Presidenza del Consiglio dei Ministri
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Italy's plan to relaunch the European Lisbon Strategy
PICO-Piano per l'Innovazione, la Crescita e l'Occupazione
(Plan for Innovation, Growth and Employment)

Just think what Europe could be
[*COM (2005) 24*]
We did

Executive Summary

<u>*Introduction*</u>

In 2000, the European Council of Lisbon identified as the basis for the European Union's growth strategy the need to build the most advanced knowledge-based society, and gave its member states the task of implementing this target in full by the year 2010. Halfway through the process, the European Councils held in March and June 2005 expressed dissatisfaction with the results hitherto achieved, and decided to relaunch the Lisbon Strategy, finalizing procedures for its execution, and involving the European Commission more closely in pursuit of its goals. In the instructions provided by the Council, member states were asked to submit their own National Reform Program, bearing in mind both the peculiar economic and social features of their nation and the 24 guidelines laid down by the EU governing bodies.

Italy has drawn up its own Program on this basis, grafting new decisions capable of advancing the boundaries of knowledge and technology onto the work already carried out in implementation of the Lisbon Strategy.

Peculiar features of the Italian economy

The Italian economy reflects a high proportion of traditional manufacturing by small, family-run companies which are vulnerable to competition in terms of prices. Particularly high quality products, often referred to as "Made in Italy", are also vulnerable to unfair competition in the shape of imitations.

The country also reflects marked dualisms between regions and sectors.

Moreover, Italian civil society is distinguished by its methods of meeting social provision requirements, which impact significantly on the structure of the state's finances and the activity of private enterprise, the latter of which is already burdened by the cost involved in complying with excessive regulation currently in force.

PICO: goals

Following extensive consultation and discussion, the 24 guidelines laid down by the European Council have been grouped into five operating categories, taken as priority goals for the Plan, assuming a backdrop of monetary and fiscal stability:

- *extending the area of free choice for citizens and companies;*
- *granting incentives for scientific research and technological innovation;*
- *strengthening education and training of human capital;*
- *upgrading tangible and intangible infrastructure;*
- *protecting the environment.*

The Plan indicates what the Italian government intends to do to improve the conditions of the country's economic and social organizational structure in order to stimulate growth and employment, but above all aims at extending individuals' freedom of choice, to enable them to do what they know how to and want to do.

Producers and workers will benefit first from these choices, but ultimately the main beneficiaries will be consumers.

Action to be taken

The Plan covers two areas of action: general measures geared for the economic system as a whole, and specific projects that will increase the productivity and competitiveness of the Italian economy.

1. Main general measures consist of:

- *more extensive deregulation of supply in the service sector, in line with directives and decisions being finalized at European level; freer expression of the market in those sectors identified by the antitrust and sector authorities, and of prices for the economy as a whole; more effective legislation to prevent fraud on Community rules, and to prevent counterfeiting so as to reduce the distortion which this generates in the functioning of markets;*
- *improved performance by the Italian public administration and reduction in its cost, taking as a reference the Code for digital administration (already approved) and the Public connectivity system (currently being implemented);*
- *establishing a regulatory framework which favours investment, innovation and growth, via a major reduction in the quantity of existing regulation and improvement in its quality ("better regulation"), to reduce the regulatory and administrative burden on companies and citizens;*
- *an improved regulatory framework concerning the life of small firms and productive districts, with a view to: raising awareness of the importance of digital technologies and their use for purposes of process and product innovation; promoting a new balance between job flexibility and security; protecting patents, increasing exports and investments outside Italy;*
- *leveraging on the nation's human capital, through more effective organization of general and higher education and professional training, including civil servants, so as to guarantee life-long learning for citizens, create an environment receptive to the digital culture, stimulate and support the activity of scientific research, and thereby encourage the transfer of technological innovation to productive processes;*

- *creation, or completion, of infrastructure networks to foster domestic, inter-European and international connections, with a particular commitment to implementing the so-called "motorways of the sea";*
- *incisive implementation of the "European cohesion policy" aimed at reducing economic disparities between areas within the European Union, with particular attention to Southern Italy;*
- *more effective incorporation into productive processes of the need for environmental protection.*

2. <u>Main specific projects included in the Plan refer to</u>:

