Report

INDEX OF LIBERALIZATIONS 2015

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Report

Istituto Bruno Leoni

INDEX OF LIBERALIZATIONS 2015

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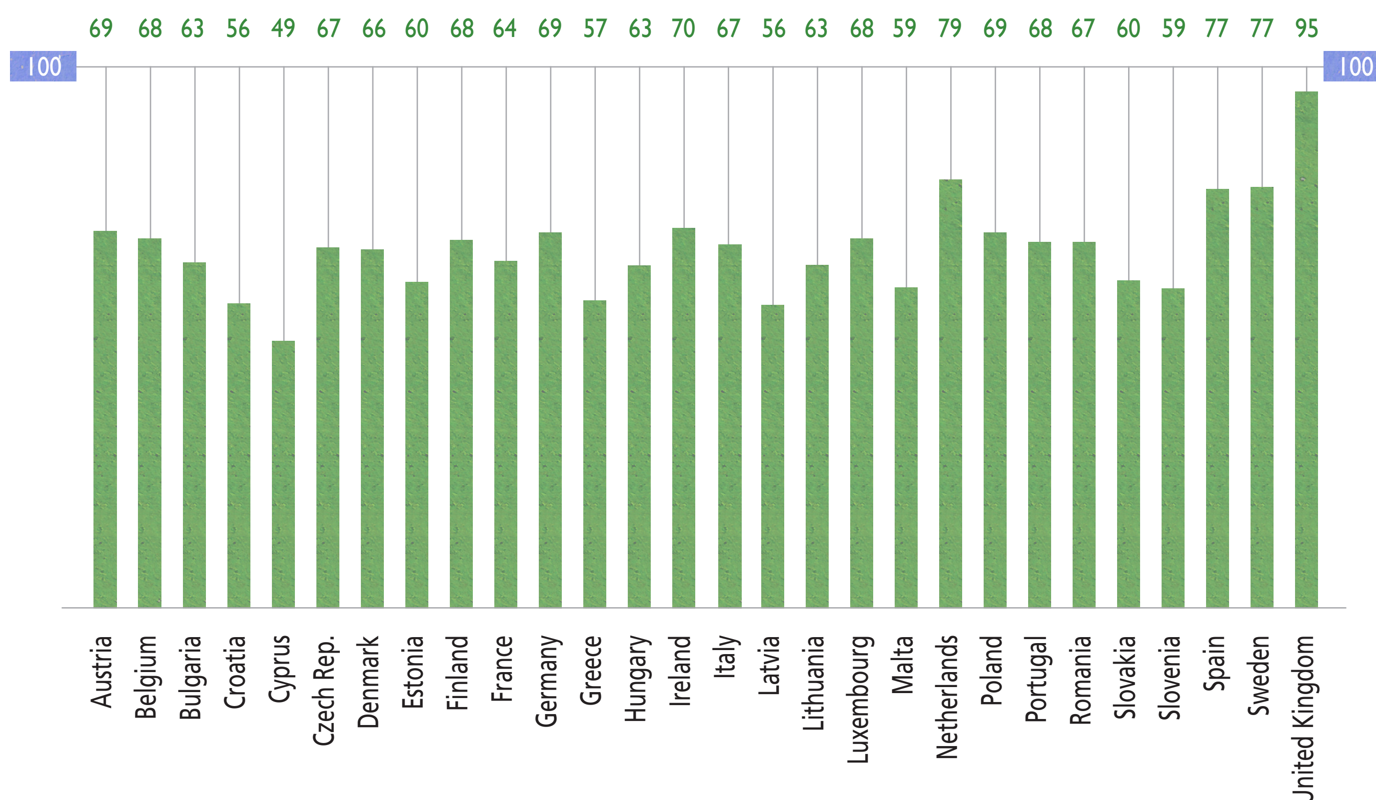
Introduction

by Carlo Stagnaro*



> *"Can't let you play anywhere without you being members of the Guild" said Mr Clete.*
> *"But we can't be members of the Guild until we've played"said Glod.*
> *"That's right" said Mr Clete cheerfully.*
>
> Terry Pratchett, *Soul Music*

1. The Liberalization Index 2015

In 2015, the most liberalized economy in Europe is the United Kingdom, with a score of 95 out of 100, followed by the Netherlands (79), and Spain and Sweden (both at 77). The countries which are the least open

* I would like to thank Simona Benedettini, Rosamaria Bitetti, Luciano Lavecchia, Marlene Melpignano, Silvio Schinaia and Serena Sileoni for the comments to a previous version of this introduction and/or for the conversations we had on the themes we deal with in this volume, which helped me focusing on some of the problems here considered. I would also like to thank Giovanni Caccavello for the help he has given me with the data collection. A particular thank goes to Filippo Cavazzoni for the care he constantly gives to the editing of Istituto Bruno Leoni works, to David Perazzoni for his supervision of the translation work and to Uliva Foà for the graphic design work. The usual disclaimer stands.

to competition are Cyprus (49 points out of 100), Latvia and Croatia (56 points each) and Greece (57). Italy is ranks in the middle, with a score of 67.

This is the result of the 2015 Liberalization Index, which since this year extends its analysis from the 15 member states of the "old" Europe, to all the current 28 EU member states. The aim of the Index is to evaluate the degree of competition in each member state in relation to ten economic sectors. The ten markets we have considered are: automotive fuel distribution, electricity and natural gas market, labour market, postal services, telecommunications, television, air traffic, rail transportation and insurance. For each of these sectors, we defined a set of criteria and sub-criteria in order to measure the effectiveness of competition dynamics. In each sector, we have conventionally given to the more open country a score equal to 100: as a consequence, the other countries score can be interpreted as the gap from the leading country.

Studying the degree of openness to competition of the different member states offers valuable insights in three realms: the economic, institutional and political.

