

*Rosa & Roubini*

A S S O C I A T E S

MAKING SENSE OF THIS WORLD

Alternative Structural Reforms in Italy  
to fight Corruption and Brain Drain

by

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# Anti-Corruption Policies

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Background:  
Articles Rosa-Cantone 2014/15  
Event at London Stock Exchange with  
Cantone and Roubini in March 2015

# Rosa – Cantone 2014/15

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Corruption can affect economic activity by a number of channels. We focus on three of them:

## **1) Corruption dis-incentivizes Foreign Direct Investments**

Potential investors might decide not to invest in the country if it fears that the only solution to speed-up decision-making processes is by bribing public (or private) officials.

## **2) Corruption Distorts Market Competition**

Firms unwilling to abide to corruption, might decide not to participate in public auctioning or procurement processes, if they perceive that competition is unfair. That way, good companies exit the market over time, reducing the “average” ethical standards of the productive fabric. In this sense, even the simple perception of corruption might have a real impact.

## **3) Corruption Incentivizes the “Brain Drain”**

An environment with unfair competition is a formidable incentive to emigration for those who intend to build their careers exclusively on their merit and titles. Brain drain means value added abroad and subtracted domestically, which partially explains the growth differential.

# Economic Impact of Corruption

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- Hard to estimate. Official sources cite the figure of **EUR 60bn a year as the cost of corruption.**

## **Banca d'Italia:**

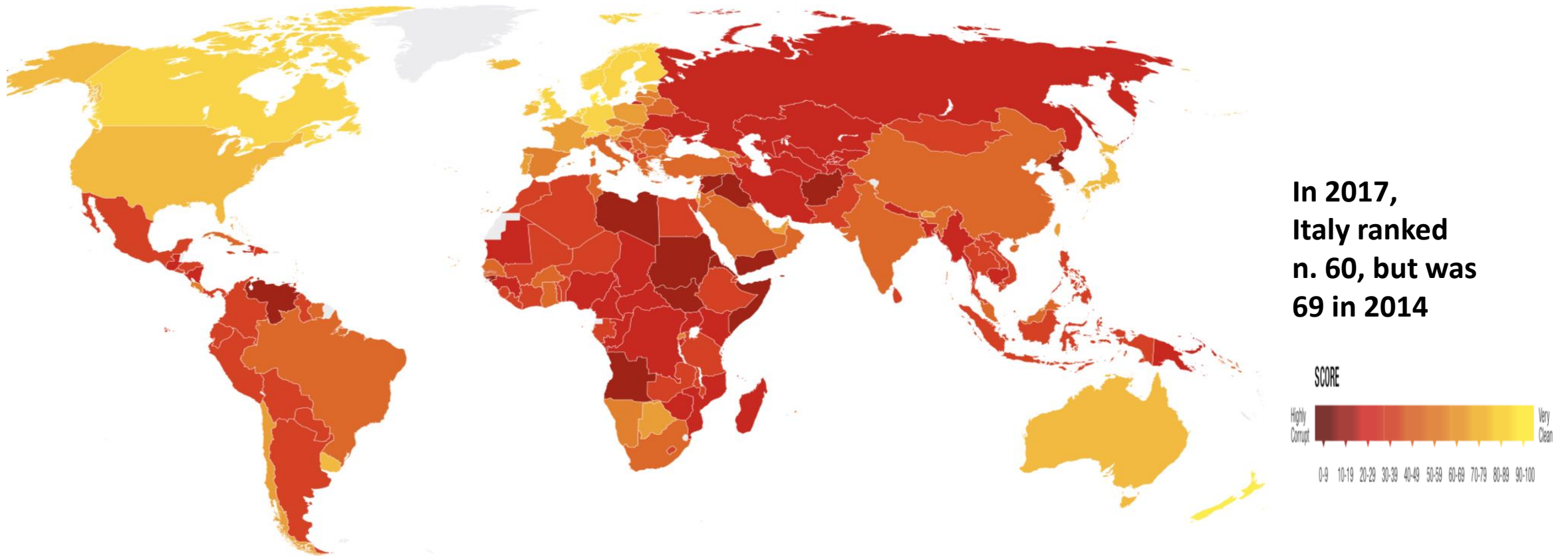
- Based on quantity of money in circulation in 2005-08, **illegal economy might represent more than 10% of Italy's GDP.**
- If Italian institutions had been qualitatively similar to those of other Eurozone countries, between 2006 and 2012 **Italy's FDIs would have been 15% higher** (around €16bn) than those which effectively took place.
- Flows of funds towards so-called **tax-havens are around 36% higher** than those towards other foreign countries.
- **Higher cost of credit** in areas with stronger criminal presence: on average, 0.3% higher landing rates and more collateral.
- **Higher insurance premia** in areas with stronger criminal presence: Highest premia in Campania, Puglia e Calabria; by province: Napoli, Caserta, Prato, Crotone e Reggio Calabria. Insurance premia in Napoli are more than 3x European average.

