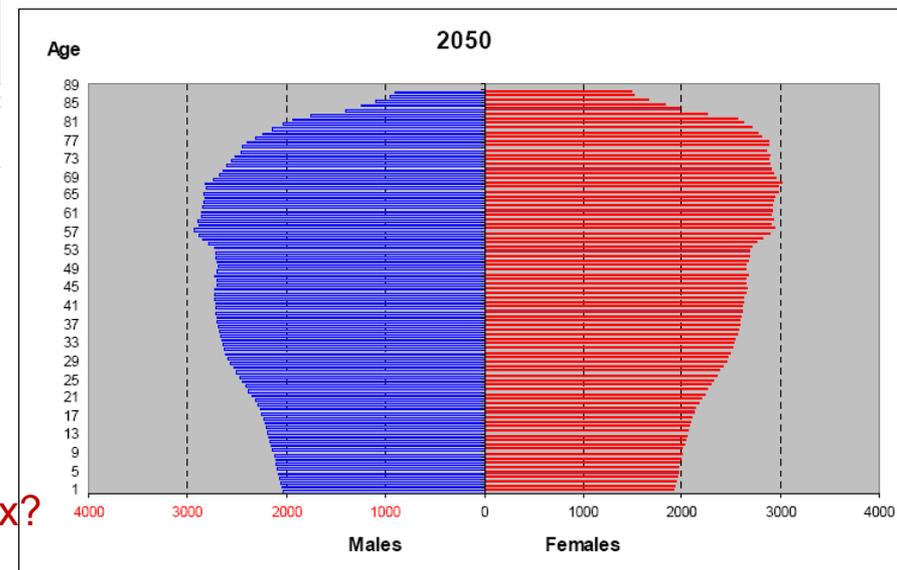
Population projections by age groups, 1950-2050



Demographic transition in Europe



Source: Economic Policy Committee and EC, population in 2050 according to the Ageing Working Group Scenario (2006).

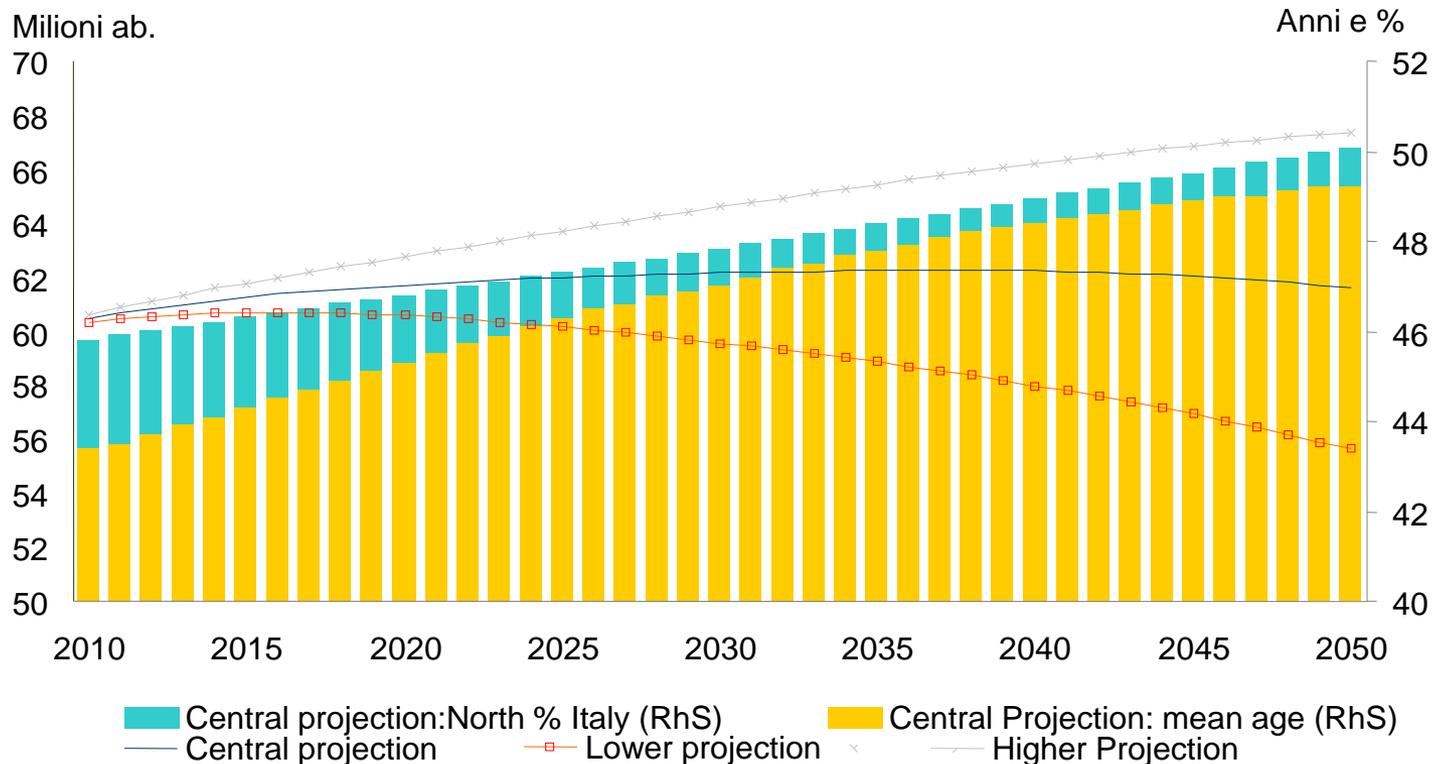


Trend baseline effects:

- Rise in employment rates?
- Productivity leading the economic growth mix?
- Fall of real estate stock values?
- Fall of GDP growth rates?
- Elders the new poor?

