

ITALY: RECALIBRATING THE GROWTH MODEL



Raffaella Tenconi
Founder & Managing Director

ITALY: WHAT IS THE KEY PROBLEM?

Any genuinely effective economic growth strategy for Italy should begin by acknowledging these premises:

- **We live in a world of the increasing polarisation of the financial means of companies.**

There are more global multinationals and they are getting bigger, structurally squeezing the SME sector. This creates a growth problem because SMEs account for over half of employment and of total investment everywhere (not just in Italy). This process creates other distortions, aside from employment and investment; if you are interested in this, please contact us separately. In Italy, in particular, there is a historical bias towards small companies in a global context.

- **Italy remains in a multi-year process of de-industrialisation, because the number of companies is falling and/or the delocalisation of businesses remains an important trend.**

This process is very hard to reverse at the current juncture because business conditions remain very attractive in Central Europe; while, in Italy, the elements of competitiveness that are emerging are not easily “bankable”, due to slow and inadequate processes: real estate prices are low, but the market is thin,

for example, and wage levels are becoming more attractive in a European context, but the costs and uncertainties related to running a business are high.

- **Italy suffers from a drop in the level of population and the unfavourable demographics are accentuated by the emigration of younger people.**
- **Deepening globalisation and the associated polarisation of balance sheets is connected with a growing number of goods of worsening quality,** with a high environmental cost and a serious challenge to the historical growth model of Italy, based on small production of high-quality, high-price goods. There is a need to better and systematically signal the genuine overall quality of products.

ITALY: RECALIBRATING THE GROWTH MODEL

Potential solutions to boost the Italian economy

We believe that these changes would really help.

Italy has plentiful real estate assets, but it is not benefiting from them as much as it should.

Creating an electronic platform to simplify and magnify the price discovery of any real estate transaction, as well as securing the payment of the transaction: this would increase the potential audience for real estate, it would reduce the risk of freeloaders, especially in the rental market, and it would allow the State to collect more revenues from these transactions. By increasing the liquidity of the market, households would be able to turn an illiquid asset into a liquid one to fund consumption and investment. This platform

could also become a vehicle to increase the visibility and, thus, the financial turnover of small economic activities, including sole traders.

Wage levels are compressing and, eventually, they should be below those of central and eastern Europe for a meaningful share of the population. However, the regulation on the creation of a business is difficult to assess, ex ante, and maintain, ex post.

The State should provide a comprehensive manual with the requirements needed for every profession, and it should keep it up to date.

If this is too difficult for the State to produce, then individuals cannot be expected to keep up. While doing this, the State should impose that every province converges to the procedural efficiency of the best-performing province in Italy for a

specific category.

Maternity policies should become the best in the world (please see our other proposal: *Maternity policies: a different approach*). There are plenty of families that could consider relocating to Italy if the conditions for raising a family are favourable.

Expand and broaden the funding for Istat, to allow the significantly greater monitoring of economic development, more rapidly.

Also, **create a separate institution to assess the quality**, in terms of durability, **and the environmental impact of goods in the market produced locally and imported.**

By doing this, there will be a genuine signal of product quality, and small producers that create durable and low-impact products will be signalled clearly in the market.

A virtuous circle rewarding companies that produce quality items, and consumers that want to shift their consumption pattern towards low environmental impact.

In the attachment, you can find some solutions that we believe will make a genuine difference.

Tell us what you think of it here:

<https://www.surveymonkey.co.uk/r/PRMZSCX>

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ITALY: RECALIBRATING THE GROWTH MODEL

Potential solutions to boost the Italian economy

We believe these changes would really help.

1. Italy has plentiful real estate assets, but it is not benefiting from them as much as it should.

Creating an electronic platform to simplify and magnify the price discovery of any real estate transaction, as well as securing the payment of the transaction would help. This would increase the potential audience for real estate, it would reduce the risk of freeloaders, especially in the rental market, and it would allow the State to collect more revenues from these transactions.