*Sources: Raffaele Squitieri, Court of Accounts, Annual Inaugural Speech, February 2015.*

*Ignazio Visco «Fighting Criminal Economy: A Pre-Condition for Economic Growth» -7 November 2014*

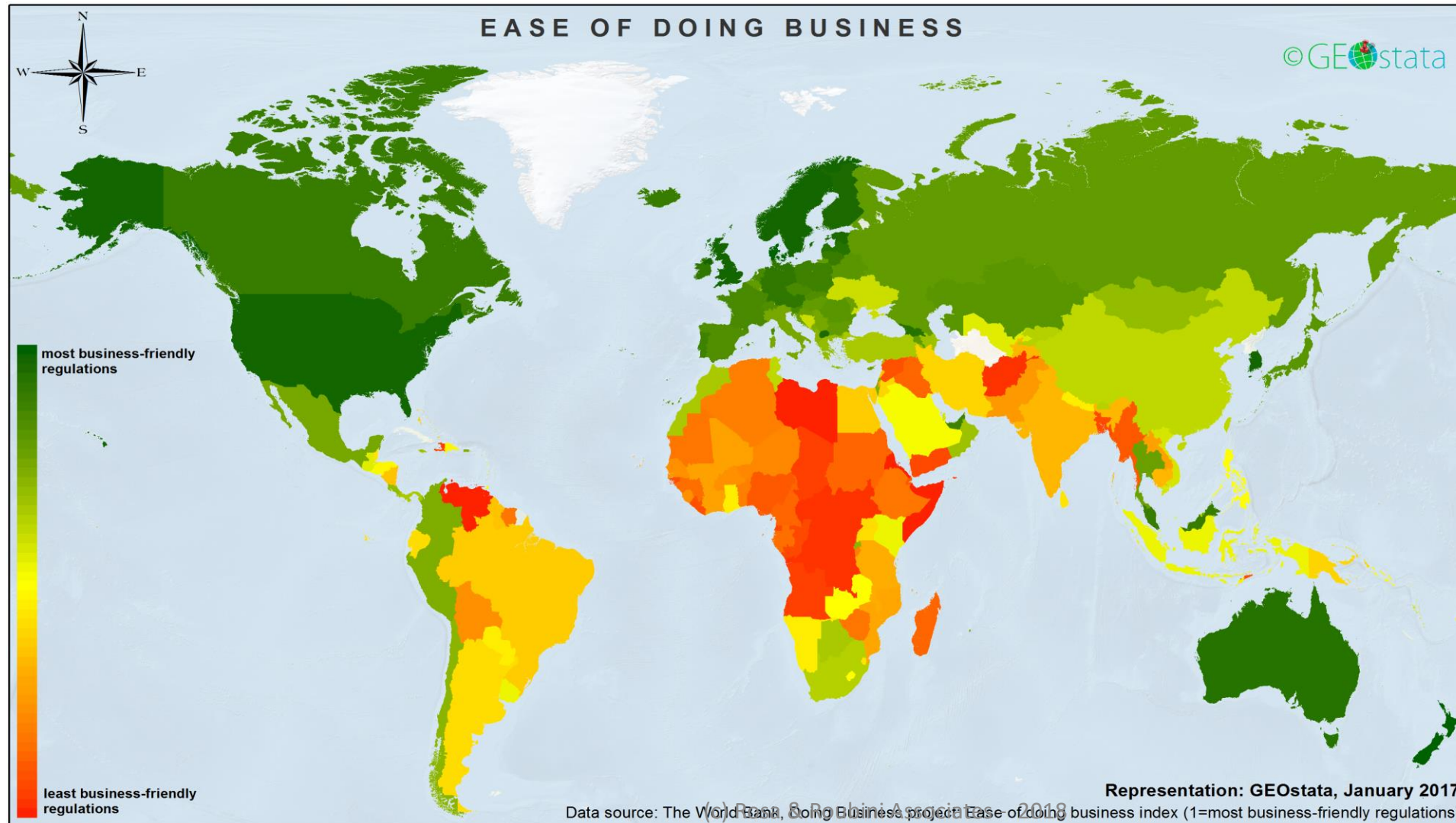
*(Audition before Anti-Mafia Parliamentary Commission -14 January 2015, Cites EC Anti-Corruption Report, February 2014)*

# Transparency's CPI



*Transparency International Corruption Perception Index – Perceived Levels of Public Sector corruption in 176 countries*

# Ease of Doing Business



**Italy ranks n. 46 in  
the 2018 WB Index**

# Initiatives Undertaken – Global

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- **WEF:** “*Clean Business Is Good Business: The Business Case against Corruption.*” A [joint publication](#) by the International Chamber of Commerce, Transparency International, the United Nations Global Compact and the World Economic Forum Partnering Against Corruption Initiative (PACI, 2008).
- **IMF:** The International Monetary Fund (IMF) is expected to add stricter anti-corruption clauses to its already long list of *conditionalities* to all its future loan arrangements. The Fund has made promises to the effect during its London summit last year and the IMF Chief Christine Lagarde reiterated the Fund's commitment in this regard on 11 October 17, on receipt of letter from the Transparency International.
- **OECD:**
  - Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1997)
  - 9 December –Anti Corruption Day
  - March 2015, OECD Integrity Forum -“Curbing Corruption -Investing in Growth”

# Initiatives Undertaken – Italy

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- National Anti-Corruption Authority Created in 2013 and made operational in 2013/14
- Code for Public Auctions (code of contracts) – Approved in 2016
- Law on Whistleblowing (16 November 2017)

## ***What Else Can Be Done (Cantone):***

### *Three main ongoing pillars:*

- Continued Vigilance
- Increased Transparency
- Respect of norms on public auctioning

### *In terms of perception:*

- If Italy could move higher in the rankings on the perception of corruption, it would provide an encouraging sign that the pre-emptive action is working.
- Leading by example: politicians perceived abiding to rules, not avoiding them.



