**ITALY**

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Between October 2014 and February 2015, I published on www.scenarieconomici.com a sequence of ten short newspaper-like articles, to which I gave the denomination of 'Facts'. Each fact had the goal of attracting attention to explanations of the current situation of the Italian economy alternative to the one offered by the (overwhelmingly neoclassical) austerity lovers. My preoccupation is that even many foreign colleagues of valor tend to adhere, along with the foreign general public, to judgments about the Italian economy that are not facts at all but, rather, judgements presented as facts.

This piece is no more than the ten 'Facts' resubmitted in such a way as to constitute a reasoning accomplished. Incomplete, as all the arguments, but accomplished. Each section is dedicated to a 'Fact', so that the mischievous reader can indulge in looking for contradictions between what I wrote in the autumn-winter last year and what I write now.

Choosing to confute the stereotypes, beliefs, opinions not supported by empirical evidence makes our lives easier, since we necessarily start from the common place *par excellence*: the one that says that we can escape the crisis through 'structural reforms'. For decades, I've heard of 'structural reforms' without ever understanding what 'structural reforms' are, how much they cost and who will bear those costs, who will benefits and by when we will see their fruits. However, it seems that I have not really understood anything if Presidents of European Commissions, Directors (and Directresses) of the International Monetary Fund, Heads of State and Government (right, center and left), all people of great stature, they insist that structural reforms are the only things needed to overcome the crisis.

Now, in our country we have great experience of structural reforms: the reform of the fiscal code, justice reform, school reform ... hoping, obviously, that I have it right there and I was right in mentioning those 'things' as the objects of structural reforms. All aware, of course that we have to start from the structural reform *par excellence*: the labor market one. And from this I am going to start.

## 1. *The problem*

"It's known even to stones", opened its own work a colleague in 2013, "that the main problem of the Italian economy is that of Total Factor Productivity[1]." I agree, of course. Italian firms develop a total factor productivity (TFP) lower than that of other comparable firms in high per capita income countries, and this is the fundamental reason for their low and declining competitiveness in international markets.

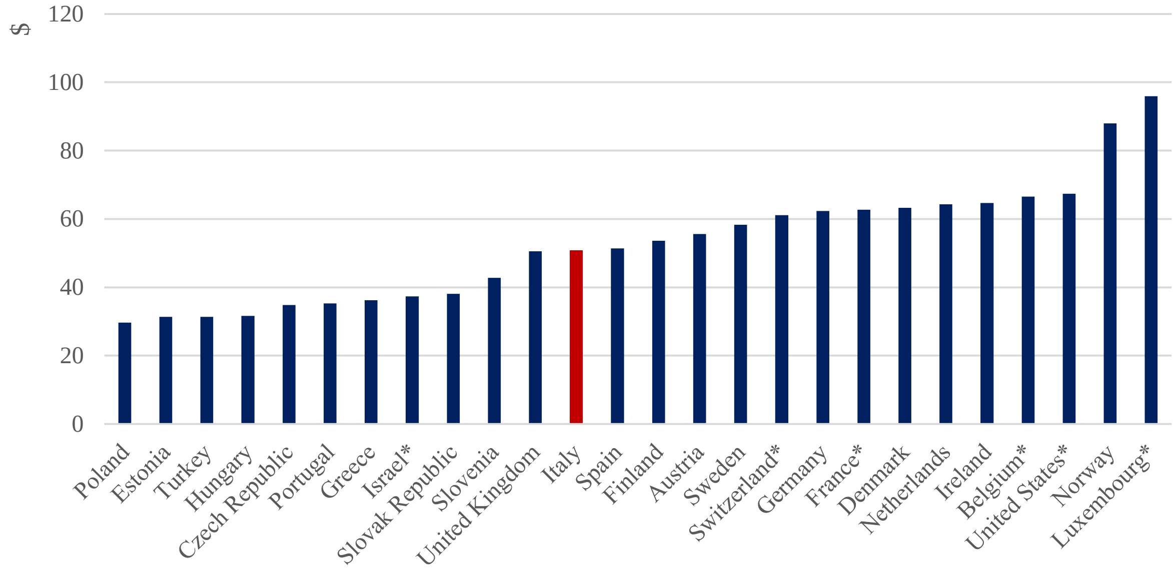
A cautionary word before proceeding with empirical evidence. Because I know how nationalist sentiment could tarnish logical faculties and rational impulses, where they exist, I should clarify that the 'labor productivity' is not a question of 'good will of the worker', as some beautiful soul is so determined to say: assuming equal skills, A will result to be more productive than B if A is supplied to a greater amount / better capital to work with. Period. Clarification even more needed since here we will work with the concept of 'labor productivity', i.e. the number of product units that a unit of labor produces in a unit of time - of

[1] Istat defines the TFP as "the ratio of the value added and the total use of capital and labor.

course, given the amount of physical capital at his disposal, the quality of raw materials and intermediate products, etc[2].

Figure 1 shows the comparison of productivity levels in 2014 in a number of countries. Italian average productivity is comparable to those of the United Kingdom and Spain, in a range where the extremes are Poland-Estonia on one hand and Norway-Luxembourg on the other.

**Figure 1: Productivity in 2014 measured as the ratio between GDP and hours worked, values in current dollars**

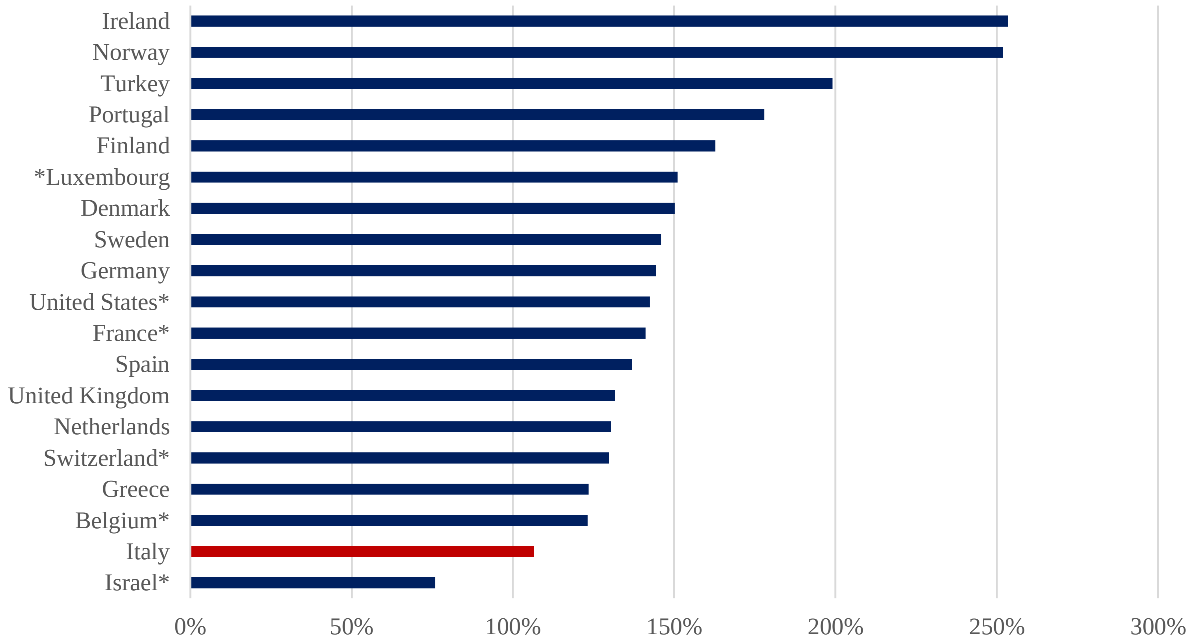



*Source*: OECD, August 2015; * estimated value

Nationalist sentiment that tends to cloud rational faculties must not lead you to believe that, taking a position 'intermediate', the average condition of Italian firm is good. First, you will notice that high per capita income countries are at the right hand of Italy (yes, the UK excluded), which leaves us to suspect that there is a positive and significant correlation between productivity and average per capita income; and secondly, please observe in Figure 2 that what happened in the last 25 years:

[2] The choice of working with the concept of labor productivity is due to the fact that international comparisons are much smoother than are those for the PTF, and the concept more intuitive.

**Figure 2: Percentage change of productivity measured as the ratio between GDP and hours worked between 1990 and 2014**




*Source*: OECD, August 2015; * estimated value

Therefore, the comparative position in 2014 in Figure 1 is the result of a historical trend that, in the last quarter century, has been dramatic. What happened? Why?

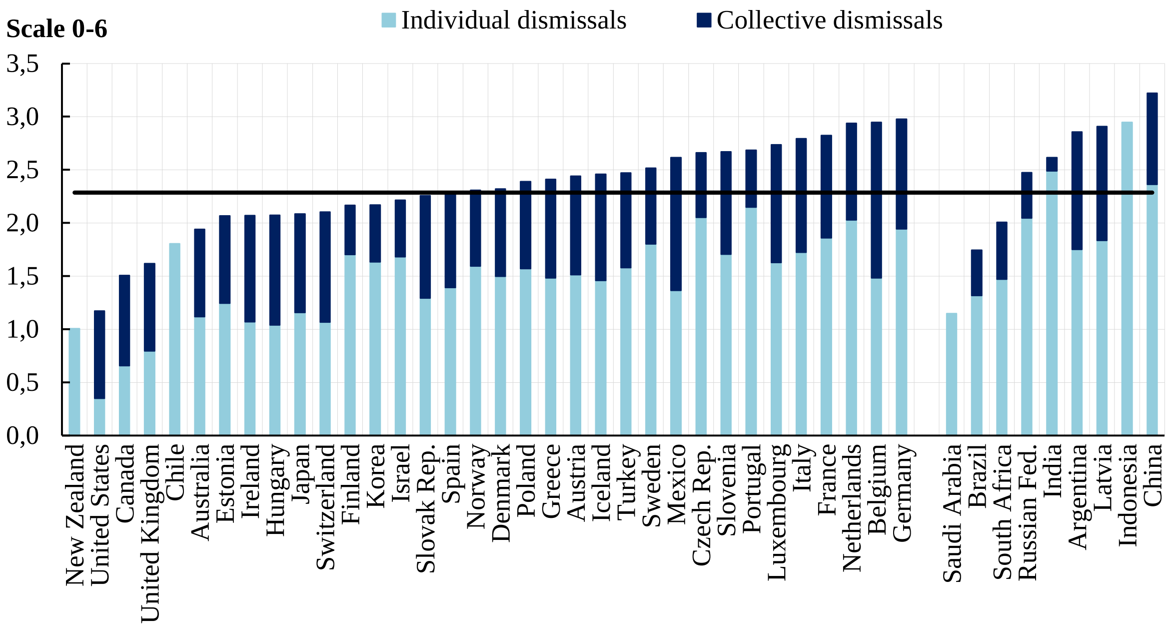
Rarely, a phenomenon can be traced to a single cause, but trying to identify the *main* causes of this phenomenon appears legitimate. It is an important question, because the prevailing view in our country among people who Paul Krugman defines 'Very Serious People' is that the responsibility for this relative loss of productivity, and thus international price competitiveness, should be attribute to 'lack of flexibility of the Italian labour market' and, therefore, the need to 'reform the labour market'. This, in turn, would be the first of the 'structural reforms' needed to 're-launch the *Sistema Paese* (Country System)'. As I have not at all clear in what sense the lack of flexibility of the labour market affects productivity, I suggest that we take the proposition at face value and check what is the state of the Italian labour market in a comparative perspective.

## 2. *The Flexibility of the Italian labour market*

The everlasting discussion on the supposedly much needed reform of the Italian labour market is extraordinarily ideological. The 'need for reform' is reiterated with a straight face by Italian governments, the IMF, the EC, OECD, and whoever belongs to the chorus. 'Labour market reform' has the centre stage in the 'structural reforms' strategy, which one day somebody from the above prestigious agencies will take the pain to explain to us all -a much needed explanation indeed, since we suspect that they amount pretty much to what once-US President Ronald Reagan christened "voodoo economics".

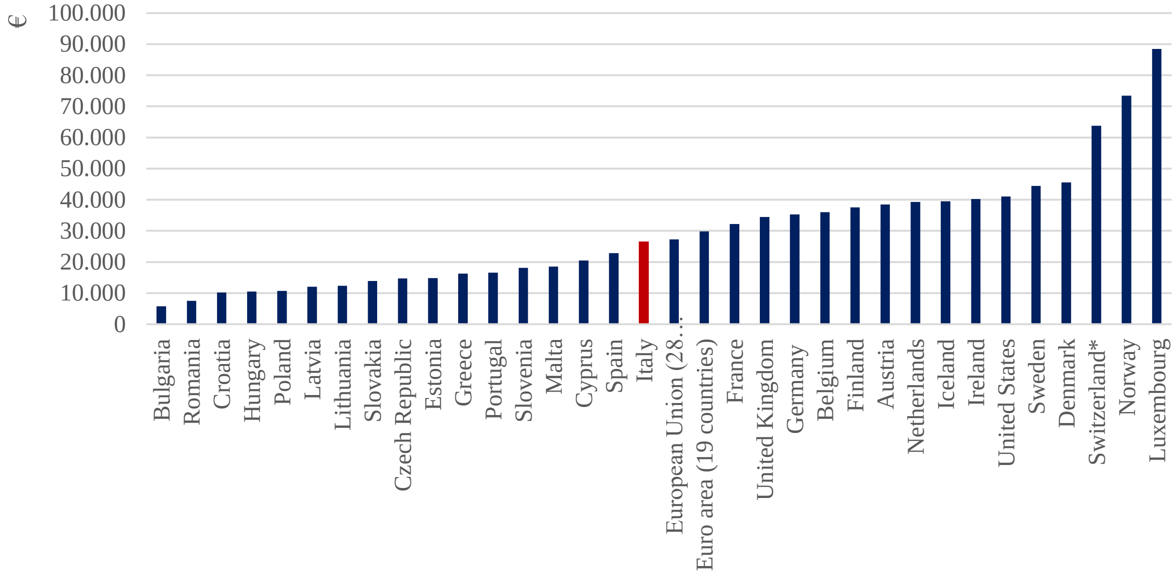
To discuss the point in an ideology-free fashion, we have to clear the ground of claims according to which Italian workers are overprotected by Italian labour law, overprotection that some parties claim is at the root of the lack of price competitiveness of Italian firms. Let us make sure we erase the possibility of any misunderstanding when talking about labour protection: Labour must be protected. Says whom? Says Figure 3: the productivity of France, the Netherlands, Belgium, Germany (yes, the oh-so-competitive Germany), all countries similar to Italy in terms of per-capita income (Figure 3), is substantially higher than the Italian one; all these countries protect their workers more than Italy does. So, why are those countries not going through the most dreadful recession, like Italy does, why are their investments in industry and manufacturing not falling to absurdly low levels due to investors' fears that their overprotected workers would organize who knows in which terrible fights against firms and society!? Nothing of the sort, of course, is happening in any high per-capita income country where Labour is protected.

**Figure 3: Protection of permanent workers against individual and collective dismissals, 2013***




*Source*: OECD Employment Outlook, October 2014; *Data refer to 2013 for OECD countries and Latvia, 2012 for other countries. The figure presents the contribution of the indicator of regulation for standard fixed-term contracts (EPFTC) and the indicator of regulation for TWA employment (EPTWA) to the indicator of regulation on temporary contracts (EPT). The height of the bar represents the value of the EPT indicator. OECD average: 2.29.