From an economic perspective, open markets and the promotion of competition are important drivers for economic growth.[1] The European Union has not yet completely recovered from the crisis of 2008-9. One of the consequences of the crisis is that many member states – in particular, those characterized by a high level of public debt – have been forced, to a certain extent, to adopt austerity policies, and have therefore been restrained from enforcing their traditional countercyclical policies (regardless of any opinion on their effectiveness). Consequently, opening markets represents the first lever of intervention for countries that does not impact their finances (in the short term). It is clear that, in the medium term and all other things being equal, liberalization results in a higher potential growth of GDP, which would then have a positive impact on the government's balance sheet. This is ably shown in the introductory essay by Rosamaria Bitetti, which illustrates how the very countries on the European fringe – or, at least, some of them – have pursued this course to end the recession. Therefore, the attempt to *measure* liberalization is useful in order to show governments which aim to follow a course of economic liberalization both a few key shortcomings of their respective regulatory systems and which role models to follow.

From an institutional perspective, a full integration of the markets and the achievement of a real pan-European single market are strategic objectives to the European Commission, intended to secure the full effectiveness of the four liberties that underlie the Union (free movement of people, capitals, goods and services).[2] The adoption of pro-market policies, in this sense, is also useful to undermine the current "balance of forces" at the national level, that is, the realm where governments are afforded the greatest discretionary scope to intervene – directly or indirectly – in the economy.[3] To find a common denominator to the market (de)regulation and to show the cases of maximum divergence from such model is, therefore, a useful contribution to the effort of finding a path towards the convergence of European economies.

From a political point of view, the European harmonization process can follow two paths: on the one hand, it can go down the road of economic regulation at the European level; on the other, it can instead look at a "parallel deregulation" of the individual, national markets. In the current European Union both trends coexist – partly because of necessity, for instance where the definition of common standards (as for the network specifications

1. Alberto Alesina - Silvia Ardagna - Giuseppe Schiantarelli, "Regulation and investment," *Journal of the European Economic Association*, vol. 3, n. 4, 2005, pp. 791-825; Olivier Blanchard - Francesco Giavazzi, "Macroeconomic Effects of Regulation and Deregulation in Goods and Labor Markets," NBER Working Paper, n. 8120, 2001.

2. *http://ec.europa.eu/growth/single-market/index_en.htm.*

3. Michael Moran, *The British Regulatory State*, Oxford, UK, Oxford University Press, 2003.

of networked industries) is clearly required for the seamless functioning of an industry, partly because of the unavoidable presence of inconsistencies in every complex institutional architecture, partly because, in fact, this answers a need for political feasibility. Since its first edition,[4] the Liberalization Index has aimed at contributing to the edification of a Europe based on the internalization and sharing of free-market principles, which inherently drive to decrease the degree of regulation and public intervention in the economy, at the European as well as national level. The individuation and diffusion of best practices is to be intended in this precise sense.

This Introduction is arranged as follows. §2 illustrates the theoretical framework to understand what kind of work has been carried out, with specific reference to the way the markets openness has been defined and – therefore – measured. In particular, it will be made clear that our logic is mostly formal (that is, liberalization is a feature of the regulatory and normative context, which bounds the choices of economic agents): from our point of view, markets are the most open when their entry and exit barriers, as well as those that limit the exercise of entrepreneurial activity, are the lowest. §3 shows the methodology followed in 2015 and what has changed from the previous edition. Importantly, the main change consists in the extension, from 15 to 28, of the analyzed countries: since this year, the coverage corresponds to the entire territory of the European Union and from this moment on, the full comparability of the results is guaranteed, which is instead limited between the present edition and the 2014 one and is not possible with the editions dating before 2013 (which followed significantly different criteria). §4 addresses the Index results, with reference both to the 28 EU member states and to Italy alone. §5 shows what seems to be the biggest challenge for current regulation systems: the diffusion of the so called *sharing economy* and its disruptive impact with regards to the borders of industrial sectors and, therefore, to their respective regulatory layouts. Finally, §6 concludes with a peculiar aspect of the Italian experience, namely the 2015 annual law on competition.

2. What do we mean by "liberalization"

Although the term "liberalization" is commonly used, it is not an easy one to define. In part, such difficulty mirrors the existence of different approaches to the problem: we can look at the effectiveness of a liberalization from the vantage point of market outcomes (for example, in regard to the price dynamics), or we can choose a formal approach which assesses the ease for new competitors to enter the market, as which is to say the current regulatory framework. The Liberalization Index tends to favor this second approach, even though market outcomes (as the concentration index) are used as proxies for the existence of formal barriers to competition. In part, though, the definition of liberalization is complex because there is no such thing as a "standard" liberalization model: liberalization simply is a reform of market rules intended to introduce and enable competition.

This raises two issues: first, what is competition and why is it useful? And secondly, what are the goals that have to be pursued to make it possible?

The definition of the notion of competition, in its turn, is not straightforward; nevertheless, it can be useful to give offer an operative definition. We have competition when an indefinite number of producers *are able* to compete to satisfy a multiplicity of consumers. In this setting, it is essential to safeguard three liberties, which are the foundation of the entire Liberalization Index:

- the liberty to access the market;
- the liberty of entrepreneurship;
- the liberty to exit the market.

4. Carlo Stagnaro (edited by), *Indice delle liberalizzazioni 2007*, Torino, Istituto Bruno Leoni, 2007.

In other words, competition (or the lack thereof), can be measured by the existence of barriers, obstacles or costs hindering one or more of these liberties. Policy obstacles are particularly relevant in these matters – that is those obstacles provided by specific normative or regulatory provisions, or by the nature of the fiscal system.

Such barriers are relevant because they influence the behavior of market agents, making certain choices of production or consumption convenient (when not mandatory), dictating the organization of industries, inhibiting potentially productive investments, restricting the number of operators available on the market or the range of the goods and services they offer, driving demand towards preferred behaviors or choices. Since nobody can know *a priori* all consequences of all actions, directing the agents on the demand or the offer side towards one particular direction can cause the loss of immense opportunities of creating new value and satisfying consumers' needs.

