

# Italy: Where has all the productivity gone?

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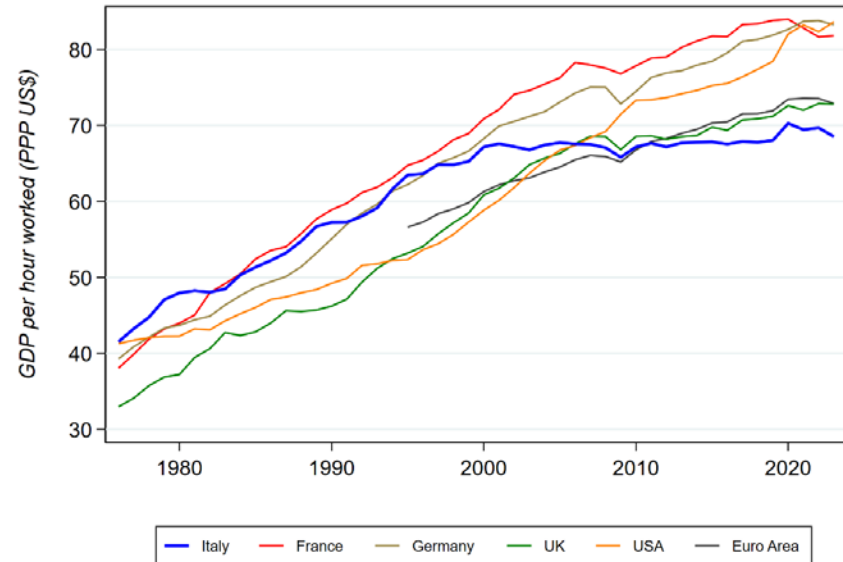
LUISS Lab of economic and energy transition

# The productivity meltdown and its consequences

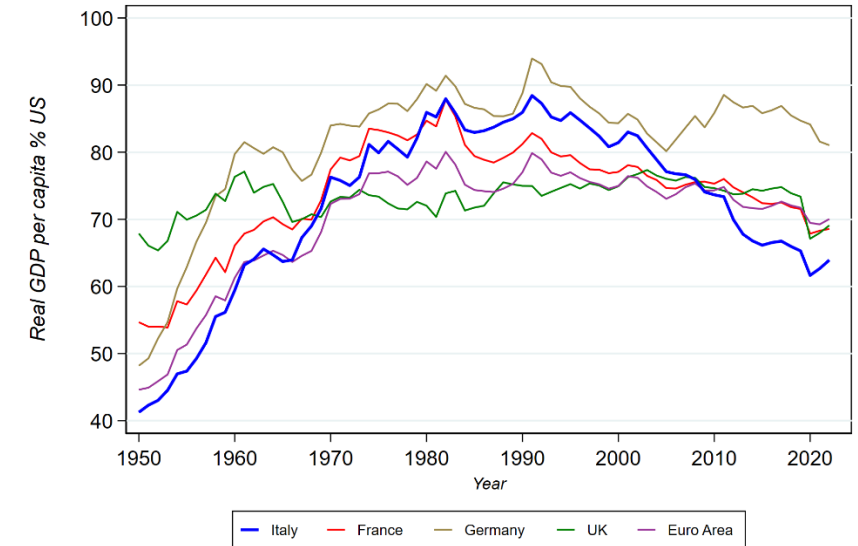
- Slowdown mid-70s to mid-90s
- Complete stall end-90s to now

- Strong GDP p.c. divergence
- Negative spillovers on EA growth

Productivity stagnation



GDP p.c. divergence



Worst performance in EA

Area	1970s	1980s	1990s	2000s	2010s	2020s
Italy	4.26	1.89	1.42	0.09	0.34	0.20
France	4.35	2.94	1.80	1.10	0.88	-0.60
Germany	3.36	2.07	2.28	0.90	1.18	0.42
United Kingdom	3.79	2.20	2.50	1.36	0.64	0.56
United States	0.77	1.37	1.70	2.24	0.94	1.63
Euro Area	.	.	1.40	0.86	0.99	0.34

# Proximate causes and non-causes

## Causes:

- Zero or negative growth in MFP
- Weak contribution of ICT-tangibles and, especially, intangibles
- Dismal contribution of services, especially knowledge-intensive ones
- Rapid ageing and young/highly-educated migration deficit (?)

