Annex I

Balassa indexes

Description of the methodology

The Balassa index is the most frequent measure used to compare relative advantages in export performance, by country and by industrial sectors. This index is defined as a country export share for a specific industrial sector divided by the export share of a group of countries, named "reference group", for the same industrial sector.

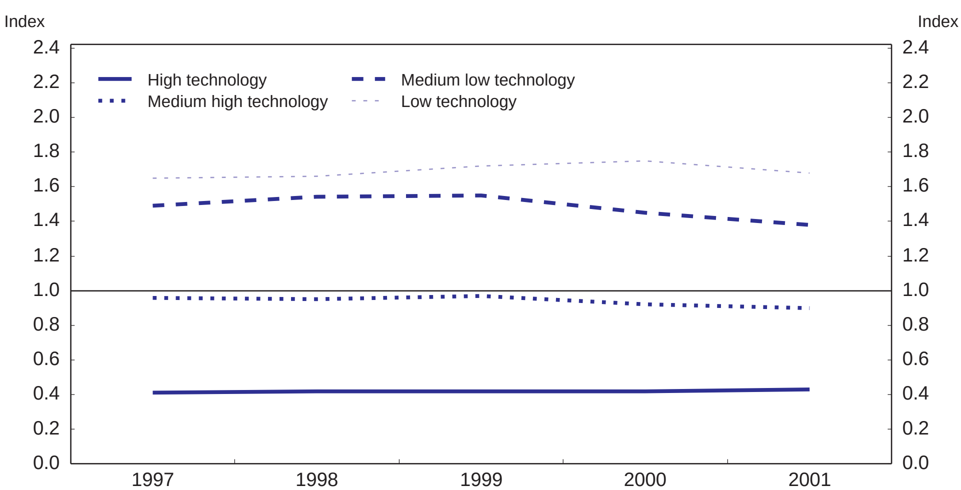
The Balassa index for the country I, compared to the World, for the industrial sector J should be calculated as follows:

$B_{i,\,j} = (X_{i,\,j} / X_{world,\,j}) / (X_{i,\,total} / X_{world,\,total})$

where i is the country under study

j is the industrial sector being compared

Figure A1.1. **Balassa indices for Italy**[1]



1. See section on manufacturing sectors for details on definitions.
Source: Calculations based on figures from OECD, Foreign trade Statistics.

If $B_{i,j}$ exceeds 1, it may be said that the country I has a "revealed comparative advantage" in industrial sector J, since this sector is more important for country I 's exports than for the exports of the reference countries.

Repeating these calculations over sectors makes possible the determination of strong and weak sectors for a country. The Italian case is illustrated in Figure A1.1.

Manufacturing sectors

The following breakdown by sector was taken into account in the calculations:

- H*igh-technology industries*: aircraft (ISIC 3845), office and computing equipment (ISIC 3825), pharmaceuticals (ISIC 3522), radio, TV, and communication equipment (ISIC 3832).
- M*edium-high-technology industries*: professional goods (ISIC 385), motor vehicles (ISIC 3843), electrical machinery excluding communication equipment (ISIC 383-3832), chemicals excluding pharmaceuticals (ISIC 351+352-3522), other transport equipment (ISIC 3842+3844+3849), non-electrical machinery (ISIC 382-3825).
- M*edium-low-technology industries*: rubber and plastic products (ISIC 355+356), shipbuilding (ISIC 3841), other manufacturing (ISIC 39), non-ferrous metals (ISIC 372), nonmetallic mineral products (ISIC 36), metal products (ISIC 381), petroleum refining and products (ISIC 353+354) , ferrous metals (ISIC 371).
- L*ow-technology industries*: paper, paper products and printing (ISIC 34), textiles, apparel and leather (ISIC 32), food, beverages and tobacco (ISIC 31), wood products and furniture (ISIC 33).

Annex II

The reform of the banking foundations

The beginning of the rationalization process in Italian banking

The process of rationalisation and privatisation of the banking sector began as a response to European rules on public aid to firms, and also to the constitution of the Competition authority in Brussels. In 1985, the Italian parliament transformed into law the first European directive on the liberalisation of the credit market (1977): according to the new law, all agents satisfying certain conditions can become a bank operating in a unified European credit market. This exposed the Italian banks, heretofore operating in heavily segmented and protected markets, to greater competition, both internal and external.

The main framework for reform of the Italian credit sector, however, was first given by the law "Amato-Carli" (n. 218, July 1990). According to this law, public-owned credit institutions could transfer their banking activities to limited companies, convert their capital parts into shares and merge with other banks; the rules governing the control of the capital of the banking companies that were set up envisaged a reduction in the influence of the public sector by permitting the sale to the public of minority interests and empowering the government to authorise their privatisation. The law also encouraged the drive to increase the size of banks by granting tax relief for mergers.

In 1994, the General Code on Banking and Credits (*Testo Unico bancario*), approved in 1993, came into force. The new Code (the previous one dated from 1936) contained national rules implementing a new set of EC banking directives . The Code rested on four main principles (Messori, 2002a): *i*) a bank is like any other firm (see above); *ii*) every bank can choose its-own model of organisation (universal bank, multi-functional group, specialised bank, etc.), and is free to provide almost all types of financial services apart from insurance and investment funds (this created the conditions for subsequent bank mergers and reorganisations that greatly strengthened the banking system); *iii*) the monitoring of the banks by the Credit Authorities (Minister of Economy, Interministerial Committee for Credit and Saving, Banca d'Italia) would be prudential and systematic, implying greater space for self-regulation by banks; and *iv*) the separation between banks and industrial firms is softened.

Both texts gave birth to the foundations in their present form. The banking foundations, semi-private structures defined by the law, would acquire the ownership of the large group of banks that had traditionally existed as foundations or associative entities: in the new framework, these banks' executives would formally ensure the credit function, independently from the advice of their owning foundations.[1] Since then, 89 foundations have been created; in 2000 the total assets of the Italian foundations was estimated at € 35.4 billion, around 2.8 per cent of Italian GDP and roughly one-third of total banking system equity. The banks owned or partly owned by foundations accounted for about 60 per cent of all banking system assets. They are heavily concentrated in the Northern-Central regions (Table A2.1).

Table A2.1. **Geographical distribution of banking foundations**

Geographical area	Number of foundations	Percentage of foundation capital
North West	17	41.5
North East	30	22.0
Centre	31	32.4
South and Islands	11	4.1
Total	89	100.0

Source: ACRI (2002).

However, the early reforms failed to deal with the problem of implicit public control, *via* the foundations, over these banks. By end-1994, 75 per cent of the foundations still held absolute majorities in the capital of their-own banks, while almost 20 per cent had reduced their positions to ones of minority but often exercised effective majority control by means of coordinating agreements with other foundations.[2] A move towards the exit of foundations from banks was first given by the 1994 directive from the Ministry of Economy (*direttiva* Dini) which set the principle of diversification of foundations' assets.

The consolidation of the sector and the new rules

The two main objectives of the law "Ciampi-Visco" (law n. 461 of 1998 and legislative decree n. 153 of 1999) were to force the disengagement of foundations from bank ownership and to constrain the foundations to adopt a strategy oriented to the private non profit sector. To this end:

- *fiscal incentives* were created: a defiscalisation of the benefits realised from the sale by the foundations' of their own-banks; foundations will furthermore enjoy a comfortable delay of time to disengage from control in their banks (4 years or, under particular conditions, 6 years); after this period, they would lose fiscal advantages reserved to non commercial activities if they did not dismiss their controlling shareholdings in the banks;
- the bill established that the foundations are *private entities* (having full autonomy concerning their by-laws and the administration of their assets) and indicated the six *non-profit sectors* where the foundations had to direct at least 50 per cent of their activities (*i.e.*, the extension of grants deriving from the income on their assets): art, public assistance, cultural and environmental goods, education, science, health care. Neither can foundations maintain or, by implication, take over private firms without the clear purpose of acting in one of these six sectors, which obviously would exclude banking. The remaining part of their activities, moreover, should be directed to activities having a high social utility.

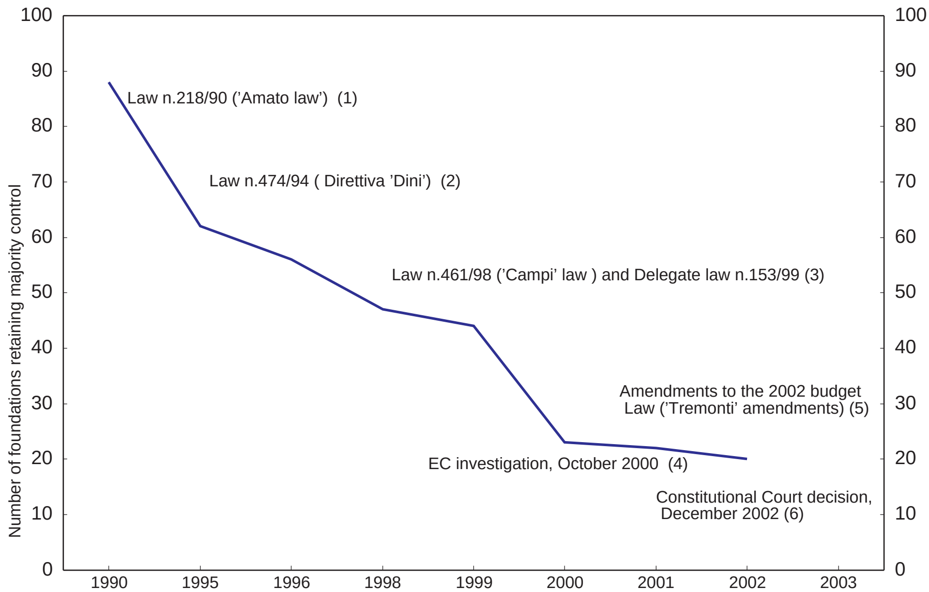
The bill succeeded in part because of a more favourable banking context. In 1997, a major wave of consolidation of the banking sector began (by means of mergers and takeovers, mainly among the large banking groups and regional networks), and the whole Italian credit system gained in efficiency and transparency. Therefore, the "Ciampi-Visco" reform had the great merit of going in the same direction taken by the markets two years before, while helping to complete that process of consolidation. Namely, the foundations would now have to allow the markets to judge their banks' executives, but they would have also to make profits from their bank assets and reinvest half of them in the non-profit sector.

Thus, in 1999, just two major foundations controlled directly more than 50 per cent of their old banks,[3] while the average equity participation of the foundations in their own-banks had declined to just 26.3 per cent, down from 100 per cent at the start of the decade (Figure A2.1).