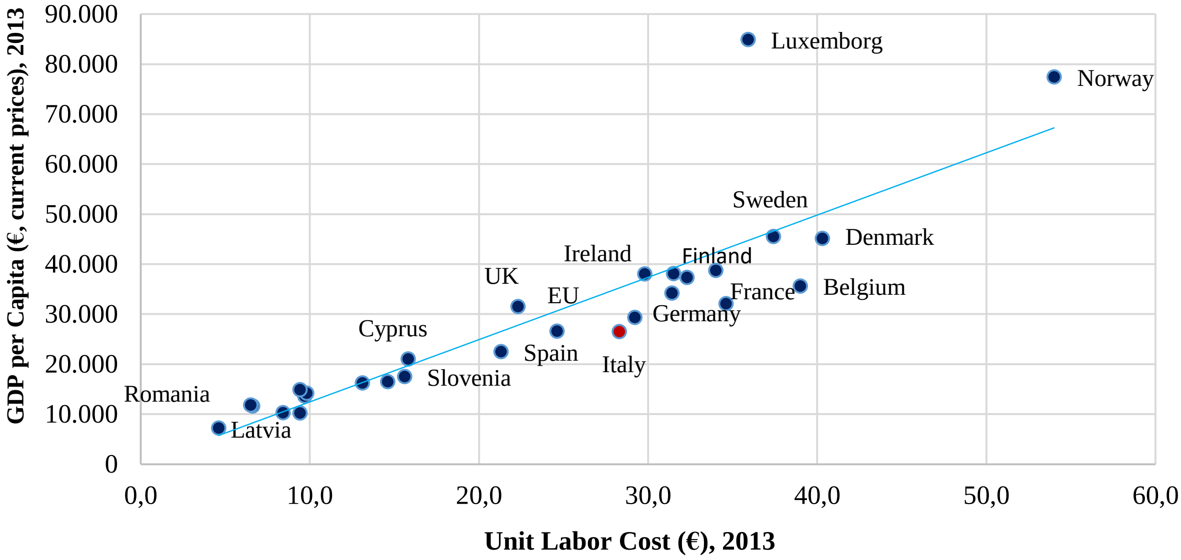
**Figure 4: GDP per capita, current prices, 2014**




*Source*: Eurostat, August 2015; * values refer to 2013

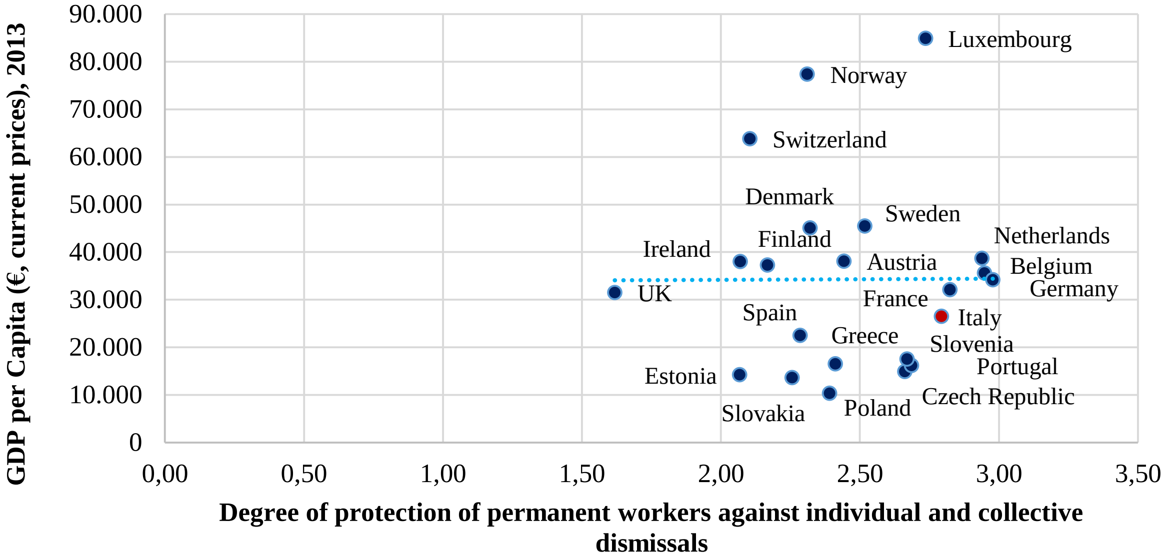
But then Germany should be in the thick of the most dramatic crisis ever, their investment in productive enterprises should languish for fear that the workers, being protected, will cause them some kind of claiming struggles, some kind of ‘Red Weeks’! However, as we shall see later, in Germany companies are investing. Much. And in Italy, they do not. And German wages are high. And Italian ones are not.

**Figure 5: Correlation between per capita income and unit labour costs, current prices, 2013**




*Source*: Eurostat, August 2015

**Figure 6: Correlation between per capita income and degree of protection of permanent workers against individual and collective dismissals, 2013**




*Source*: Eurostat; OECD, August 2015

3. *The Fragmentation of 'labour markets'*

Let us try reasoning about the issue of 'labour market segmentations' just like a person in good faith would (which is what we always do). The first thing to make clear is what is meant by 'segmentation' of labour market. In this country trade-unions, that is, unions among workers belonging to the same trade, do not exist in the way they do in the US. Here we mean that the labour market is made up of workers covered by long-term contracts, usually represented by trade unions, and workers under a tremendous variety of short- and very short-term contracts, or *lavoro precario*, hardly represented by any trade union. And that for the basic reason that it is nearly impossible that anybody working under a 6-month contract may seek to join a union!

So, the next question is:  Who benefits from such a segmentation? Perhaps those who have been pushing for shorter and shorter contracts? And if so, is it reasonable to imagine that it was the *lavoratori precari* themselves?

Do workers benefit from labour market segmentation? Basic economic theory helps find an answer to this question. The labour market, even though not the fish market that many would like it to become, can be represented by a system of two equations in two unknowns: these equations we call 'labour demand' and 'labour supply respectively. Firms demand labour as a necessary factor for the satisfaction of demand for goods and services; we supply labour.

Of course, it must be very clear that a 'market' is never just the happening of an exchange; rather, the *market* is first and foremost the set of rules within which demand and supply would like to meet –that is, to 'strike the deal'. If all this happens, if the meeting takes place within the given set of rules, then we will observe an equilibrium wage and an equilibrium level of employment (not necessarily a *full-employment* level of employment). This is when production gest started. Good.

Problem is, we are talking about *one* labor market. That is, we are talking about a situation where there is just *one set of rules* to which all contracts have to abide. But what about a situation where the legislator has seen fit to introduce a second set of rules, different from the existing one but not replacing it? A sensible example is that of a new set of rules that only apply to first-time entrants on the market. Thus, it is the legislator who creates a *second* labor market, and the overall labor market is now segmented: on the one hand are the employed workers and those who, being unemployed, are not first-time entrants; on the other, first-time entrants.

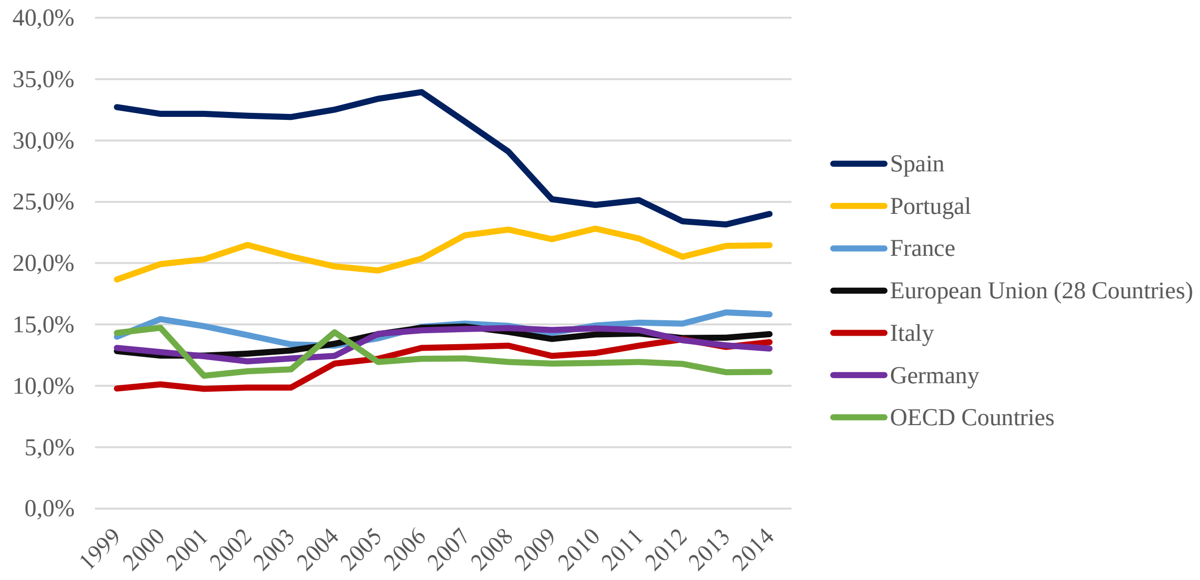
Of course, one could complicate things further: the legislator may dictate that the new rules are mandatory for all firms when they hire a new entrant, so that new entrants will be hired under the new set of rules; or he may leave to the individual firm to choose the set of rules (the contract) under which to hire new entrants. Whichever way, there will be two labor markets, not one.

Workers, and their unions, will obviously oppose such legislation. Indeed, the new rules weaken both workers and unions, new entrants and 'old' workers. Such weakening of unions and workers, young and old, will be the stronger the more firms are allowed to choose individually whom to hire, the young under a set of rules and the old under another.

The answer to our question is therefore sufficiently clear: the legislator has ruled in favor of firms. The effect of that? A labor cost lower for the first-time entrants that for the incumbents, a weakening of the bargaining power of the incumbents, an overall lower average wage across the two groups of workers. In short: we know who has been fighting for the two-labor-market model, and why.

Figures 7 and 8 document the evolution of the 'dual labor market' phenomenon and the changing weight of each of the two in several high per capita income countries.

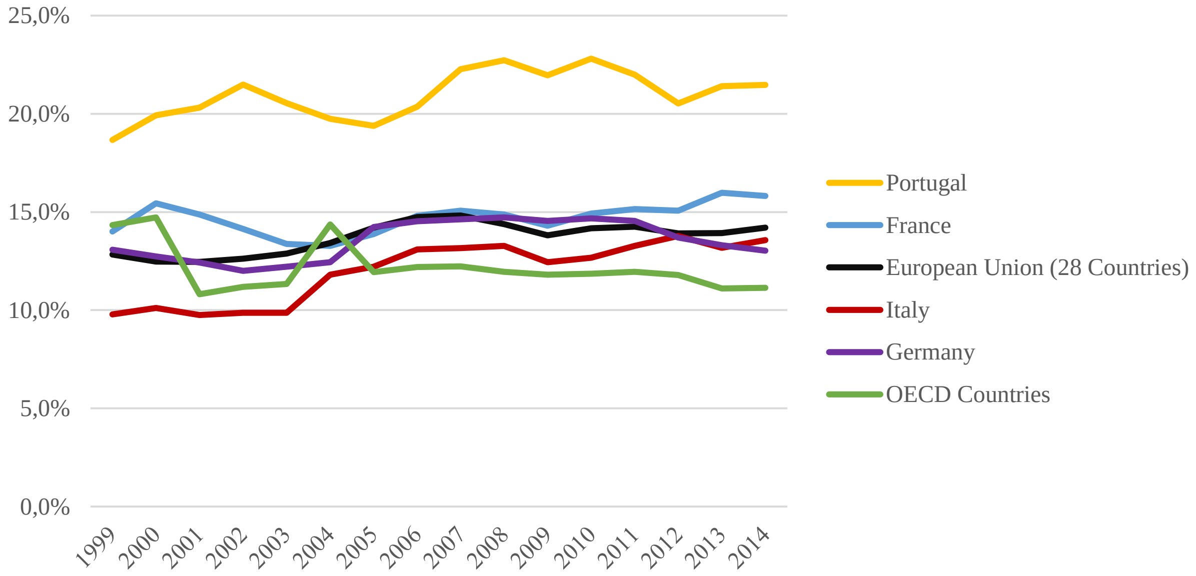
**Figure 7: Share of Limited-Time Employees over Total, 1999 – 2014**




*Source*: OECD, August 2015

Figure 7 shows that Italy does not qualify at all as the country with a 'rigid labor market': the share of limited-time contracts in Italy start low and then grows over time, but never shows a particularly low value, which the UK does over the whole period, or a particularly high one as Spain does.
Since it is not easy to get more than a feeling from Figure 7 due to the high values for Spain relative to all other countries, we reproduce it as Figure 7.bis, where data for Spain have been deleted. Before moving on to Figure 7.bis, however, let us draw a couple of interesting lessons from Figure 7: first, the extraordinary flexibility in the Spanish labor market has not been able to save that country's economy from the hardest od the recessions; and second, an economy made of firms determined to shut down needs a legislator who supplies incentives to the use of short-term contract.

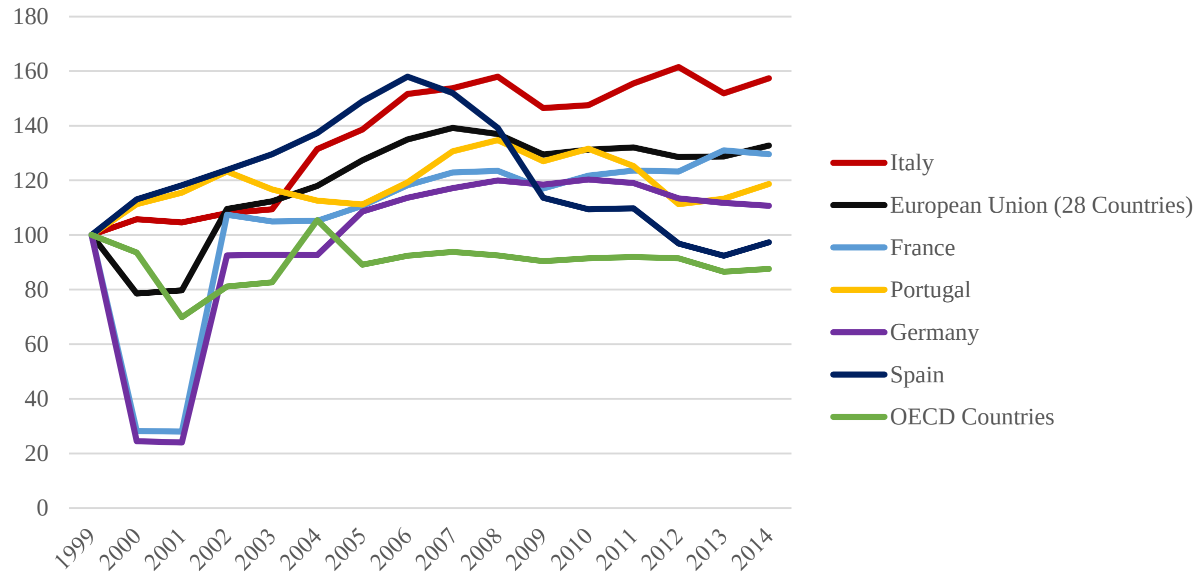
**Figure 7.bis: Share of Limited-Time Employees over Total, 1999 – 2014**




*Source*: OECD, August 2015

Easy comment: between 1999 and 2014 the share of limited-time contracts has gone from 10% to 13% of the total, that is, from below to above the OECD average as computed an all its member countries, and from fifth-out-of six of the reported countries, to second. So, why has not anybody seen any labor demand increase in those years? Even more straightforwardly: have Italian firms began hiring, now that the much desired 'flexibility' is on the rise? Surprise: flexibility does not produce labor demand!
With Figure 8 we simply want to make it easy to evaluate the differential speed at which the share of limited-time contracts has been changing in the same countries as above over the same timeframe.