In other words, what makes competition necessary – and therefore useful – is mankind's inherent ignorance: competition helps us "discover" consumers' preferences and invent new products and processes to satisfy them.[5] At the same time, and for the same reason, focusing on the mere structure of the market risks to be deceptive: variables such as the number of companies, concentration indexes, the prices trend, the companies dimension, etc. can be determined by pro- or anti-competition causes, but can also be the result of other more profound factors, linked for example to the social or the institutional context or to the technological process.[6]

In this sense, it is fundamental to understand the indissoluble link binding competition and innovation. As Michael Beesley argues,[7] following Schumpeter's insights,[8] the profits of companies can be regarded as 'a consequence of innovation: which is to say, new products, services and production methods,' thanks to which 'the "permanent tempest" [of the creative destruction] guarantees that profits become a stream of economic almost-returns, not a permanent economic return.' It is significant that the collection of Beesley's essays, the "intellectual father" of the pro-competition revolution of England in the Eighties and, therefore, one of the theoretical architects of the European drive towards markets opening, is dedicated to the issue of "deregulation": although the opening process of a market may require, in specific cases, regulatory interventions, especially when it regards the transition from a public monopoly to a competitive market, in general it implies a shrinking of the scope of governmental intervention and humbler attitude by public officials. Competition requires the interaction of demand and offer, not the public authority, to determine market outcomes in every specific place or moment.

Now, if this is true, liberalization must be regarded as a process of dismantlement of barriers and of contraction of public intervention: knowing that regulation – regardless of the rationales and of the supposed public interests that it purports to protect – is often the result of lobbyist pressures from incumbents trying to build barriers against newcomers.[9]

5. Friedrich A. von Hayek, "The Use of Knowledge in Society," *American Economic Review*, vol. 35, n. 4, 1945, pp. 519-530; Israel Kirzner, "Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach," *Journal of Economic Literature*, vol. 35, n. 1, 1997, pp. 60-85.

6. Ronald H. Coase, "The Nature of the Firm," *Economica*, vol. 4, n. 16, 1937, pp. 386-405.

7. Michael Beesley, *Privatization, Regulation and Deregulation*, London, Routledge, 1997.

8. Joseph Schumpeter, *The Theory of Economic Development*, Cambridge, MA, Harvard University Press, 1934.

9. George Stigler, "The Theory of Economic Regulation," *The Bell Journal of Economic and Management Science*, vol. 2, n. 1, 1971, pp. 3-21.

Building a Liberalization Index, therefore, means providing the policy maker with a "toolbox" to dismantle the regulatory and normative scaffolding meant to sustain and protect rents and that instead hinders the growth of the economy, the diversification of products and services and the creation of jobs, as well as the shrinking of protected rents (which is to say, the redistribution of incomes deriving from the capacity of individuals of satisfying the needs of others). It is therefore essential, if such is the ambition, that the methodology be rigorous and solid. The next paragraph describes the methodology adopted in this context.

3. Methodology[10]

From these notions – just summarily illustrated here – we have desumed the criteria used to gauge the degree of liberalization of the several European countries we have considered in our analysis.

Our approach turns around three principles, which are followed in the following order when building a matrix of indicators for each economic sector:

- Liberalization is, above all, a *formal* feature of any market. The goal of the Index is, therefore, to identify the legal, regulatory, fiscal and para-fiscal barriers to competition. The only way to do so is to take as a reference an "ideal" model, whereby such barriers are absent or, at least, negligible and to compare it to the actual regulation models adopted in the different countries. This is also necessary in order to remove from the measurement any distortions due to external factors, such as, for instance, European law or other international agreements (which nevertheless tend to drive towards a greater openness to competition).
- Market outcomes are not necessarily a good indicator of the degree of liberalization of a country. A higher concentration rate, for example, does not always mean a lower degree of competition, and vice versa. However, on the basis of the *theoretical* interpretation of the expected market evolution, it is possible to use *performance* variables as proxies for the existence, or non-existence, of barriers which are not immediately identifiable on the basis of the information available about the market regulation.
- In case of specific situations, when fostering competition requires some sort of regulatory intervention (for instance, the existence of "natural" monopolies that realistically cannot be overcome in the near future) it is necessary to identify the best practices and to measure the gap from those solutions for each member state.

These principles are the overarching, operative framework the sectorial liberalization indexes are built on. For each sector a number of areas or macro-indicators are identified, articulated in different quantitative or qualitative sub-indicators, which can help to recognize the existence of barriers to competition or of other unnecessary distortions. We have assigned a rating to each country for every sub-indicator and macro-indicator, with a higher rating corresponding to a higher liberalization level.

The average – weighted according to different criteria which are explained in the individual chapters – of the results in each area is used to assess a "raw" liberalization index. The rough indexes are then normalized, so that the score of the most liberalized country, in each sector, is equal to 100. To all other countries has been assigned the correspondent value on the new scale.

Thus *a)* the assessments of the different countries show not only the ranking, but also the dispersion in the different regulatory models, so that it is possible to distinguish a sector where most countries are quite or

10. This paragraph is basically the same of the Introduction to the 2014 edition, since there were no relevant changes apart from the geographical area covered by the Index.

very liberalized from one where the majority is not significantly liberalized or not at all; *b)* we have attempted to harmonize as much as possible the criteria we used, for instance, as to the presence of government-owned actors or to the regulatory choices about vertical unbundling. These changes mark the complete transition, started in 2013, from a Liberalization Index designed to benchmark Italy against other countries (as it was the case between 2007 and 2012) to an Index that offers instead an assessment and a ranking of the EU 28 member states according to the liberalization degree in the individual economic sectors considered.

Since the best country is always assigned a score of 100, the score assigned to different countries can be understood as a measure of *the gap from the leader*: how many (and which) steps a country has to take in order to align with the best practice. One consequence of making 100 the score of the overall best country, and not of the best indicator in each sector, is that the top performer country in one sector could not be at the top in every single indicator.