Nevertheless, there remained two weaknesses at this stage of the reform:

- "Ciampi-Visco" established a concept of control over banks based on the *dominant influence* of any single foundation (for instance, the power to nominate or fire the majority

Figure A2.1. **Main legislative events in foundation reform and majority bank participations**



1. Law n.218/90 ('Amato' law). Public banks transformed into joint-stock companies (Spa), 100 per cent owned by the Foundations (Fondazioni). Fondazioni should maintain majority control in the Spa.
2. Law n.474/94 (Direttiva 'Dini') eliminates obligation by Fondazioni to retain majority of capital in the Spa; divestments receive fiscal incentives.
3. Law n.461/98 ('Ciampi' law) and Delegate Law n 153/99. Fondazioni should cede all majority control in 4 years (by 15 June 2003) and the operations receive fiscal incentives. Fondazioni defined as private agents with full statutory and management autonomy, under supervision of the Minister of Economy.
4. The European Commission, in October 2000, begins an investigation of the fiscal measures established by the 'Ciampi' law, which it suspects of being State Aids.
5. Amendments to the 2002 Budget Law ('Tremonti' amendments), in late 2001, propose putting all Fondazioni banking assets into SGR sub-holdings, to be supervised by Banca d'Italia, and to sharply raise the representation of local public authorities in Fondazioni councils.
6. The Constitutional Court, in December 2002, puts the Tremonti amendments on hold.

Source: ACRI (2002); OECD.

of the administrators of their banks). Even so, though the foundations have reduced their total ownership shares, they have succeeded in maintaining their centrality in the banking system by coordinating agreements with other shareholders.

- To prevent the risk that the foundations replace the state in several public services in the local communities, *i.e.* to ensure that they complement and not substitute for the welfare state, "Ciampi-Visco" stated that a large proportion of the executives of the foundations must be the representatives of the local civil society, instead of local politicians. However, though growing, the former are still not in the majority on foundation councils.[4] There is correspondingly still an unclear vision of what the foundations should be doing, as opposed to the government, in the tertiary sector.[5]

All the incentives created by the two new bills go in the right direction, but they are quite weak. The main point is still to understand whether the single foundation acts for the maximisation of social good, or merely within a trivial logic of power, clientism and local influence. It must be questioned whether foundations have the incentives to effectively select initiatives in the non-profit sector or to efficiently invest their capital. If an executive of a foundation makes a bad investment, for instance, such behaviour will go unpunished as there is no clear mechanism – no stockholders, clients or customers, nor even voters – to assign responsibility or to impose sanctions. Therefore, accountability of the foundations is still insufficient, undermining the attempt by the law to create the incentives for their executives to adopt virtuous behaviours.[6]

As the absence of a market sanction on the non-profit sector jeopardises the efforts to evaluate the assets of the foundations and to understand their influence, in either banking or the non-profit sector, a regulatory effort must be made to provide the foundations with a more efficient and transparent executive council, facilitating the monitoring of their choices by all the stakeholders. Such a process of evaluation will be slow to develop. However the law obliges the foundations to allocate their assets following the principles of profitability, diversification and prudence.[7]

The foundations in the current *Legislatura*

After the election of a new parliament and government, it would have been of capital importance to continue to push the foundations to divest the control they still had in the banks. The new government, however, chose to intervene in this process with a last minute modification of the Budget bill 2002. This led to a heated political debate, ending in an appeal to the Constitutional Court to overturn the amendments, but the only important question is whether these new initiatives follow the twelve-year-old path of the reform or block it. The Budget bill's clause had two main objectives:

- the new bill widens the concept of control to cover situations in which control is exercised jointly by several foundations;
- to fix a number of situations of non-compatibility, the Ministry of the Economy will establish rules to prevent conflicts of interests between the executives who allocate the funds of the foundations and the agents who take grants from them.

This is, in fact, a good starting point for the reform. The 2001 reform has for the first time identified the notion of control to include cases where this is reducible, directly or indirectly, to several foundations, rather than just one. Moreover, some executives belonging to the civil society may have an obvious economic advantage to be a member of the council of a foundation, making more difficult the path towards greater transparency, and the regulator has clearly a role to play in counteracting such conflicts of interest. However, the subsequent decree of the Ministry of Economy – implementing the statements of the Budget bill – really overshoots these problems.

As to the first objective, the definition of control of the foundations over banks is indeed tightened, but a number of discretionary elements may distort the implementation. Although foundations have to get rid of their credit control shareholdings, the deadline for the disposal of shareholdings in the companies to which the foundations had transferred their banking business was postponed until June 2006 on condition that shareholdings were entrusted to an independent asset management company (*societá di gestione del risparmio* – SGR).[8] The SGRs are to be regulated by the Ministry of Economy, by as yet unspecified criteria, while the separation of control and ownership will introduce a lot of ambiguities in the allocation of responsibilities. These factors could, in turn, exacerbate weak market competition for bank property and control rights.

The implementation of the second objective, which applies to the foundations the new discipline on conflicts of interest, could also have undesired consequences. According to the new clause the majority of members of the foundation's executive council are to be made up of representatives of local authorities, effectively forcing the foundations to promote local development. This could blur the lines between a foundation and a public agency, even though the former is expressly qualified as a private entity by the law and enjoys a far-reaching autonomy. Any usage of the foundations as a means of local public finance would be an unwelcome departure that is nontransparent and punishes the needy areas (which have few foundations) disproportionately.

The reform process started in 1990 with the clear aim of preventing the public actor from having a role in the credit sector. The new statement could be seen as an increase of public influence over foundations even though the latter must sell their banking control (be it solitary or joint) shareholdings or, alternatively, entrust them to an independent asset manager. The new bill seems to have assumed that the privatisation of the Italian banks will be soon complete and satisfactory, with the foundations no longer linked to the banks nor to the credit function. However, further legislation might be necessary in order to complete the reform process.[9]

Notes

1. Such banks accounted for around one-quarter of banking system assets at the time of the Amato reform; 93 per cent of these banks, in turn, were *Casse di risparmio* or *Banche del monte* (savings banks), and the other 7 per cent were *Istituti di credito di diritto pubblico* (public charter banks). These banks typically had their roots in local public administrations or in charitable works, and had a history of public control. With the reforms, the banks' governance was to be improved by separating management from ownership, while transforming them into publicly held joint stock companies, which became the predominant mode of ownership in the Italian banking system. Their overall size grew to almost two-thirds of banking system assets by the time of the 1998 Ciampi reforms. See Messori (2002a).
2. The remainder (less than 10 per cent) retained exactly half of their own-bank's capital. *Ibid.*
3. A total of 18 smaller foundations continued to exert majority control as well. See ACRI (2002).
4. In 2000, 50.2 per cent of the executives of the Italian foundations came from local institutions (30.1 per cent from local authorities, 9.4 per cent from the *Camere di Commercio*, 10.7 per cent from the health system, the public agencies of tourism, etc.), so that the share of the local civil society (academics, scientists, clergymen, the charities, artists, etc.) had risen to 49.8 per cent of the 1 550 executives.
5. Messori (2002a) suggests that the activity of the foundations in the non profit sector concern all the situations where there is a clear negative trade-off between efficiency and social fairness. When the State intervenes, to protect social equity, it always kills a market; if a foundation intervenes, competition and the market could be preserved, as the foundations are more flexible and efficient than government. But this author also stresses that the foundations' accountability has to improve before they can be effective. They should renounce control over banks and adopt correct corporate governance structures, with effective supervision by third parties over the return on their assets and uses of such funds in the non-profit sector.
6. Law n. 289/2002 further established that foundations with assets not exceeding 200 million euros or mainly operating in Regions with a special autonomy may hold their control banking shareholdings until June 2006.
7. Legislative decree n. 153/1999 establishes that the Ministry of Economy sets minimum profitability standards.
8. By contrast, in the recent fight for Mediobanca (March-April 2003), the foundations were seen by many commentators as trying to consolidate a position of influence in the bank, *via* complicated cross-holdings, rather than keeping to their proper business.
9. In December 2002, the implementation of the provisions were put on hold by the Constitutional Court, and the status of the reform is currently unclear.

Annex III

Efficiency of the public administration

The 2002 OECD *Economic Survey* of Italy included a section on the efficiency of public spending. The section focussed, *inter alia*, on human resource management in the public administration, quality of services, and administrative burden. This annex presents an update of recent developments in these areas.

Human resource management

After decreasing in 1998-1999, the number of public employees increased by 0.7 per cent in 2000 and stabilised in 2001. In that year, their numbers were equal to 6 per cent of the total population, slightly lower than in the G7 countries on average (6.9 per cent in 2000). In the 1999-2001 period, wages in the public sector increased considerably faster than in the private sector (the ratio of per capita wages in the public to private sectors increased by almost 3 per cent each year). In 2001, the average wage rate of public workers was around 40 per cent higher than in the private sector,[1] by far the biggest difference among G7 countries.[2] Despite relatively higher wages, the average competence of public sector workers in Italy is perceived to be lower compared with that of private sector workers, more so than in many other OECD and non-OECD countries.[3]

During the 1990's, a more clear-cut division of responsibilities was introduced between the political and administrative authorities at both the central and local levels. Since then, public employees seem to enjoy greater organisational freedom than in the past. However, wage and career prospects are not adequately linked to skills, effort and productivity.[4] The main reason for this outcome is the lack in many administrations of appropriate and transparent mechanisms of personnel evaluation.[5] Human resource management in general is but one of many activities of the broader general affair directorates and it does not always receive priority attention by top level managers and politicians. The main activities of the human resource offices concern relationships with trade unions and administrative procedures.

Poor relationship between ministries and their personnel is also reinforced by the broad and almost exclusive use of formal and legalistic ways of communication (*circolari* and *ordini di servizio*). The lack of wage and out-of-pay incentives have led to increasing dissatisfaction of public workers with their jobs, poor quality of services that they provide, and eventually to a selection process where mostly low-skill and unmotivated individuals choose to work in the public sector because of the relatively high job security there. In fact, in a survey of OECD countries the Italian government indicated a critical skill shortage (as opposed to "recruitment" or "retention" of civil servants) as the main problem currently facing human resources in the public sector.[6] Efforts to upgrade personnel skills are not always sufficient. In 2001, training expenditure was still under 1 per cent of wages, with the regulatory Authorities and the Chambers of Commerce having higher than average shares.[7] The shares of regions and local administrations are in general lower than average. Not all administrations evaluate. Only around 60 per cent of municipalities and provinces made *ex post* evaluation of their training programme in 2001.[8]More and better training will probably be needed at regional and local level given the expected process of government decentralisation (see Box A3.1).