**Figure 8: Growth of the Number of Workers with Limited-Time Contracts, 1999 – 2014, 1999=100**




*Source*: OECD, August 2015

Nothing new with respect to Figure 7 of course, but anchoring all countries to be =100 in the base year allows to see that Italy is exactly the country where the share of workers with a limited-time contract has been growing faster among the countries reported as well as relative to the OECD average.

It is worth noting that in 2008-2009 the share falls in Italy little relative to the Spanish one. Interesting: can it be that in Italy job losses took place within both cohorts of employees, 'protected' ones and 'unprotected' ones. Well, if such were the case, there would not be much of a case for the infamous story about (at least part) of Italian employees are overly protected, right?!

Conclusions?

1. Italian employees are not overprotected;
2. Flexibility does not cure unemployment.

### *4. The cost of labor*

Thus, we have cleared the ground of claims according to which Italian workers are overprotected by Italian labor law. But it is not over. A second, obsessively reiterated proposition is that labor costs in Italy are too high. Figure 9 shows that such is not the case.

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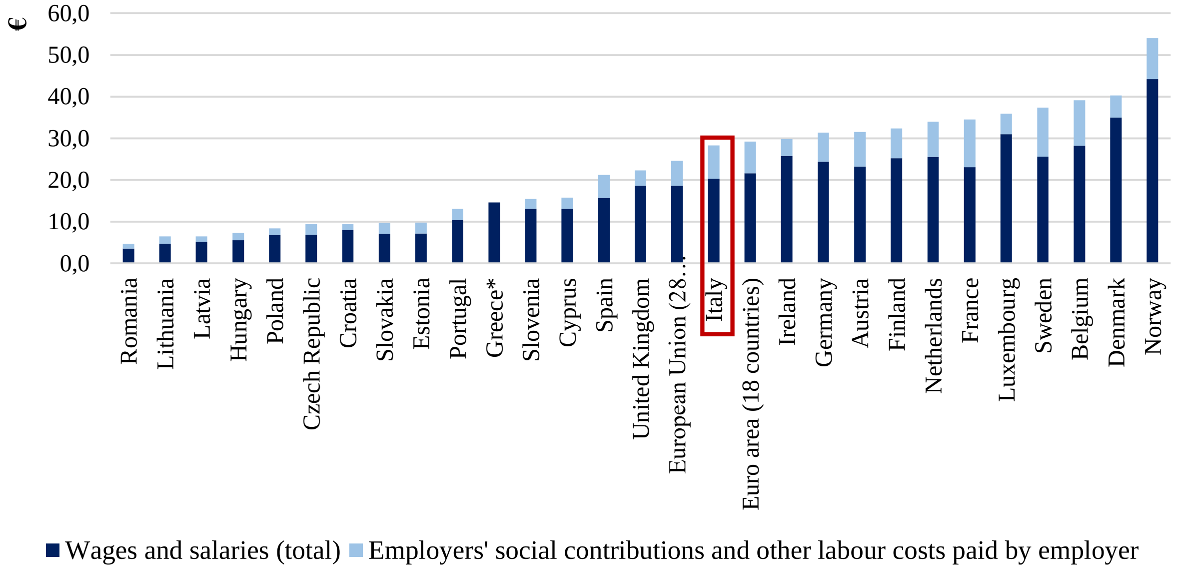
**Figure 9: Hourly labour cost in industry, construction and services (except public administration, defense, compulsory social security) in 2014**




*Source*: Eurostat, August 2015; * for Greece, w show the sum of wages and salaries and social security contributions and other labour cost paid by the employee

It is apparent from Figure 9 that average Italian labor cost is just below Ireland's and just above the UK's – and just above the EU-28's average. While I want the reader to know that it gives me a great amount of pain to proceed to a certain type of comparisons, Figure 9 is telling: hourly labor cost steadily decreases from that prevailing in Norway to that prevailing in Bulgaria, in a descending journey going through Germany's, Italy's, and Slovakia's. I leave to the reader to draw the necessary and unambiguous conclusions, which again give me great pain to draw, about the correlation between per capita income, rate of unemployment, labor costs, quality of life, and so on.

Thus, we have a moral and a social obligation to demand an answer to the following question from the supporters of 'wage moderation': where do they want the country on this chart ten years from now?

They will tell us (not true, they will not answer the question) that the issue is not labor cost but the difference between labor cost and take-home wage; or alternatively, that we are in such a condition that labor must accept sacrifices to contribute to the enhancement of the international price competitiveness of the 'Italian system' (sic!); or, that….

Let us state the problem in its correct terms: Italian labor cost is high? High relative to what? If one is to find the metrics of it, one has several options. Should we think in terms of the average hourly labor cost in the OECD member countries? Or is it appropriate to look at average labor costs in countries whose labor costs are below the EU-28 average? To Pakistan's? To New Zealand's? Well, if one were to accept such line of reasoning, then the 'best' cost of labor would obviously be one below the lowest available one. In short, the starvation labor cost.

But I am absolutely sure that our austerians would not want a starving country. Yet, if that were so, why is it that they want to cut labor costs –and wages? Economic theory has a rather convincing answer to the question: they push for labor cost cuts as a way to compensate for the low levels of productivity of Italian firms, which hampers their international price competitiveness. In short: Since what makes a firm price-competitive on the world market is the cost of labor per unit of output, that is, cost of labor weighted by productivity, inability to make productivity grow is compensated through labor costs (and wage) cuts. Period.

Economic theory is very clear about all this. Labor cost is not the only determinant of international price competitiveness. It so much so that we one way to make international comparisons is through the concept of unit labor cost, that is, the cost of labor divided by productivity –that is, the number of units of output per unit of labor in the unit of time. Only he who is unable to increase productivity looks for competitiveness through labor costs cuts. Thereby slowly leading the country to starvation.
Yet, those who wanted to do so, and were able to do so, could enhance international price competitiveness by enhancing productivity, could they not? Why talking and talking about 'structural reforms' (I truly cannot take it anymore) instead of acting in favor of research and development, employee training, enhancement of project-management skills within firms? Why not invest in renovating the industrial base of the country in the direction of a new-found productive and trade specialization leading to a new age relative to that 'made in Italy' paradigm which, as we have been saying for years it would happen, has led us to compete on the world market with countries specializing in production and export of highly unskilled –labor content products?

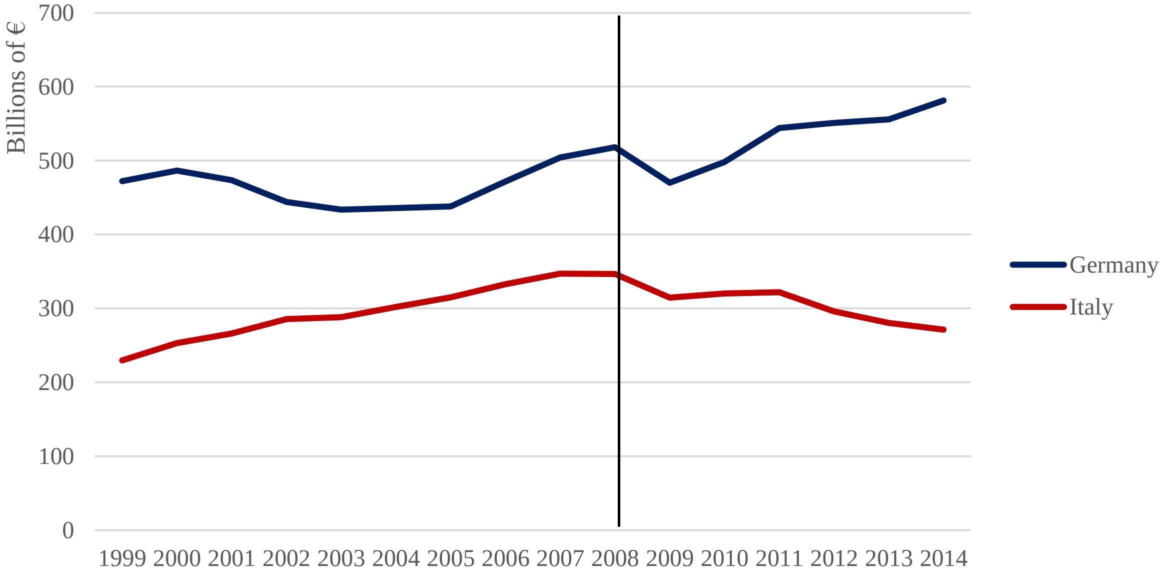
## 5. *Competitiveness*

But we are confident that our austeres do not want the whole country to go hungry. So why do they want to reduce labor cost? My answer is unequivocal: because Italian companies cannot (on average) increase competitiveness through productivity and innovation. Thus, they are trying to gain competitiveness by reducing costs and, *in primis*, labor cost.
But labor cost, in fact, is not the only determinant of international competitiveness. In fact, we say that, all other conditions equal, a correct measurement of competitiveness is *labor cost per unit of product*. Not the cost of labor, but labor costs weighed by productivity. To avoid ambiguity: who is unable to increase productivity, seek to gain competitiveness through cuts to labor costs. Thereby starving the country. But those who want to, and are able to, could work instead on the productivity side, or not? Why, instead of committing so much to talk about 'structural reforms', do not engage in financing research and development, training of employees, projects and procedures for increasing productivity, the renewal of the productive base of the country?
While the thesis of austerians is that the competitiveness of Italian companies is relatively low because there is the bureaucratic state and the union blocks the reforms, here we sustain that investments generate labor

productivity gains and, therefore, competitiveness grow. But Italian companies do not invest. In other words, granted that the external environment to the company may be more or less 'friendly' to doing business, productivity depends heavily on investment. That may be in machinery, automation, development activities and innovation.

Since Germany, and especially the successes of its industry, is a common benchmark when discussing the features of the Italian industry and its shortcomings, we have chosen to compare in Figure 10 the 1999-2014 aggregate dynamics of gross fixed capital investment by firms in the two countries.

**Figure 10: Gross Fixed Capital Investment, annual data, 1999 - 2014**

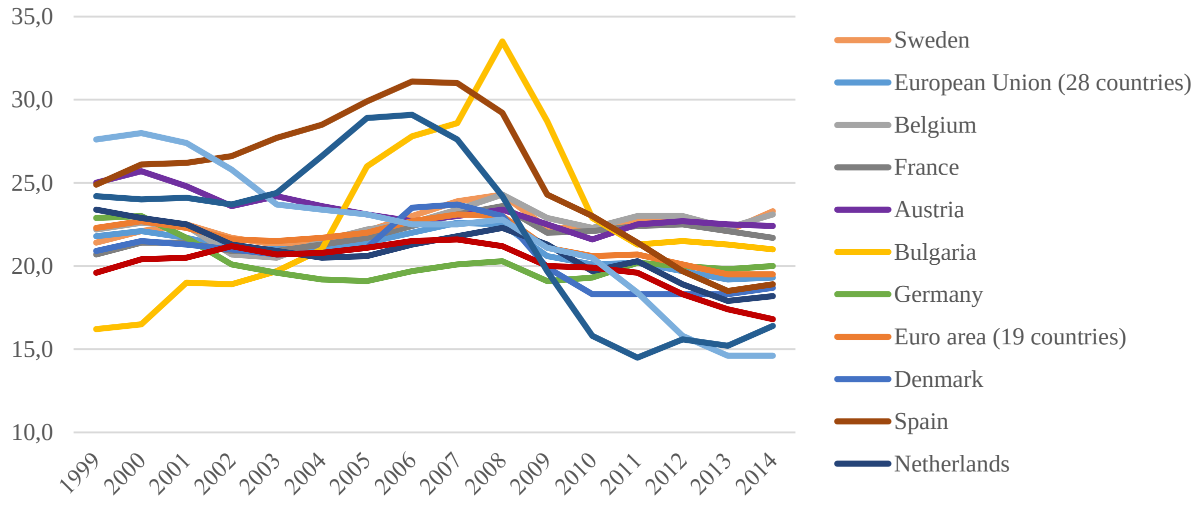



*Source*: Eurostat, August 2015

That the German line lie above the Italian one is no surprise: country and gdp sizes are the reason for that. (Still, this is not an act of nature; it is entirely conceivable that a smaller country invest more than a larger one). The interesting difference emerges when one looks at the way the two sets of firms, German and Italian, have reacted to the Great Recession, announced in 2007 and under way since 2008 (that is, focus on what is at the right of the vertical line above the date 2008): German firms have been investing more than before, the Italian ones less. Period. No further comment needed.

That German firms did better that the Italian ones could, after all, be expected. But what about those located in other EU countries? Figure 11 reports on the dynamics of private sector gross fixed capital formation at current prices, actual data 1999-2014. Italian firms? The red line

**Figure 11: Gross Fixed Capital Investment as a percentage of GDP, annual data, 1999 - 2014**




*Source*: Eurostat, August 2015

There is dramatically little to be said and commented upon. But it may be useful to attract attention to the following: it is my strong belief that the 2014 turning point in investment expenditures, and their growth in 2015 and 2016, will not happen, certainly not as far as private-sector investment is concerned. (The careful reader is invited to make a note of this statement, verify it at the end of each year, and write to me in case I should be proven wrong –which, believe me, I would like very much).

The responsibility of Italian firms in this recession is overwhelming.

## 6. *The mirage of Foreign Direct Investments*

Why does Italy find it hard to attract Foreign Direct investments (FDI)? May this be due to the presence of trade unions and overly protected labor force?  NOT TRUE: FDI are scarce because a very large proportion of our firms are based on production processes that are intensive in unskilled labor, that is, they produce goods that can be produced anywhere in the world.

Readers even moderately knowledgeable about Italian things know that the FDI issue is very much felt and debated in the country. Why, one is often asked, do we receive such a disappointing amount of FDI (per head, of course)? Why does global capital not appreciate Italian firms, how is it that the famous 'made in Italy' does not receive the attention it surely deserves –and does not activate investing interests and inflow of industrial capital therefore?

The oldest story on sale by firms, as well as by their associations, is that centered around 'the taxes'. We do not attract foreign capital, we have been told over and over again, because taxes in this country are too high. And supporters of such thesis have been clamoring for the legislator to issue legislation that would be beneficial to both producers and consumers, something 'simple', whose effects should be clear to one and all: the 'flat tax'. Year back, a nice 19%, just like it used to be in Bulgaria (I do not really know whether there the situation is still the same). So entrenched is this idea that on December 24, 2014 I witnessed one of the usual suspects heralding the same request on a nationwide TV channel, the difference being that this time we were told that 20% is the perfect rate.

Needless to say, yours truly was, and is, making fun of such ideas, while at the same time offering the example of a country (actually, more than one) whose marginal tax rates on individuals and distributed profits are ferocious but, surprise, whose ability to attract FDI (per resident head, of course), is among the highest, and perhaps the highest, in the world.

Changing times, changing the (principal) culprit. More recently, labor cost has become the main source of discouragement for international investors. That is, the story goes, Italian labor cost is too high, or, rather, labor cost is not really too high, it is take-home salary that is too low relative to labor cost, a fact to which one ought to add that there is no labor market flexibility….Well, about labor cost, net-of-tax salaries, labor market flexibility, and overly protected Italian employees we have written in Facts 1, 2, and 3: fairy tales.

