

# ABRIDGED QUARTERLY REPORT

*setting national priorities:  
transparency, flexibility  
and opportunities*

*APRIL 2002*

## ***CREDITS***

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*The Report is based on the information and data available up to April 10, 2002.*

## **SUMMARY AND INTRODUCTION**

*With its third Quarterly Report devoted to national priorities, ISAE continues its analysis of the major structural problems which have a strong influence on the Italian economy. As happened in the two previous Reports of the same nature, the method adopted is based on the examination of the existing rules and regulations, on their ability to respond to policy-makers' intentions, on their (more or less expected) impact on economic agents' and markets' behaviours.*

*The subject of the present Quarterly Report is however different, as the first ISAE Quarterly Report on national priorities (April 2000) dealt with the general regulation problem - mainly in terms of constraints, obstacles, disincentives - and with its close relation with efficiency. The second Quarterly Report (April 2001) tackled the problem of the existing links between regulation intentions and outcome (with reference to five case-studies). The present Report, though remaining close to the point of view of the economic evaluation of rules and regulations, carries out its analysis through three parameters - transparency, flexibility and opportunity - which, in our opinion, are very helpful in the overall assessment of the Italian public policies.*

*In particular, transparency is fundamental in "filtering" the five case-studies dealt with in the present Report.*

*In spite of its wide-spread use in the scientific debate, as well as in economic policy discussions, no precise and generally-accepted definition is associated to the word transparency, at least in the economic analysis of rules and regulations. To our knowledge, there are no systematic and thorough investigations of that concept within this context. A possible explanation might be the close interdependence existing between transparency and the way the decision-making process is carried out while planning and implementing the rules governing markets and the economy. Given that in Italy - with few exceptions - there is no systematic testing of the efficiency and effectiveness of economic policy provisions implemented through regulation, small wonder that no thorough and rigorous definition of the term transparency has emerged so far, as an element which might be one of the (ex ante, in itinere and ex post) evaluation criteria of public intervention on the part of policy-makers themselves.*

*There is, however, a common interpretation of the word transparency which is systematically used (in its negative meaning) with reference to some evident pathologies of the Italian economic*

*system in order to denounce serious forms of alterations of the private/public sector relationship, such as corruption, misappropriation or tax evasion. The lack of transparency within that relation is considered as a prerequisite for episodes of degeneration and illegality, let alone criminality.*

*Though one Section of the present Report deals with subjects such as the underground economy, which is closely linked to the idea of transparency, that definition of the term seems insufficient and limited for the economic analysis of rules and regulations. To provide a more exhaustive and suitable definition of transparency, we shall label as "transparent" all rules and regulations stemming from legislation, contracts or administrative procedures which possess three characteristics: namely a clear and generalised information; a non-ambiguous interpretation applicable to all subjects and markets on an equal footing; and evident consequences in terms of rights, obligations, responsibilities, defaults and sanctions. Pending those characteristics, would there be the certainty of law? Indeed, if they were all perfectly combined, what would then be the role of the legal system? This articulation of the three features of a transparent rule may be even smoother if transparency is defined as the *conditio sine qua non* for a full and perfect information for citizens and market operators, whose choices are based on it. Maybe the concept is only an ideal benchmark against which actual degrees of transparency are measured, just as economists do with the theoretical concept of competition in economic theory. In this case, one might use parameters considering the provisions' feasibility (whether they are diffused *erga omnes* and available without administrative obstacles of any kind), their comprehensibility to everybody (whether rules are clear and contain no ambiguities comprehensible only to few experts, thus may be discretionarily applied by some and interpreted by others), their accountability (namely the accountability of the subjects whom the rules refer to, so that their - even financial - effectiveness may always be tested). In various cases, also examined in the present Report, not only very complex primary rules - often submerged by a myriad of complicated secondary administrative provisions - do not possess the ideal characteristics, but they are not even immune from the suspect that their scarce comprehensibility eventually safeguards vested interests. Within a framework in which the relations between policy-makers and sector lobbies have not been characterised by a sufficient degree of transparency for a long time, the final result might be a reduction in the degree of regulation clearness and awareness on the part of public opinion. Thus, the overall impact of a provision may even be "obscured", while some vested interests prevail, thus*

*transforming a provision meant for a few as a necessary measure for the whole population and offering to those few the possibility to interpret it to their advantage.*

