

15 THE PUBLIC ADMINISTRATION

Improving the quality of public administration can give an important boost to the economy: recent experience in Italy has shown that initiatives to reduce red tape can have positive effects for companies.

World Bank indicators show that public administration in Italy is less effective than in other leading economies. However, the situation is very uneven: an indicator relating to business licences issued by Italy's municipal authorities shows that the South of Italy has a not insignificant share of virtuous government agencies despite underperforming overall compared with the Centre and North. Over time, regulation has become increasingly unwieldy and there are still delays in the approval of implementing measures, which causes uncertainty, although significant progress was made in 2014.

Problem areas include: 1) legislative and administrative decentralization – because it is not always clear where responsibility lies; 2) the failure to attract talent in the public sector, where career paths do not adequately reward skills and merit and recruitment procedures are not always sufficiently selective and conducted in ways that increase uncertainty about job security; 3) the effectiveness of performance appraisal systems for organizations and individuals; and 4) limited availability and use of information technology in user services.

The public administration and economic growth: Italy lags behind

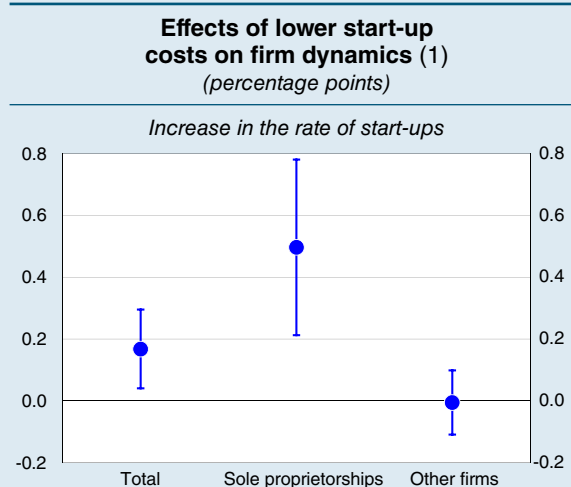
The quality and speed of public decision making, the stability and certainty of rules and the bureaucratic and administrative burdens that businesses must bear, affect their start-up and running costs, influence investment decisions and the capacity of the system to attract foreign firms, and affect the correct functioning of the markets and the reallocation of resources (see Chapter 6, 'Firms'). Our estimates show that some of the measures adopted in the past to reduce red tape and to simplify business start-up regulations have had positive effects on the number of new firms (see the box 'Start-up costs and firm dynamics').

START-UP COSTS AND FIRM DYNAMICS

A comparison of firm demographic measures by sector of activity in Italy's municipalities before and after the reform of the Point of Single Contact one-stop business service centre (SUAP) established by Law 133/2008 and Presidential Decree 160/2010, makes it possible to assess the effects of the reduction in administrative red tape and the simplification of the rules for starting and

conducting business activities on the entry rate of new firms.¹

The SUAP reform has raised the entry rate by 0.2 percentage points, mostly sole proprietorships and firms in the private services and construction sectors (see the figure). The new entries are not pursuing marginal or short-lived initiatives: following the reform the survival rate at one year has also risen by around 0.2 percentage points. The effects are more evident in Southern Italy where, with respect to the previous situation, the reform's impact may have been greater.



Source: Based on Infocamere data.

(1) The data are taken from the Company Register and refer to the period from Q1-2011 to Q2-2014. The measures are constructed with reference to the four quarters before and after the reform's implementation in each municipality, confined to those that had launched it by Q2-2012 at the latest (6,870 municipalities, or about 86 per cent of the total). The sectors considered are private services, manufacturing and construction; professional services are excluded. The estimates are based on a total of 156,288 observations resulting from the combination municipality-economic sector.

¹ M. Amici, S. Giacomelli, F. Manaresi and M. Tonello, 'Red tape reduction and firm entry: evidence from an Italian reform', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming.

