

Event Transcript

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

Enrico Giovannini, Italian Minister of Labor and Social Policies

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Unedited rush transcript

Adam Posen: Good afternoon everyone and welcome back to the Peterson Institute for International Economics. I'm Adam Posen, President of the institute and it is my pride and privilege today to welcome you for a speech by the Italian Minister of Labor and Social Policies, Mr. Enrico Giovannini, actually, Professor Enrico Giovannini.

As many of you know and joined us regularly, the institute is very deeply entwined with the fate of Europe and the Euro area long before the crisis hit, but of course increasingly in recent years, and we have a long history of very cordial and substantive relations with what I'm allowed to say, is the 'technocratic elite' of Italian policy making.

Former Prime Minister Mario Monti graced the stage on many occasions in each of his successive jobs at the commission in government and finally as Prime Minister.

Fabrizio Saccomanni the current finance minister has been on the Advisory Board of the institute for several years.

We have ongoing relations with the Council on US and Italy, with whom we'll be co-hosting a meeting in December with additional high level contacts between Italian and American businesspeople and political leaders. We're grateful to [inaudible 00:01:15] the Council for their ongoing support. And we've had a series of visitors here through the years on exchange from the Banca d'Italia and elsewhere.

So, the relationship between the institute and Italy is strong and we're delighted in the latest installment of that, to have the insights today of Enrico Giovannini.

The important thing to know about the minister as I know, is that he is a true statistician. And, why is that important? Because statisticians are truth tellers, or at least attempted truth tellers, let's put it that way. They come closer to getting us to the reality than almost anybody else can. They're

more aware of the limitations of relying on data. They're more attuned to the nuance of what the world really is and they're intellectually honest.

And that's part of what we try to do here and part of what we admire from Minister Giovannini. He was President of the Statistical Advisory Board for Human Development Report of the United Nations, which has been a keystone of cross-national evaluation. Prior to becoming minister of labor, he was President of the Italian Statistical Institute (ISTAT), which told the truth in ways that some people in Italy didn't always want to hear, but which was necessary to avoid what had happened in some other European countries.

When I got to know him, he was the Chief Statistician and Director of the Statistics Directorate—I know the facts, I'm just trying to make sure I get the titles exactly right—at the OECD from 01 to 09, where he did work and all of us rely very heavily on the OECD's work. He's been awarded numerous awards in Italy and is a full Professor of Statistical Economics at the University of Rome Tor Vergata.

This is the kind of person we hope comes to tell us and engage with us substantively and forthrightly and with vision for what can and should be done in Italy. And he will address for us today growth jobs and well-being in Italy, and not so incidentally, also in Europe. It's my great pleasure to welcome Mr. Giovannini.

[Applause]

Enrico Giovannini: Good afternoon. Thank you very much. It's a great pleasure to be here. I came here several years ago and now as Minister, I have the honor to address you to talk about one of the main challenges of course, we have. And when I say we, I'm not just talking about Italy, I'm not just talking about the Italian government, I'm talking about all countries in the world and those who are engaged in public policy.

But also, I would say, those who are engaged in the private sector, because at the end of the day, only a private sector creates growth and jobs. This is why I'm particularly pleased to know that here there are also representatives of very important companies worldwide and in United States.

I worked until six in the morning this morning to prepare this presentation, not because I was lazy before, but because I wanted to try to present to you something that could be interesting for your activities, but also to try to share with you some of my deep concern that I have about the future of our countries, and in general, of developed countries.

Let me start with a quotation here and then I will challenge you, you can imagine who said that. *“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”*. Do you have an idea who said that?

Well, this is the former Prime Minister of Bhutan and you know that Bhutan pushed a lot this idea of happiness worldwide and so on. And now, there is a lot of a research, very serious research, on this topic. But what I would like to underline here is that when he talked about the body and the mind, I will try to argue that the main problems we are facing now come from our minds. And this is where I think economic analysis is a little bit weak.

But anyway, let me challenge your second try. Okay? *“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 honors the dignity of work”*.

You know who said that? Your President, Barack Obama, when he accepted to run for the Presidency.

So, I’m just using these two extremes: one from Bhutan, the other from United States, just to talk about this whole discussion beyond GDP that you may have heard about, the Stiglitz Commission and many other initiatives around the world. The reason why I’m mentioning it is not only because I was behind this whole story when I was at the OECD, but because I think this captures one of the key problems of our current political, economic, social, environmental challenge, to be sustainable.

This is why I will spend just a few minutes to talk about some key messages that are emerging from this stream of research.

In 2007, I managed to have IMF, World Bank—sorry, not IMF, World Bank, UN, OECD and other international organizations signing this declaration, which was mainly saying that we took the commitment to

measure and foster the progress of societies, not only GDP growth, in all their dimensions. And we urged statistical offices, public and private organizations and the academic experts, and this is the key sentence, “To work alongside representatives of their communities to produce high quality, facts based information,” this is the key point, “That can be used by all of the society to form a shared view of societal well-being and its evolution over time.” Why am I underlining this sentence?

Of course, I do not have time today to talk about the basis of this sentence, which finds its roots on the game theory applied to democratic processes. But the key point is that if we do not share a vision of our society, if we do not share a vision based on facts, it’s very difficult to discuss what we want to do. And of course, if we are running our policies using wrong indicators and the wrong signals, we end up with wrong policies.

In a nutshell, what can be seen as a good measure of measuring—a good framework for measuring progress is represented by this chart, which recognizes that we live in—our lives are based on two systems: the human system and the ecosystem.