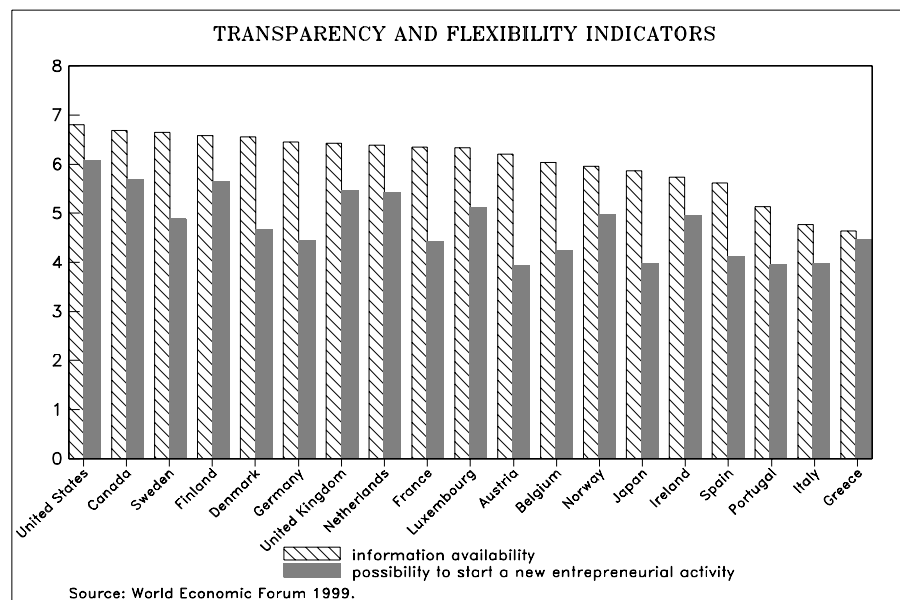
*This is not only a problem of equity, but also of economic efficiency. The nature of those provisions is all too evident. The poor information quality and feasibility of the intervention instruments identified by policy-makers lead to costs in terms of smaller competition and less opportunities for technological progress. The economic policies eventually reduce the range of choices agents (consumers, entrepreneurs, financial investors,...) have, thus reducing the framework within which they can flexibly move in the awareness and certainty of their rights and duties, thus of their economic costs and benefits. The lack of transparency depresses the entrepreneurs' "animal spirits", as well as workers' initiatives and consumers' desire to have new products. Pending clearness, agents deem it better to "avoid doing" rather than "doing" and they prefer to adjust to past behaviours - the consequences of which are already well known - so that the principle of "the precedent" becomes a reassuring solution. Thus, regulation opacity creates rigidity and limits the opportunities by reducing the potentialities for growth and social mobility.*

*Admittedly, rigidities may negatively influence wellbeing and competition also through mechanisms which do not derive from lack of transparency. A poor market flexibility may indeed also emerge when rules are transparent. An example is provided in the Section of the present Report devoted to rules and regulations on public employment, where strong rigidities are associated to an excess of transparency. In particular, Italian rules are inexorable in banning any form of judgement in the choices of public employees through competitive examinations, under the assumption - which is only rarely grounded - that any possible room for discretion left to the examining commissions would be used to select recommended or friend candidates, rather than the best ones, with the final effect of penalising the General Government. Indeed, ex ante rigid rules cannot cover by definition all possible situations which might emerge ex post with reference to candidates. Therefore - as economic experts well know - in that situation optimal results require an adequate mix of rules and discretion.*

*Comparative international investigations have been constantly showing for years how backward the Italian situation is in terms of regulation transparency and flexibility. The indicators elaborated by the OECD and the World Economic Forum evidently show the gap between Italy and its major European partners - even countries with a*

*much slower development - in terms of rigidity of the regulation standards, administrative protection for new entrepreneurial activities, independence of the General Government from the political power, but also of availability of information on the economic activities. In this sense, according to the World Economic Forum, Italy ranks 36<sup>th</sup>, after countries such as Malaysia, the Philippines and the Mauritius Islands.*

*It is all too natural to wonder why the consequences of regulation transparency are not adequately perceived and evaluated in Italy. In this particular case, the answer to that question may be given without reference to economic dualism. As a matter of fact, though with different characteristics, the economic problems deriving from regulation opacity emerge both in Southern regions (where the underground economy, in particular, represents an enormous second market), and in the Northern-Central ones (where signals of lack of transparency are observed in various company structures and behaviours).*



*The question - referring to a problem of structural nature - makes reference to long-period features of the Italian history which cannot be obviously dealt with in this context. What has however been systematically confirmed as time goes by - though the Italian system has been witnessing a progressive opening to international trade and transactions - is a sort of wide-spread fear towards market rules and the conditions guaranteeing its efficient functioning. It is not only a mere defence of position rents or of monopoly or oligopoly stands*

*(which are present also in other countries); and it is not only the typically Italian fear for competition effects - ranging from Darwinian survival of the best to any form of merit-based award, to entrepreneurial failure -. It is a general approach which seems to be a peculiar feature of the Italian culture (and not only in the economic field). It is a sort of request for protection which in many cases proves stronger than the evident benefits for society as a whole which would be drawn by a more open and intense competition.*