By increasing the liquidity of the market,

households will be able to turn an illiquid asset into a liquid one to fund consumption and investment.

This platform could also become a vehicle to increase the visibility and, thus, the financial turnover of small economic activities, including sole traders.

2. Wage levels are compressing and, eventually, they will be below those of central and eastern Europe for a meaningful share of the population. However, regulations around the creation of a business are difficult to assess, ex ante, and maintain, ex post.

The State should provide a comprehensive manual with the requirements for every profession and should also keep it up to date.

If it is too difficult for the State to produce one, then individuals cannot be expected to keep up. While doing this, the State should impose that every province converges to the procedural efficiency of the best-performing province in Italy for a specific category.

3. Maternity policies should become the best in the world (please see our other proposal: *Maternity policies: a different approach*).

There are plenty of families that could consider relocating to Italy if the conditions for raising a family are favourable.

4. Expand and broaden the funding for Istat, to allow the significantly greater monitoring of economic development, more rapidly.

Also, **create a separate institution to assess the quality**, in terms of the durability, **and environmental impact of goods in the market produced locally and imported.**

By doing this, there would be a genuine signal of the product quality, and small producers that create durable and low-impact products will be signalled clearly in the market.

A virtuous circle rewarding companies that produce quality and rewarding consumers that want to shift their consumption pattern towards low environmental impact would be the result.

ITALY: DETAILS OF THE SOLUTION? - PART I

FIRST STEP: aim for free financial resources, and create the conditions for sole entrepreneurs and small-scale business operations to get more visibility online.

The current technological leap implies that SIZE is very important. The process that leads a business to gain SIZE is difficult, lengthy and, in any case, not everyone can do it. Why? Some will not have the skills. Some will simply not have a viable business model. Some will not want to. Some will not have the financial resources. AND start ups, by definition, are SMALL.

SO, this creates the conditions for leveraging on the preferential tools of the STATE to create SIZE: that is, a nationwide platform for a country of the size of Italy automatically has the SIZE needed to get visibility at the global level. This is something that no single private entity would be able to do domestically.

WE SUGGEST: creating an electronic platform to simplify and magnify the price discovery of any real estate transaction, as well as securing the payment of the transaction.

This would increase the potential audience for real estate, it would reduce the risk of freeloaders, especially in the rental market, and it would allow the State to collect more revenues from these transactions.

In addition, this vehicle should be used to advertise local services and businesses, which would give visibility and turnover to entities that, otherwise, are almost inevitably going to disappear in a world that is becoming increasingly digitalised.

HOW difficult is it?

Remarkably easy and also rather cheap.

The technology already exists, the implementation of the project could be done in one-to-two years.

The payoff would be immediate.

ITALY: DETAILS OF THE SOLUTION? - PART II

SECOND STEP: address the high distrust in the bureaucratic process, and genuinely recognise the full process and costs associated with running a business.

Also, there is a tendency in Italy for services and information to be provided on a “need to know basis”, which means it becomes lengthy and difficult to map the full procedure, and therefore assess the practicality of any activity.

This has obvious financial implications as budgeting becomes even harder than in normal circumstances.

As the government goes through this process, it will become easier to improve the quality of services of the public administration across the country.

WE SUGGEST: the State should provide a comprehensive manual, with the requirements for every profession, and that it should keep it up to date.

This means every single step, every certificate needed at the central, regional and local levels at inception, and in every subsequent year. If it is too difficult for the State to produce this, then individuals cannot be expected to keep up either.

IN ADDITION: once the above is done, it should demand that every local authority aligns itself with the best practice in the country, which should lead to significant improvements in regulatory efficiency.

HOW difficult is it?

Very difficult in practice at this juncture, but it cannot be avoided. That said, theoretically, if there was a real commitment to it, sufficient manpower could address it within a year, we believe.