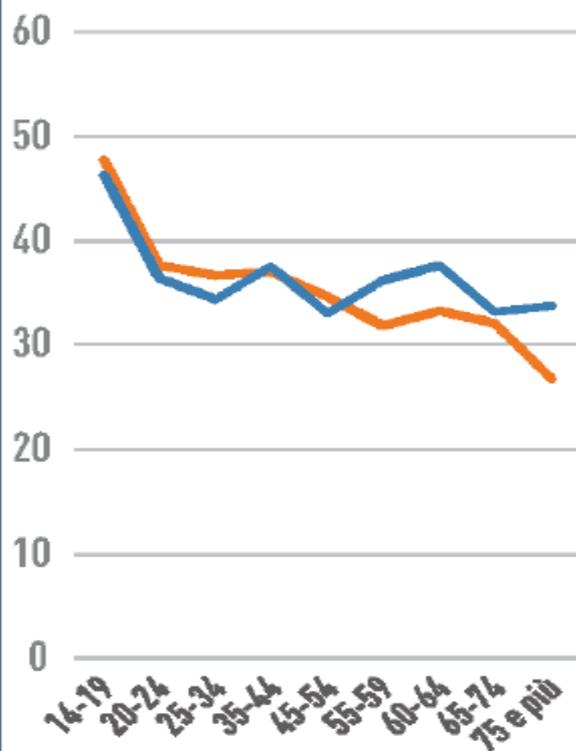
Italy: the “old-lady”

- In the coming forty years population is expected to grow of about 1.5 millions only (vs. 3 millions in the last decade) mainly due to migration
- The elders’ (65+) share should grow from about 20% to more than 30%

