CONFINDUSTRIA

COURAGE FOR THE FUTURE

ITALY 2030-2050

EXECUTIVE SUMMARY

The proposals laid out in the book exclusively reflect Confindustria’s positions.

They were improved by discussions with and research by the following professors from “LUISS Guido Carli” University, whom we wholeheartedly thank

Andrew Davies
Livia De Giovanni
Sergio Fabbrini
Nicola Lupo
Bernardo Mattarella
Marcello Messori
Andrea Prencipe
Fabiano Schivardi
Maria Rita Testa

The information in the book is accurate as of September 13, 2020, when it went to press.

COURAGE FOR THE
FUTURE
ITALY 2030-2050

Executive summary

Italy’s economic and social fate ten or thirty years from now will be decided in large part by the choices and behaviours we adopt today.

Per-capita income in Italy in the wake of the Covid crisis is estimated at less than € 4,300; after increasing steadily until 2007, the average income of Italians is now down to its late 1980s level. Without a change of course, and assuming no other damaging emergencies, our current trajectory would put us among Europe’s underdeveloped countries, even though Italy was among the continent’s leaders in 1990. We must acknowledge reality, make and communicate clear choices with regards to stated goals, and quickly reverse current trends; otherwise, we will need another two decades to achieve the levels of wealth we enjoyed fifteen years ago.

This book reflects a very clear idea of Italy, what it looks like now, and what it could become in the future.

It is a project that interprets the major drivers of global transformations – climate change, the impact of technologies on employment, the changes brought about by globalization, demographic trends – through the prism of potential and necessary progress for Italy.

The Italy we should strive for is more efficient and sustainable, a country where merit is encouraged and skills are fostered to revive an increasingly stalling social mobility. It must increase the opportunities provided to women and young people, and spheres of intervention of the state and the market must be well defined and regulated.

There are two main cornerstones. The first is Italy’s place in the European Union during a phase in which, after much hesitation and still with a veneer of timidity, the EU finally seems ready to take its destiny into its own hands. The second is the centrality of industry for the country's fate. This is not an automatic reflex on our part, but rather a conviction that enterprises and workers, together with ingenuity and savings, are the keys to re-igniting a virtuous cycle that has been interrupted for far too long.

In this context, we are aiming for an economic and environmental transition that can put Italy back on the path of sustained and sustainable development, with real GPD growth of no less than 1.5% a year on average, and a 1% annual increase in productivity.

The book's chapters feature analyses and proposals concerning numerous aspects of Italy's economy and society.

Chapter 1 delves into the quality of institutions, rules, and decision-making processes, the necessary conditions to implement a project to relaunch the country within the EU and the international community. Rules that are dependable and well-enforced, and the timely and effective implementation of decisions are indispensable ingredients for true reforms, targeting Europe first, then its individual Member States.

At European level, the response to the crisis triggered by the pandemic was more decisive and appropriate for the circumstances than the one implemented to tackle the financial crisis and recession of the last decade: with the positive outcome of the negotiations on *Next Generation EU* and the new Multi-year Financial Framework, Member States have shown that they are aware of participating in a shared destiny, and launched a project that for the first time in EU history was designed to be financed by European debt. Nevertheless, the EU's governance mechanisms have once again shown their need for a comprehensive reform framework that can combine institutional representativeness with effective decision-making process, so as to best respond to socio-economic needs and pursue the Union's common interest.

The reform of the decision-making process will have to be accompanied by the strengthening of certain policies. These include the completion of the internal market, undermined by re-nationalization attempts on the part of certain Member States; a truly level fiscal playing field at the European level, at a time in which tax disparities are hindering the convergence of European economies; the completion of the banking union and the capital markets union, which would ensure equal access to capital markets and saving flows to enterprises from all EU countries.

At national level, the ability to effectively use European funds is strongly affected by the institutional and regulatory context. For Italy, new resources represent an opportunity to create a favourable environment for solid, inclusive growth, on the condition of strengthening the ability to define and implement effective and wide-ranging public policies.

