

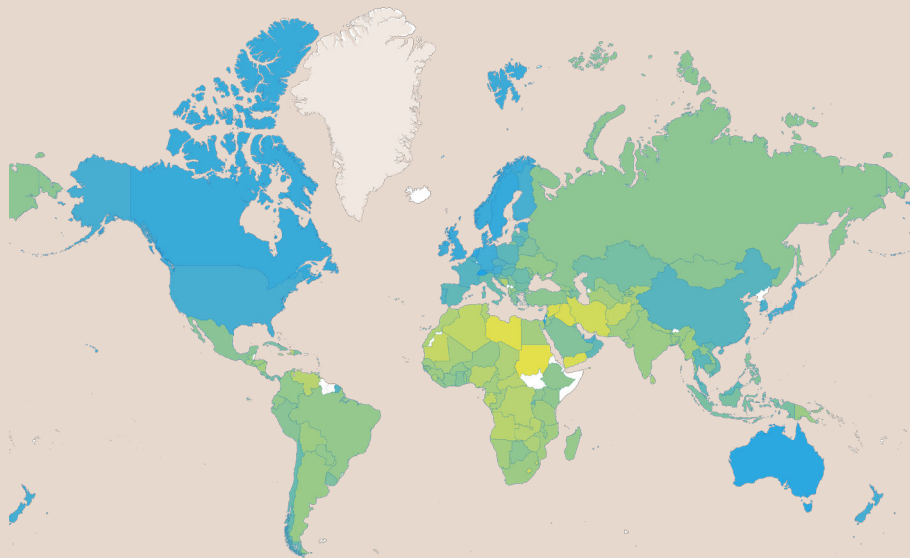
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ELITE QUALITY REPORT 2022

Italy: Waiting for its private elites to stop extracting value

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Italy: Waiting for its private elites to stop extracting value

The Italian political elites radically changed attitude in 2021. On February 13, the Conte government imploded, opening the door for Mario Draghi. After saving the Bank of Italy and the Eurozone in his role as President of the ECB during the financial crisis, Draghi returned from retirement to kick-start an incredible mediation process between historically inimical parties and become Prime Minister of a government in which the Democratic Party and the Five-Star Movement (M5S) joined the right-wing parties of Salvini and Berlusconi.

By leveraging its excellent Political globalization (PGL, i.1, rank # 3), Italy secured EU Recovery Fund funding and managed to massively vaccinate its population (VAX, iii.7, rank # 14), reviving health and socio-economic life.

However, the political effort to take the country out of the pandemic crisis resulted in overspending (GEX, iii.7, rank #146), increased taxation (DTR, iii.8, rank # 111), and over-regulation (ECR, i.2, rank # 118).

While still not being perceived as champions of change (RTC, i.1, rank # 116), the political elites began to improve their business models. Unfortunately, private elites did not.

74 In Italy, Economic Power is more concentrated (ii, rank # 53) than Political Power (i, rank # 31), and the economic elites appear less value-oriented (iv, rank # 56) than the political elites (iii, rank # 25).

This failure has long roots. Since the 1990s privatizations, the Italian private elites have appropriated many state-owned enterprises without increasing competition. The Italian production structure is dominated by large industrial concentrations with a family footprint, with few self-made billionaires (BSM, iv.11, rank # 51) to challenge them. At the aggregate level, dynastic capitalism has promoted inefficient business models, which have hindered the country's resilience to globalization.

The power of firms (Firm Dominance, ii.5, rank # 69) and coalitions is stark (Coalition Dominance, ii.4, rank # 70). Billionaires dominate the economy (BIW, ii.5, rank # 120), Creative Destruction cannot take off (ii.6, rank # 54) as there is little *Venture capital availability* (VCA, ii.6, rank # 104), and the Mafia continues to stifle progress in the South (CRA, ii.4, rank # 111).

As a result, foreign investors shy away from the country (FDS, iv.10, rank # 111), and protectionism stops foreign competition (IPM, iv.10, rank # 137, DGI, iv.10, rank # 123, and DGS, iv.10, rank # 138).

Unlike most European countries, Italy did not adopt universal unemployment insurance until 2019, when M5S introduced the 'citizenship income'. Instead, an occupational insurance scheme provided generous old-age public insurance benefits, favoring public and large firm employees. Italian trade unions have more than 12 million members (UNI, ii.4, rank # 78) and are active in collective bargaining (CBC, ii.4, rank # 70), but a high proportion (43%) of them are retired. Currently, pension payments represent over one-third of primary public expenditure (SNT, iii.7, rank # 111) and significantly contribute to the Italian national debt (DBT, iii.9, rank # 140). In addition, trade union power, corporatism, and industry concentration has created structural unemployment (UEM, iv.12, rank # 108), an insider-outsider culture, and discrimination against the young and women (LFR, iv.12, rank # 103). The country appears to care more about the old than the young, resulting in a dismal *Youth unemployment rate* (YUN, iv.12, rank # 131). The *Labor force participation rate* is also consequently very poor (LFP, iv.12, rank # 131).