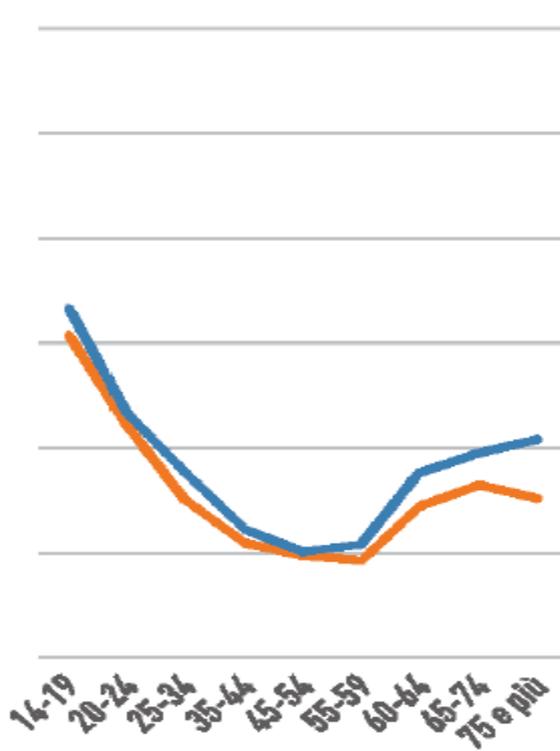


Life satisfaction by age

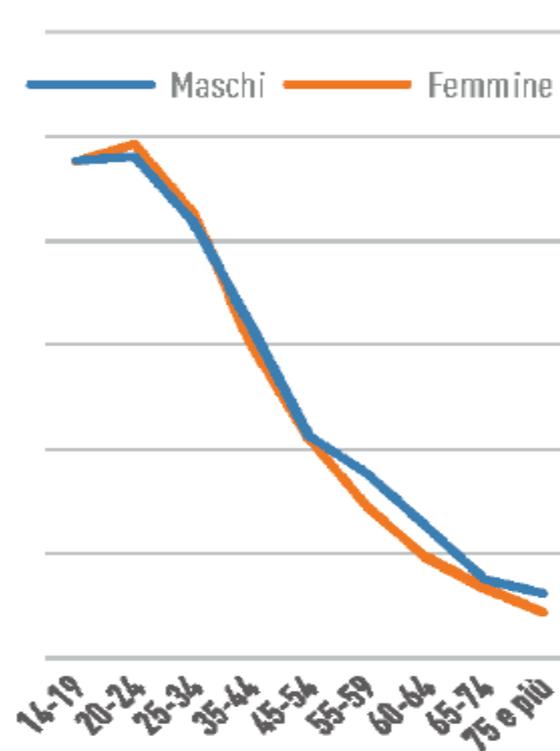
Molto soddisfatti per la propria vita



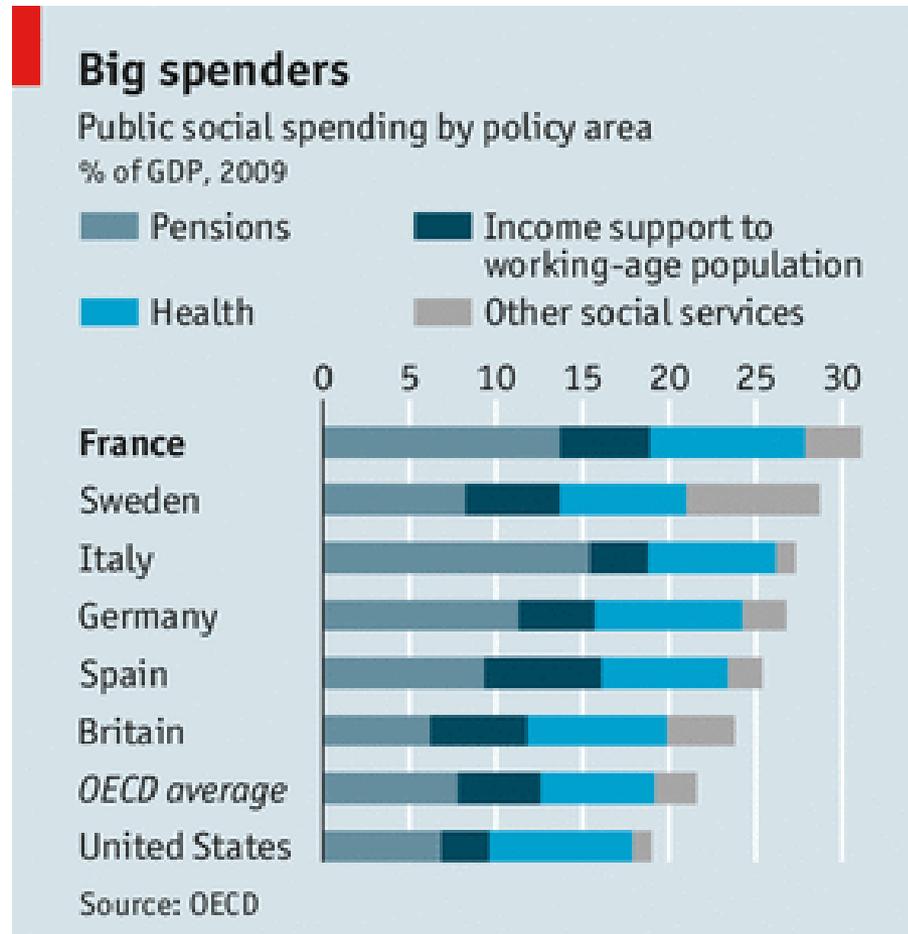
Molto soddisfatti per il tempo libero



La situazione migliorerà



Italy's expenditure more tilted towards pensions than employment protection

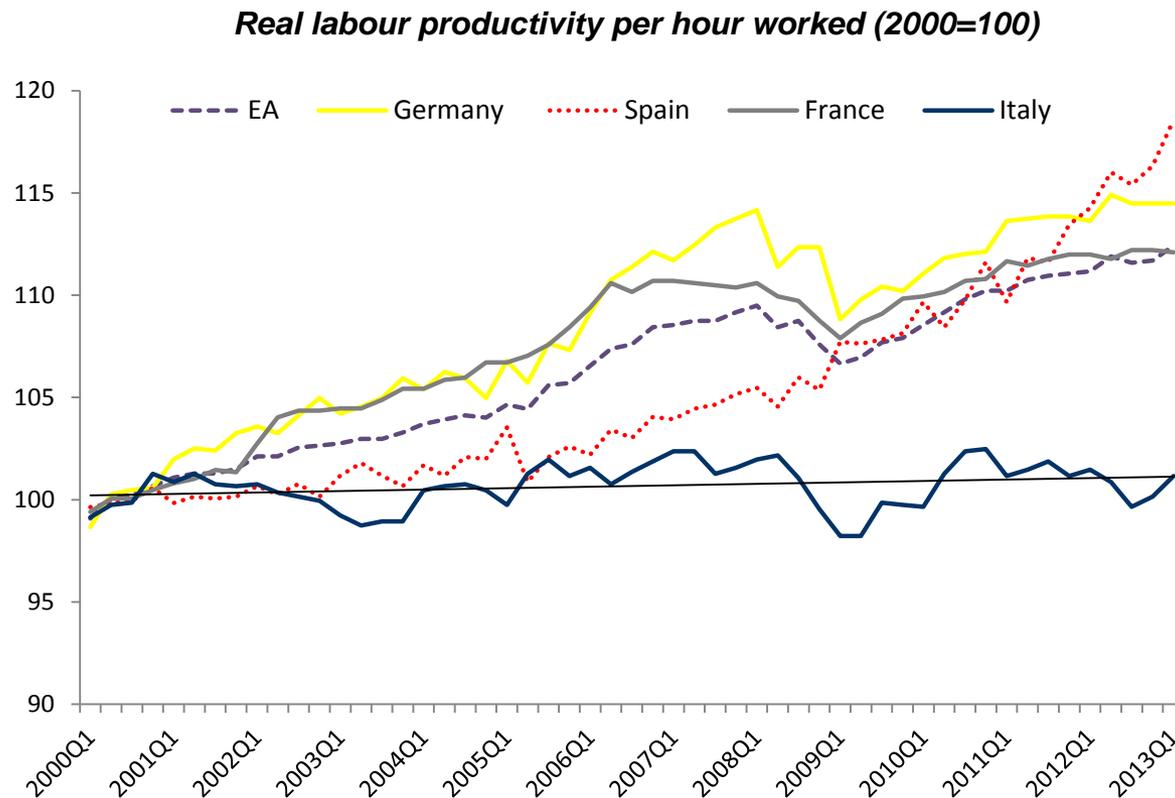


Unemployment, Pensions and Welfare: a difficult transition

- Before the recent reforms, pensions had become a way of “paying people out” of the labor market. A too costly policy to assure decent purchasing power across time to all beneficiaries in an ageing society
- Risk: gains in productivity and competitiveness “wiped off” by the increasing absolute and relative costs of public transfers to early pensioners (i.e. taxes)
- Risk: a poor generation in 30 years if growth and jobs are unsatisfactory

Employment and Growth: the major issue of productivity

During the last decade, in Italy the **labour productivity** has been stagnant



Source: Eurostat. Note: Seasonally adjusted and adjusted data by working days.



The common mantra: make reforms

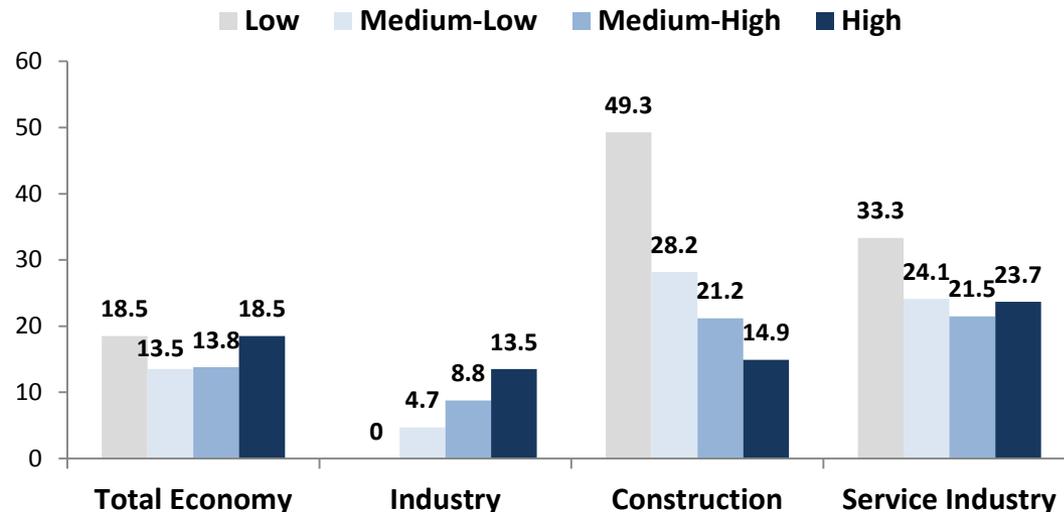
- Labour market
- Pensions
- Public administration
- Civil justice
- ...