Firms' opinions, as recorded in the Bank of Italy's survey of industrial and non-financial service firms, point to significant difficulties in dealing with the public administration. The two aspects that hold back businesses the most are the excessive requirements for obtaining a new licence (considered very significant by 54.4 per cent of respondents) and the highly changeable nature of the regulations (45.2 per cent).

These perceptions are confirmed by Italy's low position in international rankings of how well the public administration functions. For example, Italy ranks 25th and 22nd out of 28 EU member countries in the World Bank measures 'Dealing with construction permits' and 'Government effectiveness' respectively.¹

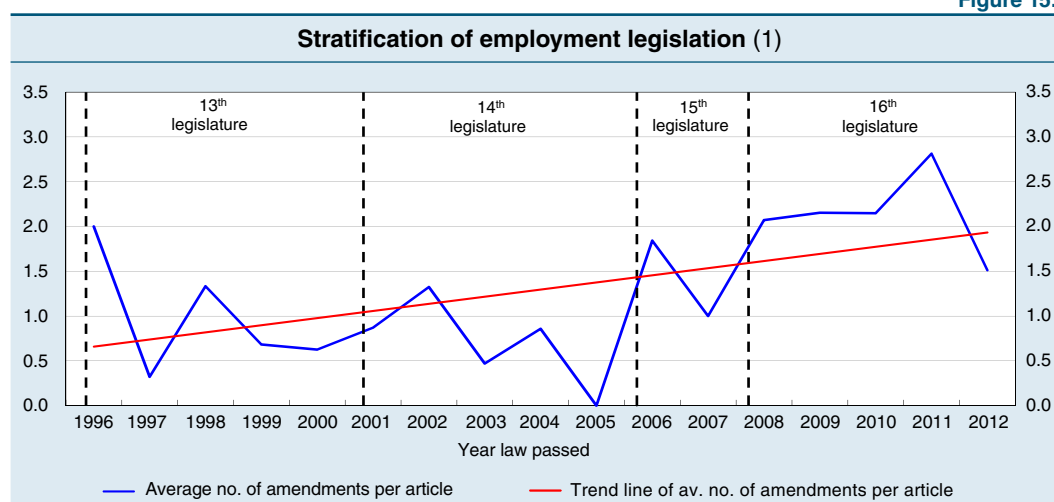
Measuring the public administration's effectiveness in issuing business permits shows a delay of about 33 per cent for municipalities in the South of Italy compared with the Centre and North. The significant share of virtuous administrations also in the South (34 per cent of municipalities fall into this group against 53 per cent of those in the Centre and North), however, confirms the large degree of variation in each area. In general better performance is associated with the use of more advanced technological infrastructure and the availability of more highly-skilled personnel; the impact of contextual variables is less clear. There is a high correlation in performance

¹ See <http://www.doingbusiness.org/data/exploretopics/dealing-with-construction-permits>; <http://info.worldbank.org/governance/wgi/index.aspx#home>.

between the various areas of public administration, for example between the granting of permits and measures of the perceived quality of some services for users.²

It is not easy to define an optimal degree of change in the regulations over time: on the one hand, stability aids familiarity and application; on the other, change meets the need to adapt to new scenarios or general preferences. However, there is clearly a problem with changes that are not only frequent but which come about through successive interventions in the same legislative text. An indirect indicator of the case in question is given in Figure 15.1 which shows the increase in the degree of stratification of employment law in Italy in the period 1996-2014.

Figure 15.1



Source: Based on data from the State Printing Works and Mint.

(1) Primary legislation (Laws, Decree Laws, and Legislative Decrees) dealing with employment, passed from 1996-2014. The indicator measures, for each year, the average number of amendments per article within two years of its approval.