In the human system, we are focused on human well-being, which can be disaggregated in individual well-being and societal well-being, while in the ecosystem, we should focus on ecosystem conditions. Of course, these two systems interact very closely to each other through ecosystem services or resource management and so on, and the culture governance economy, our means to an end are not the final ends.

So, in this perspective, we could say that a progress of a society comes from an increase in what we called 'equitable and sustainable well-being'. And, these two concepts of equitable and sustainable actually, are two ways of considering the same concept, which is equity. One is a time [inaudible 00:10:53] right now between populations and sustainability is about equity between generations. So the first concept is within the current generation, the second concept is between generations, but is about sustainability.

And of course, what we have discovered with these five years of crisis, even more actually, because if you go back to 2007, we have talked about a food crisis in some countries, then energy crisis, then environmental crisis, then financial crisis, economic crisis, social crisis, I think that we have not missed anything, oh yes, of course, political crisis. But, this is the argument that I will try to use later.

So, it’s clear that these crises (plural), have taught us that we are in a much more vulnerable world than what we expected. In this sense of vulnerability, in my view, is a key point that is playing a major role in

running policies in economic and social decisions. This is the big change that in my view, this crisis is leaving to us.

Of course you could say, “What do you mean by well-being?” Well, we ask, for example, Italians, “What do you think is most important for your personal well-being?” and we got the usual results: being in good health, to guarantee the future of your children, socially and economically, have a decent work, have an adequate income, and so on and so forth.

I would like to stress the second of these answers, which was quite unexpected I would say, which tell us that at least in Italy, but this can be true also in other countries, the capacity of guaranteeing the future of the future generation looks a very important element in people’s well-being. If you care about future generations of course, you’ll think that this is very important for your well-being. Of course, if you don’t care, you would put this at the bottom of the distribution following what Woody Allen said one day using a Groucho Marx sentence, “Why should I care about future generations? What they did they do for me?” which is an argument.

Now, to be short in this first part, we ended in Italy with a concept of equitable and sustainable well-being based on these 12 domains: environment, health, economic well-being of course, education and training, work and life balance, social relationships, security subjected well-being; and then, four domains for the context.

And I highlighted and this is of course, a way to punish me because I started this process, is that five dimensions are under my responsibility. So now, I have to deliver something. This is the change of perspective I have.

The reason why I talked about this is to try to show you that the problems we are facing go well beyond the issue of growth and of course, this is the strong influence on jobs, which represent a key element of our lives, therefore, a key element for our total well-being, but we shouldn’t think that this is the only element of our function.

Okay, let’s start talking about the future. I think that everybody knows these charts, but it’s important to have them in mind when we talk about the future. And you can see here the evolution of population—oops, is there a pointer? Yes.

This is the expected evolution of population of people aged 15 to 59. These are young people and these are the elderly, more than 60 years old. So, Italy—Europe has a clear shift, but also in North Africa, while Africa is has completely different dynamic and Asia around 2005, will have the reverse here like Latin America.

Everybody knows that an aging population is changing dramatically the way in which a society works; and now, we are not very far from big changes in the way in which the composition of our population will be. In particular, in Europe, there will be a big demographic transition in a few years.

And of course, if you look at the normal way of looking at these futures, you ask yourself, “What are the risks of this change in terms of how can you insure a rise in employment rates and what is this going to have as an impact on productivity? What about real estate, stock values?” and so on and so forth.

And then the main question, “Our elders, the new poor in the long-term, is this a real risk?” Of course, we have models that tell us that if growth is strong enough, there will be income for everyone and pensions to be paid for everyone, and so on. But of course, this is a big, big question mark that we have in mind as analysts and people have in mind as individuals.

Then of course, when you have a crisis, like the crisis we had or still have, the people are even more scared about the future.

In Italy for example, we passed a law two years ago that increase the retirement age to 67 by five years. It’s great. Now, we have a fully stable pension systems from a financial point of view. In the future, people will have higher pensions because they will work more. But this was done in the midst of a huge recession and the impact of that decision was that a lot of companies were obliged to keep old people at work and because of the recession, they kicked out several million young people.

And of course, they are now very scared. Why? And then we’ll come back later on that because they have understood that their working life will be very uncertain and the fully—and the system based on the contributions that you pay, doesn’t work very well in terms of future pensions, if you work in a discontinuous way, if you don’t work enough, if growth is not enough.

So, as you can see, this transition for some people, is becoming now a reality and Italy can be called the 'old lady' at this point, it’s particularly affected by these trends. We have already a declining population, but the total population is still growing a little bit because of migration and in the future, if nothing changes, Italy will have a decrease in total population with all the implications for economic growth that this may have. And the share of people with more than 65 years will grow from 20% to 30%. And of course, we know because this can be projected quite easily, that the share of people with health problems will increase a lot and so on and so forth.

So then what I'm trying to argue here, is that these trends should not be forgotten when we discuss about short-term economic, financial and social trends. This is a chart unfortunately, with the titles in Italian, this just shows the subjective life satisfaction by age and this is the share of people who are very satisfied with their current situation. You can see that young people, notwithstanding the problems they are facing in Italy, are much more satisfied over their life compared to the elder. And this is the—it's quite interesting, it's the question about; what do you think about the future? Do you think that your situation will improve? This is this last chart.

So, as you can see, this whole story about uncertainty, about the future, about the vulnerability of the situation where we are, is extremely irrelevant right now, but it's likely to become even more relevant in the future.