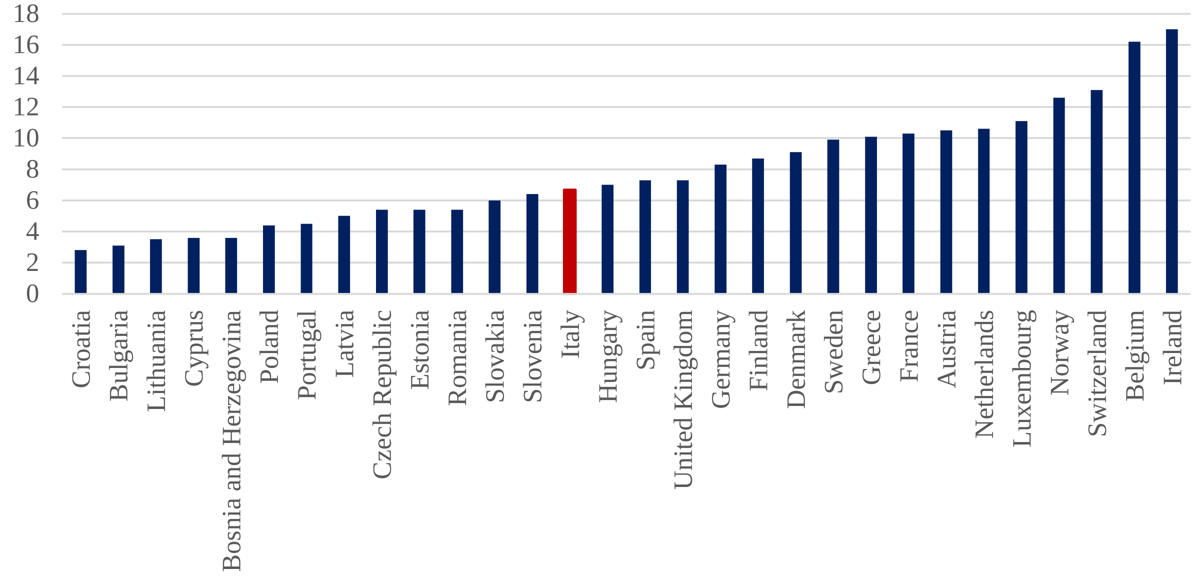
Problem is, while entrepreneurs and their associations are busy unloading the blame on employees and trade unions, left-leaning individuals and organizations have been claiming that the 'true' reason foreign investors shun Italy is….mafia and corruption. An incredibly beautiful synthesis of these hitherto differences took place on December 17 when Confindustria, the major association of entrepreneurs, centered its report on the state of industry on the issue of...corruption! Perfect.

Obviously, the reader will have noticed that for all parties involved the culprit is always 'somebody else': taxes, fiscal drag, employee over-protection, labor market inflexibility, mafia, camorra, corruption….oh, I was forgetting, the Italian bureaucracy, how could I possibly forget the infamous Italian bureaucracy!?

Strangely enough, not once we hear a word about what everybody seems eager to see bought, at least in part, by foreign investors: that is, the thing itself, the firm. Which amounts to asking what makes Italian firms, on average, a juicy, yet unappreciated, target for foreign investors. Let us ask the correct question: why should a foreign investor, individual or investment fund, acquire shares of an Italian firm? This is an innocent enough question, is it not? Is it not the same question that any of us would ask while considering acquisition of a firm regardless of the country she is based in? A foreign investor considering acquisition of a firm is not considering purchasing shares of the well-known (mostly to Italians, I know of no other countries where the concept is used or even exists) 'sistema Italia', right? Obviously we all understand that, everything else being constant, it will be less risky to invest where there is no mafia rather than where there is, where there is less bureaucracy than where there is more,.. Yet, trivialities aside, can we please ask the relevant question: to invest in what? In what type of firm? Producing what? In what industry? In brief: what are the features of a firm that attract a (foreign) investor? What the ones that repel her? Because you see, and let me repeat myself here: the (foreign) investor buys firms first, she does not buy the Uffizi –though they too are part of the famous 'sistema Italia', right? Do foreign investors price the Uffizi in when considering the purchase of Italian firms?

Figure 12 reports on the investment expenditure in a number of countries, per employee, in 2012. A detailed comment of the figure is not really required, but a question may be in order: why, exactly, should a foreign investor acquire shares of industrial working capital when Italian residents do not!? Alternatively: why invest in firms whose employees do not appear to be working with physical capital enhanced by new, substantial injections of new investment?

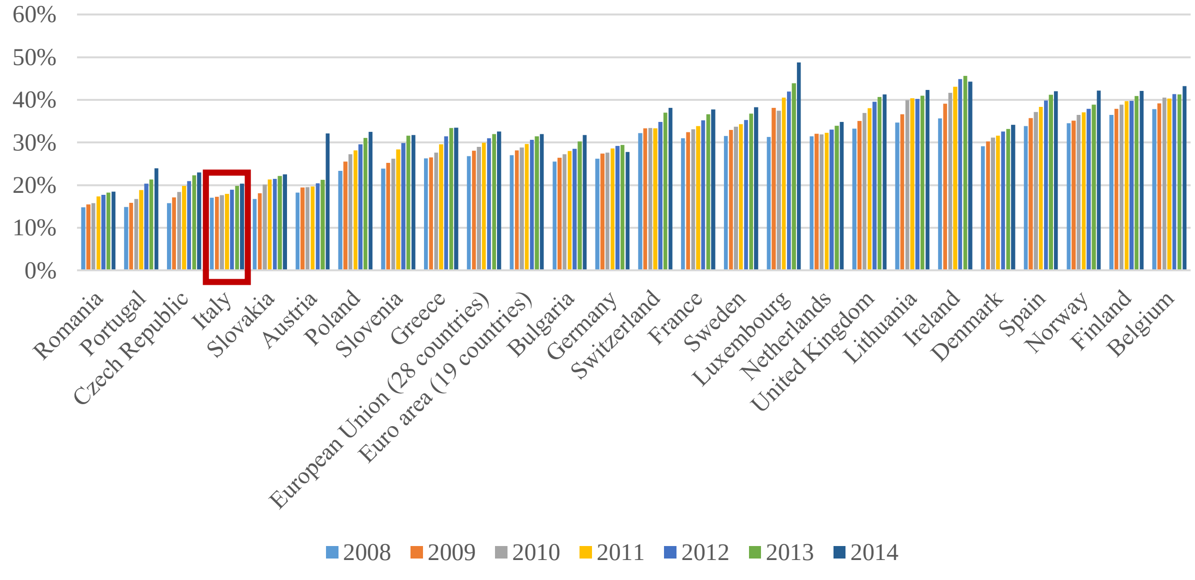
**Figure 12. Investment per person employed in manufacturing (Thousands of € per employee), 2012**




*Source*: Eurostat, August 2015; France value refers to 2011

Firms, the Italian ones, whose investment in physical capital is scarce. And so is investment in human capital (Figure 13). Dramatically scarce. Firms where the combination of low investment expenditures on physical capital and very low investment on human capital yields low profit level because low is the resulting productivity of the production process. Period.

**Figure 13: Employment by level of education (percentage of total employment): First and second stage of tertiary education (ISCED 1997 – levels 5-8)**

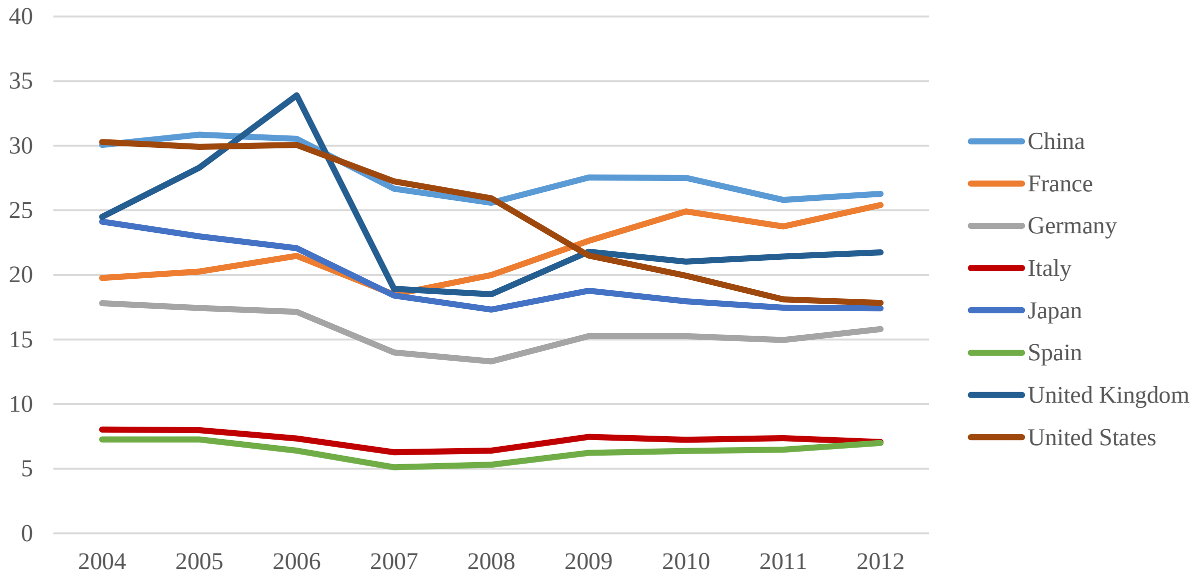



*Source*: Eurostat, August 2015

Low investments in physical capital per employee, well-below-the-average share of tertiary education profiles among their employees –where this is just a proxy for the quantity and the quality of human capital employed – necessarily translate in what Figure 14 tells us: the share of high tech exports over total exports is laughable relative to those exhibited by high-per-capita-income countries.

Which all goes to prove what we were claiming at the outset: Italian firms are most likely to be producing to satisfy world demand of goods produced with a relatively high intensity of unskilled labour. Other, seems to be thought, will take care of producing, and exporting, products generating high profits and high salaries. Which is where foreign direct investments like to go.

**Figure 14: Share (%) of high tech content export over total manufactured exports, 2004 – 2012**




*Source*: World Bank, August 2015; Exports of high-tech manufactured goods include products, such as computers, pharmaceuticals, scientific instruments, electrical machinery, chemical products and weapons.

*7. The human contribution to productivity and competitiveness*

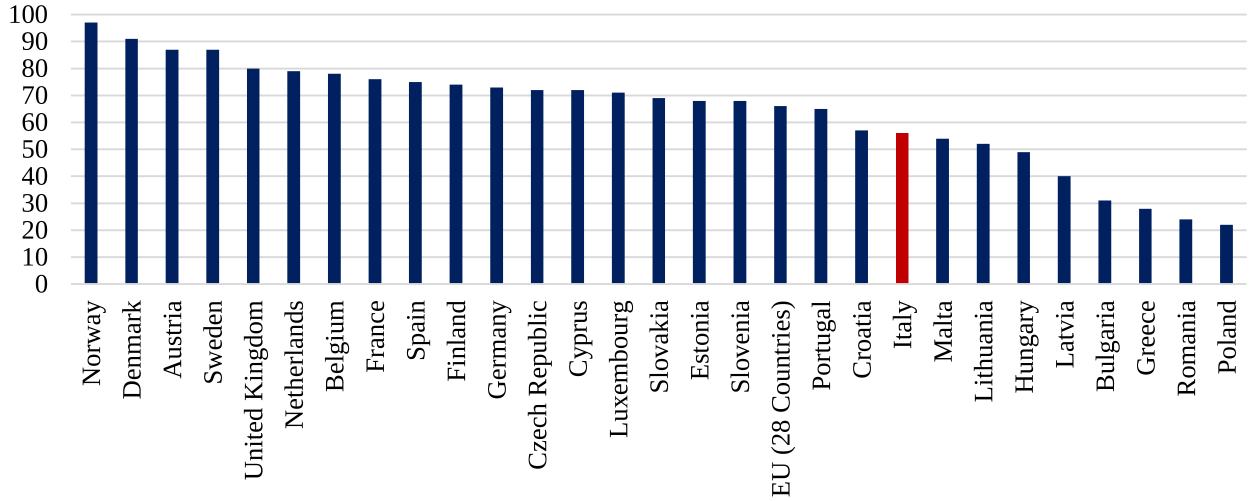
Firms' productivity, and their international competitiveness therefore, rests upon what the human factor of production can contribute for a given amount and quality of physical capital. Italian firms invest in physical capital less than firms in high per capita income countries do; and invest less in education and training of the workforce they employ. And especially so do the much heralded small and medium enterprises.

Traditional international trade models of any vintage assume that the amount of physical capital available is a given, just the same way labour productivity is. In short, they are static models. But it was soon discovered that governments can enhance productivity and competitiveness through what has come to be known as 'industrial policy' by altering the rate of growth of capital and spending on upgrading and enhancement of labour skills and competences through education.

We will get to government and its responsibilities later on. Here we want to start out reporting on the differential attitude of firms toward their respective workforces, that is, of what they do to enrich their workforce's competences through training (a different issue is that of the qualification of the workforce they can attract for the first time) in different countries.

So, we are talking about training. Taken together, whether designed for blue collar or white collar employees, young or old, skilled or unskilled. Figure 15 affords a first insight: here we are looking at the percentage of firms with more than 10 employees which have arranged for the training of their workforce in 2010. Among the 28 EU member countries, nearly all firms in Norway spent on personnel training. In Italy? 60%. So the country is number 20 out of 28. And, of course, below the average.

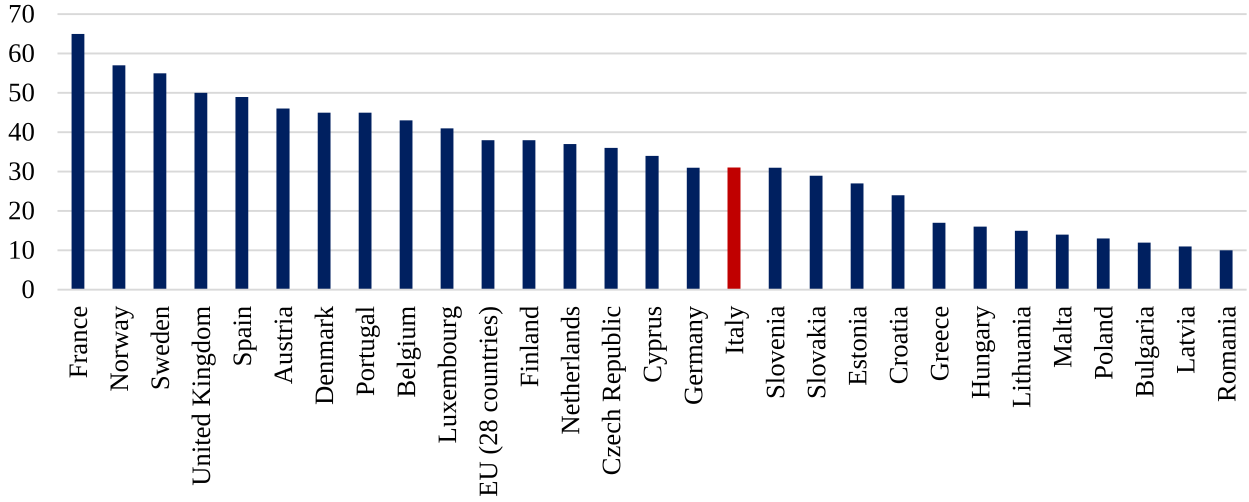
**Figure 15: Percentage of firms with 10 employees or more that have supplied training for their personnel in 2010**




*Source*: Eurostat CVTS4

Figure 16 reports on the percentage of firms actually programming training activities for their employees, again by country. This is an indicator of how sensitive management and ownership are to the issue of employees training, how well training programs are thought in advance and structured in formal programs: after all, the more goes into the training budget, the more we are likely to see a firm that cares about qualifications and skills of their employees. So, what are the percentages? 66% in France, 30% in Italy. And again below EU-28 average.