In the last year, uncertainty caused by delays in the approval of implementing measures was reduced: between February 2014 and May 2015 the amount of pending measures included in the legislation passed by the two preceding governments was reduced by about two thirds. Nonetheless in May 2015, some 29 per cent of the measures originally contemplated had not yet become law. At the same date, about 64 per cent of the regulations past their approval deadline relating to the present government had been passed – an improvement compared with the past.³ The time needed for the passage of secondary legislation doubles on average when more than one public authority is involved. An analysis of 210 measures in the period November 2011-April 2013 shows that the average delay with respect to the approval deadline was 102 days when only one authority was involved but rose to 225 when there were two or more authorities involved.

² S. Giacomelli and M. Tonelli, 'Measuring the performance of local governments: evidence from mystery calls', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming. The indicators of the effectiveness of public administration in relation to the granting of permits draw on the results of the survey of the *Points of Single Contact* conducted in 2013 by Infocamere on behalf of the Ministry of Economic Development; those on the quality of public services are inferred from Istat, Multipurpose Survey on Households. Aspects of daily life, 2013.

³ See <http://www.programmagoverno.gov.it>.

Some of the difficulties in the running of Italian public authorities stem from unwieldy institutional arrangements arising from legislative and administrative decentralization, the lack of appeal of public sector employment, partly as a result of changes in recruitment policies, the introduction of performance appraisal systems for departments and senior managers, and delays in developing information technologies.

Institutional arrangements: tiers of governance and coordination

The Bassanini reforms (Law 59/1997 and subsequent implementing legislative decrees) and the constitutional reform of 2001 led to a radical legislative and administrative devolution of institutional arrangements and governance. Involving local entities more closely in the exercise of some functions, among other things without any precise definition of the financial autonomy of lower-level public entities,⁴ led to a duplication of competencies, creating uncertainty for both public and private operators.

The regional governments (the ‘Regions’) were also jointly assigned competence for areas that had significant effects outside the region too, such as energy production and distribution or major communication networks. Furthermore, some legislative powers dealing with one area of competence were divided between the State and the Regions, as in the case of mandatory social security, for which the State remained responsible, and supplementary social security, which was classified among the areas of joint competence. Partly for this reason, there was an increase in litigation between the State and the Regions, which more than doubled after the reform came into force (115 judgments on average issued each year during the period 2003-2014 compared with an average of 50 per year in the period 1996-1999) and which has still not stabilized (the peak, 197 judgments, dates from 2012). Overall, there is evidence that the division of legislative competencies introduced in 2001 led to confusion over powers and made coordination difficult, with consequent delays and obstacles to administrative action.⁵

The constitutional reform bill before Parliament re-centralizes existing arrangements and strengthens the coordination tools, in particular by reassigning exclusive power to the State over numerous areas currently attributed to both State and Regions. The reform proposal does not, however, address the problem of the division of competencies for the award and execution of public contracts and the regulation of local public services, two important areas for the economy that have generated some legal uncertainty.⁶

Administrative decentralization was not accompanied by a thorough, nationwide review of the local government network, which could facilitate economies of scale and

⁴ D. Franco, G. Messina and S. Zotteri, ‘Fiscal decentralisation in Italy: an unfinished agenda’, *Wirtschaftspolitische Blätter*, 4, 2004, pp. 467-481.

⁵ C. Giorgiantonio, ‘Principio di sussidiarietà e istanze centripete: 13 anni di applicazione del nuovo Titolo V’, Banca d’Italia, *Questioni di Economia e Finanza* (Occasional Papers), forthcoming.

⁶ F. Decarolis and C. Giorgiantonio, ‘Local public procurement regulations: the case of Italy’, *International Review of Law and Economics*, forthcoming.

greater uniformity of action. This network, comprising just over 8,000 municipalities, about 70 per cent of which with a population of under 5,000 inhabitants, has hardly changed in more than 50 years. Since 2008 a series of measures has obliged the Regions to rationalize the network of Mountain Communities and to enforce the obligation for small municipalities to group together to carry out core functions. As at 31 March 2015 the 81 Mountain Communities and the 464 Inter-Municipal Unions already working or at an advanced stage of preparation had managed to group together only 48.6 per cent of all Municipalities (21.6 per cent weighted by population). In the leading EU countries, the average population of municipalities is larger on average, or there is a higher percentage of those that have grouped together (e.g. in Germany and France in 2012, respectively 65.0 per cent and 96.2 per cent of municipalities formed part of entities equivalent to Italy's Inter-Municipal Unions; in Spain in 2010 76 per cent of municipalities were part of Consortia).