Employment increased in low productivity sectors

➤ Between 2001 and 2008, **low-efficiency firms in construction and service industry** have shown higher employment increases

➤ **Manufacturing** has shown a better performance in terms of productivity with **lower employment increase**

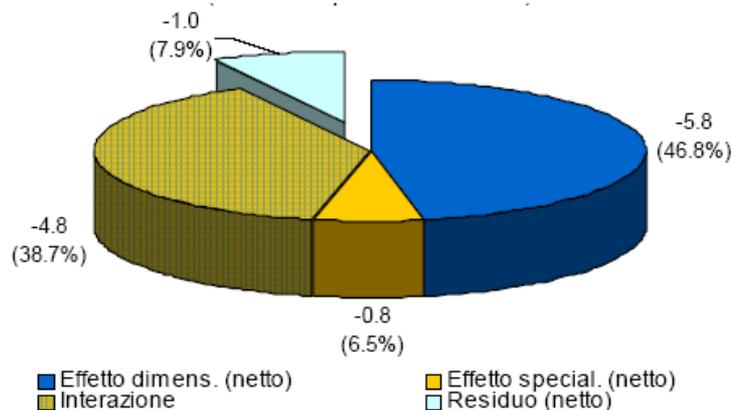
Employment growth by efficiency (TFP) class and sector (2000-2008)



Source: Istat

➤ The gap in the productivity levels between Italy and main European countries (Germany, France and Spain) is mainly caused by a **relative higher presence of SMEs** and a **less favorable productive specialization**

Decomposition of the gap in productivity levels between Italy and EUR3 (Germany, France, Spain)

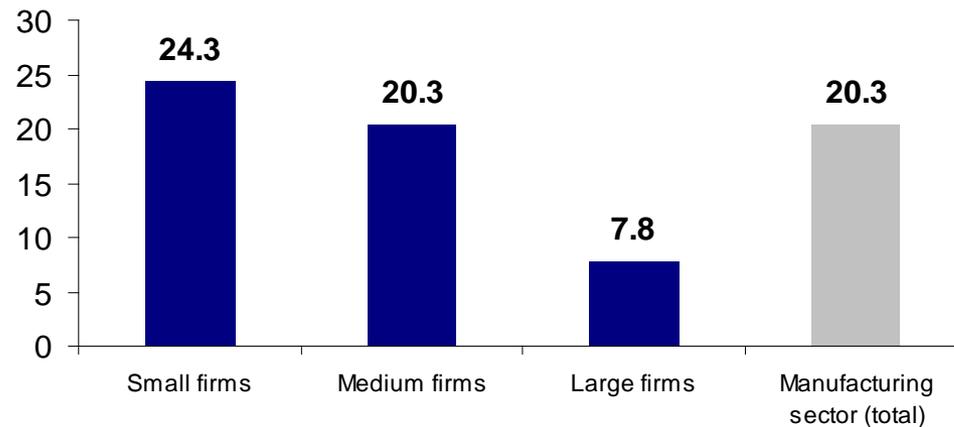


Fonte: elaborazione su dati Eurostat (SBS)

Too many small enterprises

- One of structural weaknesses of the Italian economy is due to a **relative higher presence of SMEs**
- Firms themselves think that the **insufficient firm size is one of the main obstacles to export activities** (with greater intensity in the small firms)

Obstacles related to insufficient firm size by firm class (%)



Source: Istat (2013), *Rapporto sulla Competitività dei Settori Produttivi*

Education of entrepreneurs and performances in small enterprises

Entrepreneurs and firms characteristics (2011, %)

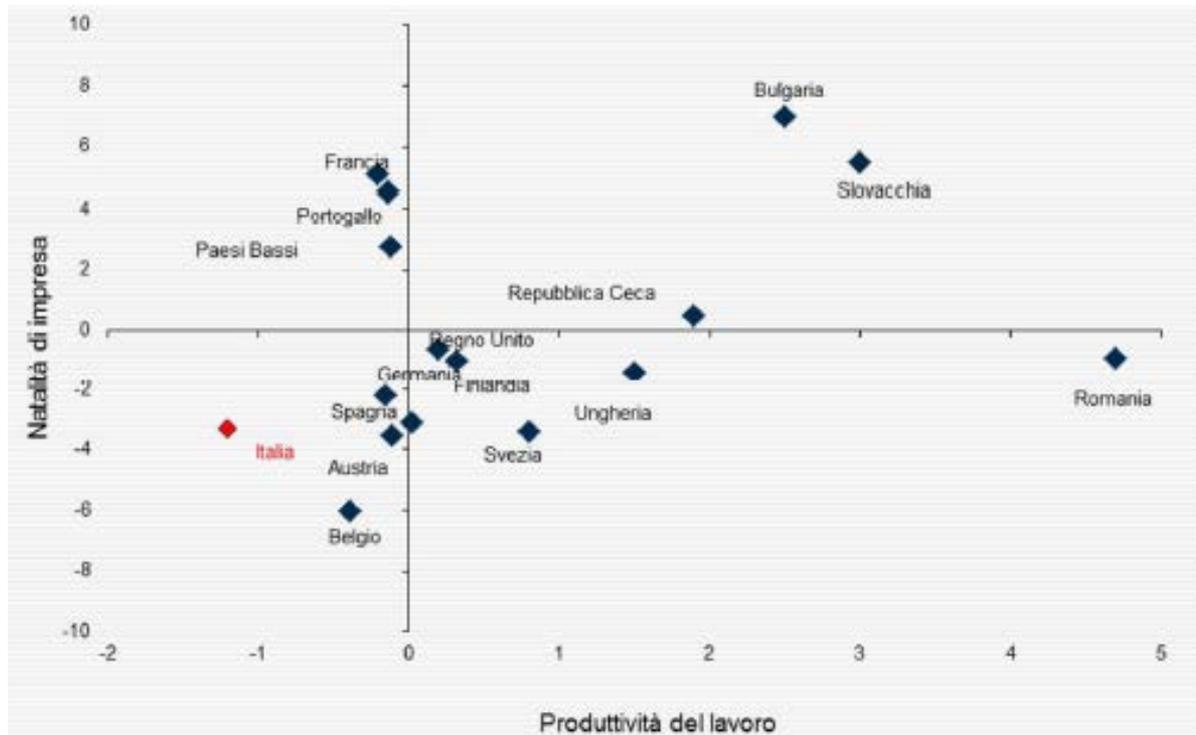
Firms characteristics	age	third level education	Past professional experience			People involved in strategic decisions		
			none	employed	self-employed	none	manager/family	employees
Innovative Firms - high performance	49.5	25.9	21.4	43.9	34.7	48.4	38.5	8.5
Innovative Firms - low performance	47.4	19.4	23.5	45.3	31.2	50.5	34.6	8.6
Conservative Firms - high performance	52.1	22.1	27.7	40.8	31.5	62,0	28.4	4.1
Conservative Firms - low performance	49.5	12.5	31.4	43.0	25.7	62.8	27.1	4.1