*The reasons for that "natural aversion" to the full deployment of competition mechanisms and of the related opportunities for wellbeing and development - attainable through various instruments, including regulation transparency and flexibility - may perhaps be traced back to the origin of other anomalies of the Italian economy, namely the restricted dimensions which have been characterising Italian firms for centuries. The high fragmentation (clear traces of which are to be found in retail trade distribution) and the creation on the territory of many small family-run oligopolies seem to have created a sort of spontaneous barrier, supported by the general public, to any element upsetting the consolidated positions, such as the entry of new firms, or cost-reducing process and product innovations or the full circulation of information. In this sense, heavy and complicated rules, fraught with constraints or hardly transparent, may be considered not so much the result of an invasive and short-sighted red-tape but the inevitable consequence of a culture aiming at social cohesion more through the (apparent) safeguarding of weak brackets - sometimes (de facto) excessively protected - than through dynamic behaviours, or high firms' birth and death rates, technological progress or market opportunities.*

*The degree of diffusion of suspicious (let alone averse) approaches to competition - disguised as appraisals which eventually proves to be mere lip service - makes it even more difficult to introduce policies promoting market liberalisation. The scarce transparency and flexibility of market-regulating rules and regulations become the cause and, at the same time, the effect of their non-competitive functioning. It is however self-evident that, in the short run, public interventions cannot pursue ambitious and absurd targets, such as a change of century-long attitudes and praxes. However, they may certainly aim - as it is recently happening for decisions on energy and public services - at gradually weaken factors causing the persistence of anti-competition performances. Thus, regulation transparency and flexibility become fundamental instruments to favour growth: not only economic growth, but also cultural and indeed moral growth (given the implications of a sound competition in terms of freedom, equality and*

*solidarity brought about by wellbeing).*

*The steps to take along the path of regulation transparency and flexibility are multi-fold. Firstly, it is fundamental to proceed with renewed strength towards de-legislation and law simplification. Rules and regulations should be easier and clearer: formal progress should go alongside with a substantial one. The myriad of existing provisions should further converge towards a few and essential administrative procedures, which today are still borne by firms, workers and consumers. In this context, the regulation impact analysis (RIA) - i.e. the explicit listing of the targets of new rules and of their potential consequences on the different categories of citizens - should be introduced in public decision-taking processes, as indeed foreseen in recent provisions, with the task, among others, to verify whether changing the existing rules is in fact necessary and suitable.*

*Secondly, rules associated to allocations of tax resources, especially if of considerable amount - de minimis non curat pretor -, should be subject to continuous monitoring with regard to their administrative aspects and economic effects. Those (in itinere and ex post) evaluations should somehow become institutional. It is necessary to investigate on what the Anglo-Saxon call "the value for money", thus abandoning the assumption underlying national accountability - recently reformed by ESA 95 - whereby the value of public spending coincides with its costs. The problem was already successfully faced in completely different situations, always guaranteeing the impartiality of the institutions responsible for this objective. The task of testing the effectiveness (and impact) of regulation might be left to the Audit Office (Corte dei Conti) - as indeed it already carries out the formal accounting controls (as in the experience of the U.S. General Accounting Office) -, or to autonomous bodies far from the legal or executive power or to special Parliamentary offices. Public opinion, but also the State administrations, particularly if Italy goes toward a strong federalism - as indeed is going -, would gain in terms of information, capability and success. These needs are in fact particularly pressing given the ongoing decentralisation of functions and competencies, as thoroughly indicated by a Section of the present Report on the implementation of Constitutional federalism.*

*Thirdly, observing the effects of rules and regulations and the endemic trend of Italy to evade them, regulation should increasingly rely on the awareness of the convenience, the costs, the trade-offs and the (tax and contribution) incentives for market operators. Conversely, in the best of cases, good rules ignoring the advantages and disadvantages created by private interests, which they penalise or*

*favour, are often immaterial, if not even damaging, and are often accompanied by sanctions which are at the same time insufficient (as if individuals were always virtuous and generous) or excessive (as if the General Government might produce "credible threats").*

*Finally, with regard to contents, rules overprotecting (and not in the best possible way) many economic sectors must be reviewed, as they create barriers to entry. Less binding ways of market access - i.e. less "interfered" by public red tape and less frozen by rules and praxes maintaining the status quo imposed by insiders - create more opportunities and development, as suggested in the present Report by the Section devoted to the (even partial) liberalisation of retail trade and that aimed at showing the employment progress reached through flexibility and fixed-term contracts. The list of sectors needing intervention - thus continuing or strengthening already started paths - would be very long: from professions to the private labour market to public employment.*