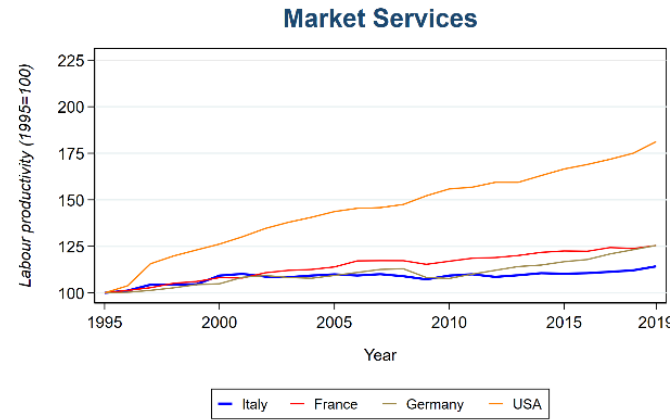
## Non-causes

- Industrial structure – mostly within-sector productivity weakness
- Between sector reallocation – contribution nil or positive
- Within-sector reallocation – contribution positive (although declining)

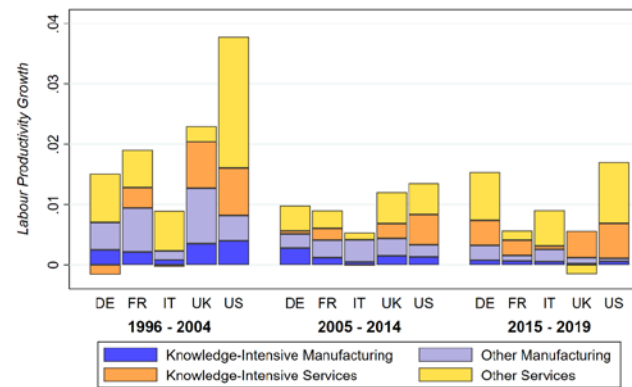
# The demise of services

- Subpar growth in services
- Weak services contribution (especially KIS)
- Divergence from frontier

