Gianfranco Viesti

The Recovery Plan in Italy

Setting the course for a climate-neutral and digital future?

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About this publication

The focus of this text is an analysis of the Recovery Plan that the Italian government is drawing up within the framework of the European Union's Next Generation programme. It starts with an examination of the consequences of the Covid-19 crisis on the Italian economy and society in 2020, before putting these changes within the framework of a longer term analysis of the country's significant difficulties over the past two decades. The third section looks at the Recovery Plan on the basis of the available documents and sums up certain aspects of the debate that has accompanied it. An overall assessment concludes the work.

About the author

Gianfranco Viesti is full professor of applied economics at Bari University. In the past he has occupied posts involving work on defining public policy in Italy. He also participates in the Italian public debate through his contributions to the Il Messaggero newspaper and various discussion sites.

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The Recovery Plan in Italy

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STARTING POINT

The Italian recession triggered by the Covid-19 pandemic is one of the worst in Europe. According to the economic trends set out in the Update Memorandum to the Economic and Financial Document (Nadef) of 5 October 2020, Italy's GDP may fall by 9 per cent in 2020 and recover by 5 per cent in 2021. The latter has been facilitated by the Italian economy's powerful recovery, in industry in particular, in summer 2020, which exceeded expectations. The renewed spread of the virus in October 2020 has cast considerable doubt on this, however. A memorandum from the Parliamentary Budget Office, dated 22 October, highlights fears that there may be a tangible economic slowdown in the fourth quarter of 2020, with a bigger drop in GDP and a worsening of the forecasts for 2021, including the knock-on effects of the last quarter of 2020.

The crisis has had specific effects on different sectors of the economy.[1] Its impact has been more marked in the tertiary sector than in manufacturing industry, and this is expected to continue. Within the tertiary sector it has, in line with the experiences of other European countries, struck the culture, cinema, theatre and entertainment sectors and the transport, travel, tourist services and hotel sectors most severely and, to a much lesser extent, food distribution. Certain services, however, such as online commerce and TV and digital services, have seen their business increase. A combined supply/demand effect has meant that the worst affected industrial sectors have been personal consumer goods (clothing) and durable goods (cars), while the crisis has worked to the advantage of the pharmaceuticals and home and personal hygiene sectors.

In the first quarter of 2020, around half a million jobs were lost when fixed term contracts were not renewed. Over the summer employment figures stabilised. The labour market data are influenced, however, by a ban on firing employees on permanent contracts introduced by the government in the spring and extended on more than one occasion (thus far until March 2021). When this ban comes to an end, the unemployment figures may rise significantly (it is impossible to quantify, but it may be in the hundreds of thousands). The unemployment rate diminished considerably, from 9.5 per cent in the last quarter of 2019 to 8.3 per cent in the second quarter of 2020, as a result of a marked reduction in demand for labour, especially among young people and women and in the South.

On top of the effects on employment cited above, the crisis may also lead to a fall in the number of firms, due to voluntary closures and bankruptcies as a result, above all, of the limited average size and capitalisation of Italian firms, in particular in the service sector. The prospects for manufacturing industry may be less worrying given the ability they showed, in the summer months, to quickly recover production and export levels. To an extent that is impossible to predict, the Covid crisis may, over time, perhaps generate production capacity and enhance effects linked to the »re-shoring« of decentralised production phases in global value chains as a result of an increase in related risk perceptions. In the construction sector, after many years of weakness, the recovery measures already in force (powerful incentives for renovation and energy efficiency work on homes, for which 6 billion euros had already been set aside for 2022–23) and further planned measures (marked increases in public works investments, including those related to the Recovery Plan – see below) may stimulate production and employment, with effects on the industrial supply sector. Some 60 per cent of building firms forecast an increase in production in 2021.

The crisis has been highly selective in social terms and is having a disproportionate effect on the more underprivileged classes. The reasons for this are manifold. Fixed term and seasonal employees have experienced substantial problems in the labour market, as have those for whom distance working is impossible (for example, sales staff) and those working in the underground economy. Further reasons are that an earnings hiatus has more of an impact on social classes lacking assets, and movement restrictions are harder for whose living in small properties and with no or limited digital connections.

At the same time, for to some extent similar reasons, the crisis has hit the young hardest. The elderly are shielded to some extent by their pensions, but the young are more likely to be working on fixed term or seasonal contracts or still looking for work. Younger families have fewer assets. The same is true of women, who are much more likely than men

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1 For a detailed analysis of the sectoral, social, generational and gender impact of the Covid crisis in Italy, see G. Viesti, »L'economia italiana dagli effetti della pandemia ad una possibile ripresa«, L'industria, 3/2020, forthcoming at: https://www.rivisteweb.it/issn/0019-7416/earlyaccess

to work in the jobs and sectors worst hit by the crisis. Other factors contributing to women's difficulties are school restrictions and closures, which have created significant problems for those with underage children, and virus dissemination fears (shielding), which have generated greater problems in terms of looking after elderly relatives, which in Italy is typically done by women.