- *completion of the Galileo project to set up a European-wide satellite navigation network;*
- *participation in the European EGNOS and SESAME air traffic control projects;*
- *development of IT platforms to support healthcare, develop tourism, and for info-mobility, and local and public database management;*
- *implementation of 12 strategic research programs in the following sectors: health, pharmaceutical and bio-medical; manufacturing systems, automotive, shipbuilding and aircraft, ceramics, telecommunications, food and agriculture, transport and advanced logistics, ICT and electronic components, and energy micro-generation;*
- *setting up 12 joint public/private laboratories to develop research in Southern Italy in the following sectors: medical diagnosis, solar energy, advanced production systems, e-business, bio-technologies, genomics, materials for electronic uses, bio-informatics applied to genomics, new materials for mobility, effectiveness of drugs, open source of software, and analysis of the terrestrial crust;*
- *extension and reasonable use of infrastructure in the energy and water industries;*
- *sectors of strategic importance with technological implications for productive processes and citizen welfare, with especial reference to alternative sources of energy.*

The PICO is not a "closed" plan, in the sense that in addition to work already carried out in implementing the Lisbon Strategy, it includes only those measures and projects that can be carried out quickly, which represent a one-off expense in respect of state finances, and which are capable of attracting private funding. PICO remains open to new contributions deriving from the projected capabilities of the Italian and European economic and political systems, not least because the mechanism for new public funds is based on proceeds from the disposal of state-owned real estate assets according to a rationale of asset management, and will be implemented on the basis of decisions made in this regard by the Italian inter-ministerial committee CIPE.

Available funds

Public funds made available for the purposes of the Plan have already in part been included in the budgets up to 2005 and in the projected budget for the 2006-2008 period, in addition to subsidies receivable in respect of the Community's cohesion policy; the remainder will be made up of proceeds arising from the disposal of state-owned real estate assets, which are estimated at around 1% of GDP for the three years of the Plan, or € 13bn, of which € 3bn in 2006. For the 2005-2008 period as a whole, the Italian budget has provided a total of € 46bn to relaunch the Lisbon strategy, in accordance with the agreements reached at European level. This breaks down as follows:

Goal	Funds allocated *(€ bn)*			
	Until 2005	For 2006-08	New PICO funds	Partial total
1. Free choice area	*0,6*	*0,2*	*1,3*	*2,1*
2. R&D	*4,3*	*0,9*	*4,1*	*9,3*
3. Human capital	*1,0*	*0,2*	*0,4*	*1,6*
4. Infrastructures	*23,6*	*2,5*	*5,2*	*31,4*
5. Environment	*0,4*	---	*1,7*	*2,1*
Total	***29,9***	***3,8***	***12,7***	***46,4***

Anticipated results

The combination of measures and projects should enable research and development (R&D) spending to approach the goal of 3% of GDP proposed by the Commission, although does PICO raise concerns over this indicator's meaningfulness both in general terms and in particular insofar as regards the economic structure prevailing in Italy. Conversely, the estimate of the macro-economic impact of implementation of the Plan does appear significant: real income is set to rise by 1%, with a structural deflationary impact in the region of 30 cents per point, and a parallel increase in the purchasing power of wages. It is also estimated that the Plan should lead to an increase in the employment rate of some 200,000 jobs, with a significant concentration among young people.

Although such effects are not quantifiable a priori, *they will doubtless increase as a result of the synergies generated by the simultaneous relaunch of the Lisbon Strategy in the other 24 EU countries, and through the action which the European Commission will disclose once the national plans have been submitted. Accordingly, the impact of the European relaunch may be estimated more accurately once the contributions made by the Brussels Commission and the member states have been assessed jointly.*

PICO: contents

1. The political, economic and social framework facing Italy in implementing the Lisbon Strategy

In drawing up the national action plan for Italy, we have taken as our starting-point the relaunch philosophy described in documents COM (2005) 160, 24, 193 and 622/2, issued successively in the period between January and April 2005. The aspects deemed to be essential are listed below as a kind of "decalogue", in order to facilitate comprehension of the method we have followed, the choices we have made in terms of priorities, and the initiatives proposed with regard to regulatory measures and investment projects:

1. the political nature of the national and Commission documents implementing relaunch of the Lisbon Strategy (COM 622/2, p. 3);
2. clarification of the respective responsibilities of the member states and the Commission; establishing partnership between member states and the Commission; and confirmation of the Commission's role as programme facilitator (*ibid.*, pp. 2 and 6);
3. simplification of the European agenda, which is already overburdened with initiatives (COM 24, p. 4), and merging of the Cardiff agenda and the national employment action plan into the Lisbon Plan (COM 622/2, p. 4);
4. making up for lost time by keeping the promises that have been made, building on the reforms already underway, launching new initiatives which facilitate the achievement of goals (e.g. 1% more GDP growth each year), and bringing together ambitions, resources and good ideas (COM 24, pp. 4, 5 and 6);
5. description of the political and social-economic backdrop against which national strategy is located (COM 622/2, p. 3);
6. raising awareness among citizens by opening up public debate (*ibid.*, p. 6);
7. indication of the contribution to be made by social partners and their responsibilities (*ibid.*, p. 4);
8. bringing together the interests of both the young and old populations (COM 24, p. 4);
9. setting national goals for R&D and employment (COM 622/2, p. 7);

10. compliance with macro-economic stability conditions (COM 24, p. 6).

Italy's response to relaunch of the Lisbon strategy originates from an awareness of the vital need to regain competitiveness through innovation, and also from the constraints brought about by the peculiar characteristics of the Italian economy and its socio-political organizational structure compared with those of other member states.

These characteristics have been identified as:

- the vulnerability to global price competition of traditional national products, such as textiles, clothing, footwear, wood/furniture/household products, light mechanical engineering, and agricultural/industrial products, which are manufactured by small, family-run companies, and the vulnerability of "Made in Italy" products to unfair competition, especially in the form of imitations;
- the marked disparities in terms of productivity, or dualisms, at the regional level, chiefly between Northern and Southern Italy, and between sectors, i.e. industry on the one hand and the primary and tertiary sectors on the other;
- the methods of meeting social provision requirements, which impact on the formation of state finances and the activity of private enterprise, the latter of which is already burdened by excessive regulation.

The *first characteristic* – the small size of family-run firms and "Made in Italy" products – raises the customary problems, familiar in both the literature on the subject and in practice, regarding the significance of applying the same indicators to profoundly different situations. A typical case in this regard involves the percentage of a country's GDP earmarked for R&D spending, one of the key indicators of the Lisbon Strategy. How meaningful this indicator is depends on the technological frontier on which the country in question is located or intends to locate itself. In this regard it is necessary to avoid falling into one of the most typical "economic heresies", namely the fallacy of composition: what is good for one country is not necessarily good for all.

A country such as Italy, whose specialization in terms of production is as we have described, does not necessarily require R&D spending of the same magnitude as a country heavily committed to more advanced technological sectors. Rather, what it needs is an organizational structure, in terms of regulatory framework and corporate services, which is able to apply the new technologies to its own productive processes. To this end, the research carried out in respect of "technological" fabrics and materials, advanced light mechanical engineering applications, and improvements obtainable in the food and agricultural industries without jeopardizing quality, is highly significant. Innovation in these sectors may prove more expensive or less expensive: the knowledge we have acquired so far does not enable us to say one way or the other. Statistics show a wide range of percentages for such expenditure, which in technical terms leads to an abnormal distribution of frequencies, and makes averages less meaningful. The Italian Plan notes the desire expressed in official documents to seek to evaluate national proposals and results on the basis of indicators that take into account differences in the economic structure concerned.

The *second characteristic* – regional and sector dualisms – has been the subject of positive intervention from the European Union. However, Italian dualisms, understood in the orthodox sense of structural disparities in productivity terms, require not merely special treatment, but also careful attention from the Commission itself. For reasons of major political significance, a single currency has deliberately been instituted in an area which does not possess the optimal characteristics for such a currency. Accordingly, the dualisms tend to be accentuated by asymmetric effects of shocks deriving from a variety of causes. The numerous initiatives aimed at harmonizing common market regulatory treatment have proved useful, but not always effective in terms of their adaptability to different regions or sectors. Some community actions, such as the cohesion policies, were very important in removing the causes of dualisms and ought to be reinforced, whereas other actions do not go beyond compensating for the effects of such disparities, and hence in fact perpetuate inefficiencies.