Source: Istat (2013), Annual Report

Too few new firms

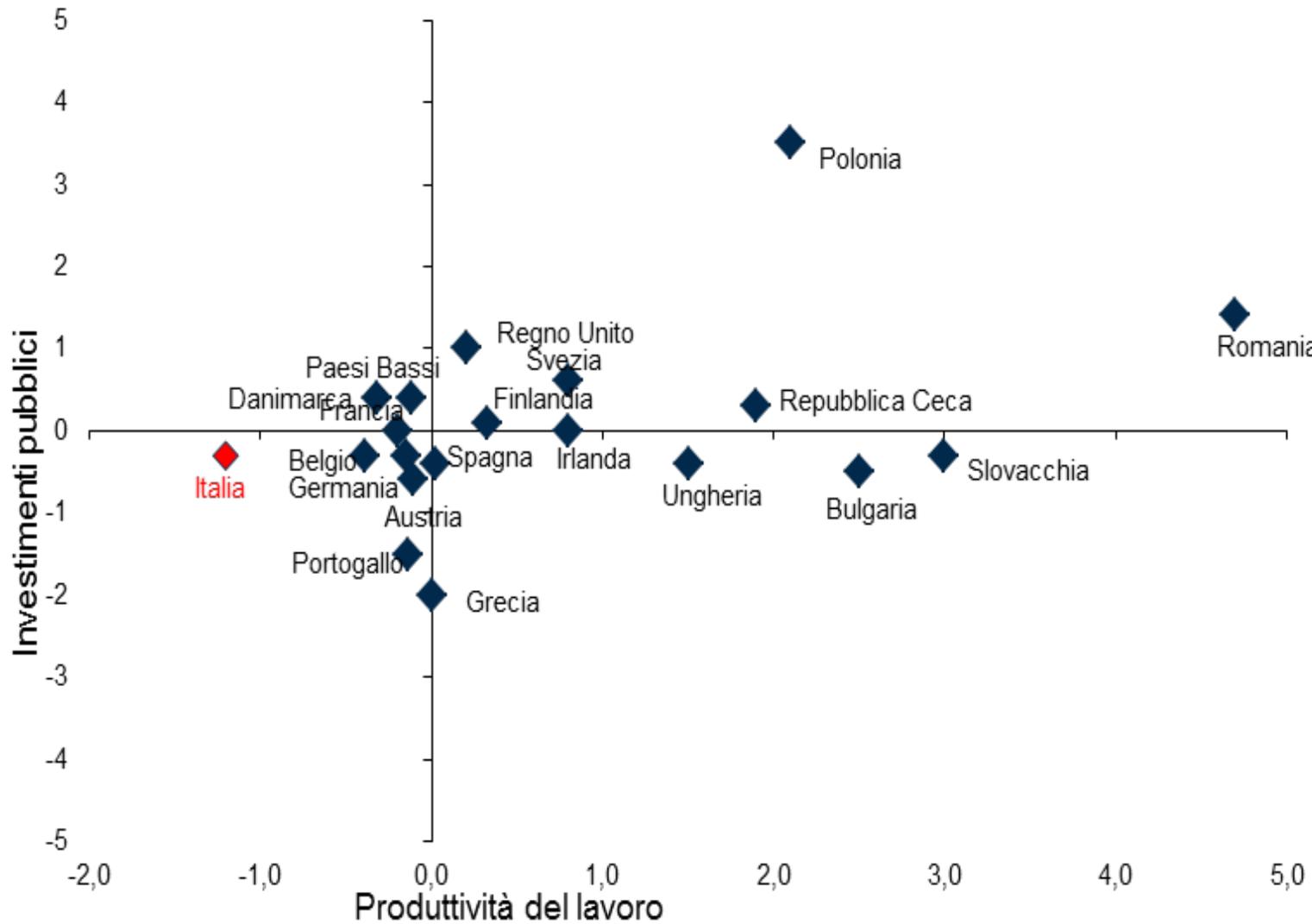
- There is a positive correlation between enterprises birth rate and productivity dynamics. New firms contribute to improve productivity levels
- In the last years, Italy has shown both a negative birth rate and a poor performance in terms of labour productivity

Labour productivity and enterprises birth rate in the European Union (2000-2011, %)