In this regard, two crucial issues for the political and institutional framework emerge forcefully: **trust in** and the **effectiveness of** rules.

Trust in public powers on the part of citizens and enterprises is a key factor for our democracy. As such, governments must enact their policies in such a way as to ensure predictable and well-enforced rules, the effective implementation of the decisions that have been made, and as a consequence, increased investments, employment, and competitiveness. The reverse has happened in recent years, when piecemeal interventions, often dictated by emergencies, and sudden changes of course have led to a chaotic regulatory framework, which has ended up slowing down or blocking investment and development. The evident problems related to the conflicts between the levels of government and the implementation of measures have played a role in this, and the creation of processes in which the various actors have clearly defined tasks and responsibilities, and the rules are properly established, implemented, and monitored can no longer be delayed.

With regards to individual fields of intervention, the priority is to re-define the modalities through which **socio-economic reform processes are constructed and implemented**, with a particular focus on: the revision of legislative processes, beginning in the short term with parliamentary regulations and greater delegation of legislative powers; the implementation of investigative and monitoring activities through up-to-date databases, consultations, and dedicated task forces; and the strengthening of tools for inter-institutional mediation, which in the short term should focus on the role of joint regional and national bodies. In order to fully implement this institutional innovation process, some of the principles and balances enshrined in the second part of the Italian Constitution would eventually have to be reviewed.

Concerning enforcement, the available evidence shows that a deficit in administrative skills has a negative impact that prevents the need for change to be turned into reality even once the legislative aspects have been successfully taken care of.

The need emerges to re-assess **administrative discretion**, or the ability to identify the best opportunities to fulfil the public interest while taking full accountability. In order to experiment with innovative, results-oriented models to encourage collaboration between public administrations, it would be useful to put together **dedicated, specialized teams** staffed by the best professionals and experts from central, regional and local administrations to manage particularly complex procedures of great importance for the economic sphere, beginning with commercial relations and payment times with regards to the private sector. Indeed, there remains an underlying need to boost the **productivity of civil servants**, including through better tools to assess performance that take into account user feedback, and that are accompanied by sanctions for the failure to achieve targets.

In such a framework, there undoubtedly is ample room for improvement in the **public investment** sector, starting with investment in infrastructure. The first and most pressing need is for an extensive selection and training effort targeting public-sector employees, organized around the standards of executives working on programming, and results-oriented procurement activities. At the same time, decision-making processes must be simplified and made more flexible and adaptable to the complexity of the infrastructure work in question, with clearly-defined responsibilities and efficient choices. Finally, a more cooperative model must be adopted in the relations between the private enterprises carrying out the work and the public administrations assigning the contracts, moving beyond the excessively rigid and formal dualism between those who perform the work and those who oversee it.

The judicial system, and especially civil law, also plays a crucial role in terms of development and attracting investment. Necessary interventions to improve this system range from legislative ones – such as the planned but not yet adopted **enabling law for civil procedure reform** – to organizational measures: management skills, more specialized judges (including in highly specialized fields such as fiscal and insolvency procedures), and digitalization.

Finally, together with a thorough review on the **planning and assessment of the efficacy of public spending**, which among other things should consider **health care spending** as investment and not as a cost, we must take on the issue of fiscal revenue through a **comprehensive fiscal reform** inspired by fairness and aiming to simplify payments and the regulatory framework. From a more practical standpoint, a well-trained fiscal administration, together with the gradual digitalization of payment procedures for taxpayers, is crucial in order to **successfully fight tax evasion.**

Chapter 2 contains analyses and proposals concerning digital innovation, the energy transition, the strengthening of the productive system and support for exports, financial development, infrastructure investment, territorial cohesion, the organization of labour and training, and welfare reform.

Italy is a manufacturing country. Its history, avocation, and geopolitical situation make it so. For a country poor in raw materials and geographically peripheral to the major markets of central Europe, Italy's extraordinary development beginning at the end of World War II was made possible by the wealth of manufacturing skill, passion, and intelligence engendered by the country's transformation from an agricultural to an industrial economy, followed by its emergence on the global market. Today, in spite of the sequence of crises that have befallen Italy in the early 21st century and of certain unresolved issues affecting its industrial system, Italy is Europe's second leading manufacturing country after Germany, and the eighth worldwide.