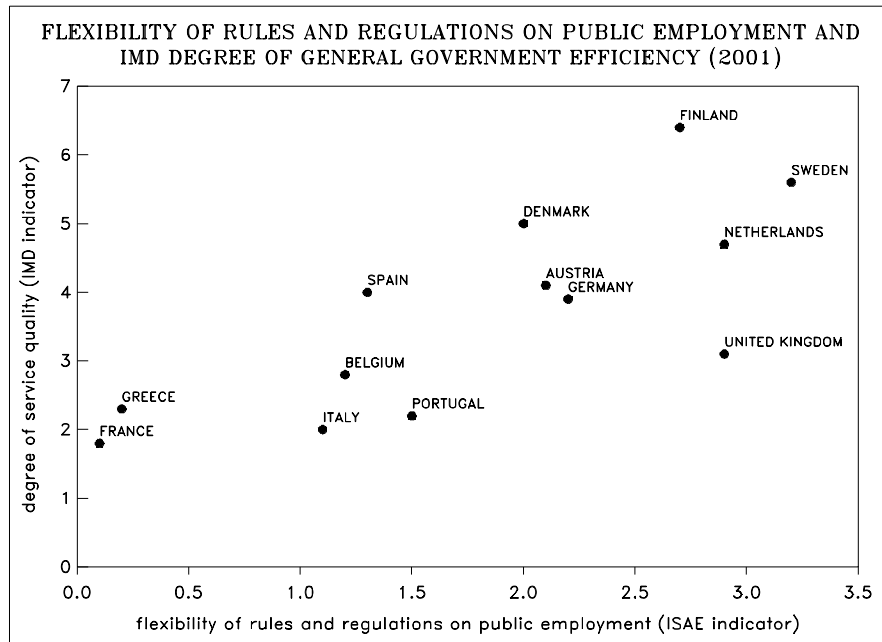
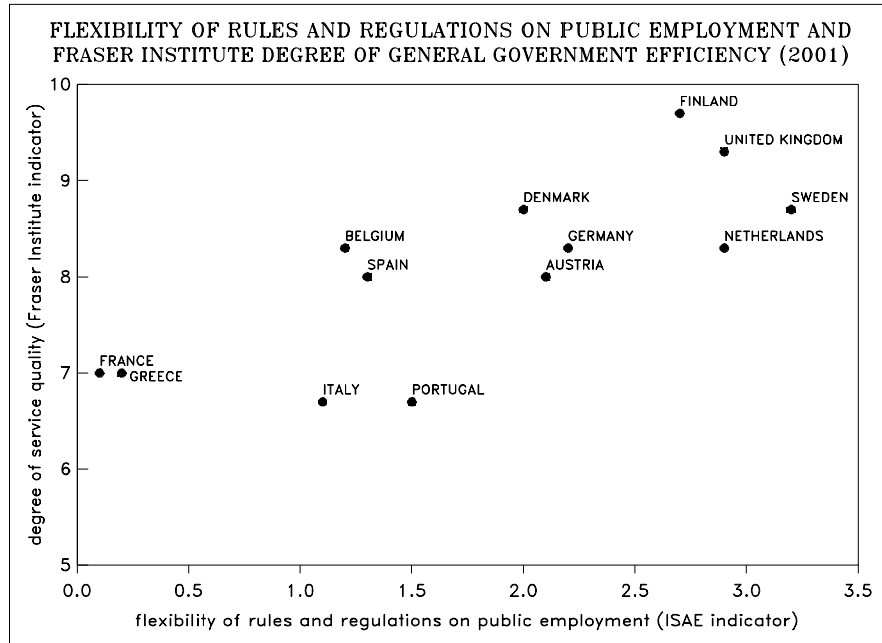
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The present Report starts with two Sections aimed at showing the levels and variations of the Italian labour market rigidities. The first Section, on public employment, marks a new field of research where nobody else ventured but ISAE, as it tries to define rigidity parameters comparable with other countries, similar to those OECD tried to introduce with reference to the private sector, in an attempt to estimate the correlation with the General Government performance. The second Section, mainly concerning the private sector, hinges on the efficiency and equity gains induced by the flexibility growth introduced through fixed-term contracts.

The first Section shows the existence of a strong relation between rules and regulation on public employment and General Government performance. In particular, the relevant aspects of regulation are three: candidate selection, the introduction of merit-based awarding standards in career progression and wage rises; flexibility in staff management.