Source: Istat (2012), Annual Report

Too low public investment

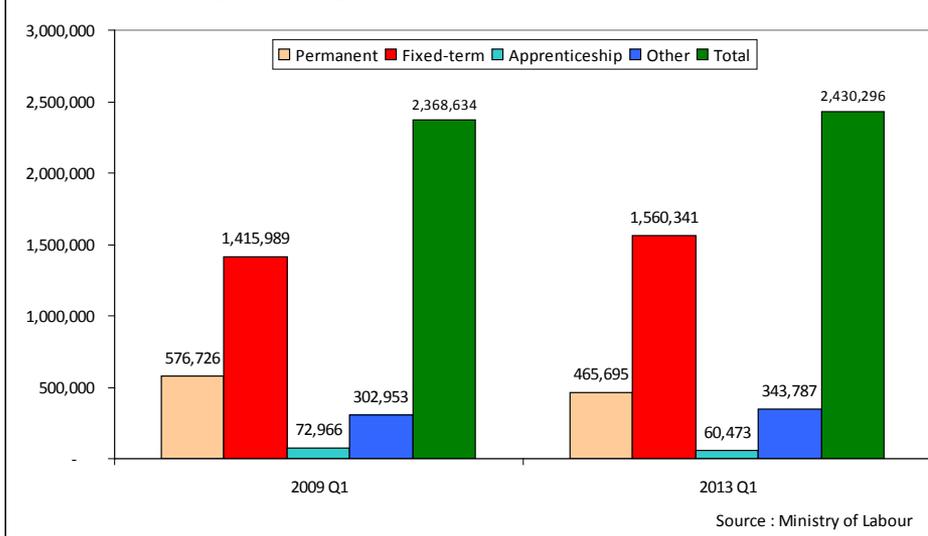


Unemployment: Italy vs Germany

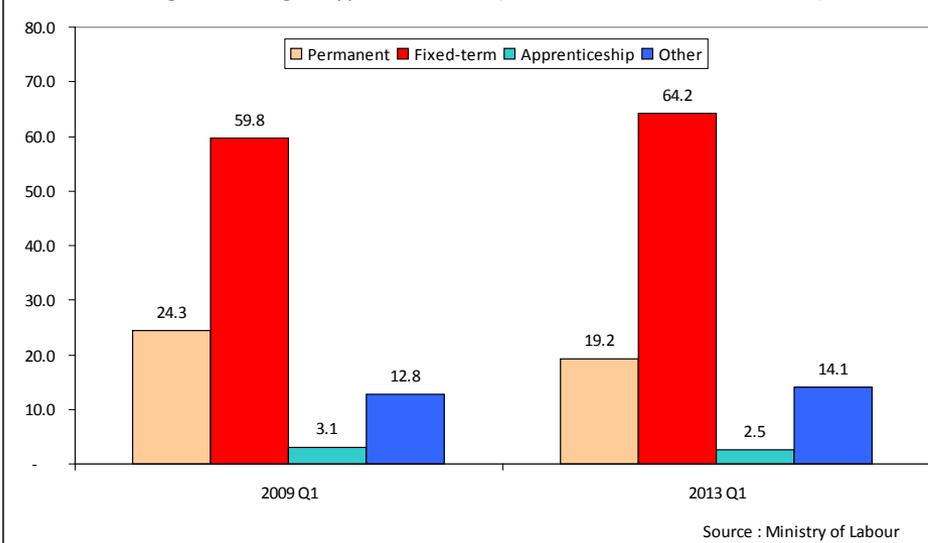
Unemployment rate		15-64		15-24		25-49		50-64	
		2008	2012	2008	2012	2008	2012	2008	2012
Euro Area (17 countries)	Total	7.6	11.5	15.6	23.0	6.9	11.1	5.8	7.9
	Males	6.9	11.3	15.3	23.2	6.1	10.8	5.4	8.2
	Females	8.4	11.6	15.9	22.6	7.9	11.5	6.2	7.6
Germany	Total	7.6	5.6	10.6	8.2	7.0	5.1	7.9	5.4
	Males	7.6	5.8	11.1	8.8	6.8	5.3	7.7	5.6
	Females	7.8	5.3	10.0	7.4	7.1	5.0	8.2	5.3
Italy	Total	6.8	10.8	21.3	35.2	6.4	10.3	3.2	5.6
	Males	5.6	10.0	18.9	33.7	5.0	9.1	3.1	6.0
	Females	8.6	12.0	24.7	37.4	8.4	11.9	3.4	5.0

In 2012 Italy approved a major labour market reform: more “good flexibility” but at higher costs for companies

Hirings according to type of contract (2009 Q1 vs. 2013 Q1)