Do we think that this may have an impact, an economic impact, in terms of consumption, of saving and so on? And what will happen in terms of social cohesion?

In Europe, a lot of countries are spending a lot in terms of social expenditures; you can see here France, then Sweden, Italy. This gray area is the share of expenditures for pensions. This is for income support to working age population, this is health and this is other social services. And Italy of course, has the highest share of payments for pension and people who are retired right now are still benefiting from the old system, which was the pay as you go, which was very generous, of course.

Now, we have, as I said, a different system based on contributions with a very long expected working time. This is the hypothesis. Now, of course as I said, we have to change our systems, but the transition is very complicated, especially for those countries who are still in a recession, who should do reforms that will require investments, would require investments from new generations, school, education and so on, but also new investments to boost productivity.

So the real question is, are we at risking to create the poor generation in 30 years' time if growth and jobs are unsatisfactory? Maybe we do not have a solution now, but this is the question that a lot of people have on their mind.

Now, let me quickly come to the issue of growth, because of course, if we have growth, we can expect to create jobs and therefore, all these risks will disappear. Italy is suffering by very low productivity growth, almost no productivity growth, for 10 years. It's a big question mark. And the mantra that we hear every single day is that we have to make reforms. The labor

market, pensions, public administration, seat of justice, almost everything. A lot of reforms have been done. That is the truth.

And the question is, can we really expect that after these reforms, our growth rate will come back to 3% in the long-term necessary to reabsorb the six million people who are unemployed or discouraged out of the market? As I said, this is a question also for other countries.

Let's take Germany. Germany has very good figures on the labor market. As you know, they have what they call mini jobs, 7.5 million people with mini jobs. And 'job' is a German word, which means 'mini job' in the English sense. So there's mini, mini job actually, which are jobs paid something like €300, €400, €500, no Social Security contributions, no benefits. They were invented for young people during summer and so on and so forth, but now, are widely used. And of course, the discussion is that if people stay in these conditions for a while, they will not have pensions in the future. So as you can see, even Germany is facing' in other ways, the same problems we are facing.

Quickly on the main reasons why we are facing this low productivity. We have a problem in terms of industrial structure. We have too many small and medium enterprises, a lot of them disappeared because of this crisis. This could be good news I would say [inaudible 00:24:52].

The problem is, are we really ready to change our industrial structure to recover with the different industrial model? This is a big question that we have to, of course, address with the correct policies. Even enterprises are saying that they are too small, because they are facing problems in exporting, especially reaching far markets. Therefore, not everywhere, every time being small is a nice thing, like the Italian culture told us for many years.

So, of course, the question is, is this a reform or is a change in the mindset, people mindsets; as we need more entrepreneurs, more stronger entrepreneurs and not just having new companies? Just this chart isn't into the table is interesting. These are enterprises with less than ten employees. We have divided the group of these million enterprises in four groups: innovative firms, high performance and down to conservative firms, low performance.

Look at the share of entrepreneurs with a third level education. This is a quite interesting difference, but look also other way in which decisions are made. Those who are very conservative don't speak to anyone when they make decisions, while those who are more innovative, they talk about strategies with other people and with their employees. So, it's just to say that to change all these is not necessarily a reform, but it's a big, big

training program for entrepreneurs, not for employees. The problem of human capital is a clear problem for these kind of situations.

We have two few new firms. There is a quite clear correlation between the birth rate of new enterprises and labor productivity, and we are here. Of course, we have a lot of enterprises, but we are not creating very mainly new enterprises because we have a market which is blocked, in a sense. And why is that? Because a lot of companies survive because of tax evasion. They are surviving because of that so they don't need to invest, they don't need to be more productive because they can just survive as they are now.

So, freeing the markets, changing this attitude in the creation of new enterprises, this is an important component of our strategy, but also too low public investments. Here also, the correlation is less clear, but this is the share of public investments and labor productivity. To build big infrastructures, you need partnership between private and public, but indeed, you also need the resources from the public sector.

Just one word about unemployment and I will go towards the end. Look at the situation in 2008. Italy had an unemployment rate, which was lower than the average in the Euro area and lower than Germany; 2008 was a peak, of course, for our economies.

Now we are in a very bad situation, especially because of the youth unemployment. This is a huge challenge. Now, we have almost 40% of youth unemployment rate and we have a 2.2 [inaudible 00:28:40] young people who are not in education or training or employment. We are wasting, according to some calculations, €25 billion every year in terms of opportunity costs, of not using these young people. Europe is spending €155 billion because of youth inactivity. This is a huge loss of human capital, which can affect our medium term perspectives, but then know that also in US you are facing this kind of problem.

In the year 2012, Italy approved the major Labor Market Reform. This increased a lot of the good flexibility, maybe not everyone knows that every quarter we have now 2.5 million new contracts at the individual level, 2.5 every quarter. And almost half a million is long-term contracts down between 2009 and 2013 and 1.6 million short-term contracts. And in fact, the share of short-term contracts is now 64%. This was the answer of the Italian Labor Market to uncertainty, because companies in the recession didn't want to take long-term commitments, of course. This is a short-term reaction, which doesn't build human capital in the long-term perspective, but this is common to many other countries.

So the fact that we have a very low, I would say, tenure of employees, at least in Europe, may change in the long-term the human capital in our countries. The labor market, the flexibility improved, this is the reduction that we had in five years, compared to the other countries, in terms of the OECD indicator of rigidity of our market, and we also had the labor cost flexibility. This is for example, the reduction of the real wages starting from the beginning of the crisis.