Initiatives for the reform of some peripheral decentralized state entities have also intensified since 2008. Nevertheless, the comparison between these areas in 2007 and the current situation does not show any substantial change.⁷

The services conference, which is the main tool for coordinating the work of central and local entities working on the same administrative procedure, enjoyed only limited success. Despite twelve different legislative changes in twenty-five years to the original text of Article 14 of Law 241/1990, the services conference has not yet found a stable and effective configuration.

The review of central and peripheral government organization is included in the public administration reform bill being examined by Parliament.

Public sector employment

According to the EU Labour Force Survey, compared with the leading economies, in 2012 the average age of Italian public sector employees was 46.5 years (1.5 years older than in Spain and 4 years older than in France, Germany and the United Kingdom)⁸ and they had been in service longer. This reflects both the traditional characteristics of Italian public sector employment, in particular the greater separation of the public and private sectors, and the freezes on hiring in the last fifteen years which, according to data published by the State Accounting Office, have led to a reduction of 8.7 per cent in staff numbers between 2001 and 2013 (10.7 per cent excluding the health and education sectors).

State Accounting Office data show that the percentage of fixed-term contracts out of all public sector employment contracts, which peaked at 13.5 per cent in 2006, had fallen to 9.2 per cent by 2013 (11.4 per cent and 7.8 per cent respectively, excluding health and education). These results also reflect periodic measures to give permanent contracts to precarious workers – in the period 2007-2013 these accounted

⁷ Istat, *Atlante di geografia statistica e amministrativa*, 2009.

⁸ The gap compared with the private sector was also greater in Italy than in the other countries considered, while if we exclude workers in the health and education sectors the results are less dissimilar.

for 12.8 per cent of all new permanent hires (25.1 per cent not counting health and education). Fixed-term contracts are still the most common form of hiring.⁹

Based on the results of the survey conducted by the OECD's Programme for the International Assessment of Adult Competencies (PIAAC), in 2012 Italian public sector employees were the lowest ranking of the member countries tested on literacy and numeracy. Compared with the other main EU countries, the lag is only partly accounted for by the generally lower level of skills of the adult population. The proportion of public sector employees with at least a university degree is also smaller by comparison with other countries: the gap, in this instance, is attributable to the lower share of university graduates in the population generally.

Working conditions in the public sector and related recruitment and career policies make it more difficult to attract, select and retain the best candidates.

Traditional public competitions are less common, in part following the hiring freeze, and this has increased the use of less stringent recruitment procedures and hence uncertainty about job security. There is evidence that this has made employment in the public sector less appealing, especially for the more talented candidates with better job prospects (see the box 'Choosing to work in the public sector: the role of precarious employment').

CHOOSING TO WORK IN THE PUBLIC SECTOR: THE ROLE OF PRECARIOUS EMPLOYMENT

Differences in employment conditions and entry to the public and private sectors can influence workers' choices and workforce composition in the two sectors.