Italy's manufacturing avocation is backed by an exceptionally vital productive system, based on an SME model with a multitude of enterprises working along every link in the supply chain. The main competitive force of these enterprises lies in their specialization, and global value chains are their natural outlet, usually more upstream (as manufacturers of components and semi-finished products) than downstream (as final assemblers).

Sustaining this avocation over the coming decades requires successfully facing the major transformations affecting the global economy:

- the slowing down of the globalization process with the emergence of new types of protectionism aiming to strengthen the industrial backbone of individual countries or geographical areas;
- the growing effects of the new digital revolution, and the application of these technologies to the industrial sector (Industry 4.0);
- the environmental emergency and the need to launch sustainable economic reconversion processes with the goal of reducing greenhouse gas emissions and the consumption of raw materials.

The health emergency has caused the extraordinary acceleration of some of these processes, giving further impetus to a re-adjustment of globalization.

As a result of the crisis, the manufacturing sector will resume its central role, also in economically advanced countries. Difficulties in procuring certain key products during the emergency highlighted the risk of becoming excessively dependent, from both the technological and industrial standpoints, on parts of the world that suddenly became much more difficult to reach. This will require a re-organization of chains of production, and while this will not jeopardize the global scope of market production, which has allowed about 2 billion people to escape poverty in recent decades, it will certainly strengthen the trend of increasingly regionalized trade, facilitating the emergence of major industrial platforms at continental level, each in competition with the others.

The health emergency has also boosted the strategic value of digital networks and 4.0 technologies to manage a re-organization of productive processes in line with new safety measures. During the lockdown phase, the use of smartworking proved fundamental to soften the blow of the containment measures, as did many digital technologies, such as intelligent software and hardware for the predictive maintenance of remote machinery, process management, and quality control. As economies begin to open up once again, 'Industry 4.0' technologies will continue to be the main engine of investment for the modernization of the industrial system and the evolution of business models.

The environmental emergency remains one the main drivers of the transformation of the global industrial framework. By launching the Green Deal, Europe aims to maintain its role as a leader in the fight against climate change. The commitment to achieving climate neutrality by 2050 will require a radical change in the energy production, management, and use paradigms, with a significant impact on all economic activities.

The last structural effect of the health crisis is the re-discovery of the strategic value of research and researchers. After years of paying often abstract lip service to innovation, governments worldwide will be called upon to support public and private research as a strategic factor to take on the challenges of the future.

European rules will need to be re-written to reflect this, beginning by defining a coherent EU industrial policy that can **steer public sector interventions toward resolving the planet's great social and environmental issues.** Such a policy should entrust science and the private sector with meeting the new needs of advanced societies in light of major global trends: climate change, an ageing population, and quality of life in densely populated large cities.

An initial response comes from the new industrial strategy presented by the European Commission on 10 March 2020, which was further strengthened in light of the pandemic. The strategy consists of a policy framework with multiple references to initiatives already in progress and several proposed new interventions. It tackles crucial issues for the future of our economy and society and follows on the heels of the European policies launched from 2010 onwards in order to address the deep economic recession that hit Europe after the 2008 financial crisis, when the Commission began a new policy phase focusing on re-launching industry as a tool to revive the European economy.

Indeed, industry is not only considered the engine that can lead Europe's economy and society in the transition towards digitalization, climate neutrality, and a circular economy, but also the sector that can ensure Europe's sovereignty and resilience against **the leading economic platforms.** To this end, the goal is to enact policies that can allow Europe to develop strategically important technologies for its industrial future and its technological independence.

In such a framework, **Europe is Italy's only opportunity to guarantee stability and tackle the challenges of the coming years**.