These methodological changes make the assessments of the 2015 Index not comparable in absolute terms with the ones of the 2007-2012 editions, nor with the 2013 one. It is instead possible, with some adjustments, to compare the 2015 results to those of the 2014 edition: indeed, the methodology remains unchanged, though the introduction of more countries has, in certain cases, "shifted the boundary," so that the different score in this edition is not necessarily due to an improvement or decline of the situation of the single country, but simply to the different benchmark.

However, is should be noted that the same would happen if the benchmark country further broadened (or reduced) the scope for competition in a given market. This is, to some extent, both a limit and a peculiarity of our Index, namely its dynamism. For a free market is not a given, an equilibrium that remains stable once achieved, but a condition to arrive at and to keep.

Anyway, it is possible to compare the position of the single countries in the ranking with the 2013 and 2014 editions, since the recent changes have an impact on the score but not – or in a negligible way – on the ranking.

Once the liberalization Index for a given sector has been determined, we compute for each country the arithmetic average of its scores, in order to have an overall liberalization index of the economy. After the first editions of this work, we asked ourselves how arbitrary this operation was. The analysis of the correlation degree between the Liberalization Index and other similar Indexes gives us reassuring answers, as the next paragraph, which illustrates the Index results, will make evident.

As in 2014, the Index covers ten sectors (the distribution network of automotive fuels, by Carlo Stagnaro, the electricity and natural gas market by Simona Benedettini, the job market by Fabiana Alias, the postal service by Massimiliano Trovato, who also authored the chapters on telecommunication and television, air transport by Andrea Giuricin, rail transport by Paolo Belardinelli and Carlo Stagnaro, and the insurance market by Paolo Belardinelli).

For each of these sectors, the methodology is essentially the same as the one used in 2014. Only with regards to the fuels sector we slightly reviewed the way to assign scores: however, this essentially has an impact on the score itself, and only marginally on the ranking of each country. Detailed information on the methodology used can be found in the single chapters.[11] The chapters also illustrate the sectorial macro-indicators and sub-indicators choice, and the reason for it.

All data is taken from public sources or from IBL researchers estimates based on public information. The data source is indicated in every chapter.

11. For the methodology used instead in the 2007-2012 period, see Carlo Stagnaro, *Indice delle liberalizzazioni 2012*, Torino, IBL Libri, 2012; for the last two years, see the 2013 and 2014 editions of the Index

4. The results

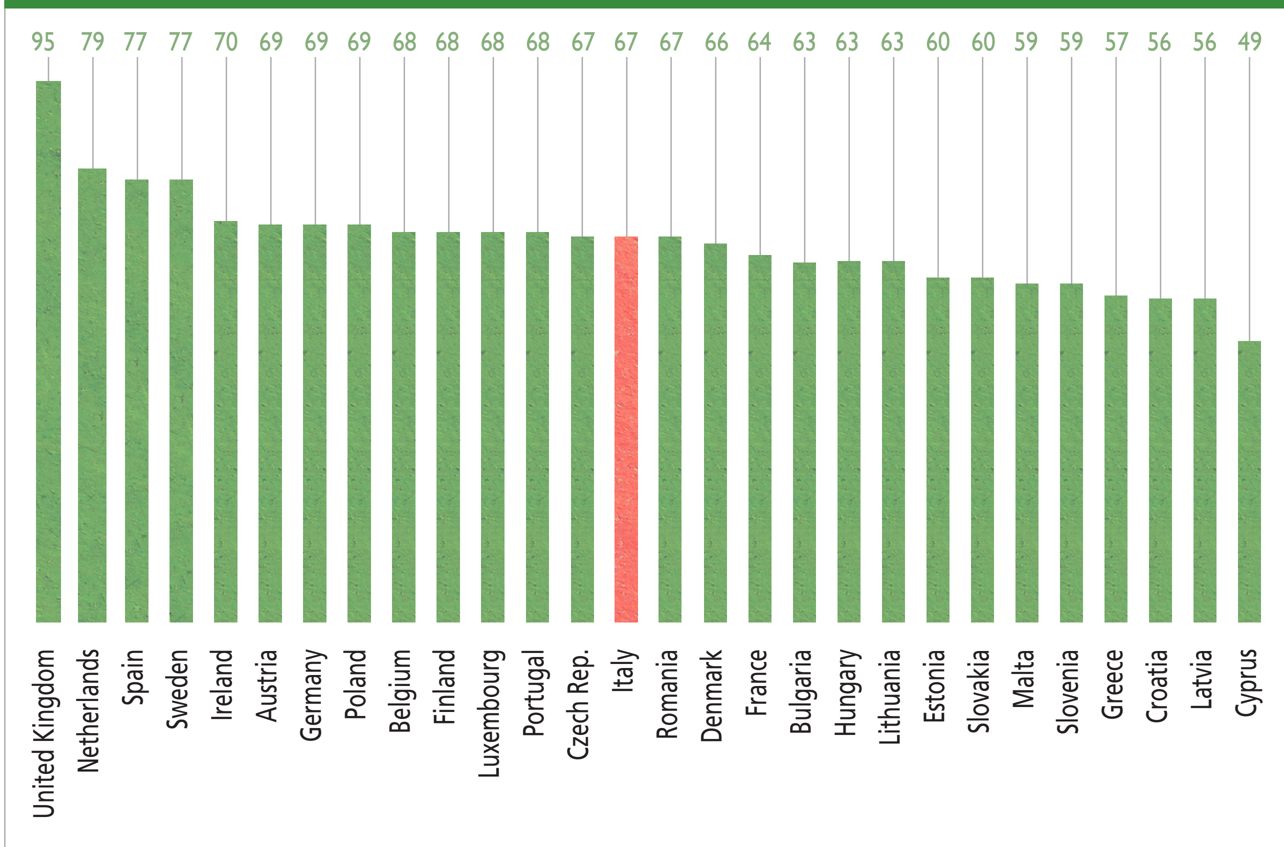
4.1 Statement of results

Chart 1 shows the results of each of the 28 member states in the ten sectors of the economy considered by the Liberalization Index, and the resulting overall score.