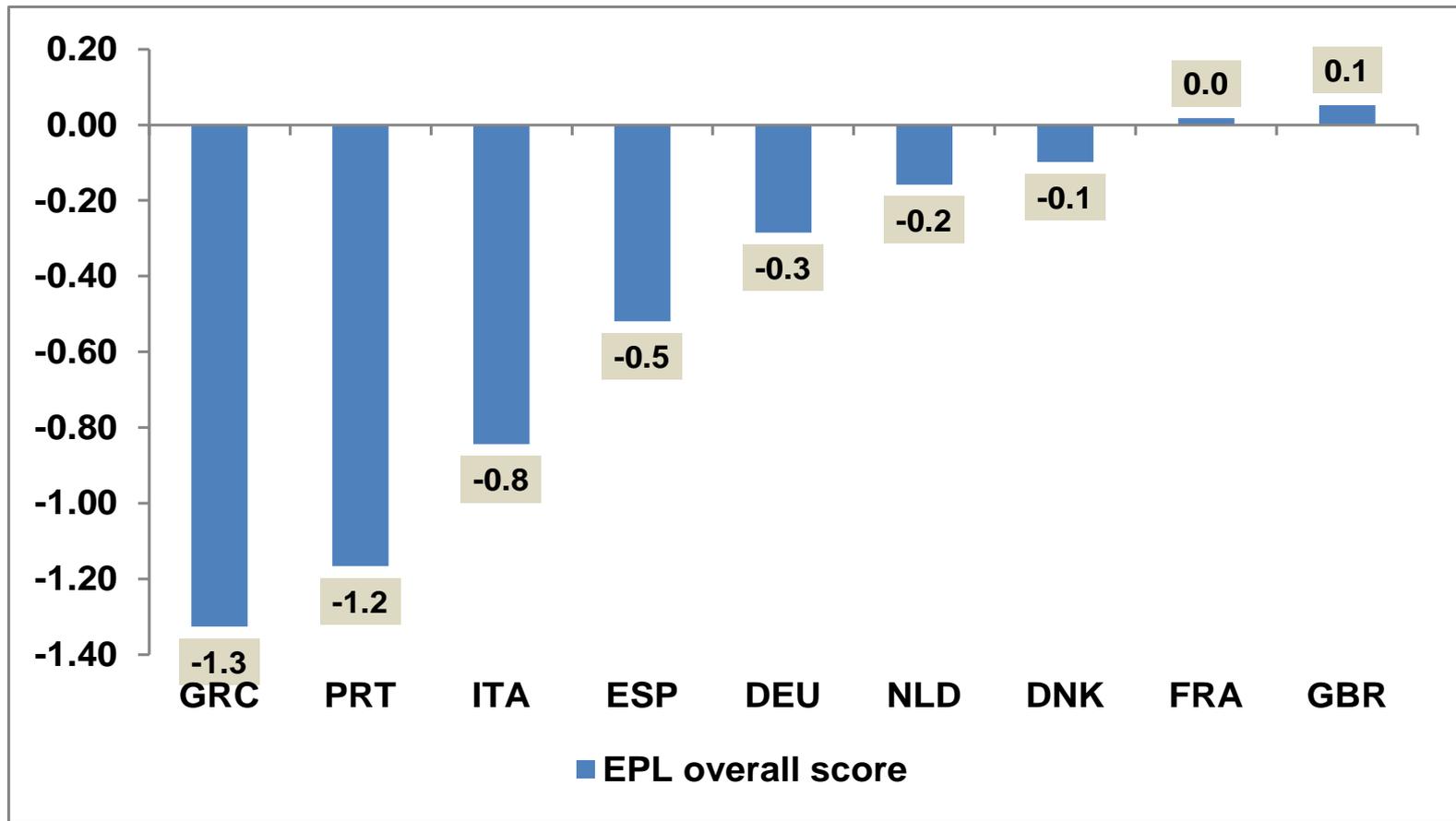


Hirings according to type of contract (2009 Q1 vs. 2013 Q1, % values)



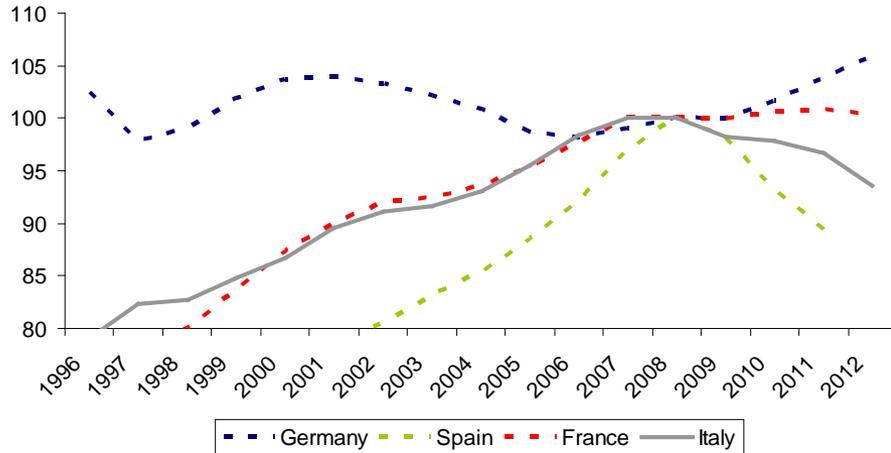
- The 2012 **Labour reform** has encouraged the use of fixed-term contracts with high social protection standards
- Such contracts pay higher “social contributions” (+1.4%) also to finance the **newly introduced unemployment benefit system**, designed according to international best practices
- Last year, with high uncertainty about the future, have been ready to pay such higher costs in order to have **more flexibility**

Labour market flexibility improved

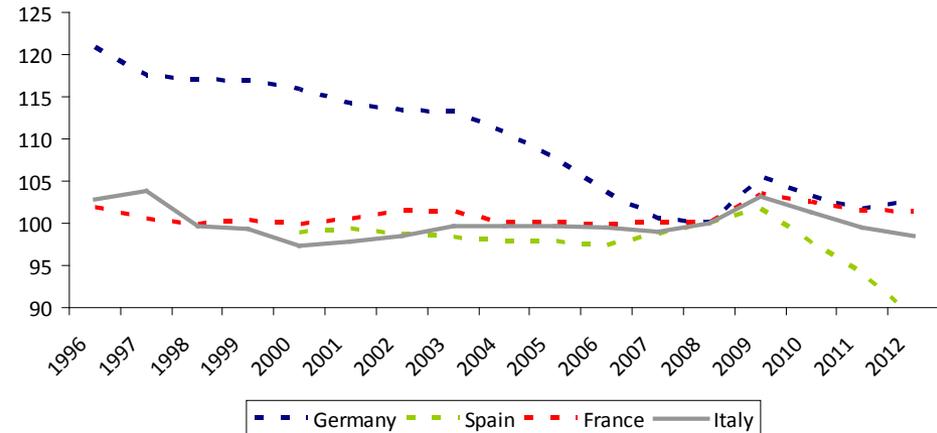


Labour cost flexibility

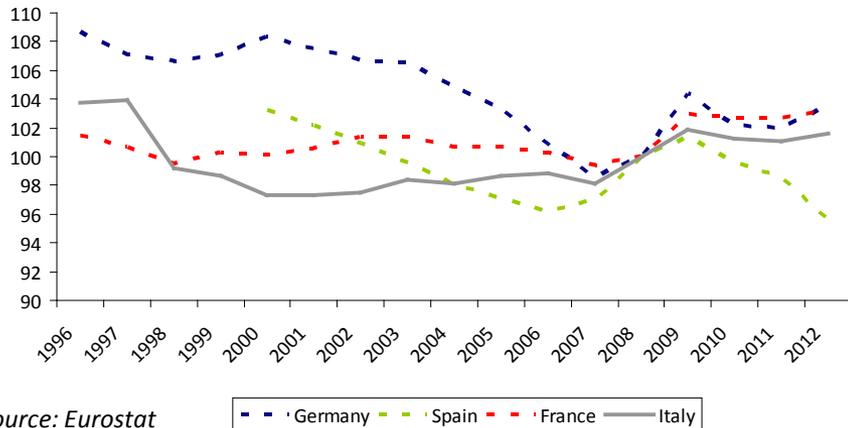
Real Gross Wages and Salaries
(deflated by HICP, 2008=100)



