Industrial Policy in Italy:
history, results and future challenges

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1) Introduction
This paper presents an analysis of the most important aspects of the Italy economy in the midst of the current economic crisis and discusses the main characteristics of the country’s current approach to industrial policy (IP). Our main focus is on the evolution of the manufacturing sector and on the issues of competitiveness and structural change. This is not because other aspects of the economy are less important but because we believe that the current difficulties of the Italian economy are deeply rooted in the dynamics of the industrial sector. We complement this analysis with a discussion on the characteristics of IP in Italy and on the role that it has played in the last decades in influencing economic growth.

There are two main motivations for this paper. The first one is the economic importance of Italy. Italy is the seventh largest economy in the world, it is (still) the Europe’s second largest industrial country and the 5th at the world level (UNStats, 2012). As shown in Figure 1, while things are rapidly changing with new competitor emerging and old one becoming stronger, Italy is still maintaining its position. It follows that it is important to understand how Italy is reacting to the crisis because this will also have an impact on the world trade.
Table 1: World top 10 manufacturers, 2010

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<tr>
<th></th>
<th>1990</th>
<th>2000</th>
<th>2010</th>
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<tr>
<td>China</td>
<td>3.2</td>
<td>8.3</td>
<td>18.9</td>
</tr>
<tr>
<td>United States</td>
<td>22.8</td>
<td>26.0</td>
<td>18.2</td>
</tr>
<tr>
<td>Japan</td>
<td>17.7</td>
<td>17.7</td>
<td>10.7</td>
</tr>
<tr>
<td>Germany</td>
<td>9.6</td>
<td>6.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Italy</td>
<td>5.3</td>
<td>3.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.7</td>
<td>1.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Korea</td>
<td>1.4</td>
<td>2.3</td>
<td>2.7</td>
</tr>
<tr>
<td>France</td>
<td>4.4</td>
<td>3.3</td>
<td>2.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>4.5</td>
<td>3.9</td>
<td>2.3</td>
</tr>
<tr>
<td>India</td>
<td>1.1</td>
<td>1.2</td>
<td>2.2</td>
</tr>
</tbody>
</table>


The second motivation for this paper is that the analysis of the Italian case may be useful for other countries in the periphery of Europe. As a preliminary step in this direction is then necessary to correctly evaluate how much of the current difficulties of the Italian economy are related to the crisis and how much are instead the effects of previous weaknesses of the Italian economy. For this reason this paper presents a stylized historical overview of the evolution of the Italian economy and of its IP in Italy since the 1950s until today. To understand how to face the problems of today is necessary to understand which are their origins and to which extend this are related to the type of IP implemented in the country in these decades.

In this paper, we define IP in a broad manner: IP includes all the policies and interventions aiming at favouring the restructuring of industry and the development of new industries (Bianchi and Labory, 2006; Cimoli et al., 2009; Di Maio, 2012). In this sense, IP is obviously not just State Aid or (horizontal) R&D policies. Instead, IP is understood as a set of actions supported by instruments that aim at favouring particular development paths. The adoption of this definition justifies the broad set of instruments and objectives that are ascribed to IP. In particular, we intend IP as the set of actions that are designed and implemented with the objective of creating the conditions to favour the adaptation of the private actors and of the production system. This interpretation of IP is clearly in accordance with the one adopted in the other chapters of this book that IP is a set of policies designed to foster structural change. In other words, IP in this paper is defined as the set of
government measures - targeted at specific industries and/or manufacturing firms - implemented with the objective to support the development and upgrading of industrial output. For this reason, following Cimoli et al. (2009) we argue that IP naturally includes a large set of policies and measures belonging to different domains of intervention, namely: i) innovation and technology policies; ii) education and skill formation policies; iii) trade policies; iv) targeted industrial support measures; v) sectoral (competitiveness) policies; vi) competition regulation policies. While all these sub-group of policies important to correctly describe a country IP, we will devote special attention to the sub-set innovation polices given their strategic importance important in the current world economy.

Our definition of IP includes a very large set of policies but it does not include all the policies that may impact and influence the manufacturing sector, as for instance the exchange rate policy and the labour market policies. Our choice is motivated by the need of a compromise between a broad definition able to capture the multiple aspects involved in the concept of IP and a reasonable number of different policy measures to be considered as part of that. To precisely define the contours of IP – in order to clearly distinguish that from the general overall country’s development strategy - is in fact a necessary condition for discussing the characteristics, changes and results of the different industrialization strategies of Italy in the last fifty-years. Moreover, the discussion of the space of possibilities, opportunity, and (potential) relevance of IP (understood as policies designed to foster structural change, including innovation policies) in the different historical periods is important to understand the current for addressing the challenges faced by the countries in the periphery of the euro zone.

Our analysis will mostly focus on the last fifteen/twenty years. There are several reasons for choosing this time-span. First, there are few doubts that the world has changed a lot in the last two decades. For instance, since China entered WTO the rules of the game and the players in world trade are not the same anymore. Second, this period give us a sufficient large time span to have a perspective on structural and competitiveness issues. Third, this is the time horizon that more or less coincides with the European Single Act of 1986 which represents a crucial step in the creation of the Single European Market. This is a crucial event in our analysis since one of its consequences was a sever limitation in the possibility to use traditional IP instruments (including exchange rate and interest rate policies, credit policy, non-tariff trade barriers, promotion of 'national champions', etc.) at the national level. Finally, the last fifteen years are also the period of the existence of the Euro, which many consider being one of the causes of the current crisis.
The paper proceeds as follows. In the next section, we provide a brief description of the historical evolution of IP in Italy between the 1950s and nowadays. In section 3, we discuss the evolution of the approach to IP in the European Union and we discuss the current guidelines for the member states. We also expand our point of view including in the picture the potential effect of the emerging countries and the effects of the WTO rules on the use of IP for Italy. In section 4, we describe the main characteristics of the Italian economy and we discuss the main features of the current Italian industrial policy. In section 5, we focus on a specific sub-set of the Italian IP, namely innovation policies. Finally, in section 6 we present some concluding remarks.