Alongside with a comparative analysis of the various rules, according to the three parameters listed above, the Section presents a comparison between countries obtained through indicators revealing public employment flexibility. They translate the existing rules on single aspects relative to the three groups of qualitative variables into

quantity indicators, i.e. into synthetic indicators referring to the whole of rules and regulations. The adoption of the public employment



Source: elaborations on data from ISAE, EIPA (2001), IMD (2001), Fraser Institute (2001), EUROSTAT.

flexibility indicator - whereby in 2000 Italy ranked third from bottom among the EU countries - shows a strong positive correlation with General Government performance.

INCIDENCE ON TOTAL EMPLOYMENT AND CONTRIBUTION TO EMPLOYMENT  
GROWTH OF FIXED-TERM JOBS  
YEARS 1995-2001 (APRIL)  
(percentage values)

|                 | Incidence<br>1995 | Incidence<br>2001 | Contribution of<br>fixed-term jobs<br>to employment<br>growth | Contribution of non<br>fixed-term jobs<br>to employment<br>growth | Overall<br>employment<br>growth rate |
|-----------------|-------------------|-------------------|---|---|--------------------------------------|
| Males           | 6.0               | 8.2               | 2.5   | 0.8   | 3.2                                  |
| Females         | 9.2               | 11.5              | 4.3   | 13.7  | 18.0                                 |
| 15 - 24         | 18.7              | 23.3              | 1.2   | -15.8   | -14.5                                |
| 25 - 34         | 8.5               | 12.2              | 4.3   | 1.4   | 5.8                                  |
| 35 - 54         | 4.2               | 6.2               | 3.1   | 14.4  | 17.5                                 |
| 55 - 64         | 4.2               | 6.2               | 2.0   | -2.4  | -0.4                                 |
| North-West      | 4.8               | 6.4               | 2.0   | 4.9   | 6.9                                  |
| North-East      | 7.0               | 8.5               | 2.3   | 7.5   | 9.8                                  |
| Centre          | 5.8               | 8.4               | 3.4   | 6.2   | 9.6                                  |
| South           | 11.1              | 14.6              | 4.8   | 4.7   | 9.5                                  |
| Agriculture     | 36.3              | 38.7              | -3.6  | -11.8   | -15.4                                |
| Industry        | 4.3               | 5.9               | 1.4   | -3.3  | -1.9                                 |
| Construction    | 10.7              | 12.8              | 3.0   | 4.4   | 7.4                                  |
| Trade - Hotels  | 9.2               | 11.2              | 5.0   | 22.0  | 27.0                                 |
| Sundry services | 5.9               | 9.0               | 4.4   | 8.8   | 13.2                                 |
| Total           | 7.2               | 9.5               | 3.2   | 5.6   | 8.8                                  |

Source: ISAE elaborations on ISTAT data.

The second Section of the present Quarterly Report deals with the innovations introduced over the past few years in the (mainly private) Italian labour market in terms of vacancies, adaptability, opportunities, in particular for the weakest population brackets, through the rapid diffusion of fixed-term contracts. Data clearly indicate that the Italian experience is getting closer to that of other countries, as shown by the recent literature on labour market. Fixed-term contracts - particularly if adequate guarantees for workers are matched with margins of convenience for firms - proved to be a successful instrument to have a positive impact on employment dynamics.

In the Italian experience, which has been characterised for a long time by forms of dualism by geographical partitions, gender and age brackets, fixed-term contracts seem to be one of the feasible solutions to "capture" groups of people (females, young people, Southern workers) who so far have played a marginal role or have been often compelled to resort to those kinds of hardly transparent jobs, offering no social security, safety or health care guarantees whatsoever, which are typical of the underground economy. At the same time, as shown by the recent experience of 2001 and by the first data on 2002, fixed-

term contracts proves to be by far the most effective, less expensive and more transparent solution to obtain a better matching between needs of employers and employees, by obtaining in perspective a better employment stability. Far from being a new form of temporary employment, fixed-term contracts proved to be an instrument prompting equity and wellbeing for the active population as well as an effective thrust for economic development. This is confirmed by the high likelihood for temporary jobs to become new employment opportunities. In 20001/01 that probability equalled 86%, with an eight-point rise compared to 1993/94. Besides, it is necessary to add that, in spite of the rise observed over the past few years, in Italy the incidence of fixed-term contracts on total employment continues to remain on levels three percentage points lower than the European average.

On the other hand, more flexible contracts may (only apparently paradoxically) mirror the degree of rigidity of the rules and regulations on labour, so that a larger diffusion of fixed-term contracts (or for private sector part-time jobs) is also the signal for more persistent and deeper imbalances in the relation between labour demand and supply. It is no coincidence - as shown by the data elaborated by ISAE - that fixed-term contracts be adopted more intensively in the very segments where the lower productivity makes the presence of rules and regulations on labour even heavier, as rules are rigid just because they are identical for all sectors and areas, irrespective of their differences.