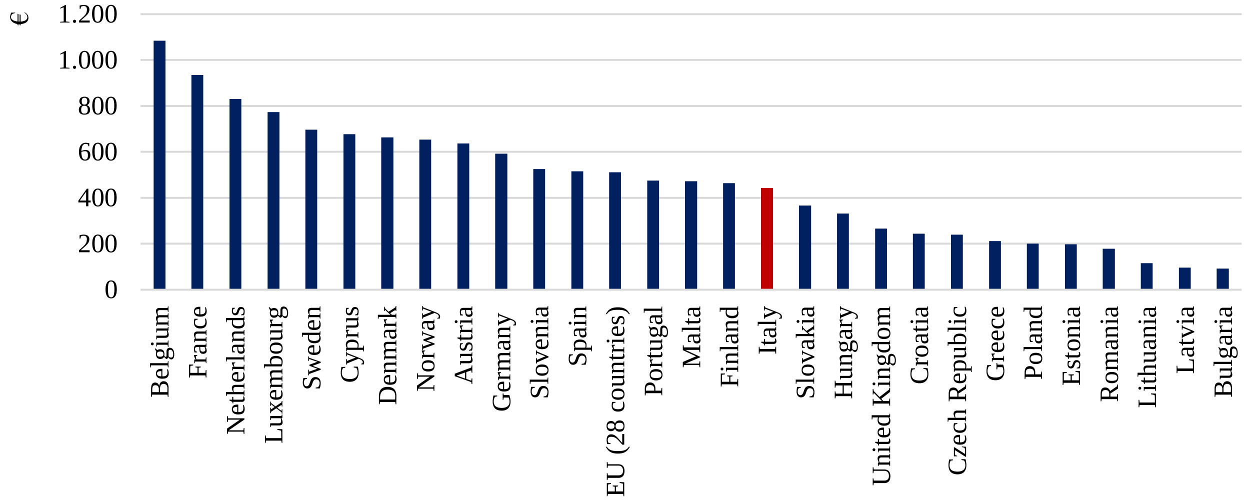
**Figure 16: Percentage of firms exhibiting a training program and/or have a specific entry in their budget devoted to training activities (2010)**




*Source*: Eurostat CVTS4

The careful reader will point out that we have not touched yet on the issue of how much firms supplying training programs actually spend on them: the fact that many firms have training programs but do not allocate substantial budgets to them…..This is a legitimate concern. Figure 17 ranks countries according to the average cost incurred per employee by the totality of their firms. Here, such cost is reported on a purchasing power parity basis, that is, the original 'true' data are corrected through a method widely used to make sure that international comparisons take into account national disparities (in short: it is conceivable that an hour of training will cost more in a high per capita income than the same hour, of the same quality, will cost in a low per capita income country. This is accounted for).

**Figure 17: Average cost of lifelong training per employee. Purchasing Power Parity. All firms, 2010.**



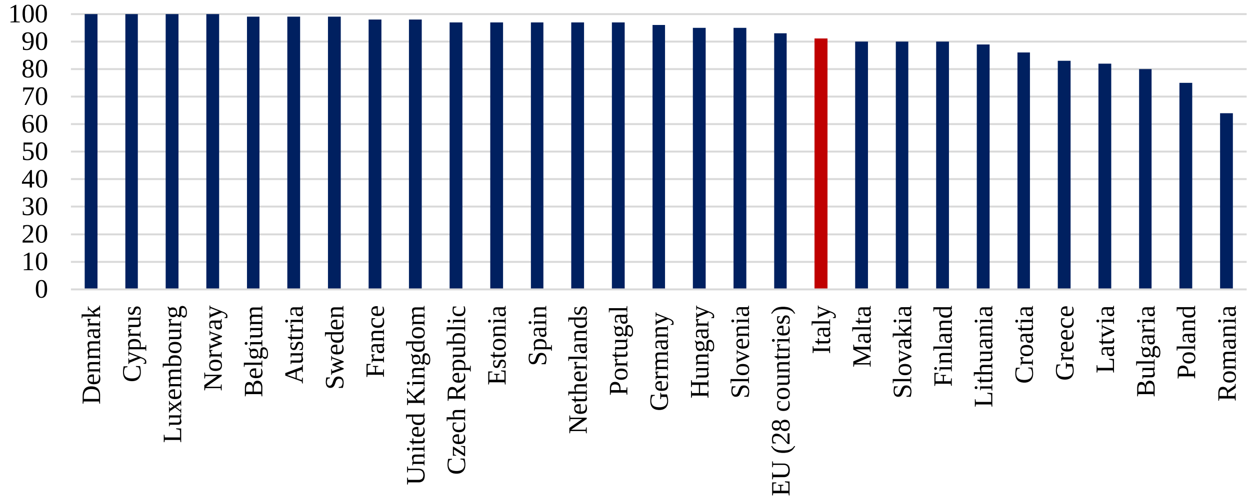

*Source*: Eurostat CVTS4

Result? Roughly €1100 per employee in Belgium, roughly €420 in Italy. And, again, Italian firms are below the EU-28 average.

No, Italian firms are not doing it right. Training is the way to enhance skills, to transfer knowledge, to mobilize employees around innovative projects, to improve the quality of working conditions at the same time that productivity and competitiveness will benefit. Not investing in training is tantamount to asking to stay what we are, that is, to become obsolete soon. No, that is doing it not right.

At this point, the usual, careful reader will point out that not all firms are identical, and that comparing averages… True. Let us move on and look into the number of firms that do training by size of their workforce. Figure 18.a tells us that the share of large firms, those with 250 employees or more, that do training, does not show much variance through the EU-28 (average 93%, Italy 91%).

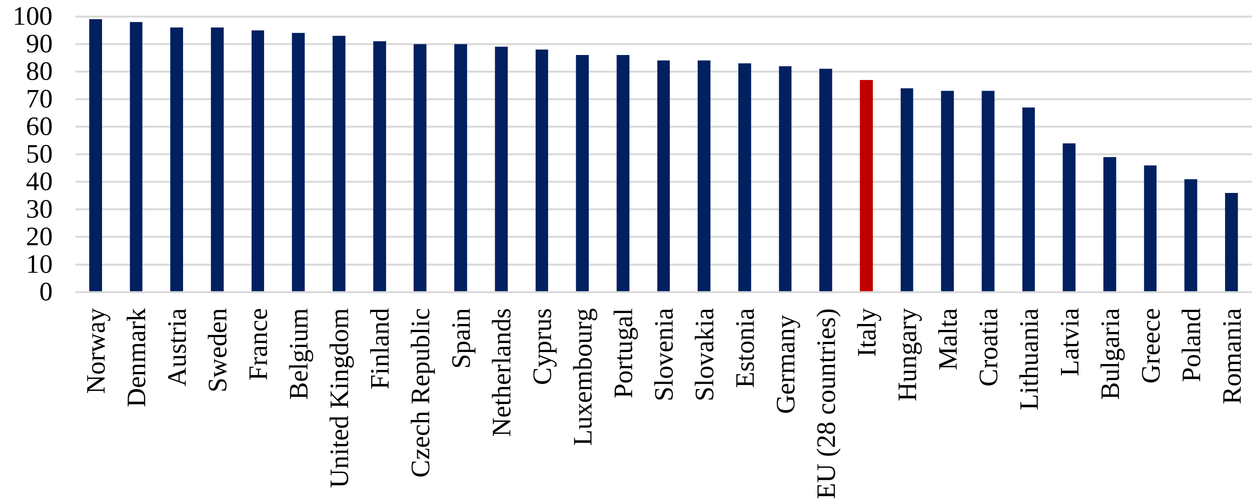
**Figure 18.a: Percentage di firms with more than 250 employees that offered training in 2010**




*Source*: Eurostat CVTS4

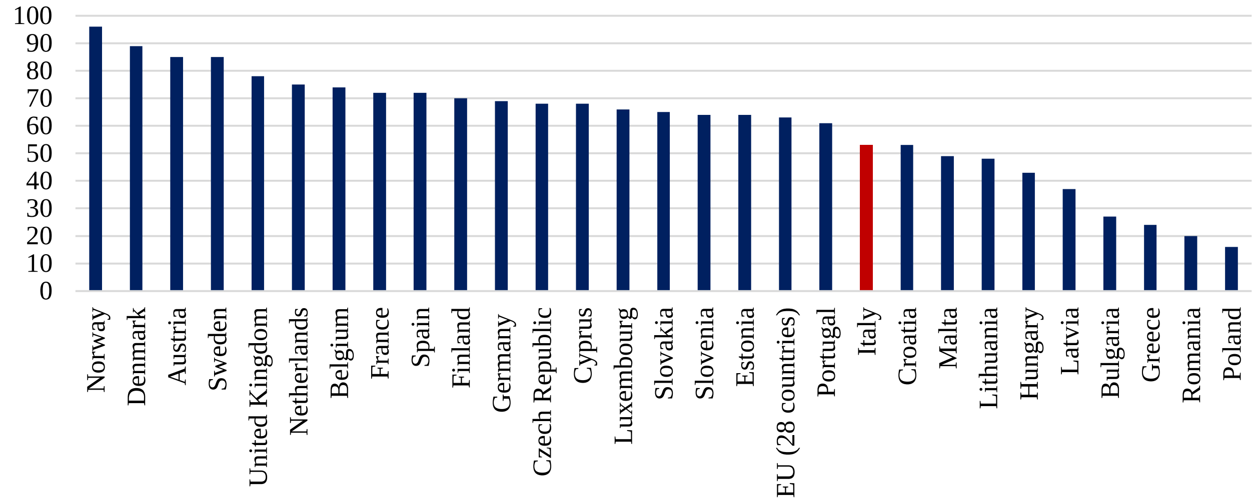
But when we look at the so-called medium enterprises, those employing between 50 and 249 persons (Figure 18.b), the variance of the shares grows substantially across countries. The share of medium firms that supply training stays above 90% of total only in a handful of countries (Norway, Denmark, Austria, Sweden, France, Belgium and the UK). Moreover, the variance grows even more when we look at firms with 10-49 employees (Figure 18.c): the share of small firms that supply training to their employees is above 74% just for a few 'best performing' countries (Norway, Denmark, Austria, Sweden, UK, Netherlands and Belgium). Firms of other countries show a worrisome variance of investment on human skills today….and, consequently, tomorrow's productivity. And how many small Italian firms invest in training? Few, too few: 50%. They are not doing it right.

**Figure 18.b: Percentage of firms with a workforce 50- 249 that supplied training in 2010**




*Source*: Eurostat CVTS4

**Figure 18.c: Percentage of firms with a workforce 10- 49 that supplied training in 2010**




*Source*: Eurostat CVTS4

## 8. *School and University*

In good company of mafia, the camorra, bureaucracy, trade union, also schools of all levels contribute to national disintegration. Thesis dear to many, who argue that our education system gives to young people skills irrelevant and useless.

I submit that it is NOT GOOD that schools and university follow the lead of labour demand by firms. What IS true is that Italian firms are not capable of employing productively the young out of our (excellent) Schools and Universities.

Over the last three or four years Italian media have been paying growing attention to a rather specific labour market feature: that of mass youth unemployment (obviously arisen because of the so-called ‘austerity’ policies adopted by the European governments with the active support of ECB, EC and IMF). Such problem has been purported as a mismatching between the skills and competences acquired by young people exiting secondary- and tertiary-level educational institutions – in shorts, Schools and Universities, and skills and competences that firms demand. (Of course, the right in the US discusses the 'mismatching issue' in the same way –but Paul Krugman has already discussed on his blog the 'mismatching' issue in general). What is exactly the problem?

*1. The story as it is told to the people*

Here is the version *ad usum delphini broadcast by* newspaper and media:

*So, what do these young ones want? Don't they understand that they will have to adapt to life, we all made sacrifices. One has to just look around to see that a huge shortage of plumbers… They (the young ones, not the plumbers, fs) have to learn to get their feet wet! (The Italian equivalent of this expression seems more appropriate: they have to learn to get their hands dirty!).*

This version of the (mismatching) story is tremendously instructive. Indeed, the first thing we learn is that 'to get one's hands dirty' appears to be a good thing. A good thing? May be; but the reason? What special virtues does the 'getting one's hands dirty' allow one to acquire, that jobs that one can do with clean hands do not allow for? [To reassure my reader, let it be stated clearly at this juncture that I am a Bruce Springsteen fan, and that I especially like the sentence out of 'Shackeld and Drawn' that reads '..Freedom son is a dirty shirt, sun on the face and shovel in the dirt..' but let it be stated that I also understand the historical dimension of the song…] Dirtying our young's hands is, perhaps, the means through which we build better citizens and a better society? Or, again: has humankind erred for millennia, or at least from Aristoteles onward, thinking that *education* is the way through which human beings gain at once dignity on the one hand and ability to organize and conduct production processes ever more productive of profits and wages?

If, on the other hand, I am reading too much in the above sentence, than there is only one other interpretation: 'getting one's hands dirty' is not a good, then what I understand is that we have to make do [still Bruce Springsteen, '*Jack of all trades*']: one gets one's hands dirty not as the result a choice, but rather as the result of a lack of alternatives. In short, here is the message: you young, stop dreaming to practice medicine just because you studied to become a physician, stop dreaming to become a primary school teacher just because you studied to become one, stop wanting to be a…..

We recognize such a way of thinking, do we not? Is it not the same one used by the austerians, who ask to forget dreams of investment and growth as ways to reduce public debts?

2. *The version sang by the true believers*

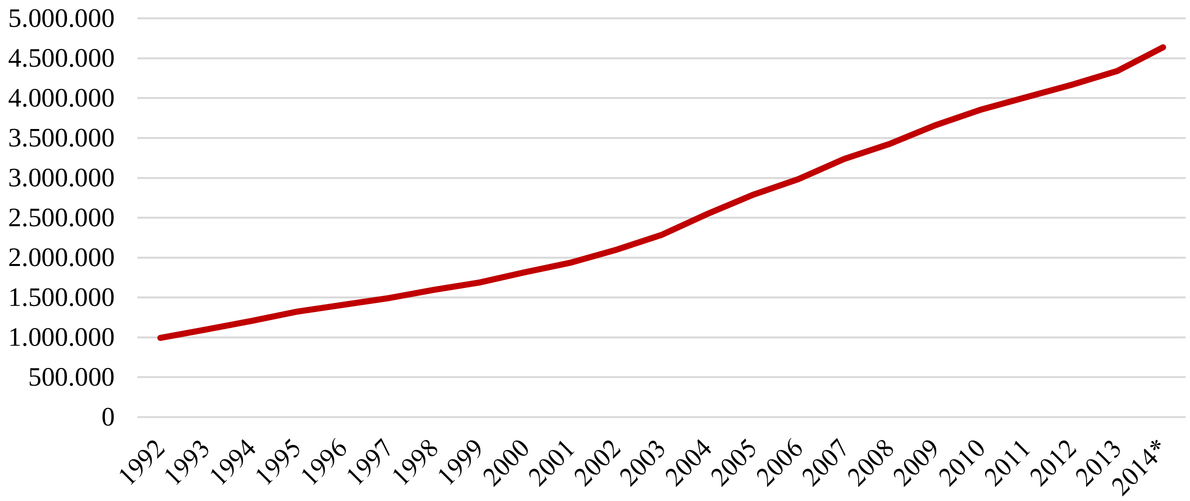
True believers do not talk like the people do as in *sub 1,* of course. In their case, *mismatches* are easily taken care of, since *mismatches* are manifestations of the bad influence that the State and trade unions have on the market. With a little help, those manifestations can be removed, and the free market can get back to be free and perfect allocator of the labor force (as it does with bananas, machine tools and so on, same thing). The tools to accomplish the goal have been known for a long time: *agenzie per il lavoro* (labor intermediaries), *osservatori del mercato del lavoro* (labor market observatories), and so on and so forth all the way to the latest scam, that 'Jobs Act' purported to be the savior of the Italian labor market (Why such tools never worked and the conditions of the Italian labor market have been deteriorating instead, is something that their advocates will surely explain in due time.)