A comprehensive and concrete approach is necessary to achieve this and to recover a degree of independence from other economic platforms. Support for investments, research, innovation, and skills are the key elements to strengthen strategic sectors, rationalize and boost industrial ecosystem, bring certain types of industrial production back to Europe, strengthen existing European value chains, and create new ones.

In order to be at the forefront of such changes, Italy's national industrial system needs to be further strengthened, ensuring solid support for R&D, industry, and the development of skills through a clear mid- to long-term strategy backed up by ensuring the availability of adequate resources over time. It is necessary to provide effective support for strengthening domestic industrial partnerships and ensuring their participation in major European projects targeting strategic value chains.

At national level, liquidity policies must immediately be coupled with a strategy to support growth and increased productivity.

In order to take on these new emergencies and consolidate the productive fabric over the mid term, these actions will have to aim to **relaunch private investment and strengthen the assets and organization of enterprises;** these needs predate the crisis but appear all the more pressing given the need to rebuild strategic value chains, encourage collaboration and networking between enterprises, and reorganize productive chains and processes to ensure safety and sustainability in the post-emergency phase, during which we will have to live alongside the virus and, more broadly, ensure safer conditions for workers.

In terms of investments and boosting productivity and employment, the book identifies the following priorities:

- **Investing in R&D to improve the innovative potential of the private sector** as a strategic lever to increase the added value of products and consolidate the participation of Italian firms in the main global value chains. Italy must be endowed with an integrated governance, the RDI ecosystem must be strengthened, fiscal instruments must be rationalized and strengthened, and major projects to be implemented through public-private partnerships must be launched on strategic themes.

- **Italian enterprises must be inserted into the new strategic value chains that are being formed in Europe, starting with the new Important Projects of Common European Interest (IPCEI).**

- **Strengthening the transition 4.0 plan,** which calls for fiscal incentives for investments in machinery, technological innovation projects for Industry 4.0, the circular economy, and research and development, with the goal of re-launching investments and ensuring stable support for the private sector at least in the middle term.

- **Completing and boosting investments** for developing a secure, scaleable, and interoperable digital economy. The presence of a modern and innovative digital ecosystem widely shared across society will increasingly become a strategic asset to facilitate and support the evolution of Italy's economic, social, and cultural system. It will be a key driver for the digital transformation of the public and private sector, and an engine of development and employment.

- **Supporting the energy transition process to achieve climate neutrality goals by 2050, ensuring the competitiveness of the productive system, and especially of the sectors most at risk of delocalization.** Additionally, priority intervention guidelines must be identified to create an ecosystem for the development of new green economy value chains, potentially worth over € 50 billion per year in incremental investments, with an expected contribution to GDP growth between 0.4 and 0.6%.

- **Supporting the environmental transition process towards business models based on a circular economy by removing non-technological barriers, strengthening Italy's facilities and creating the conditions for the development of markets for innovative goods and services and new professional skills for the efficient use of natural resources and raw materials.** To have an idea of the massive potential of this industrial policy driver, one need only consider that a mere 1% increase in ratio of recycled material to imports is worth about € 10 billion in savings for Italy and its enterprises, and about a 0.5% increase in GDP.

- **Activating public sector development as a driver of change:** innovative public tenders are an important aspect of industrial policy, and can steer enterprises towards meeting the performance and technological needs of the public administration. The innovation process arising from public sector demand must be made structural, with a minimum spending goal for both central and local public administrations of no less than 1% of the funds earmarked for the procurement of goods and services; this spending should be destined for the purchase of innovative solutions through innovative public tenders. This is a zero-cost measure with a multiplier effect in terms of the degree of satisfaction with the services provided to the citizenry and a major impact on the country's productivity.

Sustainable mobility and the development of transport and logistics are also of functional importance for the industrial sector. Logistics and transport must improve their ability to generate services for the public good and continue to develop as a productive sector in terms of their economic and employment scope, so as to increasingly contribute to growth and competitiveness, and strengthen links with expanding industrial and commercial value chains nationally and globally. It is thus necessary **to solve the operational problems caused by shortcomings in regulations and infrastructure and contradictory policy measures** that can create mismatches between mobility services for persons and goods.