As far as the management is concerned, the 1998 reform (launched by the previous government) had introduced, *inter alia*, the possibility for any new political administration of replacing top figures in key posts, fixed-term appointments (lasting from 2 to 7 years) for all managers, a periodical turnover of their tasks, and a greater link between pay and performance. This was deemed necessary not only to improve managers' performance but also to make sure that the more clear-cut division of responsibilities between political and administrative authorities mentioned above would not harm the implementation of the government programme.[9] However, most of the contracts signed after the reform lasted more than 5 years, *i.e.* longer than the legislature period, potentially eliminating the incentives for managers to quickly implement the government's programme. Furthermore, objectives and benchmark indicators specified in the individual contracts were often generic so that wage prospects were still only loosely linked to results and performance.[10]

The current government has taken a number of initiatives to improve the skills and increase the efficiency and accountability of public personnel. One of the main steps has been a further strengthening of the 1998 reform. According to the new law approved in June 2002, after 3 months from the parliamentary investiture of any new political administration the top manager posts (*Segretari generali* and *Capi Dipartimento* amounting to around 60) appointed by the old administration are automatically terminated giving the possibility to the new administration of replacing them. Moreover, the maximum length of the contracts has been cut to 3 years for medium level managers (*Dirigenti generali* amounting to around 400). In addition, there is no minimum length. In 2002, these measures were immediately applied to directors already in place. Around one fourth of them were not confirmed and moved to new posts. Furthermore, contracts as short as 5 months-long have been signed. A more significant share of the managers' pay – as well as the possible confirmation or cancellation of the contracts – is linked to the attainment of specific objectives. Many of the contracts' arrangements will be agreed at the individual level, although those regarding many benefits are still left to collective agreements.

Through other measures, the government has also given a greater role to internal control offices (*Servizi di controllo interno*) in monitoring the actual implementation of the political objectives also by means of appropriate benchmarks and in formulating recommendations for improvement of Ministries' functioning. Finally, a greater accountability of public managers to the political authorities will also draw from the re-organisation of some ministries where general directorates are being introduced (replacing departments) under the control of one secretary-general directly reporting to the Minister.

In order to reduce and rationalise public personnel, the 2003 Budget law introduced an almost total hiring freeze, along with obligations of reducing personnel on permanent contracts starting from 2004, while encouraging greater recourse to personnel mobility and to fixed-term contracts. Some initiatives have also been taken to upgrade the skills of public personnel. The objective is to devote at least 2 per cent of total wage to training. Each public administration is now obliged to present a training programme for its workers at the beginning of every year. In addition, minimum quality standards have been set for the schools providing training to the public workers, with enhanced control of the actual attainment of skill upgrading. Training schools will also be required to acquire quality certification by appropriate institutions. An agreement with universities was signed in order to promote new training

Box A3.1. **Recent measures on government decentralisation**

In October 2001, Italy took an important step towards greater government decentralisation. A referendum confirmed the changes – proposed by a Constitutional Law approved by the parliament – of the Constitution's articles concerning the relationship between the state, regions, and the other local administrations (see also the Special chapter in the 2002 *Italy's Survey*).

The new Constitution specifies the exclusive competencies of the state and the competencies that are shared between the state and the regions. All the other (unspecified) competencies are reserved to the regions. As a result, the Constitution now gives to the regions the exclusive competencies in many important areas: agricultural, industrial and retail trade policy; regional energy production and distribution; mines; tourism; labour policy; water resources; urban planning; regional transport networks; local public services; museums and regional libraries; professional training; local police; social services and other functions.

The shared competencies include even more relevant sectors: international relations involving regional issues; external trade policy; job security; education; liberal professions; R&D and innovation policy; health care; civil protection and land management; ports and airports management; national transport and sea networks; communication; national energy production and distribution; complementary pension funds; public finance co-ordination; cultural assets' management; regulation on certain types of banks (*casse di risparmio*, *casse rurali* and banks operating at regional level) and other functions. On the shared competencies, the state retains the power of setting the general principles and of defining minimum levels of services to be provided in the whole country.

Moreover, the Constitution now recognises the fiscal autonomy of regions and local administrations, on both the revenue and the expenditure sides. An equalisation fund is required to be set up redistributing resources towards areas with lower tax bases. The only financial constraint for decentralised administrations is the possibility of borrowing only to finance investment spending. The resources that should be transferred from the state to the local administrations for implementing this decentralisation programme are estimated to be almost 11 per cent of GDP.

After the approval of the Constitutional changes, many regions started to introduce legislation in areas, which – according to the state – were part of shared competencies and, therefore, needed the specification of general principles (not yet introduced). The Constitutional Court ruled on these cases, and *de facto* recognised the power for the regions to legislate in the areas of shared competencies even if general principles have not been set. A Bill presented by the Ministry for Regional Affairs – still under discussion by the parliament – should accelerate the introduction of these general principles.

In the meanwhile, if approved by the parliament, a new Constitutional Bill presented by the Ministry for Institutional Reforms could represent a further step towards government decentralisation. In fact, even if the interpretation is still a matter of different opinions, the Bill might extend the exclusive powers of the regions also to the education and health sectors that are currently among the areas of shared competencies.

Source: ISAE, *Rapporto annuale sull'attuazione del federalismo*, February 2003.

programmes for current workers and to better inform students of the work and skill requirements needed by the public administrations. Lastly, to widen their skills public managers have now the possibility to work temporarily in the private sector or in international organisations.

The measures being implemented by the government could go in the right direction of both reducing public personnel and increasing their efficiency. The further reform of top and medium management could increase the accountability both of administrative staff (as their pay and career is more linked to results) and of political authorities to the public as they can not blame bureaucrats for the partial or failed implementation of the government programme. However, an excessive recourse to the "spoils system" could bear a number of risks.

- *First*, some politicians could be tempted to use appointments in the public sector as a way of gaining consensus *per se*, independently from the actual implementation of the government programme. Admittedly, the vast privatisation effort and the diminishing role of the state in the economy carried out during the 1990s have lowered this risk significantly. In any case, to further reduce this possibility a mechanism of checks and balances between the government and the parliament could be envisaged, as it is often the case in other OECD countries (for example appointments of top officials could be brought to the scrutiny of the parliament before being finalised).
- *Second*, an efficient activity of public managers often requires a minimum period of continuity especially for establishing confidence and trust with other parts of the public administration and with external counterparts like citizens, companies and international organisations. Many of the signed contracts are too short for this trust to be established. The introduction of a minimum length for contracts should be envisaged. Moreover, the stress on short term objectives should not stop public administrations from identifying also some medium term "core" targets – mainly concerning internal organisation and external relations but possibly extending to some bipartisan objectives – that could be maintained despite governmental changes.
- *Finally*, promotion to medium-level management could represent an incentive mechanism for good performance by lower level civil servants, whose role is often fundamental for an effective implementation of the government programmes and for the day-to-day activity. If appointments are decided by political authorities at each change of government, lower level civil servants could consider efforts to implement the government programme useless, as there is a risk – on top of not being promoted – of being replaced by the next government in case of such a promotion. The authorities could then consider introducing a "special" career stream for a number of medium and top managerial functions, more independent from political influence and whose access could be decided by rigorous public examinations open to internal and external candidates.[11]

The objective of reducing the number of public workers while upgrading their skills should be given priority attention and could go hand in hand with the ongoing reorganisation of administrations (involving also the elimination of around 100 public institutions) having the objective of reducing fragmentation among departments in the implementation of the government's policies, avoiding overstaffing or understaffing in many ministries and departments, providing greater consistency between inputs and functions to be carried out, and avoiding task duplications. However, improving the performance of public workers may be more than just a matter of training, but also one of incentives: hence, the application of performance-based pay and objective monitoring should be implemented to sub-management levels as rapidly as possible. Indeed, managers could be frustrated in their ability to achieve goals without such mechanisms in place.

Services to citizens and administrative burden on companies and individuals

During the past decade, a number of measures were undertaken to simplify the administrative burden on citizens and companies and to improve the services supplied (one-stop shops, charters of services, offices for communication with the public, decentralisation of many procedures, obligation for administrations to indicate timing and official responsible for each procedure, regulatory impact analysis, greater recourse to streamlined reference codes rather than fragmented legislation). However, these measures were not always fully implemented so that the administrative burden is still high. For example, Confartigianato (2002) estimates that the direct cost of the administrative burden on companies is still around 1.2 per cent of GDP each year, more than half of which due to accounting and fiscal compliance obligations. Moreover, their survey indicates that half of small companies did not perceive any significant improvement in the bureaucratic requirements in the last three years, *i.e.* since the launching of the major reforms in this area by the previous government (see OECD *Regulatory Reform Review of Italy*, 2001). According to Dipartimento della Funzione Pubblica *et al.* (2002), the direct cost of the administrative burden is slightly higher (around 1.5 per cent of GDP). According to their survey, more than 60 per cent of companies are satisfied with the activity of the municipal administrations but room for improvement is still large for regional and provincial administrations Finally, despite considerable progress in the use of information technology, the extensive recourse to self-certification and a better organisation of public offices, citizens still identify as major areas for improvement the overall skills of public personnel, waiting times for finalising administrative obligations and the overall burden of the bureaucratic procedures.[12]

The present authorities' main response to reduce red tape has been to take stock of the best experiences so far on the one hand and to implement an action plan for "e-government" on the other. On the first point, through a series of initiatives under the umbrella of the "*Cantieri*" ("work in progress") programme, the government is enhancing the co-ordination among central and local administrations to disseminate best practices more quickly.

On the second point, the main objectives of the e-government programme are: *i*) the supply of services through a unified electronic access point even when involving more than one government department; *ii*) the introduction of identification instruments like the electronic ID card and digital signatures; *iii*) the use of non-traditional channels to access public services like Internet, call centres, mobile phones; and *iv*) the implementation of a communication infrastructure linking all government departments.[13] Moreover, a training programme for public employees as users of IT has been set up in the context of the action plan.[14] However, the deadline for many programmes could be postponed as the 2003 Budget Law allocated less funding than initially expected, unless public administrations could quickly implement a vast programme of public-private partnerships in these areas. In any case, around 140 projects from regions and local administrations – mainly building electronic services to citizens and companies through Internet – are being financed by national and EU structural funds.[15] Finally, co-ordination of e-government activities could be enhanced by the establishment of a Ministers' Committee for the Information Society chaired by the Minister of Innovation that will have a central role in the planning and prioritisation of funds.[16]

Important steps are being taken in the area of the e-procurement. An increasingly important role has been given to CONSIP S.p.A. – owned by the Ministry of the Economy – in the centralisation of the purchases for the public administration. The main instruments used by CONSIP are online auctions, electronic shops (product and price agreements between CONSIP and companies to which all public institutions can access through the web) and, shortly, marketplaces (Internet sites managed by CONSIP where companies can offer their products to public administrations). Through CONSIP, the authorities have also started a programme for contracting out activities (like office maintenance) that were traditionally managed by public personnel. Up to May 2002, the unit price on products and services purchased by CONSIP was around one third lower than in the past.[17] Further savings are also the result of lower transaction costs due to the centralisation of procurement procedures. In 2002, the amount of goods and services involved in the CONSIP programme was EUR 8.5 billion), less than one tenth of total general government intermediate consumption. In 2003, the government expects the programme to reach EUR 22.7 billion. Extending the programme even further could result in significant savings, especially in the health sector where the share of intermediate consumption is larger than on average in the euro area (Table A3.1).[18] In the process, the authorities should make sure that the process of purchase centralisation does not conflict with the need of increasing management responsibility among decentralised administrations and that criteria of competition among companies continue to be pursued in the implementation of procurement mechanisms. In this respect, cooperation between