2) Some notes on the historical evolution of industrial policy in Italy

There are several different possible definitions for IP (see Di Maio, 2012). One important aspect to be considered is that the concept and definition of IP has evolved in time (as this section will also show). As we have said, we opted to adopt a flexible and broad definition: we will refer to IP as the set of government measures targeted at specific industries and/or manufacturing firms implemented with the objective to support the development and upgrading of industrial output. While the main focus of this paper is on the two last decades of IP in Italy, some notes on its historical evolution will be useful to understand its current characteristics.¹

Rota (2013) argues that after the Second World War the objective of Italian policymakers was to industrialize all parts of the country as to reduce the unemployment and the large regional disparities. In fact, the 1950s and the 1960s were a period of rapid GDP growth during which the North of the country began the industrialization process (Silva, 2007).² Rota (2013) identifies two distinct phases of IP during the so called “economic miracle” period (1950-1970). During the 1950s the leading instruments for IP were the state-owned enterprises and public holdings. In the 1960s, the major instrument to sustain the growth of the manufacturing industry was instead the (government controlled) credit system. In this way, government intervention contributed to the realization of metallurgy and chemical industry in the South and of the metallurgy and the mechanical industry in the Centre-North.

¹ For a detailed description of the content and characteristics of IP in Italy between 1950s and 1990s see Spadavecchia (2007).
² After the war, the situation was very different between the North and the South. In the North, the productive capacity lost in the war was recovered and empowered. In the South, the lower pre-war level of industrialization required a great effort in terms of resources and funding in order to build up a modern industrial structure.
The evolution of the Italian economy in the following decades was deeply influenced by the industrialization strategy adopted in the 1960s. Both the differential territorial development and the subsequent slowdown of the 1970s can indeed be attributed to that strategy. In the South, the development model was characterised by the establishment of capital-intensive and large-scale industries such as the chemical and metallurgic ones which increased employment in the region and created the conditions for some technological transfer, due to their size and product specialization, these large firms remaining isolated entities and in only few cases they were able to create backward linkages with the local SMEs. In the Centre-North, the development of the mechanical and of the metallurgic industries led instead to a more diversified and balanced industrial structure because in these sectors the average firm size was smaller and firms were able to compete and cooperate. As consequence, in the South the few large (state-owned and private) companies had a lot of political influence while the numerous SMEs were absolutely marginal in the political and economic decision making. In the Centre-North, the situation was very different. SMEs were numerous and very influential also because adopted an organizational structure which facilitated their coordination, namely the district. Most importantly, SMEs were often integrated in the production cycle of large firms and in several cases they evolved together.

The organizational and productive structures that emerged from this initial industrialization models showed their weakness starting from the end of the 1960s. The dramatic changes that took place in those years in the prices of labour, raw materials and energy were differently absorbed by the two models, with the South economy suffering most given the inability of large-firm to quickly react to these shocks. On the contrary, thanks to the flexibility of SMEs system, the Centre-North was able to better adapt to the new macroeconomic scenario. In fact, the organization and production characteristics of the SMEs allowed them to take advantage of competitive devaluation that happened when the Bretton Woods system was abandoned after the oil crisis. The use of competitive devaluation as an instrument of the country’s industrial policy is as a deep change in policy perspective with respect to the activism of the 1960s (where IP was intended as planning in the broad sense). During the following years, this measure continued to be largely used but its effects have been more beneficial to the firms in Centre-North than to the ones in the South where the SMEs where much weaker.

In a little more than twenty years, Italy had transformed itself from an agricultural economy to an industrialised one. Starting from the 1950s Italy experienced a dramatic structural change, a boost in the process of economic transformation during the 1960s and a slow down at the beginning of the 1970s. The existing North-South regional differences after the war were amplified during these
decades of rapid economic growth. As for regional disparities, things did not change much in the 1980s. In fact, the large regional disparities have not decreased and if any they increased. According to D’Antonio (1990), the 1980s sign, once for all, the impossibility to industrialize the Mezzogiorno. While some areas of the Mezzogiorno had some improvements in terms of income and industrial activity, large areas were still characterised by poverty and underdevelopment. The situation was very different in the other parts of Italy. Beside the industrial growth in the North and in the Center, during the 1980s there was a major development in the East regions, primarily along the Adriatic coast, in terms of manufacturing activities. Again, most of the dynamics came from the SMEs recently established in those regions. This dynamic has continued until the mid-1990s. Then, as we will see in Section 4, things have started to change.

To correctly understand the evolution of the Italian industry is crucial to have a clear picture of the political part of the story. Between the 1950s throughout the 1970s, the central government has been the main decision-maker in terms of the development strategy and of IP. Two ministries, the Ministry of Industry, established in 1948, and the Ministry of State Holdings, established in 1956, played major (often conflict) roles (Silva, 2007). The creation of these two Ministries actually institutionalized the private/public-sector dualism that characterised the Italian economy since the end of the Second World War (Prodi and Di Giovanni, 1990). In fact, during the phase of high growth (1945-1971) Italian IP did not differ much from the rest of Europe in terms of objectives but it did in terms of instruments. What was different with respect to other countries was that, in general, the action of the Government and of the Ministries was characterized by low efficiency and red tape, and was often subject to the influence of lobbies. These elements contribute to explain the emergence of structural difficulties at the beginning of the 1980s.

The approach of the Italian Government to IP has evolved during time. In the 1960s, IP was considered part of the planning policy, with the objectives to allocate production and to direct domestic demand. In this period, most of the incentives were directed to favour the creation of SMEs and to support their activities. Prodi and De Giovanni (1990) argue that one of the negative aspects of this strategy was that the administration of the support measures was done by the banking system. Incidentally, this also implied that there was no attempt to improve upon the lack of efficiency and effectiveness of the government. In the 1970s, the difference between the Italian IP and the one adopted by other countries started to clearly merge. While in the other advanced European countries mergers and strategic alliances were creating large conglomerates able to compete in the oligopolistic European markets, the priorities of the Italian IP was still to bailout firms in crisis and to enlarge the sphere of action of the public sector. This approach to IP continued
also in the 1980s, making Italy unable to exploit the trade and technological opportunities that were emerging at the world level. At the beginning of the 2000s, the Italian industrial structure was characterized by: a) the existence of only few large firms able to compete at the world level; b) a firms’ population dynamic characterised by low mobility and few new large firms established; c) a large presence of SMEs. These elements motivate the shared concern about the possibility of a future for the industrial sector in Italy given the size distribution of domestic firms. Hence the question: can the Italian industrial sector survive with only SMEs? Bianchi (1990) argues that SMEs are in fact unable to develop coherent growth strategies and do not have sufficient resources to exploit all the market opportunities and event to enjoy the incentives provided by the IP.