Competition and market regulation (for transport infrastructure and mobility services for persons and goods) must facilitate the industrial evolution of the sector as a whole, access for new operators, the development and efficacy of existing facilities in terms of investments and the quality of services provided. It is essential to promote **industrial policies for the logistical development of enterprises** by implementing measures promoting investments, technology, training, organization, digitalization, and sustainability.

The **technical and operational regulation of the mobility system** requires extensive adaptations to the evolution of logistics, which should be defined at the European level, at an international scale (intermodal hubs, border crossings, and TEN-T management), and at the national level in terms of the simplification and digitalization of bureaucratic procedures (one-stop service desks, customs, 24/7 functioning of services) and for improving the efficiency of the administrative structures regulating mobility (in logistics hubs and in urban and metropolitan areas).

The major goals of the EU (sustainability, digitalization, and resilience) must be approached in a more effective manner in order to **facilitate modal splits and decarbonisation while promoting technological adaptation, safer means of transport, improved mobility management systems, integration and interoperability**, all of which have significant potential to engender major productive value chains, from research and innovation to industrial market production.

Finally, it is important to **promote strategic plans** that are able to involve industrial and service sectors activated directly and indirectly by mobility and able to promote productive development, such as for maritime and port clusters (**Blue Economy**) and special zones (**SEZ/SLZ**).

The **socio-economic gap** between Italy and the EU, and between the North and South in Italy itself, has started to widen dangerously for some time. For the purposes of the Recovery Plan, the actions to be implemented must significantly **invert current trends of falling employment and lower public and private investment** in order to improve the competitiveness of the private sector, the quality of human resources, infrastructure and essential public services, and the efficiency of public administrations. The cohesion strategy must involve every facet of local development and aim to reduce the marginality of certain areas, social malaise, and environmental degradation.

In terms of implementation, the failure or delays in using the funds earmarked for public investments must be overcome. Instead, the approach to be adopted must be based on rigorous mechanisms **for the timely re-distribution of unused resources, while ensuring that overall planned expenditures at the local level are met**.

In order to re-launch productive investments in the South of Italy and in other disadvantaged areas, it is necessary to define and **make stable over time** – at least for the 2021-2027 programming cycle or with an eye towards Piano Sud 2030 – the **various existing tools that have successfully helped** foster an increase in employment and investment in the private sector, while **boosting funding for development contracts.**

In this regard, and while special attention should continue to be paid to SMEs, growth in firm size should be further encouraged, and large enterprises' opportunities for investment should be broadened. In disadvantaged areas in central and northern Italy, a **revision of state aid to regions should be negotiated with European authorities**, since currently investment possibilities are limited to new locations, and of EAFRD regulations, which exclude funding for investments by large enterprises.

Finally, it would be desirable **to promote local development strategic planning based on integrating public with industrial investment, while simplifying technical and administrative procedures**, always with an eye towards the green and digital transitions.

Turning to **infrastructure policy**, we must reverse the gradual decline in investments that has been going on for two decades now. The goal is to address the constant neglect of existing physical infrastructure and the significant delays and stalled decision-making affecting planned and ongoing infrastructure development. This would allow Italy to once again leverage investments in infrastructure as a driver of growth, in terms of construction projects, and as a way to improve system-wide productivity and well-being, as generated in the mid- and long-term by the services provided by infrastructure. This effort must concentrate on **recovering the ability for planning in the mid- and long-term, based on identifying actual needs at the various local and sectorial levels, while adopting coherent, sustainable (both financially and environmentally) and technologically advanced projects and plans**. Additionally, for the purposes of the national Recovery Plan, it is essential for investments in infrastructure to meet the following conditions:

- Must be completed on schedule in compliance with the conditions imposed by the Recovery and Resilience Facility (RFF);
- Must be decisive for the implementation of Italy's broader infrastructure development;
- If possible, they must go beyond 'ordinary' planned expenditures in order to significantly contribute to the recovery effort;
- Must be supported by structural reforms to be launched immediately, so as to achieve, in the mid-term, a new and more efficient reference framework for infrastructure policy.