Table A3.1. **Functional decomposition of intermediate consumption**

	Intermediate consumption, as per cent of GDP					
	Italy			Euro		
	1999	2000	2001	1999	2000	2001
General public services	0.9	1.0	1.0	0.9	0.9	..
Defence	0.4	0.4	0.4	0.5	0.5	..
Public order and safety	0.3	0.3	0.3	0.3	0.3	..
Economic affairs	0.5	0.5	0.5	0.5	0.6	..
Environment protection	0.5	0.5	0.5	0.4	0.4	..
Housing and community amenities	0.2	0.2	0.2	0.2	0.2	..
Health	1.3	1.4	1.4	0.7	0.7	..
Recreation, culture and religion	0.4	0.3	0.3	0.3	0.2	..
Education	0.8	0.8	0.8	0.7	0.7	..
Social protection	0.4	0.4	0.4	0.5	0.4	..
TOTAL	5.7	5.8	5.8	4.9	4.9	..
	Intermediate consumption, as per cent of total					
	Italy			Euro		
	1999	2000	2001	1999	2000	2001
General public services	16.4	17.6	17.2	19.3	19.3	..
Defence	7.4	6.8	6.6	10.5	10.6	..
Public order and safety	5.8	5.5	5.3	5.5	5.6	..
Economic affairs	8.8	8.4	8.6	11.2	11.3	..
Environment protection	8.2	8.6	8.8	7.4	7.6	..
Housing and community amenities	4.0	3.6	3.7	3.8	3.3	..
Health	23.0	24.1	23.9	14.2	14.9	..
Recreation, culture and religion	6.5	5.5	5.3	5.1	4.7	..
Education	13.6	13.7	14.0	13.6	13.5	..
Social protection	6.2	6.2	6.6	9.4	9.2	..
TOTAL	100.0	100.0	100.0	100.0	100.0	..

Source: Eurostat.

CONSIP and the Antitrust authority has been enhanced in 2002 in order to ensure an adequate degree of competition in large-scale public procurement.

In other areas, the margins for improvement are large. From a recent survey by Taylor Nelson Sofres (2002), in 2002 the Italian users of e-government services were 20 per cent of the population and 47 per cent of Internet users compared to an average of 30 and 61 per cent, respectively, for 31 OECD and non-OECD countries. In part, this might reflect a concern for security as 72 per cent of the surveyed Italian population considered government online unsafe, a higher share than the average of the countries considered by the research. But it could also indicate the need to improve supply of services. In fact, despite recent progress, especially in the areas of online taxes and postal services (in addition to public procurement), recent research by Accenture shows that the quantity and quality of public services offered through Internet by the Italian government, expressed in terms of a composite indicator, are less than half of those supplied by the best performer country (Canada) and around 70 per cent of those supplied by Germany and France.[19]

The stress of the government on spreading more widely the most innovative experiences and on pushing more services online will likely improve the relationship between public administrations and the private sector. Regular cost-benefit analysis before choosing the projects and *ex post* evaluation of the products delivered should be constantly maintained. Nonetheless, online services are likely to affect only a small part of the population and of companies, especially in the short term. Therefore, these programmes should be integrated into a broader plan of administrative simplification and reduction of red tape that would benefit from the full implementation of the measures introduced during the previous decade.

Notes

1. It should also be kept in mind that by working shorter hours than private sector workers public employees have greater possibilities of engaging in paid activities outside regular working hours. According to the latest annual analysis of the Dipartimento della Funzione Pubblica (2002), in 2000 paid activities of public employees outside regular working hours added on average more than 10 per cent to their regular earnings.
2. While in Canada and the UK wages in the public sector are lower than in the private sector, in Japan they are 27 per cent higher, in Germany 22 per cent, in France 7 per cent and in the US 4 per cent.
3. Italy ranks 49 out of 59 OECD and non-OECD countries regarding the skills of public employees relative to the ones in the private sector. See Confindustria's benchmark indicators in: *www.confindustria.it/dbimg2002.nsf/htmlpages/congprev*
4. Dalla Rocca, Rampino and Burgarella (2001) surveyed the career and pay structures in 143 public administrations including ministries, regions and local administrations in the 1998-2001 period. They found that most administrations chose a personnel career strategy not linked to performance. Moreover, wage premia related to individual productivity have been seldom distributed, with some regional differences. In the North, 53 per cent of the administrations offered premia for collective and individual productivity compared to 9 per cent of administrations in the South. Only in 25 per cent of the cases the individual productivity premia were offered to a limited number of employees; in all the other cases the premia were distributed to all dependent workers without selectivity.
5. Istituto Tagliacarne (2002).
6. OECD (2002k).
7. Scuola Superiore della Pubblica Amministrazione (2002).
8. Bevilaqua (2002).
9. Cerbo (2002) points out that the reforms clearly attributed to the politicians the responsibility of setting objectives and strategies and to civil servants the task of implementing them.
10. Corte dei Conti (2002).
11. This measure was hinted at by the former Minister responsible for the Department of the Public Administration (Frattini, 2002), but it has not been introduced so far.
12. ISPO (2003).
13. Ministero per l'Innovazione e le Tecnologie (2002).
14. OECD (2002k).

15. De Marco and Pizzicannella (2002).
16. In April 2003, the Committee allocated around EUR 160 mln for 10 projects involving, *inter alia*, specific services to companies and enhanced electronic communication within the public administration.
17. Ministero dell'Economia e delle Finanze (2002).
18. For a functional decomposition of intermediate government consumption see also Fiorito and Kollintzas (2002). Their data show that from the 1970's to the 1990's government intermediate consumption as a ratio of private consumption in Italy decreased in real terms but increased in nominal terms suggesting that price inflation for the goods and services purchased by public institutions has historically been much higher that the one for the private sector.
19. See the article @lfa – Il Sole – 24 Ore: "Avanza l'e-government", 11 April 2003.

Annex IV

Chronology of main economic events

2002

January

Euro banknotes and coins begin to circulate and national currencies begin to be withdrawn.

February

A new national collective agreement for the Italian chemicals sector is signed. The deal provides for an annual working time reduction of eight hours, an average monthly wage increase of 88 euros over 2002-2003 and the establishment of a supplementary health insurance fund, as well as new provisions on training and health, safety and the environment.

The government and trade unions reach a procedural agreement for the renewal of the national collective agreements for 3.5 million employees in the public sector, which attaches priority to collective bargaining in the legislative regulation of employment conditions.

March

The government approves the tax reform programme, which envisages a substantial reduction in the tax burden and broad changes in the structure of the tax system.

April

The government issues decree law 63/2002 with the aim of curbing expenditure on pharmaceuticals, which will reduce the price paid for most drugs by the National Health Service by 5 per cent.

The three main Italian trade union confederations hold a general strike in protest of the government's proposed labour market reforms.

The government approves new legislation which seeks to promote the "regularisation" of irregular work. The new law provides for a three-year period of "emergence" from the underground economy, during which companies and workers involved in irregular work will benefit from tax and social security incentives as they regularise their situation.

June

The government approves the Employment National Action Plan and submits it to the European Commission. The plan aims at increasing the employment ratio by 4 percentage points by 2005.

July

The government, employees and trade unions (with the exception of CGIL, the largest one) sign the *Pact for Italy*, which contains a number of measures regarding the structure of taxation, the labour market and intervention in south Italy.

The government submits to parliament the *Economic and Financial Planning Document* (DPEF) 2003-2006, which sets the medium term objectives.

The government issues a *decree law* to limit the cost of tax relief granted in the form of tax credits.

August

New legislation to regulate immigration into Italy comes into force, which lifts the limitations to entry into Italy for high-skilled workers (university lecturers and professors, professional nurses etc.) and allows entry for non-EU immigrants into Italy only if they have a "residence contract" signed by an employer and the immigrant worker.

September

The government issues decree law 194/2002, the so-called "expenditure-blocking" law, aimed at increasing the effectiveness of the controlling and monitoring procedures of public expenditure.

The government presents the budget proposal for 2003.

October

Fiat announces a new reorganisation plan for the group's automobile operations in Italy, and asks the government to declare a "state of crisis" in the car market.

The government introduces a *decree law* to reform the functioning of the public employment services (PES), which lays out deadlines for the PES on assisting and training dismissed people on a personal basis.

November

The Stability Programme for 2003-2006 is presented.

December

The parliament approves the Budget Law for 2003.

The government presents proposals on *corporate social responsibility* (CSR), with the aim of producing a competitive and dynamic knowledge-based economy, capable of sustainable economic growth with more and better jobs and greater social cohesion.

The Constitutional Court puts on hold the government's reform proposals for the banking foundations.

2003

January

The government approves a reform of the company law rules governing limited liability and joint-stock companies and cooperatives, which will come into force in 2004.

February

The government publishes a "White Paper" on the welfare state, with the stated aim to introduce a decentralised system of social protection, with selective and flexible measures tailored to the needs of local communities.

The government issues a "White Paper" on industrial policies, which aims to provide a basis for discussion with social partners, namely *Confindustria* and trade unions, on improving social and industrial relations.

The parliament approves a "delegated law" on reform of the labour market. The reforms relate to areas such as job placement services, new forms of employment contract and part-time work.

The Chamber of Deputies approves a proposal for a "delegated bill" reforming the social security system, notably pensions. The bill is now under discussion in the Senate.

March

The parliament approves a reform of the schools system. The changes include a new combined school/work path for students between the ages of 15 and 18, as well as greater choice and decentralisation.

The real GDP growth rate in 2002 turns out at 0.4 per cent, the lowest since 1993.

April

The *Relazione trimestrale di cassa* revises the official budget deficit target for 2003 to 2.3 per cent of GDP from 1.5 per cent included in the 2002 Stability Programme.

Key *Mediobanca* shareholders propose changing the bank's ownership structure, which will lead to the resignation of the chief executive of the bank.

June

The referendum on the extension of Article 18 of the 1970 labour code to companies with fewer than 15 employees fails due to low turnout.