Without more enlightened and inclusive trade union and business elites, Italy will not properly value the post-pandemic funding it will receive from the EU, while the young, the self-employed and small entrepreneurs will continue to languish.

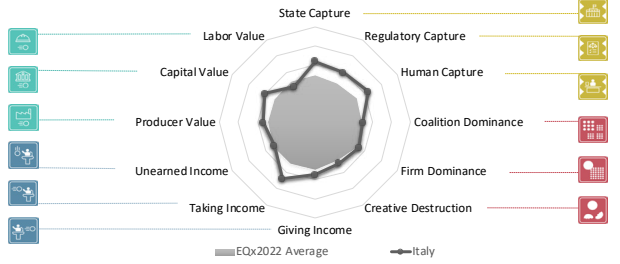
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Level 1 - Index	EQx Rank / 151 40	EQx Score 54.2	Quality Elites
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Level 2 - Sub-Indices & Index Areas	EQx Sub-Indices				EQx Index Areas							
	Power		Value		Political Power (I)		Economic Power (II)		Political Value (III)		Economic Value (IV)	
	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score
	41	54.5	43	54.1	31	62.6	53	50.5	25	58.0	56	52.1

Level 3 - Pillars		Rank / 151	Score
Political Power (I)	State Capture	28	63.6
	Regulatory Capture	37	60.2
	Human Capture	24	64.6
Economic Power (II)	Coalition Dominance	70	50.5
	Firm Dominance	69	53.2
	Creative Destruction	54	49.4
Political Value (III)	Giving Income	41	54.6
	Taking Income	3	67.9
	Unearned Income	82	49.2
Economic Value (IV)	Producer Value	54	54.2
	Capital Value	18	60.2
	Labor Value	108	43.0



Level 4 - EQx Indicators		Rank / 151	Score
State Capture (I.1)	COR Political corruption	34	77.0
	MOD Social mobility (upward)*	66	46.7
	MOD Social mobility (downward)* (n)	53	52.0
	PDE Political decentralization	4	85.5
	ADE Administrative decentralization	64	46.7
	PGL Political globalization	3	90.1
	WPI Women's Power Index	38	65.8
	RTC Government's responsiveness to change	116	22.2
	EPR E-Participation Index	40	70.1
	PFD Press freedom	33	69.6
Regulatory Capture (I.2)	COC Control of corruption	37	67.5
	OPG Open government (n)	27	66.2
	NJK Nr. of journalists killed per 1 million people (2yrs avg.) (n)	1	58.2
	REQ Regulatory quality (n)	36	63.3
	CRO Crony capitalism	5	70.8
	ECR Ease of challenging regulations	118	20.3
	EDB Digital institutional quality	22	53.8
	PRI Property rights	30	74.7
	INO Informal output as a % of GDP (n)	50	57.5
	CGP Constraints on government power (n)	22	73.9
Human Capture (I.3)	REN Regulatory enforcement (n)	32	62.3
	GSI Global Slavery Index	41	64.3
	WBL Women, business and the law	9	79.4
	LIN LGBT+ inclusiveness	36	72.1
	GRI Religion - Government Restriction Index	65	59.9
	SHI Religion - Social Hostilities Index	56	61.8
	WSB Women self made billionaires	7	75.4
	HRI Human Rights Index	9	94.1
	FDP Forcibly displaced population as % of population	14	56.2
	AFI Academic Freedom Index	4	77.9
Coalition Dominance (II.4)	FLS Financial Literacy Score (n)	57	50.4
	WMA Prop. of women in senior and middle mgmt. positions* (n)	80	31.6
	IEE Top 3 industries exports as % of exports	25	72.3
	ECI Economic Complexity Index	16	85.5
	IVA Top 3 industries as % of VA	45	57.3
	CON Construction as % of GDP*	19	55.6
	MIL Military expenses as % of GDP*	48	62.4
	UNI Unionization rate*	78	31.2
	CBC Collective bargaining coverage	70	11.5
	BSN Barriers in service & network sectors	39	32.4
Firm Dominance (II.5)	PUE Public employees as a % of total employment (n)		
	CRA Criminal actors (n)	111	32.7
	SME SMEs per 1,000 people	43	44.5
	BIW Billionaires' wealth as % of GDP	120	39.0
	FKG Top 10 firms market cap as % of GDP	33	52.8
	FRG Top 3 firms revenues as % of GDP	32	57.2
	FRR Top 30 firms revenues as % of GDP	15	64.2
	TUL Listed firms turnover, long run 15 yrs		
	TUS Listed firms turnover, short run 3 yrs		
	ENT Entrepreneurship	31	65.7
Creative Destruction (II.6)	VCK Venture capital finance	48	43.5
	RND R&D as % of GDP	24	73.3
	EXR Firm exit ratio	17	42.2
	BCD Billionaire's creative destruction	44	41.7
	IWE Index of Women Entrepreneurs	40	42.3
	VCA Venture capital availability	104	30.6
	GSE Governmental support to entrepreneurship	44	54.0