The crisis may have produced seriously negative effects on children's learning. Classroom teaching was suspended for several months in spring, longer than in other European countries. At the time of writing it is also being suspended for the autumn and winter months, for an as yet unforeseeable time period. Distance learning presents evident issues for younger children, as well as those with less access to digital and telematics resources, and those from families with lower educational levels, which risks a tangible increase in school dropout rates.

Government action in 2020 to reduce this impact has been considerable. Over 26 billion euros were spent on employment safeguards up to October (17 billion on the furlough scheme and 5 billion to support freelancers), with additional action in October 2020 following on from restaurant and cultural activity closures. Some 11 billion euros have been spent on liquidity; 21 billion on contributions and tax breaks for firms; 11 billion on territorial bodies; and over 5 billion on health. The autumn European Economic Forecast estimated that crisis action may account for 5.5 per cent of GDP in 2020 and Nadef has quantified it at around 100 billion euros for 2020. Measures related to the transport system have turned out to be decidedly inadequate, especially where local transport is concerned and there has been no learning recovery.

PRE-EXISTING DIFFICULTIES

The 2020 Covid crisis has struck an economy whose long-term performance is one of the worst in Europe. In 2019, Italian GDP was around 4 per cent below its 2007 level, and per capita GDP, which in 1995 had been 9 percentage points above the Eurozone average, was 10 points below it in 2019. This very modest growth has been primarily due to two factors.

In the first place, the Italian economy has found it difficult to adapt to changing international technological and economic trends: specialisation in consumer goods, which is vulnerable to competition from emerging economies; powerful location competition from central and eastern Europe; low digital innovation capabilities as a result of limited labour force education levels; and small firm size and limited research, development and innovation.

In the second place, one might mention the »austerity« policies pursued during the 2010–11 crisis and continued, in watered down form, for the whole decade. Having to guarantee a constant primary budget surplus led to significant cuts in certain universal public services, especially education and health. For example, from 2010 to 2018 health spending increased by a modest 0.2 per cent per year, less than nominal GDP, meaning that by the late 2010s it represented only 6.5 per cent of GDP as against 9.5 per cent in Germany. There has also been a major contraction in public investment, down from around 3 per cent of GDP in 2008 to around 2 per cent at the end of the 2010s, summarised in a recent WIIW memorandum. Because of these difficulties the per capita earnings dynamic has been very modest, the result of low productivity growth and low employment rates, especially for young people, women and the South. From 1995 to 2019 labour productivity in Italy grew 0.3 per cent per year compared with values of 1.6 per cent in the EU28, and well below France (1.3 per cent), the United Kingdom (1.5 per cent), Germany (1.3) and Spain (0.6 per cent).

The Covid crisis may have various effects on these trends. In the first place, we can mention public finance. The pressing need for public spending that has emerged over the course of 2020 will lead, according to October Nadef estimates (which may significantly worsen over the final months of the year), to a significant increase in the budget deficit (from 1.6 per cent in 2019 to 10.8 per cent in 2020, with a 2021 forecast of 5.7 per cent) and a rise in the ratio between public debt and GDP, from 134.6 per cent in 2019 to 158 per cent in 2020 (forecast to stabilise in 2021–22). This will lead to debt interest payments of around 3.5 per cent of GDP, despite the Central European Bank's ultra-powerful reduction in interest rates.

The Covid crisis may have significant political effects. It is possible that the crisis is fostering a very different perception of the importance of public services in both the political arena and in public opinion, beginning with social and health services. While in the past spending reductions were viewed very favourably (spending reviews and combating »waste«), the Covid crisis has highlighted the very negative effects of the tangible contraction of national health services imposed in the 2010s (especially in terms of medical staff, particularly nurses, but also in investments). The same may apply to education.

There is a general awareness of the infrastructural shortcomings generated in various spheres: broadband, hospital facilities and beds, schools, to mention just a few. It is less clear that Italians are aware of the priority that should be given to sustainability and environmental transition. It may be that postponement will be preferred, especially as regards the impact on business. Euroscepticism, which may affect the political debate, is also a marked feature of Italian public opinion.

THE RECOVERY PLAN

After a phase of considerable uncertainty, the government has entrusted coordination of the Recovery Plan to the Interministerial Committee on European Affairs (CIAE) and, in particular, the Minister for European Affairs Enzo Amendola. The Committee's members also include the President of the Regional Conference and the President of the National Association of Italian Town Councils. Two technical committees have been set up within the CIAE framework and tasked with drawing up the plan, including by means of direct and ongoing dialogue with EU bodies.