Annex V

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Notes

1. Trend GDP per hour worked in 2000 was on a par with that of the United States, data from OECD (2003b), Table A5.1.
2. The steep downtrend in the indicator of consumer confidence appears to have stabilised in the first five months of 2003, albeit oscillating around historic lows, while that in business confidence continued. Hence, a more significant recovery may not begin until much later in the year.
3. Notably, the exchange rate risk appears to be already materialising: at the time of writing, the euro-dollar parity is 1.9 per cent stronger than assumed in OECD (2003a), which contains a complete discussion of the Italian and OECD projections and risks.
4. See Banca d'Italia (2003a), Figures 28 and 29 and Table 16.
5. That is, assuming that these were not already picked up by Istat's estimates of underground employment which form part of the normal labour market statistics.
6. A study by the Banca d'Italia suggest that the euro-changeover shock was larger in Italy than in the rest of the euro area. See Banca d'Italia (2003a), pp. 52-53.
7. See Ferri and Inzerillo (2002) and ISAE (2003b); also *Indagine Sole-24 Ore – Banca d'Italia sulle aspettative di inflazione e crescita*, *www.bancaditalia.it/pubblicazioni/statistiche*
8. The aforementioned surveys list an insufficiency of demand as the primary factor holding back investments recently, followed by lack of financing.
9. The cyclically adjusted primary balance will have declined by a cumulative 3 per cent points of GDP between 1998 and 2004 (OECD projection), of which almost half occurs in 2004 as previous tax cuts register their full impact. The decline would be even steeper if real estate securitisations and other "one-off" measures – which exert nugatory effects on domestic demand – are removed from the measure of the fiscal stance (see Figure 5).
10. Had Italy stuck to the 5 per cent structural primary balance targeted in each medium term plan (DPEF) since 1997, instead of falling to 2 per cent by 2004 as projected by the OECD, debt would have been considerably lower.
11. See OECD (2003b) for a fully-fledged analysis of growth performance across OECD countries.
12. *Ibid.*
13. Assuming that the potential productivity of those not in the labour force is about half of that of those who are currently employed.
14. Nicoletti and Scarpetta (2003) estimate that a move of some EU countries, including Italy, towards an OECD average share of state-owned firms in value added would lead

to 0.7 percentage points higher MFP growth. A move towards an OECD average of entry liberalisation would turn into 0.2-0.4 percentage points higher MFP growth.

15. See OECD (2001b).
16. OECD estimates that with unchanged policies the estimated cohort effect on labour force participation would be negative at around –0.15 percentage points already in 2008 and progressively increasing (in absolute terms) to reach –4.1 percentage points in 2030.
17. Competitiveness benchmarking studies as of 2001 placed Italy in the following rankings: Merril Lynch, 17th place out of 18 countries; World Economic Forum, 24th out of 58 countries in the overall ranking and among the very last as regards bureaucratic red tape and the efficiency of the justice system; and IMD of Lausanne, 32nd out of 49 countries. See Ministero delle Attività Produttive (2003). For the 2002 IDM rankings, see *Il Sole* 24 *Ore* "Competitività, l'Italia arretra ancora", 14 May 2003.
18. This might suggest to some that Italy entered the euro-area at a "disadvantageous" exchange rate. However, a similar observation is often made about Germany, whose negative growth gap *vis-à-vis* the euro-area is even larger, but the statements are somewhat inconsistent since Germany is Italy's largest trading partner. A cheaper exchange rate peg might have bought Italy more time to make the required structural adaptation, but it may have just as easily delayed it.
19. See Nicoletti *et al.* (2003).
20. See *Il Sole* 24 *Ore*, 3 March 2003, p. 17.
21. See Nicoletti *et al.* (2003)
22. The authorities' medium-term objective has been to achieve sustained annual growth rates in the South of 4-5 per cent.
23. See Comitato di Sorveglianza QCS (2003).
24. The chief incentive has been a performance reserve allocation, amounting to nearly 5 billion euro in 2003; see *www.dps.tesoro.it/uval_linee_premialita.asp*
25. Within overall capital spending in the South, the share going to infrastructure rose from 44 per cent in 1998 to 60 per cent in 2002; conversely the share going to state aids fell.
26. See Ministero dell'Economia e delle Finanze (2003).
27. For an overview of the credit subsidies in Italy see Gobbi (1996). Econometric evidence of a positive correlation between credit subsidies and poor credit quality can be found in Bonaccorsi di Patti and Gobbi (2001).
28. In carrying our their assigned role in evaluating investment projects eligible for public investment subsidies (as by Law 488/92, DLS 297/99) banks have apparently applied "soft" criteria quite different from those used when considering the use of their own money, so as to maximise the number of eligible programmes and their own fees. See Da Rin *et al.* (2000).
29. Bofondi and Gobbi (2003) present empirical evidence supporting this standard theoretical result using data on Italian local credit markets.
30. ISTAT's estimates of the underground economy are obtained through the "production approach" mainly based on the use of the labour input method (see OECD, 2002h). By using the currency demand approach, the estimates of the shadow economy are higher (around 27 per cent of the official GDP in the period 1996-1997 according to

Schneider and Enste, 2000). Part of the difference between these estimates might be explained by the inclusion of illegal activities in the currency demand approach.

31. ISAE (2002a).
32. CNEL (2002).
33. Boeri (2002).
34. See Figure 33. It should be noted that this figure underestimates fiscal pressure to the extent that workers pay a 20 per cent VAT when buying goods and services. Although this cannot be a differentiating factor between regular and irregular employment, in 1998 the effective VAT rate was 8½ per cent suggesting that compliance might be a problem also for indirect taxes. See Joumard (2002). In addition, employers pay a 5 per cent indirect tax on business value added, a large component of which is wage costs, and which is paid on regular workers only, but not reflected in the above wedge.
35. In the mid-1990s, the Gini indicator before taxes and transfers was 51 for Italy and 45 for the United States. After taxes and transfers, they were both around 34. See Burniaux *et al.* (1998), Table 3.2.
36. See OECD (1994).
37. See Chapter IV on pension reform.
38. During 2003, the parliament transformed the Decree into an ordinary law so that the spending control procedures introduced by the Decree now represent a permanent feature of the Italian public finance monitoring mechanism.
39. There might however be limits on the capacity of this measure for controlling expenditures by public institutions as these can draw financing not only from budget appropriations but also from the cash balances they have at the Treasury accounts. See Giarda and Goretti (2003).
40. During 2002, EUROSTAT identified the conditions under which the receipts from securitisations could be used to reduce the general government net borrowing. In particular, the assets' price paid by the Special Purpose Vehicule to the government needs to be at least 85 per cent of the market price. Securitisations in 2002 passed these conditions, whereas securitisations in 2001 did not. In any case all securitisations and sell off of real estate assets contributed to reduce the general government stock of gross debt.
41. The Budget law also froze the tax rates that regions and municipalities could add on top of the regular income tax rates. On the other hand, the share of the total income tax they are receiving from the state increased. In addition, current and capital transfers to municipalities and provincial administrations were cut and increased, respectively.
42. The current OECD growth projection for 2003 is 1 per cent, 1.3 per cent lower than the initial official one, as is that of the EU Commission. The current official projection assumes a 1.1 per cent growth rate in 2003.
43. The 0.8 percentage points increase in the revised budget deficit target consists of a 0.9 percentage points reduction in total receipts and a 0.4 percentage points increase in total expenditures net of interest payments, whereas a reduction of 0.5 percentage points in interest payments partly offset the rise in the budget deficit.
44. See ISAE (2003c).

45. The import penetration rates are unadjusted for structural factors such as country size, GDP per capita or transportation costs. These factors, particularly transportation costs, may explain some of the difference in the lower penetration rates for Japan and the United States.
46. A better comparison would be export market shares since export rates could be low due to a higher level of domestic production.
47. Formal measures of innovative activity tend to be biased downwards both by the sectoral composition of output and by the large number of small firms. This is because innovative activity in small firms in 'traditional' industries is principally of the incremental type undertaken in a non-formalised way, and not formal R&D projects that occur in other sectors.
48. Nicoletti (2002) also looks at how institutional arrangements in labour and product markets have conjured to produce a situation in which Italy has relatively low competitive pressures, and a distorted industry structure (both in terms of specialisation and firm size) and employment structure (in terms of skills, wages, and share of self-employed).
49. See previous OECD *Economic Surveys of Italy* and Chapter IV of the present *Survey* for a review of labour market reforms.
50. An in-depth discussion of how financial markets in Italy, including corporate governance and bankruptcy law, impacts upon firm performance and growth can be found in Chapter IV of this *Survey*.
51. The bankrupt debtor is dispossessed of all his real and personal property which is entrusted to a receiver/trustee under the supervision of a judge. Inscription in the Bankrupt Debtors' Registrar triggers severe civil sanctions for the bankrupt debtor (such as limitations on freedom of movement and loss of mail privacy). The debtor is also subject to criminal prosecution not only in case of fraud but even if the business failure is due to mere negligence.
52. The direct costs of bankruptcy procedures are also high and involve huge losses to creditors (see Chapter IV of this *Survey*).
53. That the Italian law is to be interpreted in accordance with the principles of EU competition law appears in the statute's instructions (Sec. 1.4). The reference to EU principles includes secondary legislation, Commission decisions, and jurisprudence of the European Court of Justice. Thus, Italy immediately absorbed 30 years of doctrinal tradition and avoided the delays and uncertainties that would have resulted from the process of establishing such concepts under Italian law.
54. Italy's law varies slightly in some details from parallel provisions of EU law. For example, in the criteria for exempting a prohibited restraint, Italy's Competition Act requires that a claimed consumer benefit be "substantial", implying some scepticism about such claims, but it does not require that consumers get a "fair share" of those benefits, implying a willingness to consider a total-surplus standard.
55. Some other countries that combine these duties include Canada, Poland, United Kingdom, and United States.
56. The Authority had opposed adding the principle to the Competition Act as the concern in these matters is about fair dealing and not market impact. The Authority was concerned that these claims, which are mostly decided through arbitration or private lawsuits, could be used to impede competition and undermine efficiency. With the Authority now empowered to apply this principle (but within the context of its effects

on the public interest), the courts will most likely look to its decisions for policy direction when deciding private lawsuits.

57. The Authority argues that this result follows from Art. 10 of the EU treaty, which provides that "Member States shall abstain from any measure which could jeopardise the attainment of the objectives of this Treaty, " and Art. 3, which includes among the Community's activities "a system ensuring that competition in the internal market is not distorted". The Authority found that the market division and exclusive supply arrangements of a match industry consortium violated Art. 81 and that the consortium's conduct was not excused by the State's involvement. The Authority's decision was in July 2000; an appeal was taken, and the question has been referred to the European Court of Justice, where it is pending decision.

58. Parties may, and usually do, request suspension of fines pending appeal. When appeals took years, the decision on the *sospensiva* could be outcome-determinative. Now that appeals can be finally decided much more quickly, distortion of the *sospensiva* process should be less of a concern.

59. This is non-trivial by international standards. In many countries there are either very few (single digits) or no private action suits. Other countries besides the United States where private actions do play a role in competition enforcement include Canada, Germany, France and Ireland.

60. The Authority does have a powerful weapon in reserve, though. It can punish repeated violations by requiring the enterprise to cease operations for up to 30 days. Up till now, this deterrent has never actually been used.

61. The basis for computing financial penalties used to be the relevant market affected by the restraint or abuse instead of the firm's total turnover. This change in the law follows the recommendation of the 2001 OECD *Review of Regulatory Reform in Italy*.