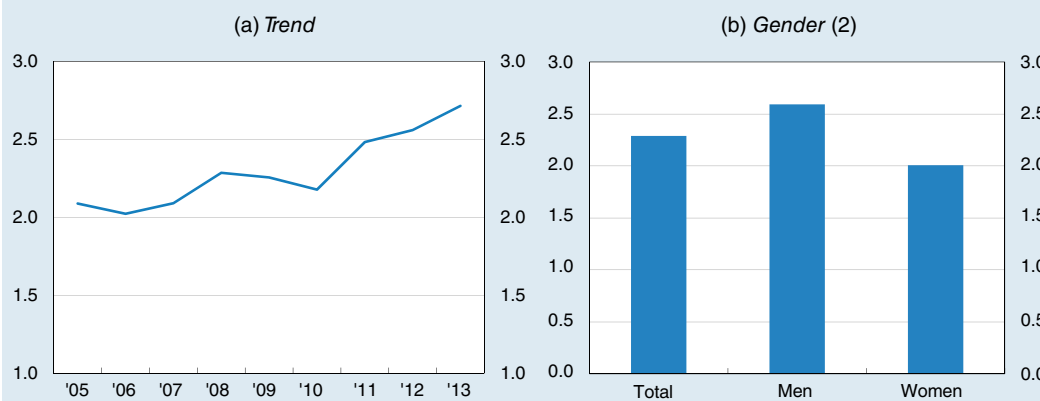
Using data from Istat's labour force surveys in the years 2005-2013, we assessed the effects of expectations of securing permanent employment on workers' moving, according to ability, between the public and private sectors. In particular, we assessed their impact on the most competent workers opting to: (a) take a job in the public sector; (b) move to the private sector, if they were on a temporary contract in the public sector.¹

The analysis uses measures of workers' expectations based on observations of new hires and of permanent contracts granted in the public and private sectors in the previous four quarters. Ability is instead gauged by the length of time it takes workers to obtain their university degrees. This measure produces better scores on average among private sector workers; moreover, the ability gap with respect to public sector workers has also widened in recent years (see the figure, Panel a) and is greater for men than women (Panel b).

¹ L. Rizzica, 'The use of fixed-term contracts and the (adverse) selection of public sector workers', Banca d'Italia, Temi di Discussione (Working Papers), forthcoming.

⁹ Based on data from Istat's labour force survey, our estimates show that in 2013 fixed-term contracts were given to more than 4 out of 5 new hires; or 3 out of 4 if we exclude health and education.

Ability gap between the private and public sectors (1) (percentage points)



Source: Based on Istat data, labour force surveys, 2005-2013.

(1) Ability is measured by calculating the inverse of the delay in obtaining a university degree for individual workers with respect to the minimum delay observed among workers with equivalent educational qualifications and age. The gap between the public and private sectors is equal to the difference between the average scores of the ability measure in the two sectors. – (2) Averages for the period 2005-2013.

Analysing worker flows between the two sectors, it is estimated that the likelihood of the most skilled workers choosing the public sector declines as the relative risk of being hired on a fixed-term contract and its average expected length increase. Among the precarious workers in the public sector instead, as expectations of being made permanent decline, the probability that the most skilled workers move to the private sector increases in the South and decreases in the Centre and North.

Career paths do not appear to reward merit and skills. Calculations based on data from Istat's labour force survey for the period 2009-2014 show that in the public sector the growth in hourly pay is more closely linked to length of service than in the private sector. The pay gap between a university graduate and a less well qualified employee is, however, smaller in the public sector (20 per cent) than in the private sector (about 26 per cent). Estimates based on PIAAC data on workers aged 35-54 years show that in the public sector in Italy, in terms of hourly wages the return on skills actually possessed is less than half the average for the countries participating in the survey; the gap between the private and public sectors is 8 percentage points, compared with 3.6 percentage points on average in the countries considered.

Management and performance appraisals

An essential factor in any organization's performance is the quality of its management and practices.

In public administration it is necessary to balance the need, on the one hand, to safeguard the continuity and impartiality of its work and, on the other, to ensure that government policies are implemented. This equilibrium is achieved in different ways in different countries: in Italy, following the reforms introduced over the past two decades, it has been achieved through: a) temporary posts (with automatic termination of office for managers when the government changes); b) political appointment, renewal and

revocation of top positions (with the possibility of bringing in external candidates); c) the linking of the confirmation of a post (and the payment of any bonuses) to performance appraisals, and the involvement of independent bodies, as a guarantee.