The third Section of the present Report faces the question of the underground economy in Italy. The importance and deep rooting of the phenomenon seems to be inversely proportional to the attention devoted to the problem by scientific literature and by public policies. Only recently research studies as well as policy-making are converging

PERCEPTION OF THE UNDERGROUND ECONOMY BY GEOGRAPHICAL PARTITION  
INCIDENCE OF THE UNDERGROUND TURNOVER

| Geographical partitions | Non-existent | Less than 10% | 11-30% | 31-70% | More than 70% | Don't know |
|-------------------------|--------------|---------------|--------|--------|---------------|------------|
| North-West              | 41.0         | 33.0          | 14.4   | 1.6    | 0.9           | 9.0        |
| North-East              | 35.4         | 36.0          | 15.6   | 2.6    | 0.4           | 10.1       |
| Centre                  | 25.6         | 33.0          | 24.3   | 6.4    | 0.5           | 10.1       |
| South                   | 22.2         | 27.9          | 27.0   | 8.3    | 0.7           | 13.9       |
| Total                   | 29.1         | 33.0          | 21.6   | 5.4    | 0.6           | 10.4       |

Source: ISAE Survey.

towards a better understanding of the underground (or "black") economy, with the identification of policies to fight the phenomenon or, at least, to reduce the levels of illegality and irregularity in the country.

The present Report illustrates three new empirical exercises carried out by ISAE to analyse in detail the underground economy. The first exercise consists of an international comparison aimed at better understanding the reasons for the presence of considerable portions of underground economy in environments which are very different one from the other. Though being aware that, for example, the underground economy emerging in a country such as Finland is by no means similar to that emerging in Southern Europe (which is characterised by a strong incidence of black economy), data show everywhere the presence of variables somehow connected to the rules and behaviours of the General Government and labour market.

With its second empirical exercise, ISAE provides an estimate explaining the different incidence of the underground economy in the twenty Italian administrative Regions. For the time gap considered - about twenty years - a ranking among Regions is created, showing both the diffusion of the phenomenon throughout the country (though it is particularly evident in the *Mezzogiorno* of Italy), and the prevailing cause - in this case too - of institutional variables. This is a further (almost superfluous) evidence of the extent to which quality and transparency of the rules and regulations and of the General Government performance do contribute to the definition of a "sound" environment, where economic development finds a fertile ground.

Finally, the third Section of the Report also presents the results of an *ad hoc* survey on the underground economy, carried out by ISAE in February 2002 on a sample of 6,000 respondents comprising manufacturing firms, service firms and consumers, normally surveyed by ISAE on a monthly basis so as to evaluate the Italian operators' expectations and confidence climate. The Survey offers precious information on the perception of the underground economy on the part of firms and households, but sheds light also on aspects so far neglected by empirical analyses, such as costs in terms of unfair competition deriving from the presence of the phenomenon, the average dimension of underground firms, the effectiveness of the policies implemented over the past few years, (policies which are

thoroughly described in a specific part of the Section). From this point of view, respondents state that the provisions introducing new flexibility in the labour market (part-time, temporary and fixed-term contracts), as well as the rules on tax credit for newly-hired workers and tax allowances for new investments (*Tremonti Law*, new *Tremonti Law*, Law n. 448 of 1992) are the most effective institutional interventions to prompt the emergence of underground firms.

The picture coming from the three empirical indicates that the underground economy represents a true "second system", very close to the official economy, the rooting and persistence of which seem to be linked to many causes, mainly to the quality of the regulation and of the institutional environment. The effort made by public policies in the face of an element which is at the same time cause and effect of distortions, but which also accounts for a considerable share of national income, is indeed complex and delicate. It is thus difficult to find a balance between repression of irregularities and incentives to emersion. In any case, the existence of hundreds of thousands of entrepreneurs operating in conditions of total or partial illegality represents an opportunity to exploit in order to raise the quantity of firms regularly operating and the number of workers employed under the official rules. Given the many reasons determining the existence of the underground economy and the prevailing role played by environmental and system variables, public interventions inevitably consist of a whole set of *ad hoc* provisions (mainly tax incentives) and of more general initiatives (aimed at obtaining a smoother General Government functioning, more flexible rules on labour market, an improved infrastructure endowment).