62. The Authority has not set up a formal leniency programme because it believes that clearer legislative authorisation is needed before it can issue what would look and act like regulations, that is, commitments and rules of general application for the future.

63. The comparison is made between Italy's position in 2000 and other OECD countries' positions in 1998, which shows that Italy still has a highly restrictive environment compared to other countries. If reforms implemented by other OECD countries during the same period were included than it is likely that Italy's comparative position would be even worse.

64. The link between concentration and competitive pressure is complex in retail distribution and differs from other industries. Dobson *et al.* (2001) argues that greater concentration may benefit consumers through lower retail prices owing to increased monopsony power of the retail sector *vis-à-vis* manufacturing producers with (otherwise) dominant positions. The scope for anti-competitive behaviour is also often limited by the threat of entry and by increasingly mobile consumers.

65. A pharmacy for every 5 000 (or 4 000) inhabitants in municipalities with a population of up to 12 500 (in other municipalities), and pharmacies must be separated by a distance of at least 200 metres.

66. For example, rules regarding opening hours have been made more flexible. Shops can be opened for a maximum of 13 hours (between 7 am and 10 pm) excluding Sundays. Sunday openings are restricted to 8 times per year, plus the December Sundays prior to Christmas.

67. See OFT (2001) for a review of the empirical evidence. Recent studies include Nguyen-Hong (2000), who examined the effects of regulations on price-cost margins in engineering services and found that they led to an increase in prices on the order of 10 to 15 per cent in countries with the most restrictive regulations. And in Italy, Bortolotti and Fiorentiniti (1997) found that controls served to preserve monopoly rents in the accountancy profession.
68. For example, when self-regulatory bodies are involved in the evaluation of professionals' capacity.
69. Entry regulations include qualification requirements, membership in a professional body, and rules on reserved areas of practice. Conduct regulations include regulations on prices or fees, advertising, location and diversification restrictions, and restrictions on forms of business practice.
70. In the absence of specific profit data, the higher volume of turnover per professional associated with more restrictive regulatory regimes can be indirectly taken as an indicator of excess profit.
71. See OECD (2001) *Economic Studies: Special Issue on Regulatory Reform*, No. 32 which thoroughly reviews the literature and adds more evidence on the relationship between regulation and performance in these sectors. The OECD Reviews of Regulatory Reform also constitute a rich source of information on the effects of industry-specific reforms on performance.
72. The government currently has a 67 per cent stake in ENEL and a 30 per cent stake in ENI. The government also holds golden shares (special powers present in the by-laws) in both these companies and in *Telecom Italia*.
73. In February 2003, the European Commission again requested that Italy justify its privatisation legislation giving the government special powers in privatised companies. The position of the Commission is that these special powers are disproportionate and in violation of Treaty rules.
74. Vertical separation does not remove the incentive for the network firm to engage in monopoly pricing and hence strict regulation of the network is still required to ensure against the abuse of monopoly power.
75. Wide delegation of legislative powers at the local level will require further coordination between central and regional/local authorities to ease concerns regarding the number of authorities involved in the regulatory process.
76. The responsibility to issue licenses includes TV licenses. While giving this responsibility to the Ministry may be less of a problem in the telecommunications sector, where a large number of licenses has already been granted, it is more of a problem in the media sector where such licensing control could underpin the existing weakness of effective competition. One private holding (Mediaset) has a 43 per cent market share of the television audience, and the only competition comes from state television, with a 48 per cent market share (AGCOM, 2002). Unlike most EU countries, there are no developed cable TV networks in Italy (EC, 2002b).
77. In practice, the increase in the line rental and activation fees has been offset by more than proportionate reductions in call prices. Mobile operators are not subject to any specific regulation in fixing final prices, but they have to notify the regulator of each new tariff they introduce. In February 2003, AGCOM imposed a new pricing regime for fixed-to-mobile interconnection on the mobile operators. They will be required to reduce fixed-to-mobile termination charges by 12 per cent from 1 June 2003, followed by a further cut of 20 per cent by the end of 2005.

78. Unbundling of the local loop and relatively low prices for unbundling are particularly important for the development of competition in this sector due to the lack of alternative infrastructure. Competition in the market for internet services therefore comes almost exclusively from new entrants using the incumbents' local loop facilities.
79. Telecom Italia has gone to court against almost all regulatory rulings made by the regulator, which is unusual by OECD standards (OECD, 2001b).
80. However, the current staff levels of 86 are well below the maximum of 150 that AEEG is allowed to hire.
81. Italy applies different rates of VAT, and excise taxes on a national basis to all energy sources (including electricity), with regions then adding their own taxes (IEA, 2003).
82. This makes sense, as incentives for investment in transmission would most likely improve once ownership and control are combined and are vertically separated from generation.
83. One of the reasons for delay is that there is not enough competition in generation. Although ENEL has a 50 per cent market share, it has engaged in strategic selling of generation plants so that it still controls 80 per cent of the mid-level plants.
84. ENEL's market share is around 50 per cent, while the second largest firm, Edison, has a market share of 9.4 per cent.
85. Currently, only legal separation exists between distribution and transmission.
86. Storage facilities are currently considered a legal monopoly and are destined to remain so for several years to come (AEEG, 2002).
87. A key aspect of the Decree implementing the EU Gas Directive entails the imposition of temporary "antitrust limits" on the shares that any single company can have of potentially competitive activities. However, these limits of 75 per cent (or 61 per cent by 2010) are high if the intent is to create a market structure where prices are relatively competitive.
88. Under the Legislative Decree n. 164 liberalising the gas sector, the Ministry of Industry retains significant regulatory power (OECD 2001b).
89. See, for example, Garibaldi (2002).
90. See Ministero del Lavoro e delle Politiche Sociali (2002a) and Cipollone and Guelfi (2002). From 2003 the credits are granted only under certain conditions rather than automatically as in the past.
91. Vamvakidis (2002).
92. OECD (2002d) shows that inter-regional mobility is among the lowest in the OECD.
93. OECD data show that Italy is among the countries with the lowest proportion of children in the 0-3 age range in day care facilities (amounting to slightly more than 5 per cent). However, the participation of children in the 3-6 age range is more than 90 per cent. Del Boca (2002) finds evidence that limited availability of affordable childcare services (together with relatively low use of part-time contracts) is one of the reasons for both low labour force participation and low fertility rates among Italian women.
94. The statistical classification by ISTAT currently identifies 38 different kinds of contracts.
95. Bernardi (2001) points out that in mid-2001 temporary workers below 30 years of age represented 60 per cent of the total. Barbieri (2001) shows that in the period 1996-2001 the probability of fixed-term workers to be still in work after 12 months was

between 80 and 86 per cent. The probability of still being in work with a permanent contract was between 33 and 38 per cent.

96. According to OECD (2002a), public resources devoted to adult training, young workers and subsidised employment were 0.60 per cent of GDP in 2000 compared to 0.68 for Germany in 2001, whereas in the same period France (the United Kingdom) had much higher (lower) resources devoted to active labour market policies.
97. "Job on call" refers to the possibility for firms to use workers only when needed in exchange for an indemnity. "Staff leasing" refers to the liberalisation on the use of workers from *ad interim* agencies in terms of duration of contracts, number of workers required and types of skills requested.
98. ISFOL (2002).
99. "Just cause" refers to unfair behaviour of the worker while "justified reason" refers to excess of workforce. See Bertola and Garibaldi (2002).
100. Iacus and Porro (2002) point out the risk that for profitability reasons, private temporary work agencies might limit services to the low-skill.
101. In 1998, the government and the social partners started giving greater consideration to *conciliazione* (a bilateral procedure involving also a multilateral Committee) and *arbitrato* (a more rapid judicial system) for solving labour dispute resolutions but without taking decisive steps for a more pervasive role of these institutions.
102. See also Forster and Pearson (2002). Among other evidence of increasing poverty in the mid-nineties compared to the mid-eighties, they point out that Italy is one of the countries where, during this period, families in the bottom income quintile significantly lost their shares of national income. Finally, EUROSTAT's indicators show that, despite wage compression, in 1998 the ratio of the fourth and the first income quintile in Italy was higher than in the EU on average (5.9 compared to 5.4). Notably, using this indicator income inequality was higher in Italy than in the UK where wage dispersion is significantly higher.
103. Dipartimento Politiche di Sviluppo (2002).
104. For more details, see the special chapter "Public spending in Italy: policies to enhance its effectiveness" in the 2002 OECD *Survey*.
105. See Ministero del Lavoro e delle Politiche Sociali (2002b) and EC (2002d). In addition, the 2002 budget law introduced a measure aimed at guaranteeing a minimum pension of around € 515 monthly to the elderly. The estimated cost of this measure is an annual 0.15 per cent of GDP.
106. EUROSTAT data show that in 1999 the shares of total social protection expenditure devoted to unemployment and social exclusion were 2.2 per cent and 0.1 per cent, respectively, compared with an EU average of 6.8 and 1.6 per cent.
107. See EUROSTAT's structural indicators at http://europa.eu.int/comm/eurostat
108. See Ministero del Lavoro e delle Politiche Sociali (2002a).
109. For more details on the functioning of the single fund see Commissione Tecnica per la Spesa Pubblica (2002) and Da Roit (2002).
110. Paolini (2002).
111. See for example Berliri and Parisi (2002).
112. Baldini and Bosi (2002) show that as a consequence of the tax cuts introduced by the 2003 Budget law the effective tax rate would decrease by around 1 per cent on average for the Italian families. However, the decrease for families in the first income

decile would be only 0.4 per cent. According to the authors, the reform mainly benefits families in the range of income between the third and the seventh deciles. See also ISAE (2002b).

113. At the end of the nineties, a system of benefit eligibility based on the families' wealth was introduced replacing the former system mainly based on income. The old system could lead to misallocation of public resources because of income underreporting in tax files, mainly used in the evaluation of families' needs.

114. Increasing the generosity of some of the existing shock absorbers might become a more compelling priority if the framework bill on pensions currently under discussion by the parliament is approved, introducing the obligation of transferring the *trattamento fine rapporto* to private pension funds (see the section on pension system).

115. See OECD (2002c).

116. ISTAT (2002a).

117. The average graduation age is 26½ years.

118. In 2001, the share of the population in the 15-19 age range neither in education nor in employment was 12 per cent. The share of the population in the 20-24 age range in the same condition was 25 per cent. See OECD (2002c).

119. Until recently the minimum compulsory age in school was 14 years. The 2000 reform of primary and secondary education increased compulsory age to 16 years.

120. See Blondal, Field and Girouard (2002). Despite low quality and low returns, entry levels in tertiary education are high as fees are relatively low and, in general, participation is not conditional on rigorously adherance to a specified schedule of courses and exams.