A first estimate of 203 billion euros for 2021–26 includes 193 billion from the Recovery and Resilience Facility. According to government estimates this should include 65 billion euros in grants.

The spending time frame is ambitious: the government forecasts spending 25 billion euros as early as 2021 and 37.5 billion euros in 2022. These forecasts may be less straightforward than they seem and approval may not be easy. On top of that comes the launch of the Long-term European Union Budget and, linked to it, the Next Generation EU programme. As the Italian government's borrowing capacity is currently very satisfactory, however, and its interest rates extremely modest, European resources may be used to recompense work already begun with national resources.

On 15 September the government presented its Guidelines for the definition of the National Recovery and Resilience Plan. These were subsequently approved by parliament, with the majority voting in favour and the opposition abstaining.

The Guidelines identify four overall goals: improving Italy's resilience and recovery capacity; reducing the social and economic impact of the pandemic; supporting the green and digital transitions; and increasing the economy's growth potential and creating jobs. These goals are to be achieved through six great »Missions«.

1. Production System Digitalisation, Innovation and Competitiveness, involving: digitalising and innovating the public administration (re-engineering admin processes, infrastructure and digital services, increasing the efficiency of the justice system, digital identity); 5G networks and technological and digital innovation of industrial chains, R&D investments, emerging technologies and technology transfer; investment attraction and re-shoring policies; support for exports and business finance; promoting the culture sector and tourism.

2. Green Revolution and Environmental Transition, involving: investments in the European Green Deal framework, decarbonising transport, town air quality planning, energy efficiency improvements and building seismic protection; integrated water cycle management, hydrogeological and seismic risk mitigation; energy production and transport reconversion, circular economy investments (waste and renewable sources), support for environmental transition in agriculture and industry (steel); enhancing the cultural, landscape and environmental heritage; and tax benefits for sustainable businesses.

3. Mobility Infrastructure, involving: completion of the TEN-T corridors for rail networks with high speed passenger and goods networks; road network development; intermodal integrated logistics, and sustainable environmental impact public and private mobility.

4. Education, Training, Research and Culture, involving: reinforcing education (digitalisation, skill upgrading, knowledge improvement, promotion of the right to study and combating school dropout, increasing the proportion of high school diploma holders and graduates, requalification of teaching staff, increases in learning environment quality); strengthening basic research and the innovation eco-systems; university and research infrastructure.

5. Social, Gender and Territorial Equality, involving: employment policies, active labour policies (including for youth employment), and investment in new skills, lifelong learning; combating the underground economy; women's empowerment; a new national social plan for the most vulnerable sectors and implementation of a Family Act, linked with tax reforms; implementation of a Plan for the South 2030 and a National Inner Areas Strategy; urban renewal.

6. Health, involving: reinforcing the hospital system and territorial prevention and assistance services; social policy integration; health staff enhancement; support for medical research.

The missions will be supported by six large support policies: for public investments, public administration reforms, research and development and tax, justice and labour reforms. These are clearly very large spheres.

A fundamentally important step will be identifying specific projects and priority criteria within these measures. Identifying projects requires defining assessment criteria in advance: public good projects that can be implemented quickly and are feasible, with rapid, positive effects on multiple beneficiaries and whose progress can be monitored. Projects capable of mobilising private resources with significant employment effects, low land use and efficient and sustainable natural resource use, contributing to the achievement of essential public service use levels, will also be prioritised.

It is still a very general framework. On one hand, the limited time still available to develop it must be taken into account and, on the other, the long way to go before it can be brought to fruition in a series of rapid implementation measures.

Ministerial sources show that around 77 billion euros should be set aside for the Green Revolution and Environmental Transition Mission, in line with EC guidelines and 38 billion euros for the Production System Digitalisation, Innovation and Competitiveness Mission. The government's intention is to identify twenty or so project clusters within the six missions, with a grand total of around 80 large projects.

Defining and implementing the plan is complicated by the weakness of the strategic guidelines regarding the sectoral policies being implemented. Over the past decade Italian politics, including its political left wing, has not invested in debating and defining large-scale strategic goals and the related policies. This is true of health, education and urban area policies. The transport and mobility situation is a little better and guidelines have already been set out in Attachments to the Economics and Finance Documents of recent years. A coherent industrial policy is still lacking and incomplete, although there are interesting elements in the 4.0 Business Plan. Strategic goals for Italian public corporations as a whole appear to be entirely absent from the debate and it is only recently that certain proposals have emerged.

Territorial action also seems ill-defined, except for the previously cited Policies for the South of Italy (Plan for the South 2030) and National Inner Areas Strategy. An intersection between the sectoral intervention dimension and the territorial dimension appears to be lacking.