In terms of **export** promotion and participating in global value chains, these are the main drivers of national growth in an increasingly competitive context rife with trade wars. The proposals reflect two main priorities:

1. Improving the promotion and protection of the 'Made in Italy' brand;
2. Maximizing the advantages of free trade through customs simplification, the promotion of e-commerce, the re-launching of the trade fair system, the promotion of the 'Made in Italy' brand, stronger public support (starting with the Italian Trade Agency), a better use of EU agreements to lower tariffs and achieve regulatory convergence, the wider use of AEO status to facilitate export procedures, and the fight against counterfeit and 'Italian sounding' goods.

In order to support the sustainable development of the productive system and the growth of the private sector, including through aggregations, we must aim for a **re-balancing of the financial structure of enterprises** – which still rely excessively on bank credit, as can be seen by the widespread recourse to guaranteed loans to face the Covid-19 emergency – through capital strengthening and the diversification of financial sources. To this end, we must first and foremost identify **solutions to bring relief to enterprises forced to make extensive recourse to guaranteed loans** to face the Covid-19 emergency and allow them to finance the new investments that are necessary for recovery.

Additionally, **we must facilitate access to alternative financial sources for SMEs and mid-caps by simplifying regulations, guarantees, developing funds for the listing of SMEs, actions and measures to improve the financial culture of enterprises and to promote the development of Fintech channels.** In the fiscal field, we should **improve regulation concerning the tax deductibility of passive interest, reform incentives for extraordinary operations and asset re-organization, provide fiscal incentives for investors in start-ups and innovative SMEs, and discuss the possibility of abrogating the Tobin Tax** with an eye towards a harmonized tax at the European level. It will also be necessary to **achieve a stable flow of patient funds to stimulate greater investment in the domestic productive and infrastructure system for insurance companies and pension funds.**

Finally, we must **support bank credit by mitigating the consequences of international financial regulation and establishing a comprehensive framework of incentives to facilitate the development of sustainable finance**.

In the employment field, new technologies and digitalization are paving the way for new jobs that are cognitively intensive and more productive. Technological innovation can create better working conditions while making economic systems more resilient to unexpected shocks, since they provide the necessary response, in terms of increased productivity and changes in how we work, to an ageing population and the demand for environmental sustainability.

The potential of such transformations can only be fully exploited if there is a **constant upgrading of workers' technical and cross-cutting skills**. Additionally, the organization of labour must become more participatory, focusing on results more than on working hours, and **leveraging agile work**, looking beyond the constraints of time and space. We must also create a **stable regulatory environment** so that enterprises can stand on firmer ground, including with regards to health and safety in the workplace. In this regard, we must leverage collective bargaining as a way to interpret the needs of both enterprises and workers.

With a constantly evolving labour market, it is vital to shift the focus away from employment and towards employability, to protect "work and workers" as opposed to individual jobs. In this regard, it is crucial to strengthen **active employment policies**, so as to steer professional skills towards the changing needs of the labour market. Reforms should also focus on **creating a social safety net against unemployment** centred on effective actions – including through the use of fiscal incentives – for the outplacement of unemployed workers. **The current system on benefits should also be revised** in order to overcome current problems related to the dispersion of resources and complex administrative procedures to access benefits.

Human capital is and will continue to be a strategic driver for the development of Italy's industrial sector. The higher the quality of human capital, the higher the innovation and growth of the economic system. In Italy, we must **improve professional training in higher education with investments and reform for higher technical institutions (ITS) and professional degrees**, thus improving overall skill levels, especially in STEM, and bringing the educational and labour sectors closer together.

These ongoing transformations also affect the **welfare system**, especially as regards the link between **sustainability and Italy's economic and demographic trends.** Our welfare state can support economic growth and social well-being only if it is sustainable and reflects the changing needs of citizens over the course of their lives, beginning with health care and social security. A society cannot be open and innovative unless it has an effective social security system.

CONFINDUSTRIA