The dualisms originate from the cultural and professional level of the workforce, from the backwardness of capital in terms of technology, from the inadequacy of tangible and intangible infrastructure, from regulation and administrative practices, and from economic dysfunction. To combat dualisms by seeking to compensate for the disadvantages merely encourages businessmen to devote themselves to political and administrative relations in order to go on receiving funding or to secure new funds, rather than specializing in new productive combinations and product innovations that would enable them to compete on the world market.

The *third characteristic* – the methods for meeting social provision requirements – involves greater difficulties in terms of introducing social reforms, especially to the healthcare and pension systems, and extending market competition. The European Union has played a positive role in raising awareness of the need to move towards reform, by pursuing from the outset an idea of the liberal state within the limits of social considerations summarized in economic terms as the "social market". Defence of the level of social provision hitherto achieved is possible only if there is a strong desire for joint action on the part of member states (which incidentally is one of the foundations of the Lisbon Strategy relaunch), with regard to the functioning of the market, by attributing increased importance to it, as required by the current process of globalization.

If this goal is to be met, it is necessary to work on the cultural and communications front too, rather than merely imposing external restrictions or assigning scores to the actions of individual member states. Such restrictions have had a positive impact on Italy, but the majority of the incentive to reform and economic growth which they can provide has now been exhausted.

In line with the report issued by the Commission to the European Parliament and European Council (COM (2005), pp. 330ff), the Plan assumes that the mission for relaunch of the Lisbon Strategy is to provide "a message of confidence and determination", i.e. regaining EU citizens' trust by presenting them with clear plans and demonstrating commitment to implement them.

The Italian Plan, named PICO after one of the most important protagonists of the Renaissance, the philosopher Pico della Mirandola, is an acronym for ***Piano per l'Innovazione, la Crescita e l'Occupazione*** (Plan for Innovation, Growth and Employment). It has been developed with the mission of rebuilding confidence and demonstrating determination in the pursuit of growth and employment, by bringing together ambitions, resources and good ideas as we were mandated to do, and making explicit appraisal of the progress deemed to be feasible.

PICO seeks to graft new measures and projects onto what has already been achieved or is currently being implemented, in order to stimulate competitiveness, research and innovation, education and training of human capital, regional and social cohesion, and protection of the environment. The choices that have been made in this regard are listed below, while more precise details are contained in the appendixes attached hereto.

Under the terms of the original Lisbon Agreement, responsibility for implementation of the Plan rested entirely with member states, while under the new "relaunch philosophy" the responsibility has in part shifted to the Union itself, against a backdrop of increased sharing. As has already proved to be the case with the single currency, and to a lesser extent with the member states' finances, the principle of "subsidiarity" has come into play with respect to policies for growth and employment. This principle was embraced in the European Treaties as the basis for sharing responsibilities between member states and EU bodies. Member states have recognized that on their own, they are unable to reach the objective identified at Lisbon, and each of them has asked the others and the Commission to join with it in seeking to institute a new drive towards innovation, growth in real terms and employment, in order to benefit from the synergies created jointly.

2. Priorities chosen by Italy from among the 24 guidelines laid down by the European Council, and the mechanism for funding them

Extensive consultation with social partners and work carried out in preparation of the Plan have confirmed the need and desire to create a knowledge-based society. Five priorities have been highlighted, constituting a summarized version of the 24 guidelines assigned for the relaunch of the Lisbon Strategy:

- extending the area of free choice for citizens and companies (GL 3, 10, 12, 13, 14, 15, 21, 22),
- granting incentives for scientific research and technological innovation (GL 7, 8);
- strengthening education and training of human capital, and extending the relative benefits thereof to the rest of the population, especially to young people (GL 9, 18, 19, 20, 23, 24);
- upgrading tangible and intangible infrastructure (GL 16);
- protecting the environment (GL 11).

The numbers of the guidelines summarized in each goal are given in brackets above, as instructed in the European Council Presidency Conclusions issued on 16-17 June 2005 (10255/05).

The above priorities will be pursued via action impacting on the economic system as a whole, on a number of sectors, and also on less developed regions.

Recovery of the Italian state's budget deficit and finances for the 2006-2008 three-year period, in accordance with the economic and financial planning document (DPEF, or "Documento di programmazione economica e finanziaria") submitted to the Italian parliament on 16 July 2005, is considered to be an integral part of implementing the Plan (GL 1, 2, 4, 5, 6), as is action to implement the European cohesion policy and the related regional domestic policy (GL 17).