A significant part of the plan will be implemented through public investment. According to early estimates the plan's scale may lead to an increase in public investment from the level of recent years of around 43 billion euros per year, to levels of 60 to 80 billion euros per year. This will be a huge challenge within the framework of the investment cycle as these are especially long-drawn-out in Italy for legal and organisational reasons. It will require a powerful and rapid strengthening of town councils' technical capacities, with the majority of public spending passing through them. This raises the issue of defining strategic objectives for public corporations once again, with these, too, being responsible for an extremely significant portion of the investment total, especially in the transport, energy and telecommunications sectors.

The principal critical issues will be precisely the link up with the Recovery Plan, which is to be implemented via public investments and contributions to private investments and policies, and spending on major public policies funded from the national budget. The 2021–27 Structural Funds will be of equal importance, as these will have to be entirely complementary to the Recovery Plan without overlapping with it. In particular, use of the European Social Fund will have to contribute significantly to funding policies favouring education and the consolidation of the public administration.

THE RECOVERY PLAN DEBATE

Debate on the Recovery Plan is just beginning. It is a matter of some urgency, given the time frame and, above all, the priority afforded to the health situation and the financial measures to offset it, in the business and trade union spheres.

The contribution of social stakeholders to defining the Recovery Plan would thus appear embryonic. In the course of public hearings Confindustria presented a general document focusing on the digital and environmental transition, social sustainability, infrastructure policies and public sector efficiency. The trade union contributions were much more generalised in nature and focused on monitoring the various themes of the government's document.

The contributions of certain civil society associations were of greater importance, from a general framework and contents perspective. For example, the Inequality and Diversity Forum set out a series of proposals regarding a range of spheres from school to health and home (a theme not present in the government guidelines), mobility and energy transition, placing great stress on technology transfer and digital sovereignty. In this same Inequality and Diversity Forum Legambiente formulated a Document identifying ten indispensable »green« challenges (renewal energy sources, energy consumption reductions, industrial land renewal, local circular economy chains, green industrial transition, sustainable mobility, urban regeneration, digital gap reduction, safety and reinforcement of the agro-ecology model). Discussion forums are under way on many of these points.

ASSESSMENT

It is currently impossible to formulate an assessment of the plan. In general terms, however, its strategic approaches seem positive. They include both environmental sustainability and social inclusion goals.

The clusters will be final and thus the specific projects identified and their consistency with the long-term public policy goals will be crucial. The risk is that the plan will be more technical than political in nature, assembling a series of projects and starting from the large-scale economic and social goals to be achieved over the next decade.

The plan's spending and implementation capacity will be decisive to its success as far as public investments are concerned. It will also be crucial to support those who will materially bring these projects to fruition. The link between the Recovery Plan's investment policies and the current spending policies set out in the national budget for large-scale public policies will also be crucial.

Over the next few years Italy will run the risk of implementing significant capital spending with improvements in its infrastructure, while not being able to accompany them with adequate current spending allocations: hospitals and their technology may certainly be consolidated, partly on the strength of the Recovery Fund, but these will be capable of ensuring better collective health services in terms of both prevention and cure only if they are accompanied by a tangible increase in doctor, and above all, nurse levels.

Discussion is under way in Italy, including within the government coalition, on the different roles to be played by industrial policy: the main discussion themes include the strategic approaches that the government should entrust to publicly owned companies which, in Italy, cover many spheres that are fundamentally important to economic recovery, as well as green transition (energy, transport, telecommunications). The latter will entail incentivising measures for more selective building and the creation of local public–private innovation eco-systems. During the Covid emergency the government has acted decisively in relation to certain significant national firms (Autostrade, ILVA, Alitalia, intesa TIM-Open Fiber) in sectors such as transport, optical fibre networks and steel. However, the debate within the centre-left political forces has not yet reached full consensus on industrial policy strategies, partly because of the priority currently necessarily being accorded to health and defending the economy.

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Recovery strategies in Europe

The restrictions imposed to combat the COVID-19 pandemic have led to a pronounced drop in production, a steep rise in unemployment and public debt. As a result, profound social distortions have arisen. Further, the pandemic has also revealed the strong dependence of Europe's economy from the production of vital products beyond the continent. Accordingly, national governments as the EU have had to devise wide-ranging programmes to support and revive the economy.

The development of these "recovery" programmes is taking place at a point in time when the European economies at a crossroads. They are faced with meeting the immediate challenges stemming from social and ecological transformation and digitalization. As result, there is significant pressure to ensure that the measures to implement economic revival to do not lead to a restructure of the pre-pandemic status quo. Instead the countries should seize the opportunity of massive public spending programmes to start the transformation of the economy and society towards climate neutrality and social equality.

A series of reports form several European countries analyse their respective national recovery plans and assess them in view of meeting the complex challenges. A synopsis offers a comparative perspective by interpreting and classifying the events and individual measures introduced in the individual countries. The aim is to develop policy recommendations that not only meet the long-term structural challenges faced by the EU-member states, but also to combat the immediate effects of the pandemic.

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