Not only the Italian economy was characterised by few large firms but the majority of these were still state-owned at the beginning of the 1990s. Gros-Pietro (1990) emphasises the negative effects in terms of industrial growth of the absence of an industrial strategy for these state-owned firms. According to his argument, state involvement in large size firms could have been used as a mean of coordinating strategy at least since the mid-1960s. Instead, in the absence of clear objectives and roles in the IP design and implementation, state-owned enterprises have been used mostly as (costly) instruments for maintaining the employment level, but so reducing the possibility to create jobs in the long term.

Prodi and De Giovanni (1990) argue that since the 1950s there has been a mismatch between the evolution of the Italian industrial system and the IP. While the former has been gradually modernizing – even if with significant differences at the regional level – the latter instead did not changed much, retaining its main weakness which was the lack of a far-reaching view for industrial development and often had confused objectives (Prodi and De Giovanni, 1990). IP was in fact mostly designed to serve the (political) objectives of stabilizing investments and promoting development in poorer areas of the country rather than to pursue the traditional objective of an industrialization strategy such as favouring structural change. Another important peculiarity of the Italian industrial development process concerns the role of the state-owned-enterprises. Leon (1990) notes that the system of state-owned enterprises have been widely used in Italy as an instrument to reduce unemployment and regional inequalities (and to increase political support for the ruling party), making the management of these firms dependent a set of considerations that not always were the correct ones to improve firms’ performance or with a coherent IP strategy.³

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3) Industrial policy in the context of the European Union: limitations and opportunities

3.1) A brief historical evolution of IP in the European Community (to be expanded if needed)\(^4\)

The European post-war sustained growth experience can be seen as the result of a mix of good institutions and of effective policy activism (Boltho, 1989). Starting from the 1970s though, the policy activism started to be progressively reduced. This process culminated with the Maastricht Treaty with which the IP of the member states was put under a much stricter control, leading to a reduction in the type and extent of measures and type of interventions that could be adopted. The basic guide principle and objective of the Treaty was the creation of the conditions for free competition among firms in the European unified market. In this sense, government interventions were mostly directed to regulate (or-deregulate) the market rather than affecting the single firm or industry.

Until the 1970s, the main objective of IP in Europe was to save industries in decline. In that period, national champions were strongly supported by state intervention, often through public ownership, which created a strict link between government and industries. Starting from the 1980s, the globalization process forced the European countries to elaborate a new approach to IP which will find its final form in the Bangemann Report (1990) and to then be included in the Maastricht Treaty (Labony, 2007). In fact, the creation of the Common Market in 1993 formally marks the end of the use of the tradition measures of IP, based on protectionism and direct transfers and subsidies. The Bangemann Report indicated the creation of a competitive environment as the number one priority for IP. At the same time, the Report suggested that governments should also play a role as pioneers in trying to identify the technologies and the industries with more development potential. While the view proposed in the Report was quite articulated, the European Commission interpreted it in a simplified manner as supporting minimal government intervention and (only) horizontal policies. The basic view the Commission ended up with was that to stimulate innovation and growth is sufficient to provide the correct incentives to economic agents (the so-called incentive-based approach) rather than, as it was common in the previous decade, to impose specific behaviours and choices to the firms (command-and-control approach) (Labony, 2007).

\(^4\) Depending on the content of the other chapters this paragraph could be expanded (aprox. 500 words) with a brief description of the characteristics of IP in Europe as found in three documents: Maastricht Treaty, Lisbon Strategy; the New European Industrial Policy.
Silva (2007) argues that there are few doubts that the strongest and most effective push for change in the approach to IP in the member states came from the European Commission (EC). Since mid-1980s, the Italian IP was under a sever control by the EC, especially concerning State Aid to domestic firms. Since the 1992 Maastricht Treaty, the EC has even increased its control over national IP and has promoted competition in the goods and services markets, and the mobility of capital and labour. This pro-competitive attitude was the framework in which the new European and the single member state IP had to be developed. As consequence, during the 1990s, the EC - as it did for all other member states - forced Italy to modify its approach to IP reducing the amount of direct disbursements to domestic firms (Ninni, 2007). The indications of the EC had a significant impact on the modality of conduction of IP in all the member states. The most drastic changes in the IP concern the reduction in the State Aid and the liberalization of government procurement. These two changes have significantly reduced the possibility of the government to (indirectly) support domestic firms since they cannot anymore exclude foreign ones.

The process of European economic integration had a strong influence on the characteristics of the IP of the member states. First, the enlargement of the market provided European firms with new market opportunities and allowed them to exploit the economies of scale in production. This new context obviously required a different set of measures (e.g. more oriented to support R&D and innovation) to make firms able to exploit these opportunities. Second, member states were forced to coordinate their IP and to adopt common policies for specific objectives. Finally, the EC played the crucial role of monitoring of the different European industries and of coordinating the policies of the different member states (Labory, 2006)

3.2) The current approach to IP in Europe

There are several signals indicating that the EC attitude towards the use of IP is changing. In fact, there is an increasing acceptance by the EC of measures proposed and implemented by member states that are very similar to the traditional IP instruments. This different attitude can be seen both in the larger decision space left the single member state and in the amount of State Aid that the governments are transferring to domestic firms (as we have seen State Aid is not smaller than in 2000, see table 1 below). Rota (2013) notes that the most recent economic events - from faster globalization to the slowing down of economic growth in advanced countries and the difficulties of the world’s financial system - have sharply refocused the attention on sector-based issues and with a major role for national states.
In the recent years, the emphasis remains on the rules of the game (to preserve competition) but the direct support to improve firms’ competitiveness – especially in new sectors – is not anymore excluded a-priori. In fact, vertical interventions (also with targeted measures) are now accepted if these are directed to support the development of new activities and products. That a change in perspective is taking place is confirmed by the fact that in the last years, most of the European countries have indeed increased the expenditure for IP, although they are in large part horizon measures (Ninni, 2007).

The definition of the IP objectives is among the EC prerogatives while the implementation of the IP is left to the single member states. The EC also plays an important role in coordinating the different national strategies. The fact that each member state in practise conducts its own IP follows from the praxis associated with the subsidiarity principle as it is found in the EU Maastricht Treaty. While each member state then has its own mix of different instrument, to compare the strategies and the results it could be useful to focus on the two most important instruments among the several adopted by the European governments. These are: 1) State Aid measures; 2) Government procurement.