*3. The facts*

But what *mismatches* are they talking about? What *frictions* on the Italian labor market? Just two bits of data suffice to open the dances, that is, to show that not f*rictions* we are facing in Italy, but mass unemployment: 12% overall unemployment rate, 41% youth unemployment. These are terrifying numbers: the issue is not to increase production of plumbers by 10,000 due the excess demand of same, and to reduce production of primary school teachers by 18,000 due to lack of demand for them! *Frictions* exists necessarily all the time, the more so when a particular industry grows rapidly and personnel with the skills and competences required are so special and new that time is needed to lure them away from other industries and for the educational system to start producing in more adequate numbers.

But, I need to ask, where are these industry in such rapid ascent? There are none. *What is missing here is plain, old, labor demand for skilled labor*. And when firms do not hire, skilled (and less skilled) young ones vote. With their feet, they vote, as my old Economic History Professor taught me when discussing in class models of slaves flight form the Cotton South. In our instance, they emigrate. Which is exactly what happens in Figure 19, where the changing stock of Italian residents abroad is depicted.

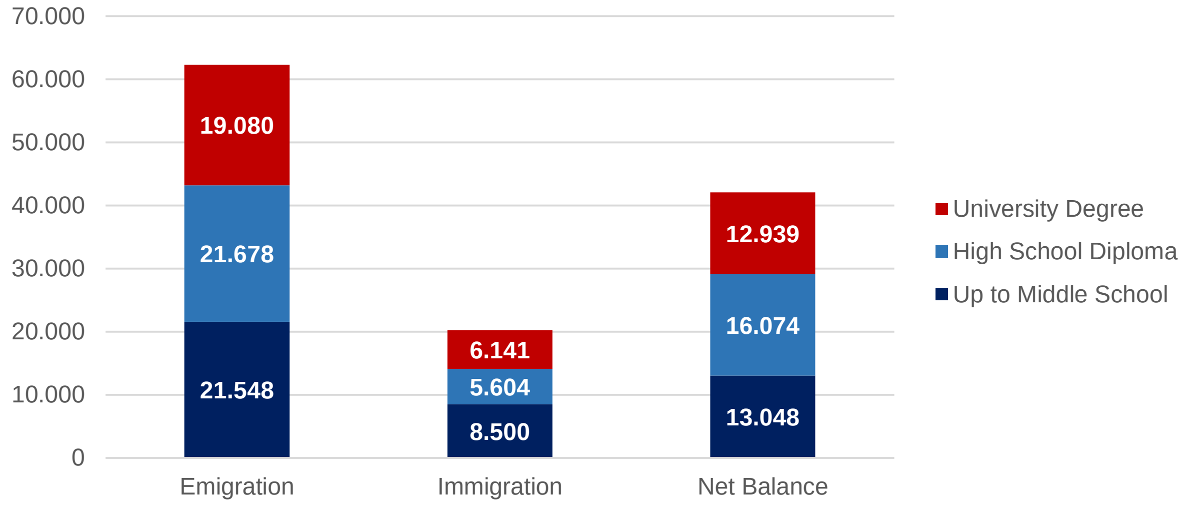
**Figure 19: Italian officially registered in a foreign Country, 1992 – 2014**




*Source*: Anagrafe degli italiani all'estero (A.I.R.E.), Ministry of the Interior; * the 2014 figure refers to the number of Italian emigrants

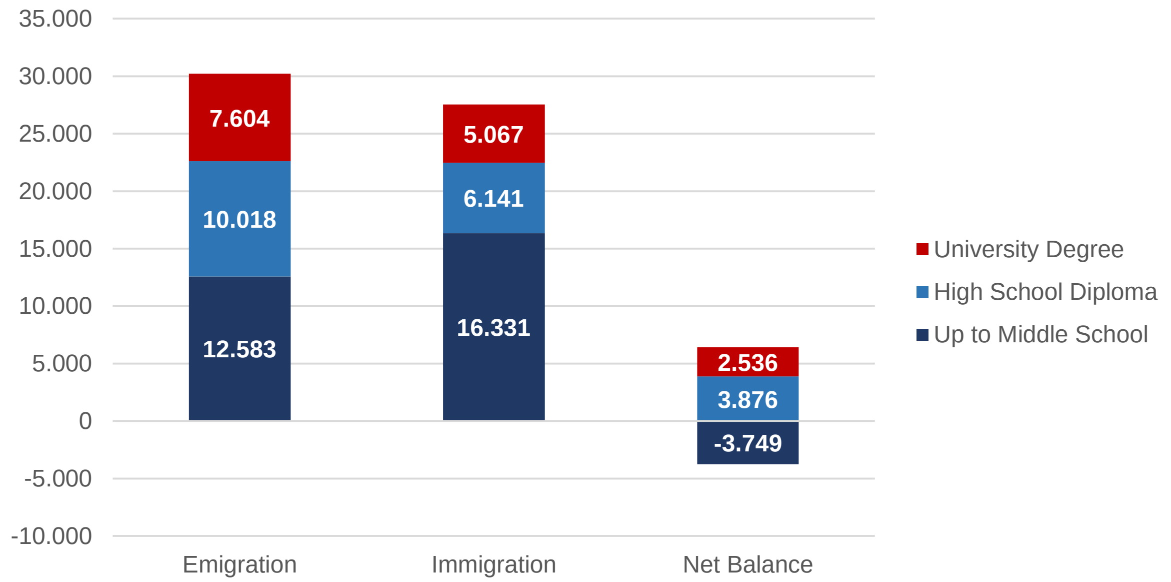
Figures 20 and 21 taken together allow answering to more than just one question: 1. Do more people emigrate in 2007, right before the start of the Great Recession, or in 2013? And again: 2. In what ways changed the composition of the outgoing population according to degree attained before leaving the country?

**Figure 20: Registrations and cancellations into and from 'moving abroad' lists of Italian Citizens aged 25 and older, by degree, 2013**




*Source*: Istat

**Figure 21: Registrations and cancellations intoto and from 'moving abroad' lists by degree of Italian Citizens aged 25 and older, by degree, 2007**




*Source*: Istat

Figures 20 e 21 narrate a very sad tale:

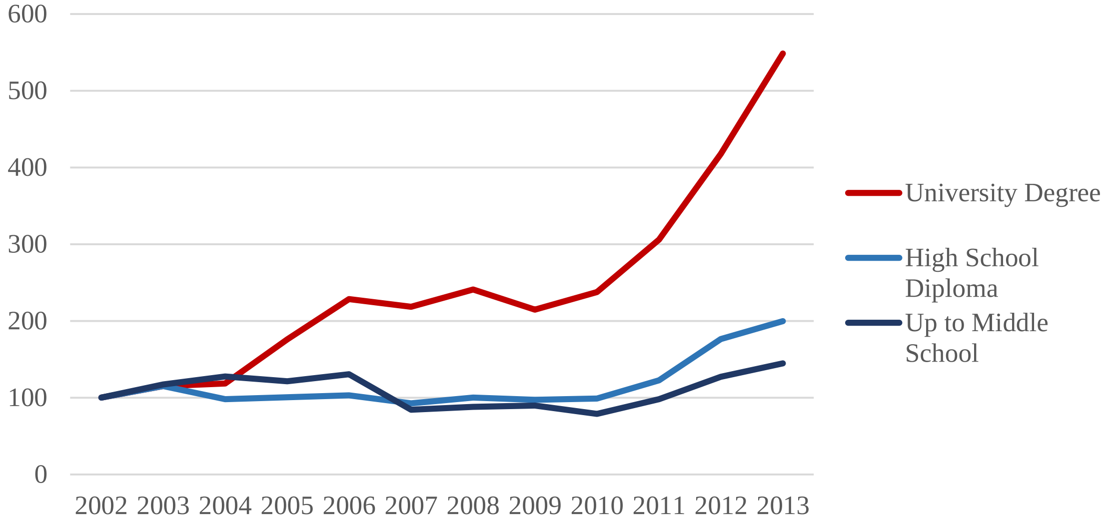
1. More persons emigrated in 2013 than in 2007;
2. The rate of growth of emigration is highest for persons with college degrees;

3. The number of immigrants declined between 2007 and 2013.

It is worthwhile to note that Figures 20 and 21 report ‘official data’, that is, the number of movements actually reported by the moving persons. There being no penalty at all associated with the failure to report, it is immediately clear that the official data underreport the ‘true’ size of the phenomenon, reasons leading to failure to communicate the move to the authorities are (just to mention two): 1. Fear to lose some right in the old country (i.e., health coverage); 2. Fear that the experience abroad may turn out not to be as expected and that a turnaround will be shortly necessary).

For those among our readers who do not have the time to ponder on Figures 20 and 21, let us point out that Figure 22 reports that the cohort of holders of college degrees increased strongly since 2004 and then accelerated again in 2009. Again, a very ugly story: labor demand, that is, firms, push abroad more forcefully those with college degrees, those who carry with them the most valuable skills and competences, the better educated ones, those potentially most capable of contributing innovation, profitability, competitiveness. And what about specializations, comparative advantage? We already know that in a globally integrated production system[3] a country’s specialization coincides with the array of products its firms can make competitively relative to the rest of the world. And so, let us ask the final question: what production activities will a country (Italy) specialize in, that at once pushes away its young with a college degree and fails to attract foreign-born college degree holders? Garments?

**Figure 22: Growth of Italian Citizens aged 25 or more deleted from Italian civil registry for registering at the civil registry of a foreign country, by level of education. Annual data, 2002-2013 (basis 2002=100)**




*Source*: Istat

And so, we finally are in the brain drain trap: we train our young, whose cost is in large part met by the State coffers, but firms have no interest in employing them. Good, our young ones are so good that they easily find

[3] In this contest, by ‘globalization’ we mean the process through which production activities designed to produce a final product are located in different countries.

good jobs elsewhere. Young ones who go and produce value added elsewhere. Who pay taxes elsewhere. Who contribute to aggregate demand elsewhere.

No, none of this is good. None of this bodes well.

## *9. The role of government in supporting productivity and competitiveness*

For decades now, Italian governments have been spending for research and development (much) less than what the other high per capita income countries' governments were spending: the obvious result is that production and trade specializations do no evolve towards competitive industries, productivity falls, firms become ill and uncompetitive.

It is difficult, in this poor country of ours, to talk about economics. Or the future. Or our young ones and their future. Just a few weeks ago I was delivering a talk in front of representatives from about forty from all industries, all dimensions. Good audience. And my keynote speech is, as I want them to be, direct and uncompromising: 'made in', I announce, is no longer the growth engine. Old hat, say those who now a bit about the debate that has been going on for thirty years now, about the fragmentation of production literature on the economics side and its counterpart, the global value chains story, on the management literature. Many in the audience understand and share this point of view because they have experimented it. Then shoemakers and apparel people take the floor: "You [I, FS] do not understand that 'made in Italy' is a synonymous for quality", "You [I, FS] do not know that our industry's trade balance is positive", "'Made in Italy' is known in the world". They do not understand that I am talking about the way modern production is organized around the world, they understand trade marks.

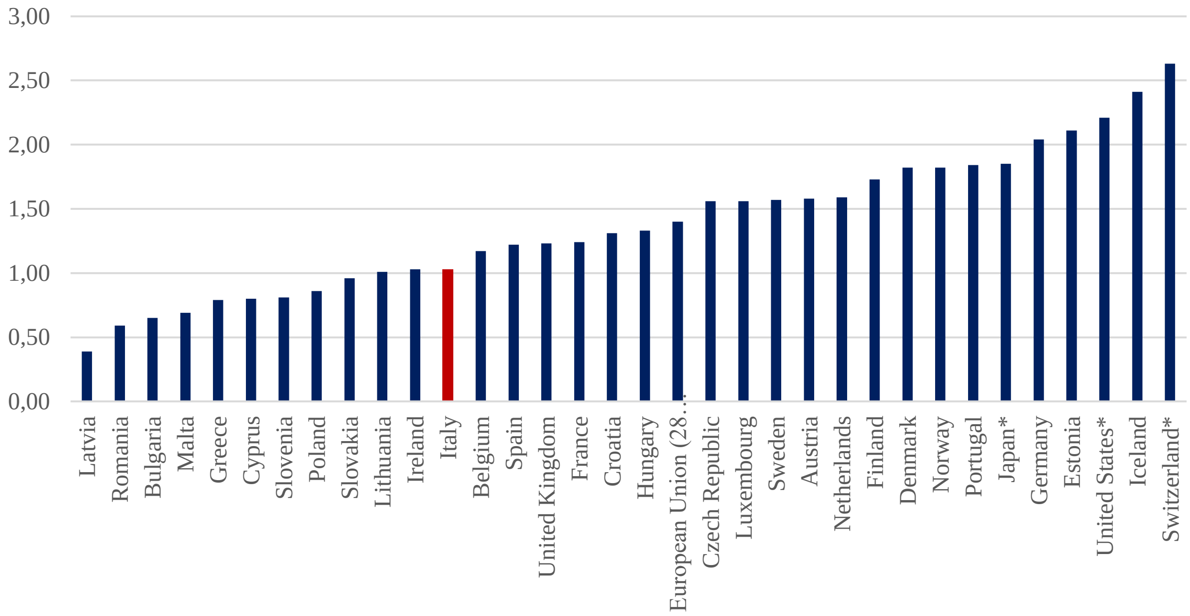
It is difficult to talk economics in this country. Try and make these people understand that they have a ludicrously low number of college educated people in their firms; try and tell them that they are certainly good, but employ today roughly two hundred and fifty thousand people against the nearly one million they employed at the 1991 population census. Try and explain the concept of international division of labor, that the pharmaceutical industry in this country is synonymous for brute manufacturing while research and development are in Switzerland and the Netherlands, countries to which our young ones migrate because it is there that they find demand for skilled labor matching their training and their aspirations. Go tell them…..no way they'll concede. Future is in a beautiful tie. Or in a beautiful coat. The most beautiful ones in the world.

[A word of warning: we must be grateful, and we are, to all those who in decades past contributed to the process of growth of income and quality of life in this country, to blue collar workers, to entrepreneurs, civil servants and managers.]