121. In addition, pupils will start primary school once they have reached at least 5½ years of age.

122. The vocational track lasts 4 years with an additional one, in case students intend to apply for tertiary education. Pupils are also given the choice of moving from the vocational schools to the *licei* (or *vice versa*) at any time during the upper secondary career.

123. OECD (2003b) estimates that the long-run effect on per-capita GDP level of one additional year of education ranges between 4 and 7 per cent.

124. Checchi (2003) finds that early tracking is strongly correlated with parents' education, *i.e.* the choice of academic oriented secondary schools by pupils is highly influenced by having parents with higher degree of education. The possibility of moving from vocational training to *licei* in later years or applying to university directly after vocational training is unlikely to counterbalance this effect. In fact, after being channelled in a school track, the transition to more advanced education is mainly dependent on past schooling. Moreover, ISTAT (2002a) data show that a small share of professional/technical students deciding to undertake university studies completes them (23-31 per cent compared to 55 per cent of *licei* students). Furthermore, PISA results suggest that greater differentiation between different types of schools and early tracking can lead to both lower average students' performance and higher variation.

125. See Bertola and Checchi (2001).

126. See *e.g.* Tsuru (2000) and Leahy *et al.* (2001) for literature reviews and analysis of the impact of financial development on economic growth.

127. In the case of the domestic food processing company, some banks shifted their own heavy risk exposures to the troubled company onto to their customers by selling to

them junk-quality bonds issues of the same company, the proceeds of which were then used to repay the company's loans to the banks.

128. Schleifer and Vishny (1997) show that a partial alleviation of agency conflicts between controlling and non-controlling shareholders may come from concentrated ownership.
129. See Barontini and Caprio (2002). However, a subsequent paper by Brunello *et al.* (2003) shows that firm performance is negatively related to CEO turnover if (and only if) the controlling shareholder is not the CEO, so that non-CEO controlling shareholders are a governance mechanism substituting for outside members on boards of directors in lowering agency costs.
130. This practice is often referred to as "tunnelling"– *i.e.*, the transfer of assets and profits out of firms for the benefit of the controlling shareholders. See Johnson *et al.* (2000).
131. See Dyck and Zingales (2002); also Zingales (2000).
132. See CONSOB (2002).
133. Dyck and Zingales (2002) suggest that there may be other institutional factors besides the legal framework at work here. According to their empirical findings, a high level of press diffusion and of tax compliance seem to be the most cogent factors curbing private benefits of control. Italy, however, ranks at the bottom among the OECD countries included in their country sample on both indicators. Moreover, in countries where a controlling party can appropriate a large share of the value of a company, entrepreneurs will be more reluctant to take their companies public. Hence, an important conclusion of the paper is that improving tax enforcement can indirectly enhance financial development.
134. See Pagano and Volpin (2000).
135. See Dyck and Zingales (2002), who also note that competitive product markets make prices more transparent, which would curtail the abusive use of transfer pricing to tunnel assets out of the firm.
136. See Giavazzi (2003a).
137. These industries promise future monopoly profits no longer available in these firms' traditional sectors which are increasingly subject to intense global competition. As a result, Benetton group now has a major stake in Autostrada, Fiat group in telecommunications, and Pirelli in energy.
138. See Brunello *et al.* (2003).
139. A severe crisis in the 1930s resulted from the close linkages between banks and firms, and subsequent laws made sure that such linkages were broken. Also, unlike in Germany, banks are prohibited to vote for the shares in custody or to solicit proxy votes (*ibid.*).
140. From the viewpoint of banks, exposure to default risk of any individual company is thus reduced, and from the point of view of firms, the cost of credit they face is reduced *via* "competition" among their multiple creditors. Multiple bank relationships are also (surprisingly) common in Germany; see Hellwig (2003). However, with bank consolidation and despecialisation (universal bank model) of the last decade, the number of multiple bank relationships is declining in Italy.
141. See Brunello *et al.* (2003).
142. According to the data published by Bank of Italy, only 46 per cent of corporate borrowers entertain relationships with more than one bank and just 25 per cent with

more than two. The large majority of small unincorporated firms have a single-bank relationship.

143. Short-terms loans represent around 23 per cent of total loans for France and above 17 per cent for Germany.

144. See Bonaccorsi di Patti and Gobbi (2001) and Bonaccorsi di Patti and Gobbi (2003). Ferri and Inzerillo (2002) show, on the basis of survey data, that there may have been a transitional period of credit rationing due to interruption in bank/firm relations following the restructuring, but that in the medium and longer-runs, the increased efficiency of banks operating in the South should bring permanent benefits to firms. The same study concludes, however, that banking system restructuring "seems to have produced few of the expected benefits for small and medium-sized firms in terms of innovative financing and internationalisation support" (p. 3).

145. At end-2002, the ratio of non-performing to total loans to companies was 13 per cent in the South v. 3.6 per cent in the Centre-North; for single-owner firms it was 24.4 against 7.7 per cent (Banca d'Italia, 2003b).

146. See the results of the investigation by *Il Sole* 24 *Ore*, "In banca muoiono le idee. Ai nuovi business non si dà credito", 5 May 2003.

147. See Messori (2002b).

148. See Bianchi and Enriques (2001); CONSOB (2002).

149. Bank ownership of insurance companies is also likely to give rise to maturity mismatch problems, in that insurance companies have mostly long-term assets, whereas banks' liabilities are short term (see Giavazzi, 2003b).

150. The adaptation of the dualistic model raises similar issues. The supervisory council does not participate, as in Germany, in strategic decisions of the company, but once again, rather exercises management control functions typical of the former *collegio sindacale*. At the same time, it approves the budget in place of the shareholders' assembly without being affected by changes in company ownership. The budget ends up being approved by a body which carries out systematic internal control functions, and which hence could act as a barrier to the contestability of property rights of the firm. See Messori (2003).

151. *Ibid*.

152. Having to provide information is already a major hindrance to listing. A recent survey by the Stock Exchange shows that 1000 firms in Italy have all the requirements to list, but do not do so.

153. See, for example, the interview by Economics Minister Tremonti in Il Sole 24 Ore, 25 April 2003; Minister Tremonti obtained agreement from other finance ministers at the 17 May 2003 summit of Deauville to "monitor" the work of the technicians regarding the transition to Basle 2 (see Baglioni, 2003). The government has also pointed out that the Basle 2 rules fail to acknowledge the pooling of risks via the system of multiple creditor relationships used by many Italian enterprises. See, for example, *Corriere della Sera*, "Tremonti: troppa tecnocrazia", 16 May 2003.

154. The share of total assets attributable to banks in which the government or foundations held majority interests has fallen to 10 per cent, from 58 per cent in the mid 1990s. The number of listed banks has increased and now account for 80 per cent of the system's total consolidated assets. The share of activity of foreign intermediaries in total assets is 7 per cent, even larger is specific areas of business, such as services to firms, asset management, and consumer credit. In the capital of the major

banking groups there are significant interests of foreign intermediaries (banks and insurance firms). The degree of entry of foreign institutions into the Italian banking industry, both in term of market shares and shareholding in the largest group mirror the ones of the larger partners in the euro area.

155. Although the intensive banking consolidation process of the 1990s was accompanied by gains in efficiency and competitiveness, it implied increasing distortions in bank ownership structures as competition has been crucially missing in the market for property rights. Banks may also be non-competitive in non-bank services, notably asset management, with their position of strength being sustained by the existence of a large stock of wealth previously invested in government securities. See Messori (2003).
156. According to the October 1999 *Istruzioni di Vigilanza per le Banche*, if a subject wants to acquire at least 5 per cent of a bank, either directly or indirectly, it must notify the Banca d'Italia at least 7 days before even its own board of directors has met to decide whether or not to make the purchase. Furthermore, the Banca d'Italia is to follow a rather vague "financial soundness" principle in approving the purchase. The reporting requirement is harsh, and may discourage banks from applying in the first place, while the criteria for approval are rather vague.
157. See Cappiello (2002), who also notes that direct costs of bankruptcy proceedings are high (more than 20 per cent of bankruptcy assets) and involve huge losses to creditors (80 per cent of claims on average).
158. Cercone (2001).
159. Some of the harsher civil sanctions such as loss of mail privacy and limitations of movement are widely acknowledged to be "excessive", but the law that would repeal them has not yet been approved. See Cappiello (2002).
160. See Marcucci (2001).
161. Santella (2003).
162. Cappiello (2002).
163. See Joumard (2002) for a description of the EU tax systems.
164. IMF (2002b).
165. The 2003 Budget Law took some initial steps in reducing the burden of the IRAP by decreasing the rate for the agricultural sector, eliminating fellowships and training contracts from the tax base and introducing a deduction of € 2 000 for each employee up to 5 employees for companies with a turnover below € 400 000. Saving for companies will amount to more than € 400 million.
166. See Chapter II for the recent developments in the area of regional and local government finances.
167. For example, an individual will become liable to tax of 1.25 euros on interest received by lending 100 euros to an Italian corporation at an interest rate of 10 per cent; but deducting the interest payment of 10 euros against corporation tax at a rate of 33 per cent, the company reduces its tax liability by 3.3 euros. This transaction, then, improves the cash position of the private sector by 2.05 euros, at the expense of government. See IMF (2002b).
168. ISAE (2002b).
169. See OECD (2002d) for details.
170. See de Perris and Leone (2000).

171. Other objectives for the Mezzogiorno mainly include: implementing 'territorial pacts' – *i.e.* agreements involving local authorities, social partners, and other public and private actors – providing for the implementation of a programme of local interventions to promote development; policies promoting the location of production facilities in the South; upgrading the agriculture and agro-industry sector and encouraging new models of organisation; and simplifying procedures to provide business with credit with the involvement of banks.

172. See, for example, DPEF 2003-2006 for more information on these agencies.

173. IMF (2002a).

174. See also the special chapter "Coping with the ageing problem" in the 2000 Italy's *Survey* for a comprehensive assessment of the Italian pension system and the reforms of the 1990s.

175. Nucleo di Valutazione della Spesa Previdenziale (2002).

176. Data from COVIP – the Authority monitoring private pension funds – show that at the end of 2001 the number of funds was 718 and the number of workers involved was less than 2 million, *i.e.* slightly more than 9 per cent of all workers (employees and self employed).

177. For projections of public pension spending in the medium-long term see Ragioneria Generale dello Stato (2002).

178. The contribution-based method of calculation applies fully only to workers hired after 1995. To the persons already working in 1995 but with less than 18 years of contributions, a "*pro-rata*" system will apply mixing the earnings-based and the contribution-based methods of calculation.

179. See Brugiavini and Peracchi (2001).

180. The pension system currently in force is characterised by the presence of both old age and seniority pensions. Eligibility requirements for old age pensions are 65 years of age for males and 60 years of age for females and at least 20 years of contributions for both. Eligibility requirements for seniority pensions are being increased to 57 years of age (58 for the self-employed) and 35 years of contributions, or 40 years of contributions regardless of the age. For new workers after 1995, only one regime will be available allowing retirement between 57 and 65 with at least 5 years of contributions and with a minimum pension entitlement of at least 1.2 times the social pension (a social assistance benefit to the old poor). In this new regime, a progressive upward adjustment is applied to replacement rates through higher transformation coefficients if workers decide to postpone their retirement after 57 until 65 years of age.