3.2.1. State Aid

The EU Treaty generally prohibits State Aid unless it is justified by reasons of general economic development (EU, 2012). The EC is in charge of checking that this prohibition is respected and exemptions are applied equally across the European Union. State Aid is defined as a situation in which one of the following criteria is met:

- there has been an intervention by the State. These measures can take a variety of forms (e.g. grants, interest and tax reliefs, guarantees, government holdings of all or part of a company, or the provision of goods and services on preferential terms, etc.);

- the intervention confers an advantage to the recipient on a selective basis, for example to specific companies or sectors of the industry, or to companies located in specific regions;

- competition has been or may be distorted;

- the intervention is likely to affect trade between member states.

By contrast, the EU does not prohibits general measures, i.e. measures that not selective and apply to all companies regardless of their size, location or sector. Examples include general taxation measures or employment legislation.
The following tables compare State Aid for a sample of European Union member states. Some interesting elements emerge from this table.

### Table 1: Total State Aid as % of GDP manufacturing and services (selected countries)

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<tbody>
<tr>
<td>EU-27</td>
<td>0.86</td>
<td>0.78</td>
<td>0.50</td>
<td>0.53</td>
<td>0.45</td>
<td>0.46</td>
<td>0.48</td>
<td>0.42</td>
</tr>
<tr>
<td>Belgio</td>
<td>0.67</td>
<td>0.44</td>
<td>0.35</td>
<td>0.30</td>
<td>0.26</td>
<td>0.38</td>
<td>0.54</td>
<td>0.34</td>
</tr>
<tr>
<td>Germania</td>
<td>1.59</td>
<td>1.04</td>
<td>0.75</td>
<td>0.85</td>
<td>0.70</td>
<td>0.58</td>
<td>0.57</td>
<td>0.48</td>
</tr>
<tr>
<td>Irlanda</td>
<td>0.74</td>
<td>0.39</td>
<td>0.85</td>
<td>0.46</td>
<td>0.37</td>
<td>0.45</td>
<td>0.60</td>
<td>0.43</td>
</tr>
<tr>
<td>Spagna</td>
<td>0.80</td>
<td>0.74</td>
<td>0.67</td>
<td>0.61</td>
<td>0.39</td>
<td>0.41</td>
<td>0.39</td>
<td>0.35</td>
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<tr>
<td>Francia</td>
<td>0.47</td>
<td>1.17</td>
<td>0.45</td>
<td>0.37</td>
<td>0.43</td>
<td>0.52</td>
<td>0.64</td>
<td>0.52</td>
</tr>
<tr>
<td>Italia</td>
<td>1.23</td>
<td>0.96</td>
<td>0.48</td>
<td>0.39</td>
<td>0.36</td>
<td>0.28</td>
<td>0.19</td>
<td>0.18</td>
</tr>
<tr>
<td>Austria</td>
<td>0.00</td>
<td>0.29</td>
<td>0.26</td>
<td>0.30</td>
<td>0.49</td>
<td>0.53</td>
<td>0.63</td>
<td>0.50</td>
</tr>
<tr>
<td>Gran Bretagna</td>
<td>0.13</td>
<td>0.23</td>
<td>0.15</td>
<td>0.18</td>
<td>0.18</td>
<td>0.22</td>
<td>0.28</td>
<td>0.24</td>
</tr>
</tbody>
</table>

Source: European Union, DG Competition

Since State Aid has been strictly regulated by EU, the relative and absolute position of Italy in terms of resources transferred has significantly changed with respect to others European countries. While up to 2011, State Aid has increased on average among the EU-27, it has halved in Italy. At the beginning of the 1990s the amount of State Aid (as percentage of GDP) in Italy was among the highest (1.23%). By 2011 the amount of State intervention is now among the smallest in Europe (0.18%). The value of State Aid in Italy is now lower than for UK, whose industrial value added percentage of GDP is significantly smaller. In 2001, State Aid are one-third of that of France, and Germany and a bit more than half that of Spain. This drastic reduction in the amount of resources transferred to firms is mostly due to the decrease in the State Aid direct to firms in the Mezzogiorno while subsidies for R&D and other horizontal interventions have not been modified. In conclusions, these comparisons show that in the case of Italy State Aid is by now quite limited in absolute terms and that in relative ones it is becoming even smaller compared to other European countries.

3.2.2) **Government procurement**

The second most important measure of intervention available to member states is government procurement. Before 1993, government procurement in specific sectors (water, energy, transport,
and telecommunication) could be legally limited to domestic firms only, excluding all foreign companies. After 1993, the liberalization of government procurement drastically changed this situation by strictly regulating the use of this traditional IP instrument. While there are few doubts that the introduction of the new rules has improved transparency in public procurement, it has also deprived the member states of the possibility to use one of the most protectionist instruments previously available to all the governments of the European countries. While the possibility to use government demand as an instrument of IP is nowadays severely limited, public procurement is still allowed as a stimulus to support high-tech industries (Florio, 2003).

Also in this respect the recent Italian experience shows a disappointing performance. The opportunities that government procurement still offers in terms of favoring the technological upgrading of domestic firms have not been exploited. Instead, public expenditure has been mostly directed to finance expensive projects whose aggregate economic return is highly uncertain (see for instance, the bridge on the Messina canal) and which are unlikely to stimulate domestic innovation.

3.3) Industrial policy, the WTO and the new world

It is interesting to note that the market-oriented approach to IP which characterize the EU is also present in the rules that regulate the WTO. For instance, the Agreement on Subsidies and Countervailing Measures strictly forbids the use of any specific subsides (see Belloc and Di Maio, 2013). Moreover, since 1996 the Government Procurement Agreement (GPA) imposes the non-discrimination towards foreign firms competing with domestic ones for any government procurement contract. Thus, two of the most traditional and widely used trade policy measures to sustain economic growth are now banned by the WTO, exactly as they are banned by the EU.

In fact, not the European context has changed, but also the world economic context is quite different from what it was some decades ago. Two are the most relevant differences: the rules of world trade and the international division of labour. We briefly discuss them in turn. In the last twenty years, the rules of world trade have significantly changed. For instance, the numerous existing multilateral, bilateral and regional trade agreements have at this point almost completely eliminated the policy space available for using trade policy as an instrument to promote industrial development. Nonetheless, the WTO rules allow all countries to use trade policy interventions in the form of selective subsidies to promote: (i) domestic R&D; (ii) regional development; (iii) environment friendly activities. Moreover, it is possible to promote and select strategic sectors: governments can
selectively promote science and technology activities, in particular by subsidizing private and public R&D. This indicates that there is still some room for policies to support industrialization but governments have to design IP, and in particular trade policy, as to take explicitly into account the new constraints.