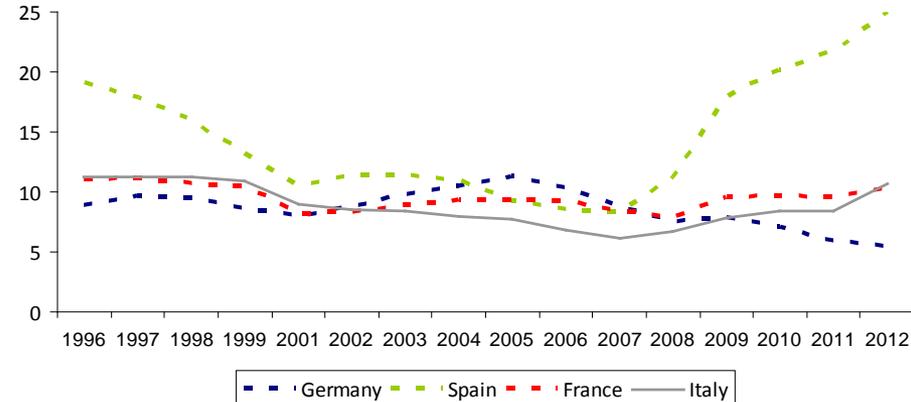
Real Unit Labour Cost
(deflated by HICP, 2008=100)



Real Unit Labour Cost
(deflated by REER, 2008=100)

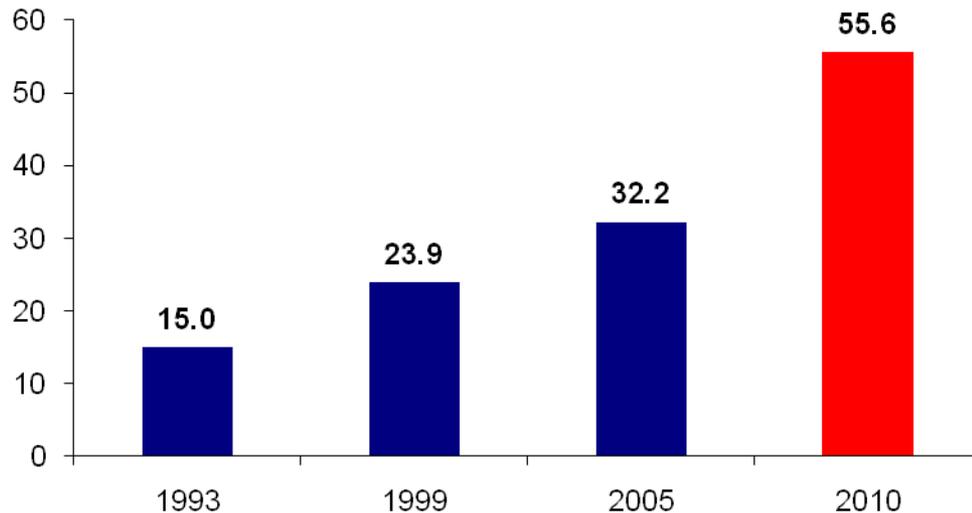


Unemployment Rate
(Total, %)



On-the-job training gaining momentum

Percentage of firms (10+ employees) with on-the-job training programmes



➤ As a response to the crisis, **Italian firms have further increased their commitment to training** in order to avoid the deterioration of the stock of human capital

June 2013: a new package for employment

Weakness	Response
A weak dynamic of companies' birth rate	Incentives and simplified administrative procedures to establish new companies, especially <i>innovative start-ups</i>
Unfavourable sectoral specialization and a lack of mobility in labour market	Strengthen active labour policies: reform of the system of public employment services to help companies in selecting the most appropriate skills
Youth unemployment and inactivity	Youth Guarantee Plan (2014-2015)
High labour cost	Employment benefits for the recruitment of young people
Labour demand/supply mismatch	Strengthen education/work connection for university students and other students
Firm size as obstacles to growth and lack of managerial skills	Possibilities of joint hiring for firms with network agreements

Current challenges and actions to be undertaken

Weakness	Response
High labour cost	Large reduction of the tax wedge
International mobility of young workers	Strengthen the European tools (Eures, Erasmus for all, etc.) and develop an effective integration of national public employment services
Youth unemployment and inactivity	Best use of EU structural funds 2014-2020
Labour demand/supply mismatch	Improve orientation for students and unemployed people
Improve human capital	Programs to train entrepreneurs towards innovation, new technologies and internationalisation
Low inward direct investments	Improve the business environment: reduce uncertainty about firing costs, special agreements for new industrial investments, etc.



Equitable and sustainable well-being: the social components

- Focus on human and social capital
- Reduce uncertainty
- Avoid a war between generations
- Provide more opportunities of social inclusion for all generations
- Reduce the gender gap
- Strengthen communities
- ...

Next steps in policy making

- Restore growth, restore confidence
- Active policies to cut unemployment
- Reform the public employment services
- New tool against poverty/social exclusion
- Transition to active ageing
- Adjust the pension system to the new conditions of the labour market
- Better tools for life balance for women
- New legislation about the non-profit sector

And what about Europe?

- Implementation of Europe 2020
- New Youth Employment Initiative
- Banking Union
- ...

- Next year will be crucial:
 - New European Parliament
 - New European Commission
 - New President of the European Council
 - Italy will have the Presidency of the Union