# Brain Drain

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Project with the Italian Chamber of  
Commerce and Industry in the UK  
Preliminary Findings

# A Growing Phenomenon

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## «Brain Drain» from Italy is growing:

- More than 124.000 people left Italy in 2016 (+15% over 2015)
- Almost 50.000 (40%) were aged 18-34 (+23% over 2015)
- Almost 10% were aged between 50 and 64 – discouraged unemployed

## Main Destinations:

*Continents:* Europe and North America

*Countries:* UK, Germany, Switzerland, France, Brazil, US

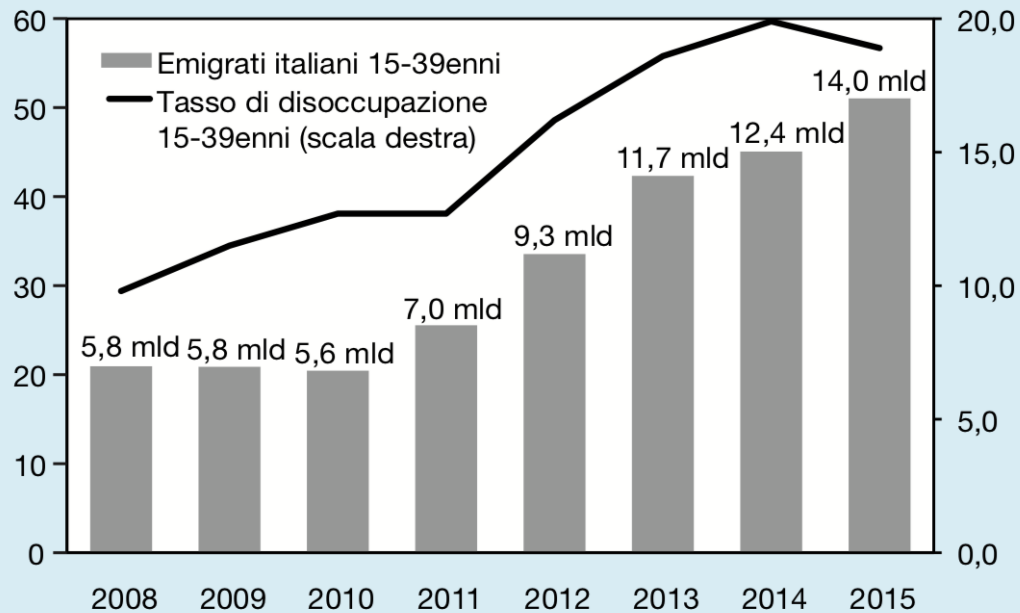
## Historical/Stocks:

- Almost 5 millions of Italian nationals are registered as foreign residents in 2017
- They are 8% of 60 millions of Italians (3 millions in 2006, so +60% in 10 years)
- Half of it comes from the Southern regions

*Source: Migrants Foundation, Italiani nel mondo 2017*

# Economic Impact

## Giovani via dall'Italia: col numero salgono le perdite (Migliaia e in % forza lavoro)



Sopra le barre: stima della perdita di capitale privato e pubblico investito in crescita e formazione degli italiani 15-39enni emigrati in ciascun anno.

Fonte: elaborazioni CSC su dati ISTAT e OCSE.

- Italy has low occupation rates, especially among under 30-year old (16% vs 31% in Eurozone).
- Low occupation/*occupability*, leads to emigration and reduced growth potential.
- Between 2008-2015: more than 500K people moved residency abroad: 260K were 15-39 (51% of the total).
- Estimated cost of household and state expenditure for care and education (0-25y): EUR 275.000 per capita.
- So, in 2015, with a year of 51.000 emigrants (15-39), the lost investment in human capital amounts to EUR 14bn. But this is likely an underestimate. So the actual figure is likely to be close to 1% of GDP (16bn) per year.

Source: *Confindustria – Le sfide della Politica*, 14 September 2017

# What Has Been Done

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- «Controesodo» – Bi-Partisan Law in 2011
- Fiscal Incentives to High Net Worth Individuals
- Initiatives of «Third Sector»
- Initiatives of Local Authorities
- Brexit is helping but not so much (EMA)

# What's Missing

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- A structural plan to allow talents to come back – economic recovery and fiscal incentives are not enough
- We could think to a sort of «productivity areas/islands» distributed across the country and administrations, in which returning «talents» could find an environment where to continue their career progression.
- Returning academics could have projects linked to the economic development of their selected areas of return.