Chart 1. Results of the Liberalization Index 2015

	Fuels	Electricity	Natural gas	Job	Postal service	Telecommunication	Television	Air transport	Rail transport	Insurances	Index Lib
Austria	89	74	56	88	71	82	72	46	59	56	69
Belgium	56	90	73	73	71	70	81	67	31	69	68
Bulgaria	44	57	76		70	64	96	63	18	75	63
Croatia	57	n.a.	n.a.	n.a.	77	73	83	40	14	51	56
Cyprus	50	41	n.a.	n.a.	45	44	82	37	n.a.	46	49
Czech Rep.	71	72	80	86	71	86	84	49	38	27	67
Denmark	42	70	47	95	60	97	84	59	62	44	66
Estonia	71	58	66	88	59	61	96	55	19	29	60
Finland	54	89	45	93	69	86	81	62	48	50	68
France	74	55	50	78	64	98	93	36	26	68	64
Germany	63	89	82	83	86	65	75	41	50	60	69
Greece	48	63	34	70	64	79	69	70	21	50	57
Hungary	70	72	54	82	58	53	100	77	18	48	63
Ireland	66	58	60	90	63	79	77	91	n.a.	46	70
Italy	40	79	58	70	58	96	79	74	53	65	67
Latvia	64	48	54	n.a.	71	62	93	70	13	32	56
Lithuania	54	75	78	n.a.	73	53	88	67	13	n.a.	63
Luxembourg	100	67	39	86	50	62	95	n.a.	n.a.	41	68
Malta	48	76	n.a.	n.a.	66	68	77	37	n.a.	41	59
Netherlands	72	84	73	90	100	97	94	59	68	56	79
Poland	94	72	38	88	72	88	83	74	24	54	69
Portugal	66	83	70	79	59	65	95	80	23	63	68
Romania	53	87	60	n.a.	72	75	98	87	17	51	67
Slovakia	58	82	33	77	54	59	90	69	45	36	60
Slovenia	67	59	45	81	73	71	89	43	18	46	59
Spain	74	86	81	75	64	100	88	92	48	59	77
Sweden	60	73	94	93	84	82	83	68	100	34	77
United Kingdom	89	100	100	100	75	92	98	100	93	100	95

Figure 1. Liberalization Index 2015



The United Kingdom – as in 2014 – leads the general ranking (with an overall score of 95) – followed by the Netherlands (79), Spain and Sweden (77). Great Britain has a wide lead on other countries: over time it could get smaller, not only due to other countries' improvements but also because of some steps back London is taking (for instance, in the electric sector[12]), but Britain's lead shows how effective the Eighties and Nineties reforms have been. The United Kingdom is the benchmark country in five sectors out of ten (gas, electricity, job market, air transport and insurances) and it scores more than 90 in other three (98 in Television, 93 in Rail Transport, and 92 in Telecommunication).

With respect to last year, when our analysis only included 15 countries, at the bottom of the chart we still find Greece (57 points) and a few Northern European countries, although Cyprus, which appears to be the least liberalized country in Europe (49), and a lot of Eastern European states make a poor showing: Latvia and Croatia (both at 56), and then, as mentioned, we find Greece with 57 points. This can be explained in part by the recent entry of these countries in the European Union, and therefore by a lower level of processing, if not of competition principles, at least of the requirements to join the Union. However, it is also possible that these countries, generally characterized by a moderate tax burden and by a relatively friendly environment towards entrepreneurship in the sectors less exposed to political influence, are affected by a strong regulatory tradi-

12. Stefano Verde, "Mille luci sul Tamigi. Proposte di riforma del settore elettrico in Gran Bretagna tra mercato e incentivi," *IBL Focus*, n. 182, 2011; Id., "Londra 2012. La maratona (a ostacoli) della riforma del settore elettrico britannico," *IBL Focus*, n. 209, 2012.

tion, so that they tend, on one hand, to produce legislation which is excessively oriented to micromanagement and, on the other, to protect the position of former public monopolists, which not rarely maintain, completely or in part, their previous position. It is nonetheless to be noticed that, in these countries, anachronistic frameworks often drag on, connected to delays and exceptions allowed in the implementation of EU Directives.

This result is consistent with the one of a previous research by IBL, in which we had developed an "Entrepreneurship Liberty Index" which took into account a range of indicators on both regulation quality and the weight of the State and the tax burden.[13] In that context we noticed a negative correlation between the "liberty from regulation" and the "liberty from the fiscal authority," which suggests that all governments tend to have an interventionist approach to the economy, although some of them prefer a fiscal intervention and others are more oriented towards a regulation one. Naturally, there are some exceptions in both directions, as, for example, Italy.

The market average degree of openness in the 28 countries of the Union is equal to 66 points (basically, the same score assigned to Italy, which is 67). This suggests a rather diverse situation, that appears all the more varied when we focus on the sectorial results instead of the overall ones. However, the strong geographical polarization – "old" Europe countries at the top of the ranking and "new" ones at the bottom – allows to infer, retrospectively, that the latter are going to improve their score in proportion to their adjustment to common market rules and the amount of foreign direct investment, in a fast convergence process. As a consequence, the real pathological condition is that of those countries which did not fully profit from markets openness, although they were part of the original EU group.

Among these, we find Italy.

4.2 Italy

Italy has an overall score of 67 points: it is thus ranked in thirteenth place, which is basically the same position as last year. It is the case of stressing that, given the time it takes for data to be available, the impact of a number of recent measures – in particular the *Jobs Act*, which is reforming the labour market – is not yet "felt" in the Liberalization Index: it is reasonable to presume that, in the 2016 edition, the picture shall be more positive. The same can be said with reference to some of the measures contained in the annual law on competition – still to be definitively approved by the Italian Parliament – which we will discuss in the closing paragraph. Still, in some cases we can see substantial improvements: in the rail transport, for instance, thanks to the higher competition characterizing the high speed segment.