Our document therefore fully incorporates the guidelines laid down when the Lisbon Strategy was relaunched.

Public funds made available for the purposes of the Plan have already in part been set aside in the budget until 2005 and the 2006-2008 period, which were subject to agreement at European level in order to bring the Italian deficit back within the Maastricht criteria. Some of the envisaged initiatives benefit from additional funding deriving from the Community cohesion policy. For the additional part of the Plan, expenditure equivalent to approx. 1% of GDP for the three-year period is anticipated, which will derive from the disposal of state-owned real estate assets. Overall, then, a total of € 46bn will be available for the 2005-2008 period under the PICO Plan.

3. Regulatory measures and investment projects to foster development of a knowledge-based society, via:

3.1 extending the area of free choice for citizens and companies

Following extensive consultation and preparatory work by the Technical committee with the help of the special Task Force operating at the Presidency of the Council of Ministers, three main categories of action have been identified in pursuing the first priority, namely: extending the scope of market competition, strengthening the production base, and improving legislation.

Action to be taken via generally applicable measures:

- *to promote extension of the area of the competitive market and improve legislation* consists of:

- introducing more wide-ranging <u>deregulation of supply in the service sector,</u> in line with the principles and decisions currently being finalized at European level;
- establishing transparent and objective <u>criteria for determining regulated prices</u>, and <u>extending the range of free prices</u> where the market is competitive;

- completing the liberalization of markets, reflecting indications provided by the antitrust and sector authorities;
- placing citizens and companies at the centre of all public administration, seeking to make the latter more "human" (human governance);
- introducing a policy to simplify and improve regulation ("better regulation") which:
  - draws on a political-level task-force to interface with the system of regions, autonomous bodies, and social partners, equipped with efficient technical support in order to strengthen the multi-disciplinarity of the competencies at work, by drawing on legal, economic and statistical methodologies to provide new momentum in implementing regulatory action proposed by sector authorities, and assessing the impact this will have on companies and citizens;
  - sets as its objective to reduce the weight of existing regulation, by codifying laws and regulations according to organic sectors, and to simplify bureaucratic procedures in order to reduce the burden on companies and citizens, and to bring up to speed quality instruments for future regulation. A "law-cutting" decree will be approved, Regulatory Impact Analysis will be finalized, guidelines will be drawn up for consulting with the targets of regulation, and surveys will be launched to improve the quality of regulation;
- improving the efficiency of the Italian public administration, taking as a reference the Code for digital administration (Italian Legislative Decree 82/05) and the Public connectivity system (Italian Legislative Decree 42/05), via:
  - reform of the administrative procedure, with particular reference to identification of "tacit assent" and "start of activity notification" mechanisms, strengthening "single counters", developing e-procurement and e-government systems, standardizing the most important national public databases and interoperability systems for citizens and companies, and outsourcing management of services that

can be produced on the market (the "towards streamlined government" project);

- o introducing reward mechanisms to improve spending capability and its quality in order to make use of the most updated practices to make the Italian public administration more efficient; sharing a culture of measurement, evaluation and appraisal; introduction of instruments of vertical co-operation between central and regional government administrations;

- introducing a law to prevent fraud on European rules, reflecting indications from the Italian finance police ("Guardia di Finanza") based on experience gained in carrying out their activities;
- strengthening the office of High Commissioner in the fight against imitations;
- enabling security action in the commercial sector to be pursued, with regional investment programmes to upgrade and reinforce security systems and equipment in small and medium-size companies;

- *to strengthen the production base* consists of:

- reforming the system of incentives pursuant to Italian Law 80/05, with the transition from capital subsidies to a system which hinges on risk-taking by banks. This should make the incentives more effective, improve relations between banks and companies, and allow efforts to be concentrated on the sectors of research, innovation and environmental protection;
- setting up an enterprise relaunch fund to promote new investment, and encourage e-commerce in the textiles, clothing, footwear and food/agriculture industries;
- rationalizing, co-ordinating and updating market-oriented venture capital instruments;
- improving companies' patent capabilities and protection via:
  ° strengthening the Italian Patents and brands Office, cancelling the patent concession tax, and transferring the activity of checking the degree of innovation involved in patents to the European patents' office;