The smooth running of this system has been hampered by failures in the performance measurement and appraisal systems. In 2014 the National Anti-Corruption Authority signalled a general flattening of appraisal scores at the higher levels as regards senior managers at Italian ministries and reported that the level of achievement of strategic objectives in this group was close to 100 per cent.¹⁰ Calculations based on a sample of regional managers show that the main determinant of pay is actually the manager's age, while other characteristics such as having a postgraduate degree, language skills or work experience abroad, do not have any noticeable effect.

A new draft enabling law is currently before Parliament, which aims simultaneously to limit the discretion of the political leadership in appointing top managers (by requiring prior or subsequent approval by an independent committee) and to introduce career paths for managers that are more merit-based and competitive. Measures to encourage the mobility of managers within the public sector and towards the private sector are also being considered.

Decree Law 90/2014 (converted into Law 114/2014) also authorized the government to enact a specific regulation to reorganize performance measurement and appraisals. The guiding principles are: simplification of compliance burdens for the public administration; progressively linking the performance management cycle to budget planning; review of the rules of the independent appraisal bodies; and interaction with the internal control system. These principles address serious shortcomings in the existing legislative framework. As a result the implementation of the enabling law may also provide the opportunity to resolve some of the current difficulties, including the lack of a properly defined internal audit structure.¹¹

The effectiveness of appraisal systems is closely linked to their ability to take into account the specific characteristics of different sectors, to avoid excessive formalities and to increase external accountability. Empowerment of managers would be improved by the preparation and publication of comparative appraisals, when it is possible to measure and compare individual performances; in other cases empowerment would be encouraged by institutionalizing systematic and methodologically robust public policy appraisal systems. The experience of countries with a more well-established tradition of measuring performance suggests that the key conditions for success are: independent appraisal bodies, transparent procedures, the availability of informational support and adequate resources, and a broad range of expertise.

Information technology

The effective use of information technology increases the levels of internal efficiency in government and improves the quality of the services provided. Italy lags behind

¹⁰ ANAC, *Relazione sulla performance delle amministrazioni centrali 2012, 2014*.

¹¹ A. Peta, 'I controlli interni della Pubblica amministrazione: criticità e prospettive evolutive', Banca d'Italia, *Questioni di Economia e Finanza* (Occasional Papers), forthcoming.

in the development of information technology to serve the public administration. According to the European Commission's composite index that measures the progress of the European Digital Agenda, in 2014 Italy was ranked twenty-fifth among the 28 member countries.

The level of IT utilization is heavily tilted in favour of internal management activities and general communications, while the provision of digital services for users is less well developed. Nevertheless, there have been some notable exceptions, such as tax services. In 2012 only 36.7 per cent of local governments allowed users to submit forms electronically and only 19.1 per cent made it possible to conduct the entire process online.¹² Payment by credit card was only accepted by 25 per cent of local governments (12, 35, and 32 per cent in the South, Centre and North respectively).¹³

The development of information technology has been hindered by the piecemeal nature of the initiatives taken and the lack of measures to integrate administrations.¹⁴ The 2014-2020 Strategy for Digital Growth addresses these issues.¹⁵ The benefits of introducing IT procedures were also held back by the lack of both a simultaneous simplification of existing processes and any rationalization and reorganization of present structures.

¹² 'Le tecnologie dell'informazione e della comunicazione nella Pubblica amministrazione locale: anno 2012', Istat, *Statistics report*, 2013.

¹³ *L'informatizzazione nelle amministrazioni locali*, Banca d'Italia, 2013.

¹⁴ C. M. Arpaia, P. Ferro, W. Giuzio, G. Ivaldi and D. Monacelli, 'L'e-government in Italia: situazione attuale, problemi e prospettive', Banca d'Italia, *Questioni di Economia e Finanza* (Occasional Papers), forthcoming.

¹⁵ Presidenza del Consiglio dei Ministri, *Strategia per la crescita digitale 2014-2020*, 2015.