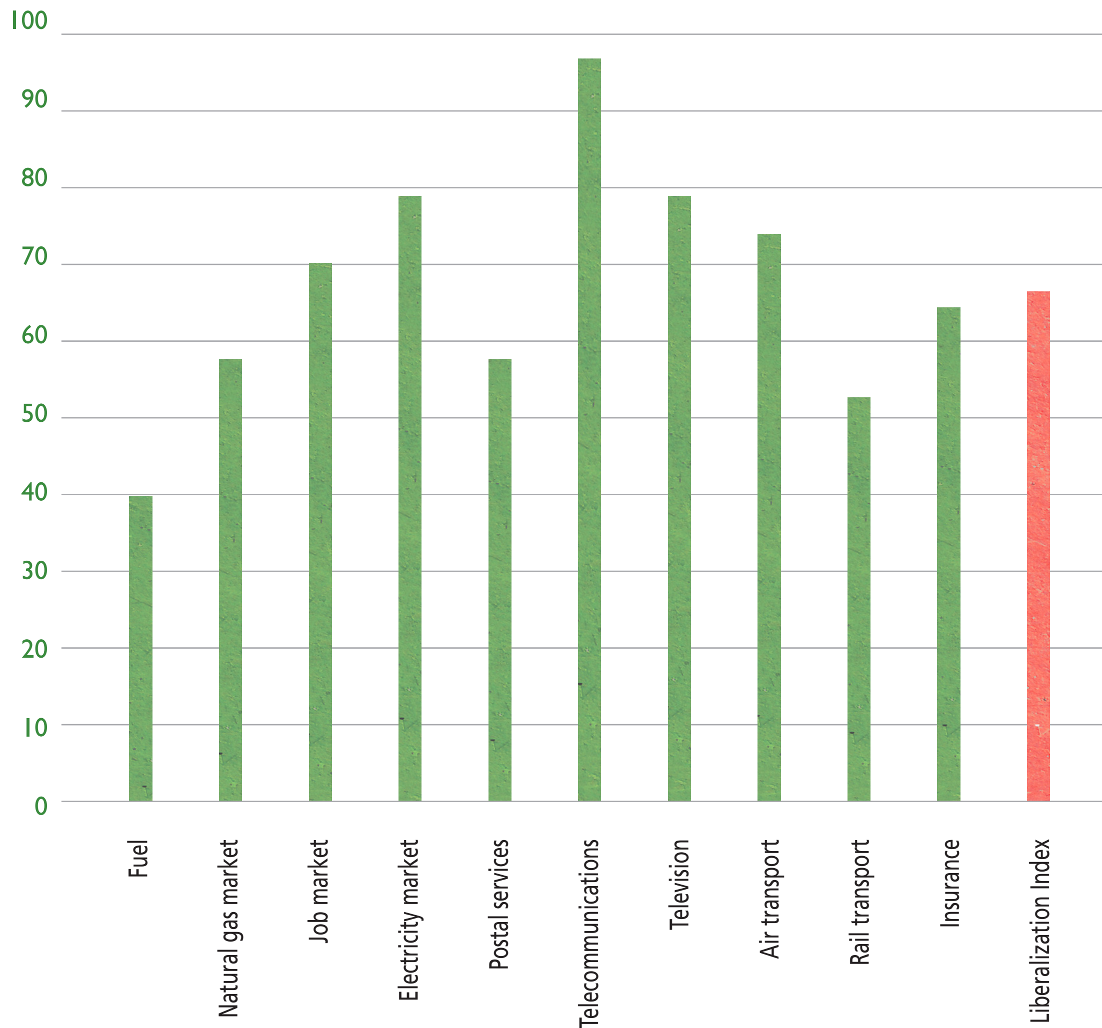
At the same time, the Italian position is in some ways the result of an optical illusion: our country stands in the middle of the ranking, but it is one of the laggards among the EU15 member states, with which it is more directly comparable. As a consequence, we can say that Italy is not only lagging behind in terms of market openness, but also that a committed liberalization policy could yield enormous benefits. After all, this has been explicitly recognized in every recent report by international organizations.[14]

Figure 2 shows the results achieved in each sector by our country.

13. Istituto Bruno Leoni, "Indice della libertà di intrapresa," *IBL Background Paper*, April 8th, 2010.

14. European Commission, "Recommendation for a Council Recommendation on the 2015 National Reform Programme of Italy," COM(2015) 262 final, May 13th, 2015; Organization for Economic Cooperation and Development, *OECD Economic Survey of Italy 2015*, February 2015; IMF, *Italy. 2015 Article IV Consultation*, June 16th, 2015.

Figure 2. Italy's results in each sector in the 2015 Liberalization Index



Italy ranks last with regards to the fuels market, principally due to the high impact of the tax components of the retail price and to the underdevelopment of the distribution network. It stands in a low position with regards to the postal market (twenty-fourth), television (twenty-third) and the job market (twenty-second). In the instance of postal services, it must be stressed that there is a slight improvement which has not been registered by the overall result, related to the clarifications implemented in 2014 about the scope of VAT exemptions for the incumbent operator, which have been limited to individually negotiated services; additional further steps could also be taken if the provision in the *Ddl Concorrenza* mandating the end of the incumbent's privileged position on judicial acts notification was approved.

Furthermore, a few improvements can be noted in the rail transportation field – even though the greater openness of the high speed segment does not offset the negative performance in the regional transport – and in telecommunications market – mostly due to the dynamism of mobile services, that places Italy near to the benchmark country. Similarly, air transport is driven by the progressive solution of the pathological situation of the flag carrier, although things are still not optimal with regards to competition rules, likewise due to persistent public intervention.

Hence, as it will be reiterated in conclusion, Italy is not last among the European countries, but only because, starting from this year, the Liberalization Index analysis pictures a very diverse, but also dynamic, Europe. The impression we get from a comparative reading of the different editions of the Index – apart from the quantitative comparison of the results, which, as we have remarked, is not possible – is of a country that persists in its paralysis. Something might change with the approval of the 2015 *Ddl Concorrenza* and the adoption of a similar measure in 2016, as provided by the national Reform Program, but in this case – despite the auspicious signs – good intentions must lead to facts, and only time will tell if the country will move in this direction.