Of course, you could say, “Well, but Spain had a much stronger reduction,” and this is what some analysts say, yes, but look at the unemployment rate. Our unemployment rate is similar to the French one and Spain moved from less than 10% now to 25% unemployment rate. So you shouldn’t be surprised that their salaries are going down so quickly.

Now, just to conclude on the policy implications of all this. In June 2013, we adapted a new package to continue structure reforms in labor market like the reform of our public employment services, and we took a lot of initiatives in order to insure that the recovery would have a high intensity of employment in order to regain confidence and help also those households, who were not strongly affected by the crisis to start spending again, because they are so worried about their sons and daughters, that they will never get a job, that they tend to save money instead of spending.

So this is why I think that the current situation of labor market is the obstacle for recovery and not the other way around. We cannot just rely on usual elasticities and the time lags that the recovery will reduce unemployment because otherwise it will take ages to have a real effect.

This is not the end of the story. We expect by the end of the year, to take other initiatives in order to make our labor market better, to attract international investments, improving the business environment. We adopted in this government last week, a new program Destination Italy, in order to address the concerns that multinationals have expressed vis-à-vis, our country, in terms of business environment. But as you can see, we are trying really to mobilize all our valuable resources in order to address this issue of employment and especially youth employment.

Now, to conclude, I tried to underline that talking about equity and sustainability today in our economies has to look at the social component, as well as the energy or environmental, the financial and the economic components.

When I was at the OECD, we worked a lot on the measurement of sustainable development. It was a nightmare, of course, not only because US was against, but this is another story, but because from a conceptual point of view, economists have developed models in order to evaluate thresholds beyond which the system becomes unstable. Ecologists have

done the same on the ecological models. But we do not have a clear theory of revolution, if you wish, to tell us that beyond a certain level of, I don't know, unemployment rate, the social system collapses. But the fact that we do not have such a theory doesn't mean that thresholds do not exist. Think about the Arab Spring.

It's just to say that if we want to talk about sustainability at this point, we have to understand that the social sustainability is as important as the economic and the environmental sustainabilities. The main reason for that is that people are scared and the behavioral economics tell us that the reaction of scared people can be positive, in terms of activation, becoming much more active on the labor market and so on and so forth. But also, that people can get depressed or very upset. And these two possible outcomes are not very good for the economy, not only for political systems and the society.

So, what we have to do is to focus on human social capital like we are focusing on produce or economic natural capital. We have to try to reduce uncertainty in a reasonable way without of course, insuring a future that nobody can insure. But avoid the war between generations that can start if someone sees the other generation as too, let's say lucky, compared to the current one.

We have to provide more opportunities of social inclusion for all generations and the problem of aging society. We have to reduce the gender gap or other types of social gaps, like those that you have in United States. We have to strengthen communities in order to help them in building social capital that could help in absorbing tensions.

And for us, as Italy, these are the main priorities in terms of policy making; restore growth or restore confidence, we have to promote and implement active policies to cut unemployment, reform the public employment services. We have discussed a new tool against poverty and social exclusion. Italy and Greece are the only two countries in Europe which do not have such a system to fight against poverty. We have five million poor people in absolute terms, which means people who cannot buy a basic basket of goods and services.

We have to foster the transition to active aging, because we have a lot of people who are not enough active. We have to adjust the pension system, farther adjust the pension system, to the new conditions of the labor market, which is not the usual system. I mean, as I said before, that young people are starting very late in working, but will have also, a discontinued working life and therefore, the usual system will not necessary avoid tensions in the future. We have to develop better tools for life balance, especially for women and also, we are preparing a new legislation about

the nonprofit sector in order to foster the role of this very important sector in Italy.

And what about Europe? Of course, we have a lot of problems. The implementation of Europe 2020, recently decided the new youth employment initiative, the banking union and many other things. And next year will be crucial from a political point of view, because we will have a new European parliament, a new European commission, a new president of the European Council and Italy will have the presidency of the union in the second half of 2014, exactly in the moment in which these three new institutions will take, let's say a new life, after the elections.

So, in the second half of 2014, Italy must be leading the union while the parliament starts working, while the commission is nominated, while the new president of European Council will be nominated and Italian presidency will come after Greece, Lithuania and well, few other small countries, let me put it this way, which of course must be respected, but they're, let's say not founding fathers of the European Union. This is the politically correct statement.

It's just to say that next year, Europe will have a huge opportunity, great opportunity, to really strengthen its future, but the condition is that we will be able to have a truly European election, a European political campaign commission, with much more determination and charisma for future development. And, we need to reform our European institutions in order to face better the big challenges that just I talked about.

The key point from this point of view, is that the social dimension of the European Union is a sort of a Cinderella vis-à-vis the economic dimension, because the social dimension is seen mainly as a task of individual countries. But if we want to create a truly European labor market, we need truly European, I would say welfare system and so on and so forth; so you can see that the two things must go together.

So these are very big challenges we are facing and I hope that in the discussion, we will have the opportunity to discover whether I'm too optimistic, too pessimistic, a crazy person, or the right person in the right place, or the wrong person in the right place. Thank you very much.

[Applause]

Adam Posen: Thank you very much Mr. Minister. It's a great note to end on. You're certainly the right person in the right place for us today. And the kind of sophistication you showed in drawing together so many moving parts of modern society: the structure of the industrial economy, the regulations on the labor market, the demographic forces in the background. It's a much

richer picture than we're used to getting from scholars, let alone ministers. And, it's very impressive to me at least, that in the midst of that much sophistication, you still have an active agenda. You don't get paralyzed by the sense that there are too many moving parts and I think you're to be commended for that.