Level 4 - EQx Indicators		Rank / 151	Score
Giving Income (III.7)	SNT Subsidies and transfers as % of expenses	83	39.5
	REG Regional redistribution as % of government budget	137	0.0
	EDU School life expectancy	28	66.9
	GPS Expenditure on general public services as % of GDP*	57	34.7
	INT Internet access	58	65.1
	NRI Network Readiness Index	25	74.0
	LEW Life expectancy women	5	82.6
	LEM Life expectancy men	5	86.4
	FSQ Global Food Security Index - availability, quality & safety	13	79.8
	COV COVID-19 excess deaths, age-adjusted	40	57.6
Taking Income (III.8)	COF COVID-19 fatality rate, age-adjusted	46	61.4
	COM COVID-19 mortality rate, age-adjusted	106	44.4
	CLS COVID-19 lost schooldays	58	55.2
	VAX COVID-19 vaccination rate (n)	14	80.0
	OSI Online Service Index	35	73.1
	UNV Top universities (n)	30	59.1
	PIS PISA mean scores (n)	32	59.9
	GEX General government expenditure as % of GDP* (n)	146	6.8
	DCT Corporate tax rate*	1	81.9
	HOM Homicide rate	12	81.9
Unearned Income (III.9)	INE Top 10% share of pre-tax national income	8	87.0
	FDE Fiscal decentralization	33	46.7
	DTR Tax revenue as % of GDP*	111	14.5
	BRD Battle-related deaths per 100,000 people	1	54.2
	GCI Global Cybersecurity Index	26	76.8
	SUI Suicide rate per 100,000 people	67	58.8
	SUB Death rates from substance use per 100,000 people	23	69.4
	DPS Delta public vs private sector salaries (n)	22	55.6
	GEG Gender education gap (n)	18	58.3
	EPI Environmental Performance Index	18	87.6
Producer Value (IV.10)	DBT Government debt as % of GDP	140	0.0
	NRR Natural resources rents as % of GDP (n)	14	81.8
	CDO CO2 emissions (metric tons per capita) (n)	88	31.7
	CRM Criminal markets (n)	89	45.1
	TRF Trade freedom	10	76.9
	FDS FDI inflows as % of GDP, stock	111	43.0
	BTF Barriers to FDI	29	62.1
	EGL Economic globalization	37	69.6
	HEI Health Efficiency Index	11	70.4
	OFB Open for business	30	51.4
Capital Value (IV.11)	ESG ESG company scores	19	62.0
	RDR R&D as % of revenue Top 10 firms	33	42.5
	FSA Global Food Security Index - affordability	15	76.1
	PAT Nr. of patent applications per 100,000 people	16	55.7
	IPM % of imports targeted by protectionist measures (flow)	137	39.1
	IPS % of imports targeted by protectionist measures (stock) (n)	63	16.7
	DGI % of discr. govt. interventions as % of total interv. (flow)	123	33.5
	DGS % of discr. govt. interventions as % of total interv. (stock) (n)	138	11.5
	DNI Neutral interest rate*	28	52.0
	DOI Inflation*	1	54.9
Labor Value (IV.12)	GOL Gold demand as % of GDP		
	DMA M&A as % of investment - 3 yrs rolling avg.*	20	58.0
	DKI Delta capital gains tax vs income tax	1	74.7
	UNC Unicorns per 1 million people	28	43.0
	BSG Billionaires self-made nr. per 1 million people	21	49.4
	BSM Billionaires self-made as % of total billionaires	51	34.6
	FMI Financial Markets Index	1	100.0
	UEM Unemployment rate	108	45.0
	LFP Labor force participation rate	131	19.6
	WLP Delta real wage vs labor productivity increases	20	47.5
Labor Value (IV.12)	YUN Youth unemployment rate	131	17.3
	BRN Human flight and brain drain	18	85.0
LFR Labor force participation ratio - male vs female*	103	46.5	

* Calculated as the deviation from a conceptual optimum
 (n) Refers to Indicators newly incorporated in the EQx2022