4.3 The relevance of the Liberalization Index

Scrutinizing the correlation degree between the Liberalization Index and similar Indexes is a good way to assess its effectiveness in capturing significant information about the degree of market openness.

In particular, as in the past, we considered both "context" and "outcomes" indexes. Among the former, the OECD Product Market Regulation[15] (which is particularly relevant to us because it focuses on competitive aspects), the Heritage Foundation *Index of Economic Freedom*[16] and the World Bank *Worldwide Governance Indicators*[17] (with particular reference to the "Regulatory quality" indicator) stand out. In the second category, we find the World Bank *Doing Business*[18] (from which we extrapolate the "gap from the leader" indicator) and the World Economic Forum *Competitiveness Report*.[19]

Chart 2 shows the two coefficients.

15. See, apart from the dedicated website, Giuseppe Nicoletti - Stefano Scarpetta - Olivier Boylaud, "Summary indicators of product market regulation with an extension to employment protection legislation," OECD Economics Department Working Paper, n. 226, 2000; Isabel Koske - Isabelle Wanner - Rosamaria Bitetti - Omar Barbiero, "The 2013 update of the OECD product market regulation indicators: policy insights for OECD and non-OECD countries," OECD Economics Department Working Papers, n. 1200, 2015.

16. See Terry Miller - Anthony B. Kim, *2015 Index of Economic Freedom*, Washington DC, The Heritage Foundation, 2015.

17. See, apart from the dedicated website, Daniel Kaufmann - Aart Kraay - Massimo Mastruzzi, "The Worldwide Governance Indicators: Methodology and Analytical Issues," World Bank Policy Research Working Paper, n. 5430, 2010.

18. See, apart from the dedicated website, World Bank, *Doing Business 2015*, Washington DC, The World Bank, 2014.

19. Klaus Schwab, *The Global Competitiveness Report 2014-2015*, Ginevra, The World Economic Forum, 2014.

Chart 2. Correlation coefficients between different indexes

	Index Lib 2015	PMR 2013	Index of Econ Freedom 2015	Worldwide Governance Indicators 2014 – Regulatory quality	DB 2015 – Distance to frontier	Global Competitiveness Index 2015
Index Lib 2015	1,00	-0,74	0,46	0,55	0,51	0,64
PMR 2013		1,00	-0,45	-0,43	-0,46	-0,49
Index of Econ Freedom 2015			1,00	0,79	0,69	0,67
Worldwide Governance Indicators 2014 – Regulatory quality				1,00	0,64	0,90
DB 2015 – Distance to frontier					1,00	0,69
Global Competitiveness Index 2015						1,00

Note: the correlation coefficients between PMR and all the other considered indexes are negative due to the fact that PMR assigns the lowest rates to the most open countries.

As expected, the correlation coefficients between all these indexes are quite high, but never too close to one. The reason is that – for all that there is an unavoidable correspondence between the economic liberty dimensions they measure – we are still talking about different issues, which are often treated with a high level of inconsistency, even within the same country. However, the conclusion we can infer from this chart is that, generally, countries characterized by a low regulation level of the markets also feature a higher degree of economic liberty, a better regulation quality, a higher appeal for entrepreneurship and a higher level of competitiveness on international markets.

With specific regard to the Liberalization Index, we observed a quite high level of correlation with all the indicators, particularly in the case of the OECD *Product Market Regulation*. This is natural, in a sense, since

both indexes focus on regulation and competition aspects. Likewise, this proves the strength of the IBL Index that – using a different methodology and different criteria than PMR – comes to similar results in most of the considered sectors.

5. The sharing economy challenge

To measure the market openness degree and to show the reform paths on the basis of the best international experiences, as the Liberalization Index does, can entail a number of pitfalls, particularly in time. Indeed, technological progress – which, as we have seen, is strongly connected to the presence of a competitive ecosystem – is not only the *consequence* of a healthy competitive dynamic: it is also the mean through which new markets and new processes emerge, with the result of changing the interpretation and regulation framework of any particular economic setting.

If technological development can diversify jobs and services on the one hand, on the other it can blur the boundaries of industries that were once thought to be unquestionable. This phenomenon is easy to observe among professions: the boundary lines between the tax advisor, the lawyer and the notary have become, in certain cases, definitely more indistinct, and it is not rare that they maintain their coherence (from a regulatory point of view) only thanks to specific normative provisions.[20]

A potential disruptive[21] innovation, in this sense, comes from the so called sharing economy[22] – a term that does not adequately convey the idea of the ongoing process, nor of the common origin of such different experiences as Uber, Lyft, Airbnb, Gnammo, crowd-founding platforms, etc. As a rule, these businesses have three characteristics in common: *1)* the nature of "platforms," that is, of a two-sided market;[23] *2)* the fact that such platforms prosper thanks to their capacity of bringing down transaction costs;[24] *3)* the fact that the outcome is a higher rate of capacity utilization, that otherwise would go unused.

The sharing economy apps, in other words, do not need to be understood (as the commonly used label might suggest) according to the *sharing* criteria, nor following the contraposition between ownership and access to productive capacity, but according to the possibility of enabling transactions that, otherwise, would not have been possible. In doing so, they not only cause distress to the traditional regulation of entire sectors (such as taxis), but also to the very meaning of regulation.

This emerging challenge does have a number of consequences, both in the way markets are regulated and – consequently – in the way they are seen. Indeed, if technology can cause entire organizational paradigms can to become obsolete overnight,[25] it is necessary to accept that if you want to measure the openness of a market, your area of analysis may change. To some extent, this affects the present Index: at least with refer-

20. World Bank, *Doing Business in 2004. Understanding Regulation*, Washington DC, The World Bank, 2004

21. Clayton Christensen, *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*, Cambridge, MA, Harvard Business Review Press, 1997.