Only problem is, it is over. 'Made in' no longer is the way productions processes are organized in competitive industries, which are integrated throughout the world. [Please, I did not say 'made in Italy', I said 'made in'.] Competitiveness is looked for, and found, in one's ability to get global value chains appreciate one's particular skills and expertise: and that not in the old-time sense, when the finished product was the thing to do best, but rather in the modern sense of the fragment of the production process that one can do best. In clear: even a shirt is no longer the fruit of a production process located in one country and, possibly, one plants. It follows that what matters in demonstrating one's competitiveness is to find that position along the value chain that entails possession of skills and qualifications not in making shirts, but rather in carrying out that particular task at that stage of production. There is value added, there are good profits and good wages. There is where good pensions come from.

Today's question is therefore the following: will the private sector be able to bring all this about? Figure 23 says, no. Government must play a role.

**Figure 23: Government Budget Appropriations or Outlays on R&D (% of GDP), 2013**

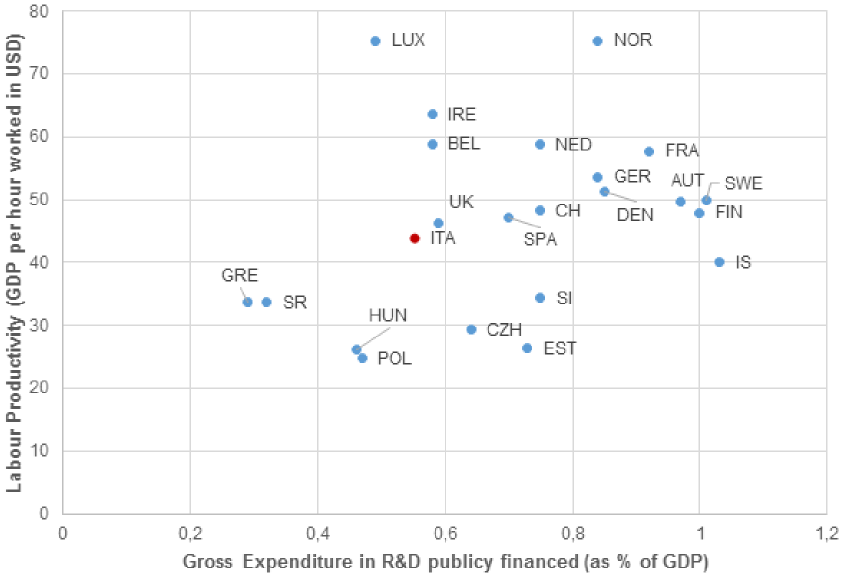



*Source*: Eurostat, August 2015; *figures refer to 2012

Figure 24 says that in ALL the highest per capita income countries governments spend for research and development a higher proportion of gdp than governments of countries with a lower gdp per capita do. Period. No discussion but a question: there may be a correlation? Causality?

There is. This is shown in Figure 24, where labor productivity appears on the vertical axis and R&D expenditures on the horizontal lone. Evidence does not appear to warrant discussion: the more R&D as a share of gdp, the higher the productivity. That is, more wealth being produced in the unit of time. Which is only good common sense, no? Too bad for those who get tantrums when they hear that the government has a role to play in economic things.

**Figure 24: Productivity and Publicly Financed Gross Expenditure in R&D, 2010 or latest year available**




*Source*: Authors calculations based on OECD data, August 2015

### *10. Austerity*

At this point, we must ask ourselves: but the austerians' recipe, the one that goes like 'by cutting public expenditure the economy will recover', is bearing fruit? My position is clear (and known): IT IS NOT TRUE that austerity is the means through which we are achieving gradual reduction of public debt as well as an improvement of economic growth. This is a truth that good economic theory, which goes along well with common sense, has been saying, is saying, and will keep saying.

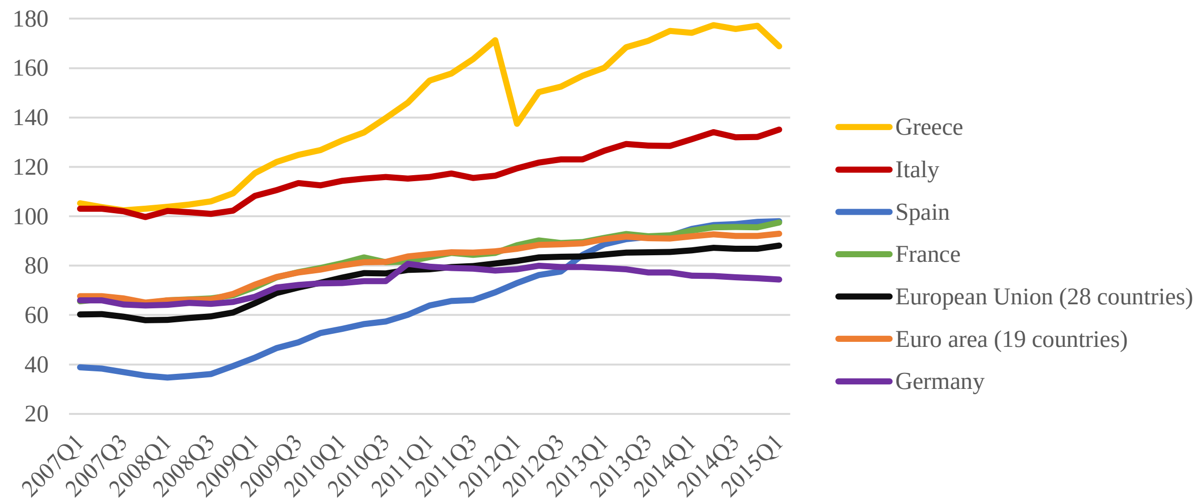
In order to avoid boring readers to death, I will not go into the good old theory, or the old good common sense that goes along well with it, and remind everybody that there are just four engines available to jumpstart our economies. All of them, obviously, demand-side engines, demand being that factor in the absence of which firms at first slow production down and then shut down entirely (the path followed from the first to the second depends very much on country-specific legislation and firm-specific factors, but the story is easily told anyway: reduction of overtime, turnover repeal, early retirement, unemployment compensations, and the...And, of course, throughout the entire process aggregate demand falls because incomes fall, and the recession processes reinforced at every step).

The four engines that could in principles be fired up are household consumption expenditures, firms' expenditures for investment goods, foreign demand for domestically produced goods, government final expenditure. That households and firms may increase expenditures during a prolonged period of recession and stagnation is something that only those who have religious faith in markets can believe (the same way one believes in Snow White. More noble usages of the verb 'to believe' are not called into use for the purpose of this discussion). As to exports, it is hard to believe that 'they' will buy eagerly our goods and services, given that 'they' have problems of their own and would rather export themselves than import from us. (Data supports all this, of course). Only governments are left.

However, European governments do not intend to spend. Not since 2008. Rather, since 2009 they have adopted a new religion, that of balanced budgets and debt reduction. Good: has anybody seen government debts falling? Do you remember Professor Monti's government? Do you remember its stated objective, debt reduction? Well, I am not going to supply you with the numbers, all I shall give you is advice: data are available and easily accessible, go and seek them to answer the following question: how much did the Italian government's debt amount to before and after Monti? (Same story for Letta or Renzi, of course, the prime minister's name makes no difference; they are all austerians who have increased the level of debt and the debt/GDP ratio!). While you do research, please do not forget that good economic theory (a well as good common sense) says that attempts to debt reduction through current expenditure reduction (yes, even when it consists of 'wasted expenditure reduction' about which many market believers raise a lot of fuss), a recession will be induced (actually three recession in Italy between 2008 and today), all of which will reduce the tax base and lead to an increase of the debt/GDP ratio.

Which is exactly the story that figure 25 tells us. The interesting insight from which is that history matters, not same-time differences: what matters is not so much who is on top and who below at any point in time, but rather the different behaviors in the grey and the white areas. No real comment is need, just this: if it were true that 'markets' se are careful at evaluating the debt/GDP ratio as the criterion to select countries whose governments are ripe for attack and destruction, then … #Congratulazioniausteri!

**Figure 25: Debt/GDP, quarterly data, 2007:Q1– 2015:Q1**

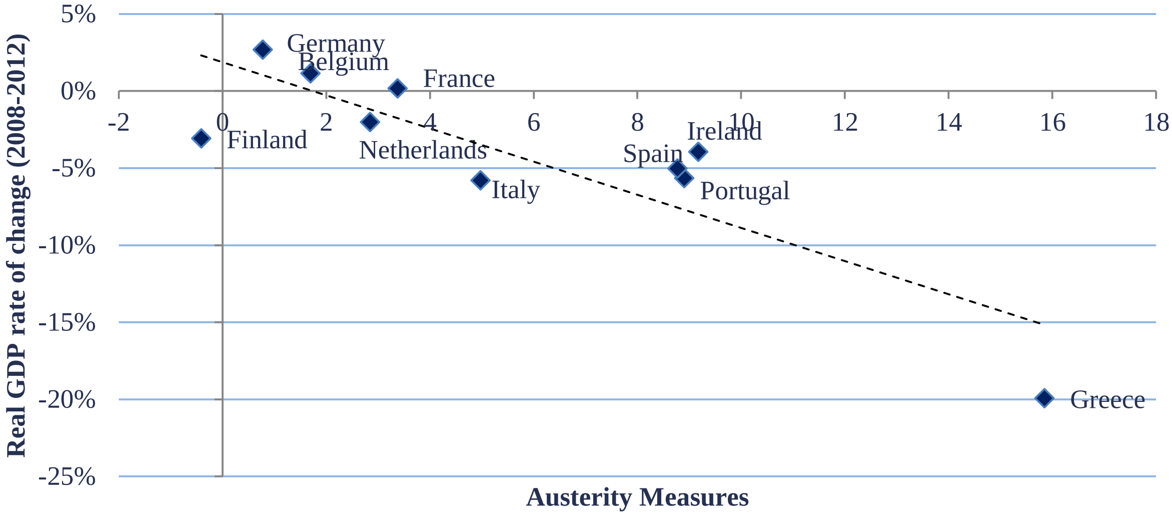



*Source*: Eurostat, August 2015

Somebody will ask: all right, debt/GDP has been growing while the austerians were saying it would shrinking; but let us see the correlation with growth!

Well. Here it is.

**Figure 26: Correlation between austerity measures (spending cuts and tax increase between 2009 e 2012) relative to GDP and growth of real per capita GDP**

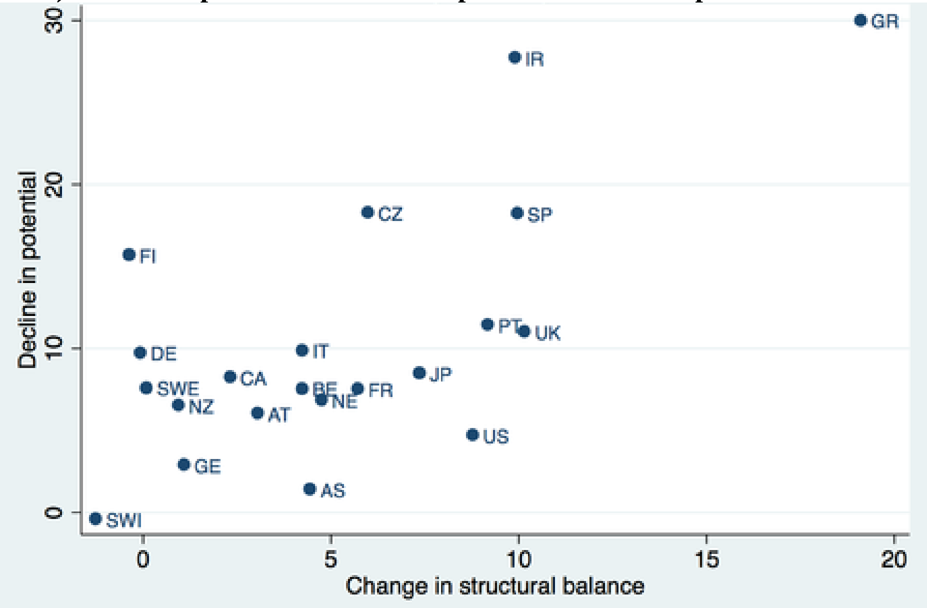



*Source*: IMF, World Economic Outlook, April 2013; IMF Fiscal Monitor, October 2012; *Austerity measures are defined as the cyclically adjusted primary balance (CAPB) needed to reduce debt; this is the CAPB required in 2020 to reduce the debt-to-GDP ratio to appropriate levels, as defined in IMF Statistical Tables.

Ok, ok, somebody will say: but not all you are saying implies that the same story will go on forever, right? Or, in slightly more technical terms: the short-run, impact effect of austere policies is contractionary on the level of economic activity, but do they have a negative impact on the growth of potential GDP, that is, on what we can potentially produce? In other words still: are austerity measures likely to generate a long-lasting effect, a structural effect?

Beautiful question and a difficult one to answer. So, I leave the answer to Larry Ball and Paul Krugman. Want the long and the short of it (figure 27): yes, austerity measures are damaging our long-run growth potential irreversibly. #Congratulazioniausteri!

**Figure 27: Correlation between austerity measures * (changes in the structural budget between 2009 and 2013) relative to potential GDP and expected reduction in potential GDP relative to pre-crisis estimates**




*Source*: Paul Krugman (20 June 2014), Austerity and Hysteresis, based on Larry Ball's estimates of the decline in potential output in 2013 relative to pre-crisis expectations (Ball, L. (May 2014), Long-Term Damage of the Great Recession in OECD Countries and IMF's estimates of the change in structural deficits as a percentage of potential GDP, 2009-2013

### *11. Austerity, one more time: health care spending is too high*

Once upon a time we had in this country the 'silent majority', term used to identify people disinclined to submit their ideas, but people certainly were not devoid of ideas. They preferred not to show them, that's all. Not in that cultural context. Malicious mouths said it was silent because it was ashamed, of those ideas. I do not know.

But we were lucky, though we did not know it. Today those same ideas, as such, are heralded from the rooftops; they are subject of televised debates, raise passions, anger, impatience. And we have to endure, and even call them 'ideas'. Mah.

One of these 'ideas' is that public spending is made up largely of 'wastes'. The ex-silent majority affirms that products and services provided by government are useless, inefficient, too expensive, they could be produced with half of the employees, and that if those things were done by the private sector, then yes…. Fortunately we have freedom of thought -which logically requires freedom of NON-thought. Let's try to exercise the former.

Of course one would expect that the health sector, of all the areas in which the former silent majority, now better known as proponents of austerity or, in short, austerians, see waste, inefficiency, etc.. would be the least attacked: after all, I thought, it is also their health, maybe they'll be lenient.

Then, I started to observe, ask, seek, and I understand why they are not (lenient): formerly silent ones do not use government health care, but the private one. For executives, professionals, pensioners, entrepreneurs, wealthy generally speaking, public health is therefore almost a pure cost, from which they do not gain much. All right. But is it justified to attack the public health system on the basis of considerations related to its efficiency? Is it possible that all the inefficiencies lie in public health sector? Maybe ‘efficiency’ should be measured in a way in certain fields of activity and in another way in other fields? I wonder: what are the effects of the closure of an office issuing authorization to engage in fishing in fresh water, and what the effects of the closure of a hospital ward? I mean, one is going to ask the new identity card in Municipality and gets angry ... because the employee is not efficient. I understand. I do not know how she/he has decided that the municipal employee is inefficient, but I understand. As I understand someone that believes that steel should be produced by private companies, which would know how to do it efficiently. Someone who, with a 99% probability, has not seen even a steel mill in a picture, or on Facebook, but I understand.