PERCEPTION OF THE UNDERGROUND ECONOMY BY GEOGRAPHICAL PARTITION  
TYPICAL DIMENSIONS OF IRREGULAR FIRMS

| Geographical partitions | 1-5 employees | 6-9 employees | 10-15 employees | 16-19 employees | 20 employees or more | Don't know |
|-------------------------|---------------|---------------|-----------------|-----------------|----------------------|------------|
| North-West              | 38.5          | 11.9          | 3.6             | 8.0             | 1.7                  | 36.2       |
| North-East              | 39.4          | 12.0          | 6.6             | 8.5             | 2.7                  | 30.8       |
| Centre                  | 41.1          | 16.3          | 8.5             | 7.0             | 3.3                  | 23.9       |
| South                   | 42.6          | 14.0          | 6.4             | 5.8             | 2.0                  | 29.1       |
| Total                   | 40.9          | 14.4          | 6.6             | 7.8             | 2.6                  | 27.8       |

Source: ISAE Survey.

The fourth Section is devoted to the recent reform of Title V, Part II of the Italian Constitution. That reform (and in perspective the approval of the draft law on devolution presented by the Government) will introduce fundamental changes triggering a wide transfer of competencies, thus completing a long process of enhancement of the legislative power and of the administrative functions of decentralised government bodies.

Under many aspects, the new text of the Italian Constitution foresees a set of principles which are at the basis of a system of even more advanced fiscal federalism than that envisaged in Legislative Decree n. 56 of 2000, identifying fundamentals and specific operational modalities on the fiscal competencies of Regions and Local Authorities. In particular, the reform envisages the financial autonomy in allocating revenue and expenditure for Municipalities, Provinces, Città Metropolitane (urban areas comprising big cities and their surroundings) and administrative Regions, which decide and impose their own taxes and revenues, thus confirming - as against Legislative

TAX DECENTRALISATION INDEX  
(tax revenue of decentralised bodies on total tax revenue)  
Years 1975 - 1999

|   | 1975        | 1985        | 1989        |
|---|-------------|-------------|-------------|
| EU countries                                  |             |             |             |
| Austria (federal country)                     | 23.0        | 23.8        | 19.5        |
| Belgium (federal country)                     | 4.7         | 5.0         | 28.3        |
| Denmark                                       | 29.8        | 28.4        | 31.9        |
| Finland                                       | 23.6        | 22.4        | 21.6        |
| France  | 7.6         | 8.7         | 10.2        |
| Germany (federal country)                     | 31.3        | 30.9        | 30.0        |
| Greece  | 3.4         | 1.3         | 1.1         |
| Ireland                                       | 7.3         | 2.3         | 1.9         |
| <b>Italy</b>                                  | <b>0.9</b>  | <b>2.3</b>  | <b>9.4</b>  |
| Luxembourg                                    | 6.5         | 6.5         | 5.8         |
| Netherlands                                   | 1.2         | 2.4         | 3.0         |
| Portugal                                      | 0.0         | 3.5         | 6.7         |
| United Kingdom                                | 11.1        | 10.3        | 4.1         |
| Spain   | 4.3         | 11.2        | 17.0        |
| Sweden  | 29.2        | 30.4        | 30.6        |
| <i>Non-weighted mean</i>                      | <i>12.3</i> | <i>12.6</i> | <i>14.7</i> |
| Non-EU countries                              |             |             |             |
| Australia (federal country)                   | 19.9        | 18.6        | 21.1        |
| Canada (federal country)                      | 42.4        | 45.3        | 45.1        |
| Japan   | 25.6        | 26.0        | 26.1        |
| United States (federal country)               | 34.2        | 32.8        | 31.1        |
| Switzerland (federal country)                 | 43.8        | 39.5        | 35.1        |
| <i>Non-weighted mean of federal countries</i> | <i>28.5</i> | <i>28.0</i> | <i>30.0</i> |
| <i>Non-weighted mean of other countries</i>   | <i>11.6</i> | <i>12.0</i> | <i>14.0</i> |

Source: OECD (2001).

Decree n. 56 of 2000 as well as the old art. 19 of the Italian Constitution - the right to share the fiscal revenue, enlarged from Regions to Municipalities, Provinces and Città Metropolitane.

The resources which, according to the ISAE estimates, would be involved in the operation of federal decentralisation would amount to more than 90 billion euros. The constitutional reform, once fully implemented, might lead the Italian model close to those of the major federal States, whose institutional characteristics are investigated in the Report.

The role of the General Government is bound to deeply change within the new constitutional array. No doubt the State and its administrative apparatus shall lose many relevant competencies and functions, but it is also clear that, in the new framework, they are both called to play a delicate mission in directing, co-ordinating and representing the interests of the country, thus safeguarding the overall constitutional cohesion, which is patrimony of the new Constitution. Indeed, the Italian Constitution apparently does not discuss one of the inspiring principles of co-operative federalism, namely a State maintaining its own role in safeguarding the overall interests and the legal and economic unity of the country, as well as guaranteeing the standards of civil and social rights, irrespective of the geographical boundaries of local governments (in particular, see art. 120 of the new Constitutional text). Indeed, the State also maintains its role in the distribution of financial resources (art. 117, letter e) with the possibility to allocate additional resources and special interventions in favour of some decentralised bodies, so as to promote economic development, cohesion and social solidarity (art. 119, point 5).