Decoupling from both France and Germany

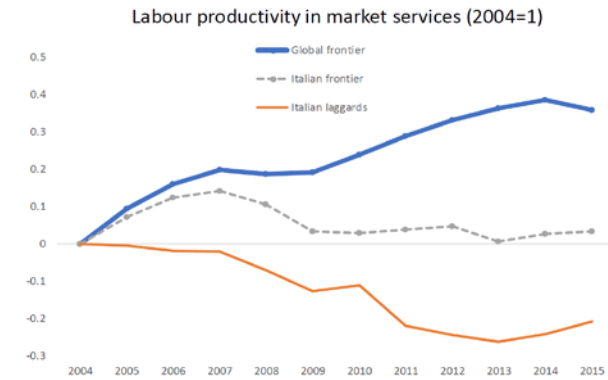


KIS contribution almost nil

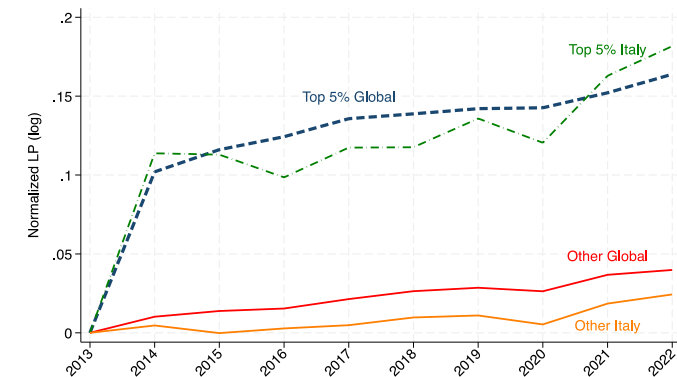


Source: EUKLEMS&INTANProd

Well below frontier and laggards drag down

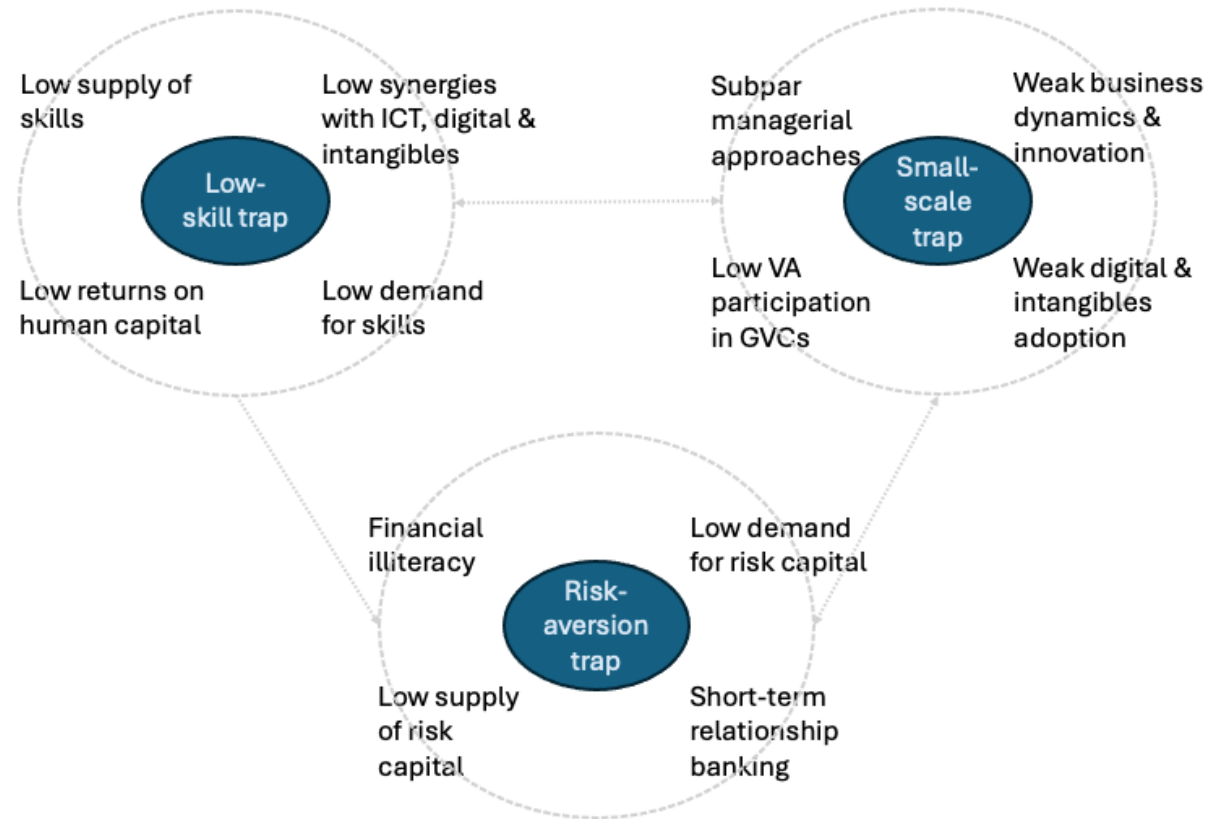


Some hope from professional services?