181. See Ministero del lavoro e delle politiche sociali (2002b).

182. Reyneri (2003).

183. In the longer run, such tampering was already considered to be a risk with the 10-yearly recalculation of the benefit formula (see below section on sustainable retirement income).

184. A further priority is represented by the setting up of limits for re-investment of the pension funds in the companies' share and, more generally, of an appropriate regulatory framework for the funds avoiding excessive risks for the workers in case of companies' bankruptcy.

185. Ministero del Lavoro e delle Politiche Sociali (2002b) shows that with the new contribution-based regime a worker at 65 years of age and with 40 years of contributions

the replacement rate will be 63.4, whereas for a worker at 60 years of age and with 35 years of contributions the replacement rate will be 48.1. These estimates assume that the transformation coefficients are going to be adjusted consistently with the latest projections on life expectancy. This is the reason why they differ from the ones in the following section, which are based on current transformation coefficients.

186. IMF (2002a).

187. Another goal of the measure is to limit the widespread phenomenon of informal employment by retirees, with favourable impact on the participation to regular markets. It should be noted, however, that as long as ISTAT includes an estimation of the informal and irregular workers in their employment series, the impact on the older worker employment ratio as currently measured might be negligible. However, the impact on public finances might be significant.

188. OECD (2002b).

189. See Ministero del Tesoro, I*taly towards* EMU, 1998.

190. Ministero del Lavoro e delle Politiche Sociali (2002b).

191. In the notional defined contribution system, an account is kept of the annual contributions (from both the employer and employee) made by an individual to the pension system. Contributions are capitalised at the nominal growth rate of GDP. Contributions for the individual's entire working life are then summed to create a "notional" capital sum. This is then converted into a pension using a factor that is determined from the expected average individual's probability of receiving a pension in future years, discounted at a rate of interest of 1.5 per cent. This factor is expressed as the "yield" that the individual will receive from the "notional" capital. This yield increases for each year of additional work until the age of 64, in line with the falling expected duration of pension payments. As well, the "notional" capital increases in line with additional contributions. Finally, the transformation coefficients will be adjusted every ten years in line with new estimates of life expectancy.

192. These results are based on a male Average Production Worker using the following assumptions: *a*) growth rate of real wages and GDP at 1.75 per cent; *b*) inflation rate at 2 per cent; *c*) real interest rate at 2 per cent; d) age of entry in the labour force at 20; *e*) mortality tables from 2000 World Health Organisation. On the other hand, under different assumption the National strategy report on pensions (Ministero del Lavoro e delle Politiche Sociali, 2002b) shows that for individuals with high disutility to work the change in pension wealth is negative if they decide to continue working at age 57 in the earnings-related schemes currently in place but it is positive in the new contribution-based scheme. These results are based on a male worker with the following assumptions: *a*) growth rate of real wages and GDP at 1.5 per cent; *b*) inflation rate at 2 per cent; *c*) real interest rate at 2 per cent; *d*) age of entry in the labour force at 22; *e*) mortality tables from 2000 Eurostat. Moreover, the National strategy assumes that the transformation coefficients with which the pension annuities are calculated are adjusted so as to reflect the higher life expectancy in 2000 compared to the one used in the 1995 reform.

193. The extent of the imbalance between contributions and benefits is also supported by estimates of intergenerational accounts (Sartor *et al.*, 2001).

194. TFR was first introduced in 1982 to improve the coverage of the unemployment benefit system. Since then, the conditions for the attribution of unemployment benefit are being changed in a way that could remove the original reason for the introduction of the leaving-payment scheme.

195. If the contributions to this system were to be redirected to a fully funded pension system, then eventually it would provide benefits equal to half of those offered under the current state system, provided that future real financial returns are 1 percentage point above the growth of productivity (Sartor *et al.*, 2001).

196. Contributions are exempt from income tax, investment income is taxed at 11.5 per cent and only the capital element of the pension is taxed. Such a system provides a greater tax incentive than a classic EET system provided that the marginal income tax rate is above 11.5 per cent. It could also provide a greater return than normal saving, given that the latter is taxed at 12.5 per cent.

197. The 2002 OECD *Survey on Italy* already analysed the main challenges facing the Italian health care system, especially in the context of the ongoing reform towards fiscal federalism. In particular, it pointed out the wide margins for improvement as far as quality of care is concerned together with the increasing pressure on expenditures after the squeeze experienced during the 1990s.

198. The figure for Italy is high also because it refers to physicians entitled to practice, *i.e.* enrolled in registry, unlike other OECD countries that report data on practising physicians only.

199. Agenzia per i servizi sanitari regionali (2002).

200. Ragioneria Generale dello Stato (2002).

201. The estimate of Ragioneria generale dello Stato (2002) includes only the demographic effects of an increasing share of older people in the population. It does not account for other likely causes of rising demand for healthcare, notably technology.

202. A recent debate concerns the possible lifting of the "exclusive commitment" (*rapporto di esclusivitá*), which doctors are currently required to undertake with public hospitals. In other words, doctors are now required to choose whether or not they want to work only for the public hospitals. If they decide to work only for the public hospitals, they get a wage premium and the opportunity to undertake a career inside the hospital. Moreover, they can also exercise a private activity but only beyond their normal work schedule and using the infrastructure available in public hospitals, which in exchange will retain part of their profits. According to Cestone (2003), this arrangement might reduce moral hazard and information asymmetry problems that especially arise when doctors simultaneously work in public and private hospitals. On the other hand, imposing too many constraints on doctors' contracts might lead the best ones to migrate to private hospitals, unless the incentives introduced exceed the expected loss of income from not working in private hospitals. Regions and, especially, hospitals seem to be better placed than the central authorities in assessing the benefits and costs of contractual arrangements with their doctors.

203. See Docteur and Oxley (2003) for a comprehensive assessment of reform efforts in OECD countries, including attempts at enhancing competition among insurers and among providers.

204. Planned works on the cross-border transmission grid are expected to reduce annual national emissions by around 2 per cent and private companies can now construct new transmission lines. One planned transmission line will add 2.3 GW of capacity. Given excess demand for capacity on trans-frontier links, the regulator auctioned capacity on the links. However, this auction was cancelled by the courts that ordered a pro-rata allocation of capacity.

205. Solar, biomass and waste plants were guaranteed a price of 15 cents per KWh, wind 10.5 cents and small hydro plants 8.5 cents. Against this, independent producers of

gas were guaranteed a price of € 0.03 per KWh. Given that gas-fired electricity plants emit 400 grams of carbon dioxide per KWh, the saving in emissions was valued at up to € 1 100 per tonne of carbon saved.

206. Some credit should also be given for reduced air pollution costs. However the externalities for gas plant are between 0.3 and 0.4 eurocents per kilowatt-hour.
207. Lombardia, Emilia Romagna, Veneto and Umbria regions.
208. At 31 kg/ha in 1995-97, the nitrogen surplus was well below the EU average (58 kg/ha) but higher than the OECD average (23 kg/ha).

List of acronyms

ACRI	Associazione delle Casse di Risparmio Italiane
AEEG	Autorità per l'Energia Elettrica e il Gas
AGCOM	Autoritá per le Garanzie nelle Comunicazioni
APAT	Agenzia Nazionale per la Protezione dell'Ambiente e per i Servizi Tecnici
ATO	Optimal management areas
CNEL	Consiglio Nazionale dell'Economia e del Lavoro
CONSIP	Concessionaria Servizi Informativi Pubblici
CONSOB	Commissione Nazionale per le Società e la Borsa
COVIP	Commissione di Vigilanza sui Fondi Pensione
Dit	Dual income tax
DPEF	Documento di Programmazione Economico-Finanziaria
DRGs	Diagnostic related groups
DSL	Digital subscriber line
EC	European Commission
EMU	European Monetary Union
ENEL	Ente Nazionale Energia Elettrica
ENI	Ente Nazionale Idrocarburi
EPL	Employment protection legislation
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
GHG	Greenhouse gas
GRTN	Gestore Rete Trasmissione Nazionale
GW	Gigawatt
HHI	Herfindahl-Hirschamn index
IEA	International Energy Agency
IMF	International Monetary Fund
IRAP	Imposta regionale sulle attività produttive
IRPEF	Imposta sul reddito delle persone fisiche
IRPEG	Imposta sul reddito delle persone giuridiche
IRPET	Istituto Regionale per la Programmazione Economica della Toscana
ISAE	Istituto di Studi e Analisi Economica
ISFOL	Istituto per lo Sviluppo della Formazione dei Lavoratori
KWh	Kilowatt hour
LRIC	Long-run incremental costs
MECT	Marginal effective rate of corporate taxation
MFP	Multi-factor productivity
Mt	Million tonnes

OFT	Office of Fair Trading
PES	Public employment service
PPP	Purchasing power parity
PPPs	Public-private partnerships
QCS	Quadro Comunitario di Sostegno
R&D	Research and development
RUO	Reference unbundling offer
SMEs	Small and medium enterprises
SMP	Significant market power
Srl	Société a responsabilità limitata
Spa	Société per azioni
TFR	Trattamento di fine rapporto
TWh	Terawatt hour

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BASIC STATISTICS OF ITALY

THE LAND

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Population of major cities (thousands, 20.10. 2001)	
Rome	2 547
Milan	1 256
Naples	1 005
Turin	865

THE PEOPLE

Population , 1.1.2001, thousands	57 844
Number of inhabitants per sq. km	192
Net natural increase, 2000, thousands	-17
Net rate per 1000 inhabitants, 2001	-0.2
Labour force, 2002, thousands	23776
Employment, 2002, thousands	21 612
In agriculture	1 096
In industry	6 932
In services	13584

THE PRODUCTION

Gross domestic product in 2002, billions of euros	1258.3
GDP per head (2002, US $)	18 795
Gross fixed capital formation	
Per cent of GDP in 2002	19.7
Origin of gross domestic product in 2002 at market prices, per cent of total	
Agriculture	2.2
Industry	23.9
Construction	4.8
Other	69.1

THE PUBLIC SECTOR

Current expenditure in 2002 (percentage of GDP)	47.7
Current revenue in 2002 (percentage of GDP)	45.2
Gross financial liabilities in 2001 (percentage of GDP)	106.7
General government investment in 2002 (percentage of total investment)	9.3

THE FOREIGN TRADE

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Fabric and textile goods	15.9
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Metal, ores and scrap	9.7
Chemical products	12.9

THE CURRENCY

Monetary unit: Euro	
Currency units per US$, average of daily figures:	
Year 2002	1.0611
June 2003	0.8569

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