The second important change concerns the characteristics of the global economic environment and in particular the new international division of labour. The level of competition in global markets has enormously increased also due to the emergence of new world-level competitors: large developing countries such as China, India and Brazil are now leader in labour-intensive manufactures. While this is not the same for all developed countries, Italy is suffering from this new situation (see below). Thus, these are additional constraints to the design of effective IP in Italy nowadays. This new competitive environment requires the IP to include a different set of instruments and measures from the ones used in the past.

4) The Italian economy and the Industrial Policy

According to the EU Report *Member States Competitiveness Performance and Policies 2011* manufacturing contributes 16.1 % to Italy's total value added against 14.9 % for the EU on average (2009). Italy is relatively specialized in terms of value added and export value in labour-intensive industries such as leather, clothes and apparel and in manufacturing industries and high-tech sectors such as fabricated metal products, domestic appliances, machinery and automotive, motorcycles and bicycles. Traditionally, Italy has also a comparative advantage in marketing-driven industries, i.e. luggage and handbags and high-quality food and beverages. It is this double nature that makes the Italian case an exception in the European context. While these are still niches of excellence, the Italian R&D intensity is below the European average.

The recent economic and financial crisis had a strong impact on the Italian economy. Manufacturing production fell by around 25 % during the crisis and it is still 17.4 % lower than its previous cyclical peak. At the same time, not all the current difficulties of the Italian economy originated with the crisis. In fact, the decline in the economic performance has started before that. In the last decade, Italy has experienced a loss in cost and price competitiveness. Nominal unit labour costs have increased by 31% between 2000 and 2010, compared to an increase of 14% in the EU27 and 20% in the Euro area. Labour productivity per hour worked has declined over the last decade and is now only marginally above the EU27 average and about 13 percentage points below the Euro area average (EC, 2012).
Overall, Italy currently shows a mixed picture with respect to competitiveness. While it undoubtedly features strengths and improvements in some areas, its performance in knowledge-intensive industries is still weak and does not seem to be likely to improve in the short-term. Before moving to the specific policies and measure that are part of IP in Italy, it is necessary to discuss two aspects of the economy that are crucial to correctly understand the current situation of the Italian industrial system.

4.1.) The two peculiarities of the Italian economy

Italy can be characterised by two peculiarities that have an important role in determining the historical and current characteristics of IP and that also would influence the impact of any IP package on the economy. The first one is the specialization pattern. The second is the size distribution of Italian firms.

The trade specialization anomaly. There is widespread consensus that economic growth is to an important extent determined by the country export performance and that the strength of this link depends on the sophistication level of the specialization pattern of the country (Dosi et al., 1990). These arguments have fueled the debate about the possibility that the recent weak performance of the Italian economy is due to its mis-directed pattern of specialization. In fact, Italy is characterized by a peculiar 'trade specialization anomaly' (Onida, 1999), consisting of: a) strong comparative advantages in low-skilled and labor intensive sectors implying that Italy, in terms of specialization, is much more similar to an emerging economy than to countries with comparable levels of per-capita income; and b) a remarkably high degree of persistence of such a peculiar structure of specialization (De Benedictis, 2005). In fact, what is remarkable of this anomaly is that for a long period it has not prevented Italy to enjoy satisfactory growth. Yet, it seems that more recently the anomaly has finally become a problem for the economy. Di Maio and Tamagni (2008) suggest that an explanation for this phenomenon can be found in the evolution of the sophistication level of world trade. Their analysis provides an empirical characterization of the sophistication of the Italian specialization pattern and of its evolution from the early 80’s to recent years. Their analysis shows that, during the last two decades, the entry of new competitors (in particular, emerging countries) as well as a vast world-wide redistribution of production has significantly changed the relative gains associated to exporting in each specific sector. In the face of these dramatic changes, Italy has instead not changed its specialization pattern which furthermore is characterized by an inter-temporal decrease in its sophistication level. In fact, while the persistence of the specialization pattern is not uncommon in developed countries, what is peculiar of the Italian case is that
persistence has increased over time. The analysis reveals that by the late 90’s, the sectors where Italy has been, and still is, highly specialized, are characterized by an inter-temporal reduction in the value of their PRODY index, which is an index whose value is higher the more the sector/product is present in the export vector of advanced countries. This result provides a possible explanation for why the ‘trade specialization anomaly’ was not a problem before while now it is so. The world trade is rapidly evolving but Italy is stuck with its traditional structure of comparative advantages, characterized by strong specialization in sectors which, in the last years, have become less and less sophisticated, and, thus, less and less capable to sustain growth.

While these results are clear, the main challenge is to understand why the Italian specialization pattern has been accompanied by decreasing sophistication levels in recent years or, to put it differently, why there has not been an attempt to modify the specialization pattern towards a more sophisticated export vector. Several are the possible causes: for instance, it could be possible that the numerous exchange rates depreciation episodes reduced the incentives for the firms to upgrade their products (De Nardis and Traù, 2005)? Or, moving to more indirect causes, is there little behavioral inclination on the part of the Italian firms to translate productivity and profitability into higher growth (Bottazzi et al., 2008)? Or maybe, the labour market reforms implemented in the second half of the nineties pushed too much attention on cost saving policies, instead than favoring productivity growth (Saltari and Travaglini, 2006)? It is also possible that credit markets failed to sustain the best performing firms (Fagiolo and Luzzi, 2007)? While there is no a unique cause, all these issues point to a lack of IP strategy to counter the trade specialization anomaly and to sustain structural change and growth.

The firm size distribution anomaly. Like what happens in other EU economies, the vast majority of firms in Italy are SMEs (99.9 % of companies and 81.3 % of employment). One difference is that with respect to other EU countries Italy has a higher prevalence of micro-companies of less than 10 employees (47.4 % of employment, compared to 29.8 % in the EU average). Moreover, the prevalence of SMEs is even stronger in the South where the average number of employees per enterprise in the manufacturing sector is 5.8 compared to 8.5 at national level (EU, 2012). While these data can be interpreted as the showing the strong entrepreneurial spirit prevalent in Italy, they also rise some concerns related to the overall competitiveness of the economy.