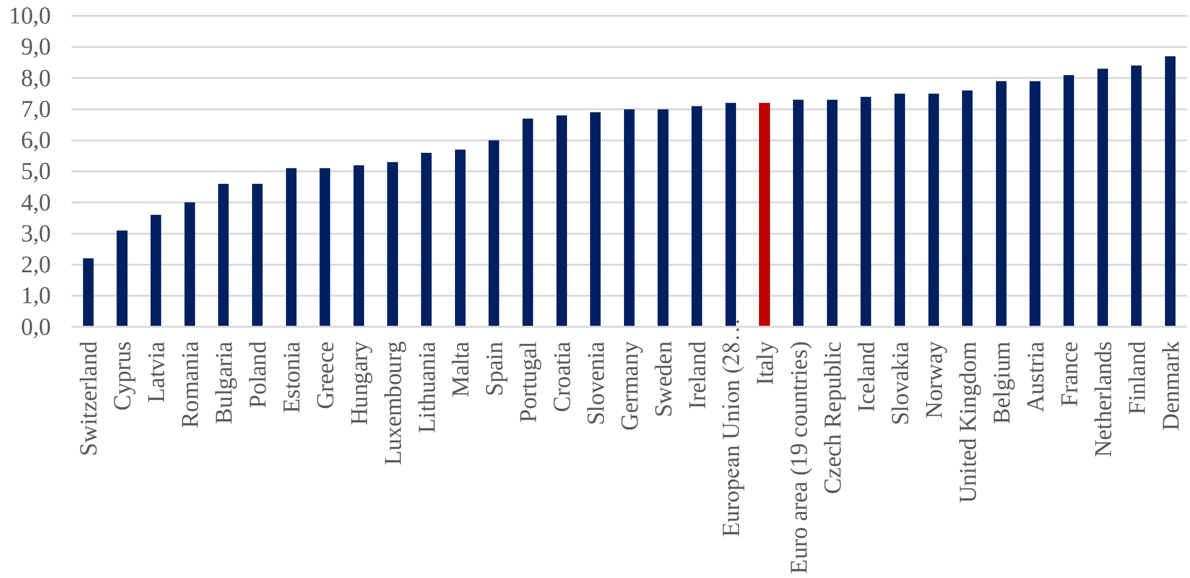
Alright then. But health? If one does need care? (Yes, here the use of the word 'need' is legitimate). Well, if public spending is branded as inefficient and sometimes useless, the health expenditure of ‘waste’ is full. This claim the austerians. Steven Hawking believes not to talk about waste when he talks about health, talking about anything else. That’s what it’s about:

> ***What does Stephen Hawking think about it?***
> *“Only last summer, I caught pneumonia* ***and would have died****, but for the NHS hospital care.*
> *The NHS must be preserved from commercial interests who* ***want to privatise it****.”*
> Professor Stephen Hawking (link)

Perhaps the concept of ‘efficiency’ should be used after realizing what it is, and not for ideological reasons. A sick, or at least Stephen Hawking that disease knows, speaks primarily of health care.

But back to the main topic. Figure 28 helps us to respond to our own austerians: public expenditure on health is too high in Italy. For real!? High compared to who, to what?

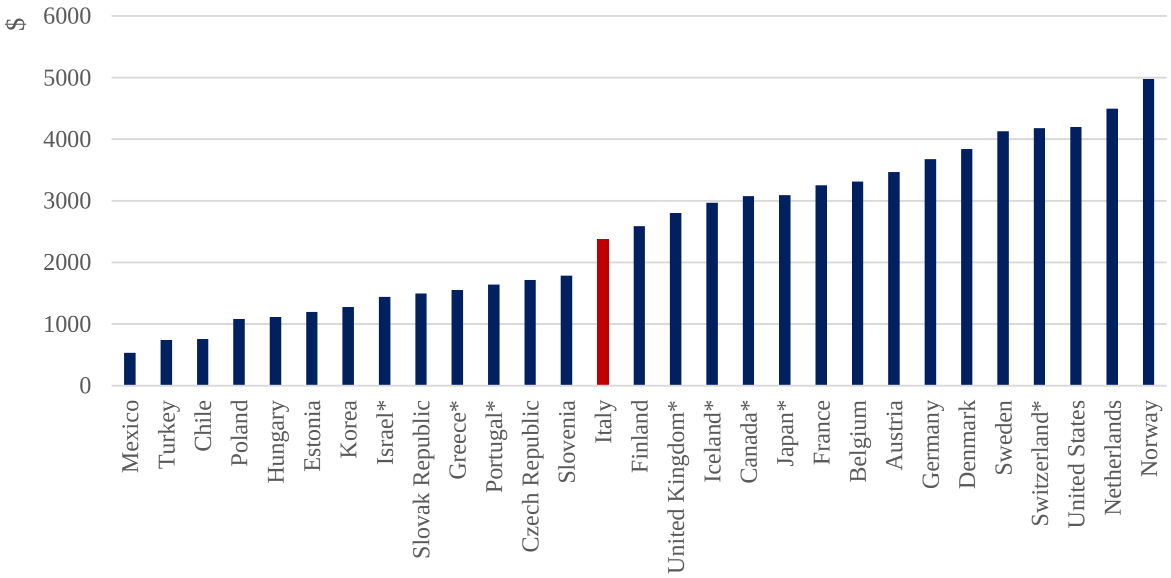
**Figure 28: Public expenditure on health care as a percentage of GDP in Europe, 2013**




*Source*: Eurostat, August 2015

And given that governments of Denmark, Norway and Sweden spend a pile of money on health care, more than any other countries (obviously austerians say that yes, it is true, however, as their spending is efficient!), and thus pose a problem of scale, Figure 29 facilitates comparisons between EU countries. We spend 'too much', per capita!?

**Figure 29: Current health care per capita expenditure, 2013**

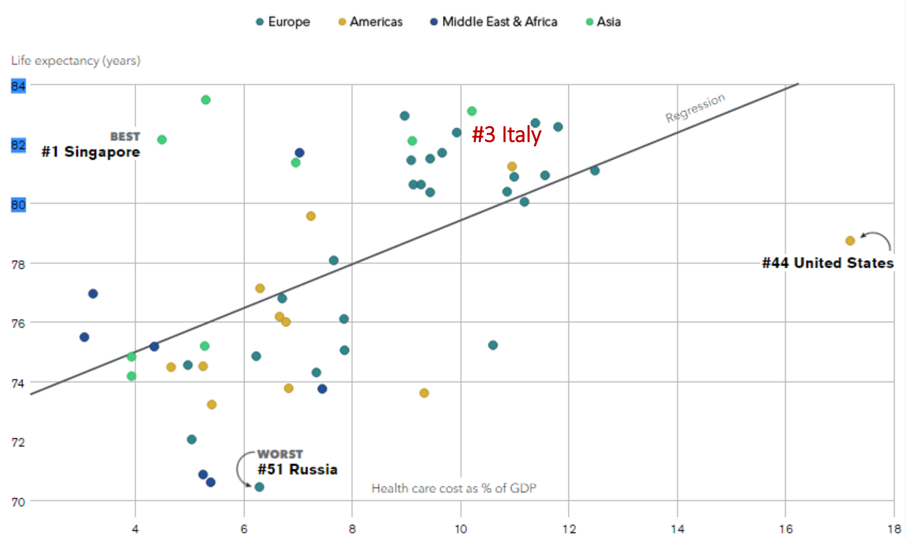



*Source*: OCSE, August 2015; * figures refer to 2012

[Irony: I was about to close the piece, when my wife alerts me to a tweet on the subject: a comparison between countries, nothing less! And not by some statist inveterate enemy of the market!]

***And what does Bloomberg have to say in comparative terms? Have fun with the interactive graph!***

**Figure 30: Ranking of the best health care systems in terms of health costs (% of GDP) and life expectancy (years), to Bloomberg data click this link**




*Source*: World Bank, International Monetary Fund, World Health Organization, Hong Kong Department of Health; Graphic: Chloe Whiteaker / Bloomberg Visual Data; Editorial: Wei Lu / Bloomberg Rankings & Anna Edney / Bloomberg News

The answers of austerians? In two stages:

1. Yes, but in other countries, government spending for health care is efficient;

2. In any case we have to make sacrifices, reduce debt, bringing the primary surplus to x%...

### *12. To grow, the government need play an active role, not just 'manage' market failures*

Joseph Stiglitz, Nobel Prize for Economics in 2001, defined the nineties 'roaring', a term which defines a time when market liberalization proceeded at a fast pace and hand in hand, of course, the State reduced its role as supreme regulator of production and trade activities. While the book's emphasis is on the financial sector, the 'liberalization' process invested, as you recall, all productive sectors (The Roaring Nineties, Einaudi 2004). The result, for those who have eyes to see, is under our eyes: the crisis produced by the deregulation and revealed in 2007 has produced in our country about 3 and a half million unemployed, the loss of 25% of industrial production capacity, a cumulative real per capita income fall 2007-2014 of just under 10%, a huge increase in the number of citizens living below the poverty level, emigration of young people not experienced for decades.

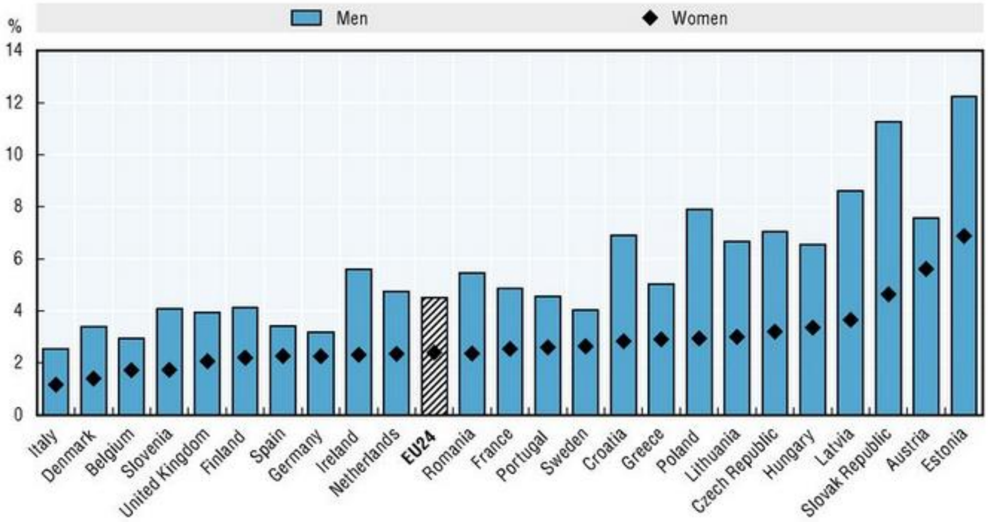
As the crisis shut down productive activities, the voice of those who believe that there will not be a real recovery in the absence of active spending policies, a way out of this stagnation can not be achieved, the 'experience' of growth will not be lived at least by a generation, opportunities will languish, has begun to raise. Obviously, princes in the government (18 EMU governments of 19) and their clerics (read consultants) continue undeterred on the road of austerity and unbridled liberalism, and shy away from intervening in this dramatic situation except to worsen as long as they can (example? the objective of a balanced budget).

If this is the picture, then we need to mobilize all our energy to activate the processes of growth of income, employment, quality of life, the technological rejuvenation of existing enterprises. We need to mobilize young people, women, the unemployed, immigrants, those who can and want to start productive activities appropriate to renew the manufacturing base of the country making it internationally competitive, modern, attractive for young people who leave our schools (good) and universities (good). But, there is a but: that this may be the future (on a scale statistically significant) in the absence of policies for the inclusion business is impossible. Yes, policies, i.e. the active intervention of the state. Who says that? The Organization for Economic Cooperation and Development (OECD), namely the organization of rich countries. I wonder: but is it not the OECD one of the bastions of liberalism that has generated this crisis?! Is not the OECD's general secretary who once said in an interview with the Wall Street Journal, that we must make sacrifices and that "the pain begins to pay"?!

Well, just the fact that the sermon is from that pulpit, it gives us an idea of how the wind is changing. The OECD report The Missing Entrepreneurs 2014, has a subtitle important: Policies for Inclusive Entrepreneurship in Europe. Policies. Not subsidies, of course, that we will not ask. Policies. Legislative initiatives, of course, but above all training programs, guidance, support, risk sharing. Inclusive.

The second reason why this OECD report is important is that it provides comparisons between European countries. Let us quote here only two: Figure 31 (Figure 2.6 at page 37 of the report) shows that the rate of nascent entrepreneurs, defined as the percentage of the population claiming to be in the start-up phase of a business, in our country is the lowest among all 24 European countries where the survey was conducted in 2008-2012. And this is valid for both women and men.

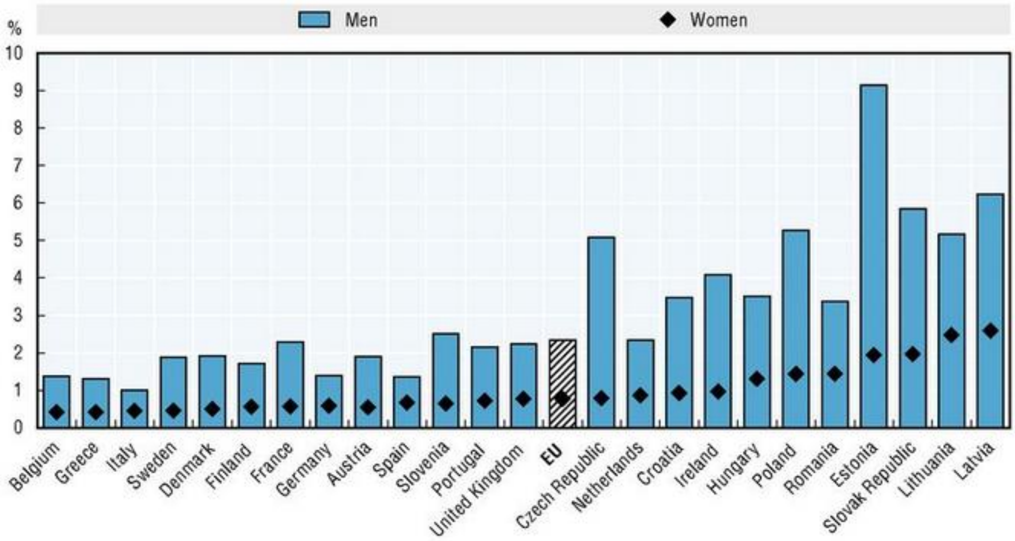
**Figure 31: Rate of nascent entrepreneurs, 2008-2012**




*Source*: OCSE, *The Missing Entrepreneurs 2014*, figure 2.6, page 37

Is this enough? Figure 32 (Figure 2.16 at page 45 of the report) shows that ours is a country where the percentage of entrepreneurs in the early stages of business activities who expect to employee at least six people in the next five years, again, is the lowest in Europe. And, again, this remains valid for both women and men.

**Figure 32: Percentage of entrepreneurs in the early stages of business activities who expect to employee at least six people over the next five years, 2008-2012**




*Source*: OCSE, The Missing Entrepreneurs 2014, figure 2.16, page 45

We need policies for entrepreneurship. Inclusive. Because the State does count.

### *13. In the way of a conclusion*

I wanted to dedicate precious time to counter the deafening chatter with which the Very Serious People hide their incompetence and their ideological alignments (I do not know which will prevail, it is decided case by case, VSP by VSP) in economics, economic policy, and industrial economics. I stuffed this short writing of a perhaps excessive amount of data, but I believe that more data is better than less data. Obviously, the empirical evidence supporting our arguments is linear and incontrovertible. If and when someone will tell me that, I have an answer ready: “Dear Sir / Madam, show me yours and then we’ll talk.”