If I could, before I open it up to general discussion, if I could just follow-up on a couple questions. Despite what I just said in best Washington style, I'm going to be a little bit more reductionist and pointed.

So, one is you made some interesting comparisons across Europe, the scatter plots on companies birth are very importantly; the demographics. One thing that stands out of course though, is that Italy has very much underperformed as an exporter for a long time now. There are people in Germany who perhaps unfairly would say, "You haven't done well at exporting since the last time the Euro devalued against the Deutschmark, or such.

So, I guess a question to ask you is when you have those charts of unit labor costs, where do you think Italy is compared of advantage comes going forward? And to make it a little more pointed, one thing which many people in this country have only modest familiarity with the Italian economy are aware of is the North-South Divide. We're very conscious of the fact there are some global exporters and some leading companies up in the Turin, Milan, all those kinds of places, but we don't see that in Southern Italy. You perhaps consciously, didn't stress the distinctions across Italy. How do you see that going forward; the convergence across Italy in this kind of context?

Enrico Giovannini: Well, on the first question, let me just underline that in this period of, as you said, low performance compared to Germany, because in absolute terms, the exports increase, but of course, the share of Italy declined as usual with the globalization. We shouldn't forget that at the same time Italy has developed a huge number of multinational units around the world, which created 1.5 million employees outside Italy.

So I would say that a lot of productions that were produced within Italy before, now are produced, of course, in other markets. So the Italian enterprises and Italian entrepreneurs are doing well. Those, of course, who are open to the international competition, it's quite clear looking at the micro data that other things equal, the fact that you are an exporter makes you much more efficient, much more productive and you increase employment and so on and so forth.

This is why one of the big challenges we are facing is to expand the number of enterprises who are exposed to the international competition.

But on the other hand, as I said, a lot of multinationals were able to enter into new markets. So we should look really some of the two elements and unfortunately, we do not have statistics. But it's clear that the German multinationals had a longer, I would say, history in being present, especially in Asia than the Italian multinational. So, this has to be taken into account.

On the other hand, it's clear that as in the years 2000, the so-called Euro dividend in, which means very low interest rates, were not used by companies in order to invest in new technologies, in more efficient production processes, and so on and so forth. And of course, then there is the labor cost problem, which of course, has the two components. One is the net salary, which are very low in Italy, and the other one is the unit labor cost, which is very high because of tax wedge and other taxes. So, this is the challenge that we are facing and in the next budget law in two weeks' time, we should be able to try to cut the tax wedge as we hope.

The North-South Divide, it's funny, because a few years ago at the university, I faced the discussion of a thesis of a young student who was talking about the Italian railway system, and he presented a 500 page thesis. And the professor said, "Well, you should be a little bit shorter. And can you explain to the commission what is the main problem of Italian railway system?" And this guy said, "Yes, of course. Well, the problem is that Italy is like this ... long and short and of course, has a mountain in the middle, therefore, the entire railway system was North-South and not East-West, which of course is a serious problem for a country like Italy.

It's just to say that, of course Italy is a long country with a lot of problems in the South and it's true, that notwithstanding, the big investments made and big efforts made, in terms of security, in terms of infrastructures, the South is still lagging behind. And the crisis has killed some emerging companies, for example, in textile and other, let's say, 'made in Italy' productions, that were emerging also in the South.

We have been facing problems with the development of tourist because of some internal regulations that have blocked some of the big investments, but I would say that now we have a great opportunity with a new round of structure funds. It's about €90 billion for the next seven years that will go mainly to the South, but not only. And we have just taken measures in order to avoid that this money goes around the regions without a stronger control, accountability and policy coherence of these new investments.

So, I really hope that with the work done with this government in these four months, this new round will be able to use money in a much more efficient way.

Adam Posen: Thank you Mr. Minister. One second, just to point out as I learned from Fred, we must claim credit where we do, the institute, with the European Commission support, put out a volume in 2005 in which we were already flagging the fact that the Euro bonus was not translating into private investment, not just in Italy, but elsewhere and unfortunately that continued.

A lot of other things I could ask, but we have a lot of interest. I'd like as usual to ask our first couple questions that come from people outside the institute. So the gentleman there and then there. When you get the mic, please identify yourself.

Male Speaker: Thank you. I'm [inaudible 00:48:40] from Embassy of Spain. Thank you Minister.

I noticed in one of your charts that those companies where the workers were consulted, they tended to be a high probability of being high performers. Some people say that one of the hidden, kind of German strengths, real German strengths of the German bubble, is the way that companies are—consult workers and workers participate in the management of the companies.

Have you given thoughts in the government's strategy about that; how to promote that kind of-? Because I think, in all your—there are two issues here, which one of course, is all the social policies and the institution, but one very important thing is what happens in companies themselves. Have you given thoughts about that on how to increase that percentage? Thank you.

Adam Posen: Do you want to respond?

Enrico Giovannini: Okay. Yes. In the previous law for the Labor Market Reform, there was a delegation to the government to implement measures exactly to foster the participation of workers. Unfortunately, this delegation was not used and we are planning to re-launch it in the next few weeks.

Of course, the problem is also a fiscal problem because you have to create incentives like in other countries, so there's a cost. But my plan is to include this in the package that will be presented with the next budget law.