5 Specifically, the PRODY index returns, for each traded sector (product), a weighted average of the per-capita incomes of the countries which are exporting in that particular sector (product). Sectors are therefore ranked in terms of their productivity/income content, whence the name of the index. Hausmann et al. (2007).
This situation is not new. Starting from the 1970s there has been a steady decline in the presence of the large firms which had contributed to the “economic miracle” of the previous decades. Since the 1980s, the organization of production in the traditional sectors in the Northern regions changed, moving from a situation in which there was a prevalence of large firms to a new one in which there was a prevalence of districts made by SMEs. Somehow surprisingly, this form of organization of production expanded and consolidated over the years. The recipe for the success of the districts is to be found in a combination of high competence of the entrepreneurs and of the employees, the flexibility provided by the family-ownership structure and the fruitful interaction with the other firms in the district. This successful mix made the SMEs belonging to these districts to gain national and international leadership in specific market segments. For a long time, industrial districts have been the backbone of the Italian economy and contributed to contrast the economic and especially industrial decline. In the long run, however, this system started showing its weakness due to the prevalence of SMEs: low internationalisation, low level of investments in R&D, lack of managerial culture with consequent low demand for university graduates, prevalence of small projects.

IP has not been able to play a positive role in this context. On the one side, IP has not provided incentives and programs able to induce SMEs to upgrade their production and products process. On the other hand, SMEs have been not much interested - if not reluctant - to use the available policies because of the small size of their activities especially in terms of R&D and innovation. As Silva (2007) notes, the peculiarity of the SMEs is that since they compete within niches, quite often investments in marketing activities proved to be more advantageous than those in R&S and/or equipment. Given the large prevalence of SMEs, their behaviour contributes explain the extreme low investments in R&D and innovation activities in Italy.

The district experience clearly suggests that the idea that “small is beautiful “has its limits and that these can be very significant in the long run. Yet, by the end of the ’90s, there were not much alternatives. In fact, only a few large corporations were still in operation, or at least under Italian control; and none with a relevant position in the international markets, except for FIAT (private ownership), Finmeccanica (public ownership), TS Microelectronics (public and French partnership), and ENI (public ownership). Silva (2007) argues that while different and alternative explanation could be provided to explain how it was possible to reach that situation, there are few doubts that IP had played - if any - a negative role in that story. In his view, IP has been often used to protect firms and activities that instead would have needed more competition. While reducing the
costs of the structural adjustment in those years, this strategy caused a slow, inevitable decline of very important pieces of industry.⁶

4.2) An overview of IP in Italy today

As we have seen, since the beginning of the 1990s the European has been providing guidelines concerning the IP for all member states, progressively reducing their autonomy. In addition, also the decision centre at the level of the member states has changed. While until the 1970s, it was the central government that was in charge of designing and implementing IP, nowadays large part of this role is now played by local governments (the Regions), especially for those measures directed to support SMEs. This decentralization of the management of the IP implies that the effectiveness of the different measures and programs now also depends on the efficiency of the different Regions.

The current general framework for IP in Italy is provided by “Industria 2015”. The "Industria 2015” programme was launched in 2006 and organised in five Industrial Innovation Projects (Energy Efficiency, Sustainable Mobility, New Life Technologies, New technologies for the 'Made in Italy', Innovative Technologies for Cultural Goods). The implementation of programme is on-going and has been confirmed as a priority also by the current Government. However, the progress in the actual disbursement of funds appears to be quite slow.

In general, the analysis of IP is complex and delicate exercise that is too often plagued by ideological views and often based on incorrect information. This is why it is crucial to start any discussion on the role and effect of IP looking at the raw data.⁷ Figure 1 reports the evolution of government disbursements for industrial policy in Italy for the period 1999-20111. As it can be seen from the graph, between 2002 and 2011 the total amount of government disbursements has decreased from 5.961 million to 2.251 (which is indeed a small amount if compared with the size of the Italian industrial production), a reduction by almost 70%. How limited is this amount of resources clearly merges if one considers that these amount of resources includes all the national, regional and European community interventions to support private R&D, internationalization ad export activities, innovation activities and the creation of new enterprises. Moreover, as shown by

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⁶ Silva (2007) notes that possible causes of this are wrong financial and investment decisions and a conflicting approach to industrial relations by the top management of the large corporations (e.g. Edison, Montecatini, Olivetti, FIAT, IRI). Still, these managers could not be removed because they controlled the financial markets and because of the ownership structure of these companies (family or state control).

⁷ Obviously, there is more than just a bad attitude: in fact, the difficulties to correctly measuring the amount of resources that are employed in the different policies and programs part of the IP are impressive. So that looking for the correct data is often costly in terms of time and resources.
Figure 1, the available resources have been constantly and significantly decreasing during the last years. One important change that took place in the typology of measures of State Aid is the drastic reduction in the amount of not repayable disbursements that for a long time have been the majority among Government measures especially towards firms in the Mezzogiorno. Nowadays the situation is significantly different with this type of measures representing only 27.5% of the total (with respect to 59% in 2005) and 38.7% of the measures towards the Mezzogiorno (they were the 80% in 2005).

It is also interesting to look at the changes occurred in the objectives pursued by State Aid. As shown in Figure 2, in the last decade the changes have been dramatic. The general support to the accumulation of capital (General) has decreased significantly, halving its size. The main objectives have become the support to R&D (which increases from 14% to 43%) and to the internationalization activities (from 3% to 12%).

Another important change occurred in the IP in the recent decades is the increasing importance of the Regions in terms of amount of resources provided, now reaching 32% of the total. Still, there are large differences across Regions as for their contribution which depends on a number of elements among which, the specialization pattern of the region, the type of measures implemented the capabilities of the Regions to access to European Funds, etc. In fact, again a divide between North and South regions emerge with most of the intervention in the former takes the forms of measures to support private R&D and export while in the South most of the measures are direct to support capital accumulation (General), with moreover a significant reduction in the amount of the resources available. The differences across regions in terms of product specialization also explain the regional differences in terms of objectives of State Aid.8

8 It is obvious that regions (for instance, Calabria and Sardinia) in which the specialization patter is characterized by low-skill intensity misaligned with respect to all the set of intervention that are direct to support R&D. For a detailed analysis of the regional dimension of IP see Brancati and Maresca (2013).
Figure 1: The evolution of Government disbursements for industrial policy in Italy (millions of euro), industry and services to production, 1999-2011

Source: Brancati and Maresca (2013) using data from the MET Dataset

Figure 2: Distribution of disbursements by objective, average 2002-2003 and 2010-2011, percentages