Our best guess is that this would end up being, at best, a three-year journey and it would require a lot of political commitment.

The alternative is a steady loss of productive capacity.

ITALY: DETAILS OF THE SOLUTION? - PART III

THIRD STEP: maternity policy and conditions around it should improve.

WE SUGGESTED: a set of measures in our *Maternity policies – a different approach* presentation. **Please refer to that document.**

HOW difficult is it?

Very difficult, because it requires a change of mentality and a shift in the tax structure, and it would involve expanding childrens' services.

Our best guess that we should set an initial goal of four years to implement changes in funding and beginning to organise the delivery of a higher number of kindergartens. A full implementation of our ideas probably needs a decade. But it will be worth it! AND remember that a normal business cycle these days lasts 10-14 years!

ITALY: DETAILS OF THE SOLUTION? - PART IV

FOURTH STEP: we live in the age of big data, information overload and the growing dominance of private sector data.

The State needs to keep up if it takes its role to promote competition and private enterprise seriously.

In addition, **the State needs data to be able to monitor the implementation and the response of the private sector to policy changes.** Without that, it would be like driving at night with no lights on in the middle of a crowded space: there will be plenty of casualties and you are not necessarily going to reach your destination.

Data are important, not just to map economic changes, but also to assess the environmental and health costs of a growing industrial trend of shortening the durability of items, to increase the frequency of purchases.

WE SUGGEST: expand and broaden the funding for Istat, to allow the significantly greater monitoring of economic development, more rapidly.

For example, there is an embarrassing shortage of up-to-date information on business demographics. In addition, **we should create a separate institution to assess the quality,** in terms of the durability, and environmental impact of goods in the market, produced locally and imported.

By doing this, there would be a genuine signal of product quality, and small producers that create durable and low impact products would be signalled clearly in the market.

A virtuous circle rewarding companies that produce quality items and rewarding consumers that want to shift their consumption pattern towards low environmental impact would be the result.

HOW difficult is it?

It is ambitious and requires coordination among

many players, but it is certainly not unviable.

Extra funding for Istat would be quick and easy. Adding an institution to monitor and disclose product quality would be somewhat complex, but would deliver meaningful long-term benefits at quite low running costs for the institute (which, in any case, should be able to tap resources in research departments that already exist in the private and public sectors).

Our best guess is that this would be a two-year journey to start with, and would be a permanently ongoing project.

ITALY: OUR APPROACH vs MAINSTREAM PROPOSALS

WHY not try more widely-discussed proposals on tax evasion, a flat tax, etc.?

In our view, to address the structural growth problems of Italy, **we need to work on measures that tackle the attractiveness of the country for living and doing business in**, and aim to support a level playing field between small/medium-sized companies, and large and ultra-large ones.

If we focus only on taxation, this would have a positive, but transitory and relatively small impact on the economy because:

1. There is strong competition within the EU on ever lower corporate tax rates, and Italy is nowhere close to being the most attractive on this metric

2. Tax cuts help proportionally more large companies than small ones.

Why? Because their balance sheets are larger and a cut in the effective tax rate generates more cash than it does for small ones.

In this case, absolute magnitudes matter more than proportions.

We do not object to the simplification of the tax structure, but we find that the debate is focused excessively on measures that yield relatively little, while it is not focusing at all on measures that have, in comparison, a limited budget impact and yield much bigger long-term benefits.

We believe that that **there is excessive reliance on ideas to fight tax evasion relative to the much bigger challenge of creating and attracting talent to the country**. In fact, we believe that there is

too much talk about fighting tax evasion at this juncture relative to what the country needs.

Efforts to reduce tax evasion tend to penalise more smaller business entities, and thus exacerbate the de-industrialisation process.

Thank you for your time & feedback,
Raffaella & the ADA team

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79, Alvington Crescent,
London E8 2NN,
UK

ADA_Research@adaeconomics.com

Tel: +44 (0) 759 4704 277

www.adaeconomics.com