Besides that, I was quite interested by a book written by Richard Sennett, who talked about the models for making innovation within companies. And, quoting some important American companies without naming them, where innovation in the first step, is done building different teams who compete with each other and of course, the most innovative gets a bonus and so on.

Well, looking at this game from a game theory perspective, you can see all the risks of this highly competitive model. Because in the first shot, everybody does its best, but then in the second shot, you may be working in a working team with other people who were your opponents before, your competitors, so you learn that sharing information with those who in the third step will be competitors, is not necessarily the best way to go.

But, I know that there are some businessmen here, that the cooperative approach to innovation can be better than the purely competitive one. In this case, this could explain, for example, some of those results because when you harness the collective intelligence of a company, you may have better results than just when you have one manager with a clear vision, but not talking to anyone.

Adam Posen: To sound like an American right-winger for a second, let's remember that American productivity has outpaced European and has none of this stuff.

Enrico Giovannini: Of course.

Adam Posen: The gentleman there. The mic is coming to you sir.

Richard Gardner: Richard Gardner, Colombia University. Thank you Enrico for a courageous and very informative presentation and congratulations on the Labor Market Reforms, that's very impressive.

Recently, this institute, the Peterson Institute, issued a very important document entitled *Resolving the European Debt Crisis*. It reminds us that Italy's public debt, as a share of GDP, is the highest in Europe except for Greece, well over 100%. It says also the following, and I'd like you to comment on this.

“Social discontent and disaffection with the entire political system with the entire political system are mounting. In recent years, Italy has acquired the dubious distinction of topping the European league in inequality of wealth and income distribution. Most Italians instinctively know that the situation is not politically sustainable. Contempt for the perceived privileges of the political class for widespread corruption and for the high level of tax evasion is universal”.

These are not my words. These are the words of the distinguished authors of the Peterson Institute. So, would you like to comment on some of these other problems that are facing Italy today?

Enrico Giovannini: Well, thank you very much for the question, of course. Well, I can tell you a couple of things, also based on this five months of experience.

As I said, as you know, I'm not a politician. I'm just trying to serve my country in this position. And of course, my wife is very upset and sad when she's reading some comments on blogs. She read that the discussion whether it was better if I died by the end of the week or by the end of the day. This was what people were talking about on a blog.

Then I asked myself, "Why? Did I make terrible things vis-à-vis social, let's say, problems?" We put €4 billion in four months to sustain people whose lost their jobs in subsidies for new people, new recruitment's, young people. So, in a sense, we didn't take any negative measures, but on contrary, but this doesn't matter if someone is discussing about the death of a minister.

So the point that you mentioned is exactly the core points of a country that does not trust the people in charge. How can you react to that? Either you cut completely the old political class and make a revolution or—and I think this is what we are trying to do, you nominate as ministers most people who never had responsibility in the government before. The youngest government in the Italian history, the government with the largest women participation, with a very young prime minister and then you start working. This is what we are trying to do, what we are doing actually, but this requires time.

So, of course, you read in the newspapers about the political instabilities in Italy and so on, and we are suffering of it. But on the other hand, I can tell you, that all ministers are working very hard. In some cases, including myself, we accepted to cut our wages quite severely, but this is not enough. You see what I mean? It's situation in which you need time to show improvements, to show your commitment and the concrete results and this requires time. But on the other hand, let me just add one point that is in my view quite interesting.

For too many years, Italy was very close to the boom, to collapse, and therefore Italy needed the so-called rescue packages: the salva Italia, the laws that was cutting the deficit, and so on and so forth. Now that we are in a more or in less than stable, financially speaking, situation, we are going back to a normal mode. In a normal mode, governments do not do rescue packages every single week, but the public opinion is waiting for the big bang.

So, all the measures that we have made over the last four months and we put together into the updates of the economic and financial document, which is the basis of the planning, when people read it, said, "Really? You did that? Oh, we didn't notice." Because Italy is poisoned, I would say, of this culture of the big bang.

So, as you can see, it's not easy, but unless we improve people's lives, we will never demonstrate that we are useful, that we are working well. And this is why I think Europe support is so important and the role of international institutions, who of course, have to underline deficiencies and problems, but also recognize the positive steps, is so important in this particular moment.

Adam Posen: Fantastic! We've got—I encourage people who want to speak to make themselves known. I'll get you in order and/or to go to the back microphone. We have there a different distinguished Peterson Institute Scholar Jacob Kirkegaard, who heads our work on labor and pensions anyway, Jacob.

Jacob Kirkegaard: Yeah. Yeah, thank you very much Mr. Minister and thank you for a very interesting presentation.

Two questions, one thing I was very encouraged by your focus on high labor costs, that in fact in the policies to come, you mentioned a large reduction in the tax wedge in Italy. I would strongly be in support of that, but I guess my slightly skeptical question is, that Italy has a deficit target that it has to adhere to and I think it's fair to say that it has proven difficult in recent months to tax other things than labor in Italy. It was hard to tax real estate raising the VAT is also not seemingly that straightforward. So, where are you going to shift the tax burden under the assumption that Italy actually can't just cut it to achieve a major reduction in the tax wedge? That's the first question.

And the second question regarding, also the labor markets, I mean, it seems to me that you sort of evaded, what I would regard as the elephant in the room in Italy, which is compared to the rest of Europe, even your neighboring countries, is the remarkable low female labor force participation.