Source: Brancati and Maresca (2013) using data from the MET Dataset
A significant share of the resources of State Aid is direct to support SMEs. The measures in favour of SMEs are from both the central government and the local ones (Regions). In general, one of the main objectives of the measures direct to support SMEs is actually to favour their dimensional growth since firm size is strongly correlated with export-orientation and innovation. The financial structure of Italian SMEs, which are relative less capitalised that in other countries, is an important factor limiting dimensional growth. This situation is made even more complicated by the fact that the Italian venture capital and private equity markets remain relatively underdeveloped which makes SMEs rely more on short-term borrowing than in other EU countries. To address these problems, in 2010 the Italian Government created the Italian Investment Fund (Fondo italiano d'investimento) to provide risk capital to SMEs. Another strategy adopted by the Government to overcome the problems related to the small size of firms has been to favour cooperation. This is the aim of the "network contract" (Contratto di rete) which favour the collaboration among companies on specific projects, such as R&D activities and internationalisation activities. While these are likely to be steps in the right direction, the dimensional problem of the Italian economy needs a more comprehensive intervention.9

4.2.1) Some political economy considerations

During the decade (2001-2011), Italy has been ruled by Center-Right governments, with a short interval (one year, 2006-08) in which a Center-Left government was in charge. After the resignation of Berlusconi in December 2011, the government was ruled by the technocratic government led by Mario Monti who has been in charge until the 2013 election.

During the Berlusconi (2001-2006) Government, the economy showed signs of serious productivity decline.10 The Government had no IP strategy. In fact, interventions were characterized by an ad-persona approach (in other words, persona connection made all the difference). No action has been undertaken to solve structural problems, and especially to counter the productivity slowdown (Silva, 2007). Since the Government had a political incentive to protect the interests of SMEs, IP has been increasingly devolved to regional government. This increased even more the fragmentation of the interventions and the absences of a coherent framework for IP in Italy.

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9 Even if few, there are also successful examples of measures to support SMEs activities through effective IP. One of these is the case of the region Emilia-Romagna discussed in Bianchi and Labory (2011).
10 Admittedly, the negative dynamics of the productivity did not begin during the Berlusconi government. In fact, it can be said that they it has been in part the effect of the effort of the previous Center-Left government (1996-2001) to focus only on the improvement the debt/GNP as required by the European treaties.
The subsequent Center-Left government (2006-08) paid certainly more attention to the whole problem related to industrial development and IP. The Minister of Industry Pierluigi Bersani attempted the ambitious program titled “Industria 2015” which aimed at bringing back industrial development among the priorities of the government. The IP strategy designed in the “Industria 2015” was based on two main pillars. The first was the deregulation in the service sector (e.g. insurance companies, banks, distribution, etc.). The objective was to promote more competition in those sectors favouring productivity improvement. On the whole, the effect of such actions was modest especially because those measures faced the strenuous opposition from the lobbies of the liberalized sectors. The second pillar was a national innovation policy strategy called “Industry 2015”. The objective of the Government was to coordinate the policies of the single regions and to create 5 areas, or systems, of economic activity. Within each system, a down-top procedure selected a number of projects that involved firms and universities. The State concentrated its financial resources to help, via credit incentives, the economic subjects who participated in such projects. While the Government did not last enough to see all the potential benefits of this strategy (and thus a detailed evaluation is not possible), there is a general consensus that - even after few months - there were already some signs of its effectiveness.

After the short parenthesis of the Center-Left Government, the Right Wing Government led by Silvio Berlusconi took the power again in 2008. The least negative that can be said about that Government is that IP has not been one of its priorities. To have an idea, for almost two years the Government Berlusconi had no Minister of Industry. After that period, Silvio Berlusconi himself took that role. Obviously not much time has been devoted to follow the numerous issues related to industrial development, if not that relevant for electoral motivation (for instance, the opposition to the offer of Airfrance for the acquisition of Alitalia, choosing instead to favour the creation of a new company owned by close friends of Silvio Berlusconi).

5) Innovation policies in Italy (it can be expanded)

We have defined IP as a set of different measures operating in different domains with the objective to favouring the development of the manufacturing sector and the process of structural change of the economy. Among these, the technological and innovation domains play a crucial role due to their pervasiveness and strict link with the process of economic change. Moreover, the communitarian rules allow much more flexibility in the use of Government intervention when this
is direct to support innovation effort by domestic firms. The theoretical motivation being that innovation and in general technological upgrading has a component of positive externality.

The literature on the effects of the innovation policies in Italy in the last decades is quite limited. Still, the few studies all point to the same weak effect of public policies in supporting innovation. Evangelista (2007) analyze the magnitude and impact of the public support to innovation using the Community Innovation Surveys (CIS). These are very useful datasets because they provide information not only on the innovation activities by domestic firms but also on the fact that firms use or not the available public subsidies to support innovation. The analysis shows that the Italian model for the innovation policies is of the “diffusion oriented” type: the large majority of the public support is direct to investments in physical capital and to support process innovation while only a small number of Italian firms is able to access more specific and targeted incentives. The econometric analysis shows that the relation between public support (subsides, support policies, etc.) and the innovation performance of the firms is quite weak. While these results clearly show the lack of effectiveness of the innovation policies, there is no discussion about the possible the causes of this weak effect.

Merito et al. (2010) note that Italian firms’ propensity to invest in R&D activities has always been low. In part, as we have already discussed, this is a consequence of the production structure, characterised by the prevalence of SMEs and a specialization in traditional manufacturing sectors, which are both factors showing a negative correlation with the private sector propensity to innovate. They analyse the Special Fund for Applied Research (FSRA), which has been the main instrument of industrial research and innovation policy in Italy until the beginning of the last decade. They study the relationship between government support for business R&D and firm innovative and market performance in the short and medium run using micro-level data on Italian manufacturing firms. The results suggest public grants have no significant effects on firm productivity or growth and only temporarily foster innovation output. While the results indicate a very weak impact of R&D subsidies on firms’ performance and behaviour, it seems that they stimulate employment and up-skilling in the medium-long run. There are two complementary possible explanations for these disappointing results. The first is that the weak effect of these subsidies may be related to the size of the transfers, which would indicate that it is not enough to provide a subsidy but that its amount has to be significant with respect to the firm’s investment necessities. Second, it is possible that the weak effect of the subsidies is due to the fact that these grants are usually received by the firms in separated instalments over the years, which make them much less effective in solving the (often binding) financial constraints that firms are facing in their innovation efforts.
According to the Innovation Union Scoreboard 2010, Italy is below the European average in terms of innovation, in particular concerning private R&D investment (0.65 % of GDP) (EU, 2012). The share of high-tech exports is also lower than the European average, showing the peculiar product specialisation of the Italian industry (see the discussion about the trade anomaly in Section). Recently some attempt has been made to improve the effectiveness of the innovation policies. At the moment, there are different instruments available to support research projects of private firms. For instance, since 2010 there is a program offering tax credit for companies financing research projects in universities or public research bodies. There have also been attempts to create structures to simplify and ease the access to financing in the field of industrial research projects and to facilitate contacts between companies and the Ministry for Education, University and Research.