# The three structural traps

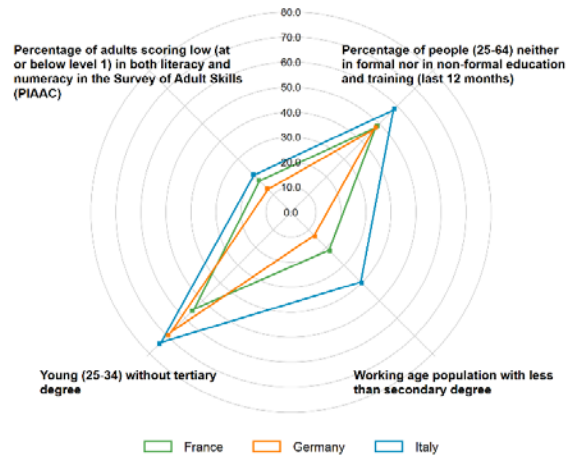
- Italy found itself trapped in the context of accelerated globalization and digitalization...
- ... requiring high skills, upscaling, risk-taking innovation and GVC repositioning
- Tragic missed opportunity



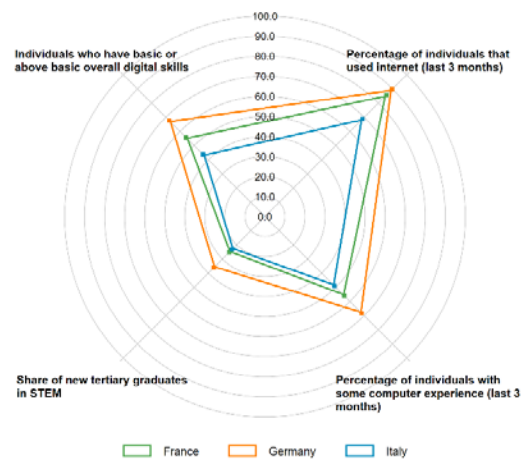
# Low skills, small size, little innovation

## General and digital skills

2015-2016



2015-2016



Source: OECD and Eurostat

## Average firm size (ratio to EU27)

	EU27	France	Germany	Italy
<i>Business Sector</i> <sup>1</sup>	432.36	1.97	1.26	0.77
Accommodation and food	139.66	2.07	0.82	0.84
Administrative services	688.00	2.09	0.81	1.32
Arts, entertainment and recreation	168.89	2.00	0.94	0.59
Construction	127.50	3.43	0.87	0.38
Financial and insurance activities	1142.41	1.59	0.80	1.37
Information and communication	475.01	2.07	1.06	1.01
Manufacturing	541.09	1.66	1.42	0.54
Professional & scientific activities	172.28	1.50	1.68	0.54
Real estate activities	94.15	4.21	1.27	0.20
Transportation and storage	685.41	2.55	1.36	0.82
Water & waste management	587.42	4.05	1.00	0.76
Wholesale and retail trade	424.53	1.33	1.41	0.55

Source: Estimates from Eurostat data, Pagano & Schivardi (2003) co-worker approach

## Key intangibles

Investment as share of Value Added in 2000



Investment as share of Value Added in 2021



Source: EUKLEMS&INTANProd

# Whither productivity policies?

- Mismatch between policy settings and global developments
  - Italy entered computer age with policies still in developmental mode: SOEs everywhere, public banks, dirigisme, little competition
  - Subsequent changes in global trade and digital transition found Italy ill-equipped and with little support from policies (e.g. education, R&D, service regulation, business dynamics)
- Still, Italy underwent an age of reforms since mid-90s: why wasn't this reflected in productivity?
  - Reforms did too little and too late (e.g. justice, competition laws, incentives, insolvency, education)
  - Reforms suffered from flaws in design and implementation gaps (e.g. administrative burdens, retail trade, ALMPs, startups)

# What's next?

- Make sure NRRP will not be the next missed opportunity
  - Focus of plan is on right areas: education/skills, digital adoption/innovation, PA efficiency, infrastructure, South
  - Milestones formally achieved, however 65% of funds still to be spent by 2026!
- Are policy-makers in the right mood?
  - No clear vision on how to break out of the structural traps (e.g. little focus on financial markets)
  - No clear strategy on how to reposition Italy in technological and global context (e.g. emphasis on tourism...)