You mentioned sort of en passant, that yes you're going to do something about work life balance for women, but it seems to me that Italy needs to do a lot more to achieve the result of that, and if you as you succeeded, you should be able to counter, at least for a period of time, the main impacts of aging. So, what are you going to do on female labor force participation?

And then finally, I can't resist noting as a country—coming originally from a country that recently had the EU presidency, that I hope your commitment to Italian leadership during the coming Italian presidency translates into new elections during the presidency and indeed, political stability during that period. Thank you.

Adam Posen: It would also be nice if he could bring good weather, but not everything is under the Minister's control. But I do want to emphasize that there's a lot of interest in our audience on the female labor force participation issue. We've had a lot of discussion here about Japan, which obviously demographically, is similar and has a similar low, let's say, female labor force participation, is perhaps starting to address that. So, we'd be very interested in your remarks on that. Thank you Jacob.

Enrico Giovannini: Well, quickly, you're right, we face big difficulties in cutting the budget. By the way, when a new administration arrives in January typically, of a certain year. Right? Does it make, I would say, a midyear, big financial action or does it wait until the next budget cycle in order to make its own?

Adam Posen: It depends on the country, but in the US, the two go together. But we're weird, we don't have a Parliament so don't compare.

Enrico Giovannini: What I mean-

Adam Posen: Yeah, well, that's why.

Enrico Giovannini: What I want to stress here, that for the first time since I don't know when, a new government, as the first action, didn't take dramatic measures in order to change the budget perspectives that the previous government had done, and this is not trivial. Because over the last four months, we had to work within the boundaries that were decided by the previous government and we decided not to do the usual midyear, new fiscal consolidation because we wanted to take some time in order to evaluate correctly the different options.

One word on the real estate tax and sum. It's true that we have decided to cancel the real estate—well, the tax on property on the first house. This tax was introduced in 2011. It was introduced by the Monti's government, in a way that I think, should be mentioned by all textbooks of public finance as a very bad way to go. Because it was introduced in March and Italians understood around December how much we have to pay, because for months we didn't know what this tax could be.

What I mean is that from psychological point of view, that tax was considered one of the worst mistakes by a technical government, by the Monti's government.

On the other hand, all parties in their campaigns have indicated the need to reform it in different ways. What we have decided to do is a service tax, which is, I would say, I would argue, a very modern tax. Let me just elaborate in 30 seconds.

Adam Posen: Yeah, please.

Enrico Giovannini: If we have—if I have time.

Adam Posen: No. We have time. It's just there's so many people who want to ask so ...

Enrico Giovannini: But this is an important point. You may know Geoff Mulgan. Geoff Mulgan was one of the advisers to Tony Blair, in the Gold Age if you wish. In a discussion we had some time ago, he said, "Well, in the 19th Century, being a big country meant to have a large land and the tax system was charging land. In the 20th Century, being a big country meant to have a big GDP, to produce and consume a lot. And in fact, our tax system is coherent." What does it mean to be a big country in the 21st Century? Maybe to offer a high quality of life. In a globalized world, it's very difficult to control where you make money, but if you come to my country using my land, my water, my fresh air and so on and so forth, you have to pay.

The service tax is exactly this, with a strong property component, but also with a component about the services that you enjoy. So in a sense, this tax, at least in my view, is a positive evolution, versus towards something better.

Now, in the year 2014, the current forecast tell us that we should have a deficit GDP ratio ongoing 2.5%. So in theory, of course we have the structural zero budget, but in nominal terms, we would have something like 0.4% of GDP freedom besides the freedom given to us by the fact that we are below 3%.

So I wouldn't say that we do not have margins of maneuver, but of course, we have to use them very carefully and this is why we took our time, instead of having another financial cut at the midst of the year, we took some time and October is the right moment to do that.

You're right on female employment rate, but this is linked to the way in which our family welfare is organized, because the services for old people, kids and so on, are very low quality and therefore, a lot of women had to take care of their relatives. So it's a sort of viscous circle that cannot really change unless you have better systems for work and life balance.

Adam Posen: All right. Gentleman over there and then Anders at the back.

Peter: My name is Peter Sumner. I'm one of the founder of Capitol Intel Group.

My question to the Minister is I have set up three successful international groups based out of Milan over the last two decades, and the real good news is this the first time in two decades that I see really good economic

opportunities arising and growing out of the Milan area, especially with the Expo 2015.

The question I have to you is, for foreign investors, the timed bureaucracy is a nightmare, the only way you're successful in Italy is by not having any dealings with the government at all. The more you can keep away from the government, the more successful you are and American business owners do not understand that.

So you have [inaudible 01:05:47], you have [inaudible 01:05:48], you have all this, which is great. It makes Italy very competitive, but for international groups, that is impossible to do. Getting a [inaudible 01:05:55], you'll have the [inaudible 01:05:57] tax police on you for ten years, even when you close the business. So how are you going to be able to do that as Italian government, especially with 2015? We only have two years, so this is a real emergency crisis now and you have the Russians, you have the Chinese, you have the Qataris that are flooding Milan at this point. So there's a huge amount of economic growth and even M&A transaction, you have APECs, you have all the private equity and all the banks. So, you have everything there, even for North Africa and the rest of the Mediterranean. Thank you sir.

Enrico Giovannini: You're absolutely right. This is why in the—you may know that I was one of the ten wise men that the President of Italy established, called before the new government in order to build a sort of possible government program. And I stress a lot, this opportunity of Expo 2015 as a huge opportunity to change, to innovate, to test new ideas. This is why I'm discussing with enterprises and trade unions, in particular, for creating a new labor arrangement, especially for the Expo 2015.