In April 2011, the National Research Programme (NRP) 2011-2013 was presented after a long process of consultation of all the stakeholders. Interestingly, the NRP defines as major objectives for the Italian research system increasing R&D expenditure, improving competitiveness in key technological areas, favouring cooperation between companies and public research institutions, improving analysis and evaluation of research programmes and bodies. One of the main objectives of the NRP is to rationalise and reinforce a number of already existing measures and projects, such as the Technology Districts, the National Technology Platforms and the National Excellence Poles. Furthermore, 14 priority projects (Progetti bandiera) have been identified, most notably in relation to key enabling technologies, energy and space (EU, 2012).

The Italian regional divide is also very large in terms of innovation activities. The North-South gap is indeed particularly evident in terms of research and innovation. Indeed, the level of expenditure in R&D in the Mezzogiorno is broadly one third inferior to that in the Centre and in the North. Furthermore, the relative share of business R&D is especially low (about half that in the North).

The weakness of the Italian industrial model and of the current IP emerges with even more strength when innovation and technological change is considered. The weak innovation activity and the inadequate set of innovation policies are clearly influencing each other, making the Italian production system unable to upgrade along the technological chain. This general lack of innovation activities (due as we argued before to the two anomalies that characterize the Italian economy) and the inability to design effective policies (in part related to the difficult context in which they have to be implemented) is particularly worrying since technological and in general innovation policies are

11 The thematic working groups covered a vast range of topics including: environment, health, life sciences, energy, agriculture, nano-sciences and new materials, "Made in Italy", ICT, aeronautics and space, sustainable mobility and transports, cultural goods, construction.
the policies on which the EU will leave more room for intervention. In other words, we will be in a paradoxical situation in which the set of IP on which the limits and constraint of the EU are weaker are also the ones that Italy will design and implement less.

6) Some concluding remarks

The last few years have been characterized by a profound world economic crisis which had a particularly strong impact on Southern European countries. Italy is one of the European countries that have been more badly affected by the negative effects of the economic recession. The response that governments in the region have provided have mostly focused on reducing the public debt and implementing the so-called ‘structural reforms’ – typically, changes in the regulation of labor and product markets, which aim to increase the flexibility and cost-competitiveness of the overall economy.

While these have been the responses from most of the governments, an alternative view would suggest that to react to the crisis what would be needed is to change the production structure and to favour structural change. In fact, this view argues that finding a sustainable path out of the present crisis requires addressing the challenges of productivity growth and competitiveness in the long-run.

While Italy still maintains a diversified and in some instances a globally competitive industrial basis, its overall growth potential is a source of concern. Moreover, most of the policy interventions appear uncoordinated and fragmented while some promising measures remain only partly implemented or are delayed by lack of resources or by complex decision-making procedures and practices. Given the importance of industry, Italy would benefit from putting forward a comprehensive industrial development strategy.

In this context, industrial policy (IP) obviously plays a central role. In fact, we believe that the current difficulties of Italy in the face of the economic crisis are strictly related to its IP. This is why, to better understand its role, we have described the evolution of IP in Italy in the last decades and its current characteristics, also to learn how to modify it in order to restart a sustained growth process.

As for the characteristics that an effective IP should have, we have emphasised that it should be designed as to take into account the two anomalies that characterise the Italian economy: the trade
specialization anomaly and the firms’ size distribution anomaly. Both these anomalies have important implication in terms of IP design and implementation.

Moreover, the Italian economy is characterised by a large and persistent (if not increasing) North-South economic divergence. While the divergence dates back at least to the 1960s, in recent years it has been increasing. By now it is possible to characterize two very different regional models. In the North, there is a prevalence of SMEs, usually family owned. In the South, most of firms are still agricultural ones and the role of the public sector is still quite relevant. An important implication of the persistence of this dichotomy is that the IP has to be designed as to take into account the different requirements of the firms in the different region. This implies that in addition to the sectorial and technological dimension also a regional dimension should be taken into account in the design of IP.

Why Italy need IP more today than in the past? As we have discussed in this chapter, the space of possibilities, opportunity, and (potential) relevance of IP is rapidly shrinking. Still, our analysis has also highlighted that in spite of that, the adoption of a new and improved IP package is needed for addressing the challenges faced by the countries in the periphery of the Euro Zone. In particular, we have argued that nowadays Italy needs IP today more than ever. There are three main reasons for this. First, international competition is becoming increasingly fiercer. Second, almost all other countries in the world are already using IP. Third, international competition has changed ad new instruments are needed. In the past two decades, the made in Italy model was able to cope with the international competition because of the specialization in high-quality products. Nowadays this is increasingly more difficult. In fact what has changed is not the quality of the Italian products rather than the fact that new competitors are entering the traditional markets of Italian products. This implies that the survival of SMEs (which are the backbone of Italian economy) will be even more difficult and thus that Government intervention is needed – surely in various and different forms with respect to the past – more than ever.

What it is by now obvious is that IP needs to be different from what was in the past. The world is different, there are new rules, new actors and new challenges ahead. Moreover, firms are exposed to more competition and thus IP be tailored to the new needs of firms. This implies first of all that the design of IP needs to take into account firms’ heterogeneity and that the correct measures could be identified only through a continuous dialogue between the private and the public sector.

Given the historical and current structural difficulties of the Italian economy, it clearly emerges that the strategies that – following other European countries - have been recently adopted to overcome
the crisis are not enough to re-start a process of structural change and inclusive growth. In this sense, our analysis suggests that instead the focus should switch towards policies designed to foster structural change and to provide the economy of the instruments needed to overcome the current (and probably long-term) crisis.

The aim of the analysis presented in this paper was not to provide conclusive solutions to the numerous problems affecting the Italian economy but instead trying to re-direct the discourse and to ask the correct questions, such as: which are the causes of the current difficult situation? Should the budget balance equilibrium be our first objective? How to re-start a process of structural change and economic growth? This exercise of trying to change the perspective with respect to the dominant view is very useful especially when the situation is very complicated. In fact, asking the correct questions is the first step to find the right solution to any problems. We hope this paper is a contribution to this enormous but urgent challenge.

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