In the next few years, the institutional array of public policies will be characterised by deep changes, owing to the shift of State functions not only to local bodies, but also to that "super-national confederation" of States which is the European Union. The General Government, deprived of part of its administrative and managing responsibilities, shall act as a sort of "sift" or "institutional intermediary" between the decision-taking centre (which will be gradually moving to Brussels or Strasbourg) and the place where implementation is carried out, which is increasingly moving towards the local level.

The role played by the State as against local Authorities, on the one side, and the European Union on the other, is a novelty for Italy

and indeed, it is difficult everywhere; but it is altogether necessary, because undesirable effects might arise, such as a new rekindling of solidarity, of economic and financial instability and of public finance imbalances.

In particular, it is necessary to avoid that the wide shifting of competencies to decentralised bodies means a worsening of the public accounts. In this perspective, the rigour of the Internal Stability Pact - which in turn is linked to serious and credible (by no means soft) budget constraint applied to administrative Regions and to Local Administrations - becomes a pre-requisite of the respect of the Stability and Growth Pact signed at European level.

The last Section of the Report presents an *in itinere* evaluation of Legislative Decree n. 114 of March 31, 1998 on the liberalisation of retail trade. The provision as a whole tries to introduce elements of transparency and competition in a market which had been characterised for decades by strict rules. The ISAE analysis hinges both on the evaluation of the innovation potential contained in the provision and on the verification of the actual implementation of the law on the part of local Autonomies. From this viewpoint, Legislative

DEGREE OF RESISTANCE OF ITALIAN REGIONS TO THE IMPLEMENTATION OF  
LEGISLATIVE DECREE N. 114/98 ON THE LIBERALISATION OF RETAIL TRADE

| Italian administrative Regions | Degree of resistance to liberalisation (1) |
|--------------------------------|--|
| Lazio                          | 0.90                                       |
| Molise                         | 0.88                                       |
| Friuli-Venezia Giulia          | 0.65                                       |
| Sardegna                       | 0.64                                       |
| Campania                       | 0.62                                       |
| Sicilia                        | 0.60                                       |
| Abruzzo                        | 0.52                                       |
| Veneto                         | 0.50                                       |
| Puglia                         | 0.49                                       |
| Umbria                         | 0.46                                       |
| Basilicata                     | 0.44                                       |
| Lombardia                      | 0.44                                       |
| Liguria                        | 0.40                                       |
| Calabria                       | 0.39                                       |
| Valle d'Aosta                  | 0.37                                       |
| Toscana                        | 0.31                                       |
| Piemonte                       | 0.25                                       |
| Marche                         | 0.23                                       |
| Emilia Romagna                 | 0.10                                       |

Source: ISAE elaborations.

(1) Synthetic indicator created on the basis of the slowness and incompleteness in the implementation of Legislative Decree n. 114/98 and on the presence of a system of quotas on large trade concerns.

Decree n. 114 presents two specific points of interest: on the one hand, it is a sort of litmus paper of the Regions' will to pursue a liberalisation policy of a traditionally protected sector; on the other hand, it is an example of the future evolution of the economy and of the economic policy in Italy under federalism.

With regard to the former aspect, the examination of the initial effects of the implementation of the new law reveals a very asymmetric impact. "Central" regulation, with a generalised implementation throughout the whole country, seems to positively impact on the competitive conditions of the sector, particularly in the segment concerning smaller firms, while the same favourable evaluation does not hold for large concerns, where the larger diffusion the reform tried to prompt was disappointing. The analysis of regional case-studies shows, with few exceptions, some resistance, mainly in Southern areas, to competitive thrusts coming from central Government.

With regard to the latter aspect, namely the evaluation of the degree of implementation of the new law, an accentuated "fragmentation" emerges. Admittedly, with regard to retail trade, a "multi-speed federalism" has been existing for a long time. Regions sharing the liberalisation will of Legislative Decree n. 114 co-exist with regions favouring the maintenance of the *status quo*. Thus, "central" economic policy initiatives reach their targets with very different speeds and impacts. One might wonder whether - given that the new Constitution maintains the responsibility for competition among the central State's tasks - a new General Government intervention for the further promotion of liberalisation is suitable in this sector.

All in all, within a framework recently characterised by important decisions on market liberalisation and openings, the results emerging from the present Report provide a picture of Italy as a country still excessively shy in introducing transparency and flexibility in its regulation. Policy-making has several needs and indeed many opportunities to improve the wellbeing and prompt the development of Italian firms and households through a wise mix of innovative regulation and deregulation.