But what you said in terms of bureaucracy is one of the key problems. The problem is that to address that, you need to change the constitution and this is what we are doing. Because in the year 2001, the new constitution was adopted with much more power at local level and we cannot, from a government, enter any more in some of these arrangements.

This is why the first act of this government was to propose to the Parliament to reform the constitution and this was through an accelerated process, in order to have in one year several changes, not only to the fact that- on the fact that we will have only one chamber that will make legislation and not the other one. So, we want to change quite dramatically our constitution, but especially because the different governance tractor multilevel doesn't work at all, but in some cases, we are blocked because from the center, we cannot enter into the autonomy regions.

So, in the Destination Italy Project, there are a lot of actions that we want to undertake the next few months, at least to improve the situation from a

perspective over the international investor. We have worked with our experts—sorry, with experts of [inaudible 01:08:21] and other business associations, in order to address the main concerns that international investors have now.

But let me also add that maybe we have to inform you better about the change that are happening. For example, with the employment package that we passed in June, a lot of opportunities, more opportunities for investors now, are valuable and we have to help you in understanding all these changes.

Adam Posen: Very good. We have Anders at the back mic and then Fred in front.

Anders Åslund: My name is Anders Åslund, I'm here from the Peterson Institute. Thank you Minister Giovannini for a very substantial presentation and I very much appreciated your final focus on human and social capital. But in that context, I found it all the more puzzling that you did not mention education itself. I understand it's not your portfolio, but Italy really stands out, according to a Euro stat, [inaudible 01:09:23] 28 EU countries, it is the country with the third smallest number of second school graduates. And if you don't have education, all of the rest is really not so important. How can you explain that you omitted this point? Thank you.

Enrico Giovannini: You're absolutely right. I didn't mention it, only because I focused on other topics, but of course, that is one of the key points and I'm very pleased that this government for the first time since again, I don't know when, we put money on education, while in the past, the budget was cut year after year.

For example, we put back money into the fund for allowing students, poor students, to follow universities and others, of course, if they had the quality to do that. This was almost close to zero. It was put to zero by the previous government. It's just to say that, of course, a lot of things have to be done.

One of the innovations that I'm really working on, is the capacity of our schools, also at the intermediate level, so for kids of 11, 12, before they make the choice for the high school, to be informed about the evolution of the labor market in their province, in their neighbor provinces at European level, national level, in order to make the decision to choose the high school knowing what will be the perspectives in the labor market. This is a small example to say that I really believe that we have to start as soon as possible in order to share this information with people in order to allow them to make better choices.

Just one remark on the public training, which is managed by regions, not by the state, and of course, this is a problem, but we are working with

them with provinces under the program youth guarantee, exactly in order to try to bring together the best practices because a lot of money has been wasted in the past with training courses that were not really helping people to find new job.

The other problem we have is that we have a lot of small enterprises who are not investing in training for their own employees. I skipped one of the charts, which tell us that finally, in 2010, more than 55% of enterprises with more than ten employees are doing training for their people. In 2005, it was only 30%. So you can see that the problem of investing in human capital is not only from the public side, but also from the private side.

Adam Posen: Very good. Fred?

Fred Bergsten: Fred Bergsten, from the Peterson Institute.

You mentioned Mr. Minister the rather dramatic reform of your pension system, raising the retirement age to 67, but you said it was not a good time to do it. It was in a recession and there were lots of side effects, but would you have ever gotten the reform if it were not through the recession and the crisis? I mean, that's the policy dilemma, people never act unless they are forced to act and then you get side effects, but is that correct in your case? Does one just have to accept that you do get adverse side effects for a while to get a good long-term reform and put in place?

Enrico Giovannini: Yes, of course, you're right. Most of the reforms have a J-Curve effect and when you do these reforms in a recession, it's worse than when you do them in an expansion. This is the scene that Italy had for many years, but I'm not blaming those who made reforms. It's just to explain that the worsening of the labor market was also due to this particular decision and also the reform of the labor market, again, took place in June 2012 in the midst of the recession.

But now, we have tools to better address the future. This is why I really believe that the first signals of a recovery, that we can observe in terms of confidence increase, in terms of increase of orders, is the construction sector finally, in the second quarter of 2012, picked up for the first time after several months of a dramatic loss, and the housework increased as well. So, there are signs now over recovery and of course and we hope to be able to benefit from those reforms in order to have a higher productivity and higher growth in the future.

One remark that I made today at the IMF, is that our welfare systems have been designed for the classical, I would say, capitalistic crisis, strong, but short. But now we are facing five years of crisis, just completely different story and maybe in the future we will have other crisis. So we must build

resilient economies and societies in order to face these kinds of risks, but once you have been hit so hard by a crisis like that, being scared is the normal way of reacting. So, building resilience requires, as I said before, the demonstration that the reforms may have, positive impact, otherwise, people will stay scared and will never accept the change anything. So this is the proof that Italy now has to demonstrate.

Adam Posen: Well, let me close it there. I think your response in particular, to Ambassador Gardner was quite impressive as a statement of the commitment of yourself personally and of your government and of your prolonged suffering wife, to the recovery of Italy. And, as I said at the start, we are very proud to have been associated with, engaged with, in discussion with, the succession of your technocratic colleagues who've done their best for Italy and we're delighted that you were here today to continue that tradition. We wish you the best of success.

Enrico Giovannini: Thank you very much.

Adam Posen: Thank you all very much.