22. PricewaterhouseCoopers, "The Sharing Economy," *Consumer Intelligence Series*, 2015.

23. In the sense explained by Jean-Charles Rochet - Jean Tirole, "Platform competition in two-sided markets," *Journal of the European Economic Association*, vol. 1, n. 4, 2003, pp. 990-1.029.

24. In the sense explained by Ronald H. Coase, "The Problem of Social Cost," *Journal of Law and Economics*, vol. 3, n. 1, 1960, pp. 1-44.

25. Debbie Wosskow "Unlocking the sharing economy. An independent review," Department for Business, Innovation and Skills, November 2014.

ence to some segments of the market, trains and airliners are competing means of transport, and therefore treating their respective markets as separate is somewhat limitative; the same goes for telecommunication and audiovisual communications (not to mention the increasing diffusion of audio/visual services on demand such as Netflix or Spotify). For practical reasons, it can be reasonable to keep a framework rooted the past, but we must be aware of its limits and of its progressive not-applicability.

Even more relevant, such awareness goes way beyond the mere issue of Internet regulation (which is a complex one as well).[26] It should inform the actions of national and European regulators: the law cases and the reform attempts that have impacted the taxi market as a consequence of the "uberification of the economy" are only the tip of an iceberg that could have an enormous impact, in the very "Coasean" sense of the drastic and rapid reduction of transaction costs. This means that regulation (in the broadest understanding of the term) must take into account the possibility that innovation may render obsolete provisions once taken for granted, and to enable exchanges and organizational choices that until yesterday were regarded as impossible or at most purely theoretical.

The revolution that is currently investing the urban mass transport services and, perhaps to a lesser extent but with the same intensity, a number of sectors that range from interurban mobility to the hotel industry, from entertainment to capital raising, can really be a turning point for the notion of industrial organization that underpins all regulatory actions in the sectors examined. Or, conversely, it can turn out to be a brushfire. This development must be carefully considered, lest uncounted occasions of progress and prosperity be wasted due to the dullness of the regulatory frameworks. On a European level, the debate on this matter is developing, in consideration of the reach – al least potential – of the ongoing changes.[27]

From this perspective as well, liberalization – that is, creating the conditions to reach those opportunities – inevitably appears as an effort related to a broader process of economic deregulation.

6. Conclusions: an Italian way to liberalization?

If liberalization is so important and can yield so many benefits, why is it so difficult for countries to adopt measures in this regard? Part of the answer comes from the Public Choice analysis, which stresses how the asymmetry between benefits (widespread) of liberalization and their costs (concentrated on small *rentier* categories) affects the policy-making activities.[28] In the previous editions of the Liberalization Index, we attempted to offer further interpretations of this circumstance.[29] At the same time, we do not lack opposite instances: the English experience in the Eighties is a well-known example in this regard, but the review made by Bitetti in the essay offers elements of cautious optimism with regards to other countries as well. The score achieved by Spain in this Index is further evidence of this.

26. Isabel Koske - Rosamaria Bitetti - Isabelle Wanner - Ewan Sutherland, "The Internet Economy - Regulatory Challenges and Practices," OECD Economics Department Working Papers, n. 1171, 2014.

27. European Commission, "The Sharing Economy. Accessibility-Based Business Models for Peer-to-Peer Markets," DG Enterprise & Industry, *Case Study*, n. 12, 2013.

28. Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups*, Cambridge, MA, Harvard University Press, 1971; James M. Buchanan - Gordon Tullock, *The Calculus of Consent*, Ann Arbor, University of Michigan Press, 1962.

29. See, for instance, George Yarrow, "Gli intellettuali e la regolamentazione," in Carlo Stagnaro *Indice delle liberalizzazioni 2011*, Torino, IBL Libri, 2011, pp. 7-34; see also Bruce Yandle, "Bootleggers and Baptists in Retrospect," *Regulation. The Cato Review of Business and Government*, vol. 22, n. 3, 1999, pp. 5-7.

In the last few years, Italy did not show to have an innovative political process, nor can she boast of brilliant achievements in the liberalization process, as evidenced by the previous editions of this Index.

However, something seems to have changed with the submittal to the Italian Parliament of the annual bill on competition,[30] approved by the Cabinet on February 20th of this year and currently under discussion in the Italian House of Representatives. The *Ddl Concorrenza* represents above all a methodological innovation, although the legal mandate dates back to 2009 and was never complied with until this year. Indeed, the Law 99/2009[31] provides for the enactment of an annual law 'in order to remove the regulatory, normative or administrative obstacles to market openness, to promote the development of competition and to grant the consumers protection.' This law has to be based on a periodical report sent by the Antitrust authority.[32]

Aside from its specific provisions – which we do not need to discuss in this context, not least because the author of the present introduction has been part of the group that drafted the measure we are considering – the relevant aspect of the bill is its recurring nature, as the Minister for the Economic Development, Federica Guidi, has remarked presenting the text to the House Business Commission and to the Finances Commission,[33] and as provided by the commitments undertaken by Italy towards the European Commission in occasion of the National Reform Program.[34] In other words, the most important procedural aspect of the measure consists in being an *annual* law: a continual exercise of "pro-competition maintenance" of a set of rules.[35]

The broader significance of *Ddl Concorrenza* lies, in other words, not in (merely) removing barriers to competition and bringing an improvement of the country economic environment, but also to systematize a "cleaning up" job that has been lacking until now, as the Liberalization Index itself proves through its periodic monitoring of the competition level in Italy, consistently with the results of similar studies.[36]

If a follow-up to the *Ddl Concorrenza 2015* will actually be enacted in 2016 and in the following years, Italy should be able not only to take meaningful steps forward – notwithstanding the inevitable amendments to the bills, that will decrease their pro-competition impact – but might well become a best practice at European level as far as the *method* of intervention is concerned. Italy shall offer a positive image of collaboration among institutions, by virtue of the inevitably symbiotic relations among involved Authorities, particularly the *Garante della concorrenza* (Antitrust Authority), and the administration in drafting the law. Lastly, it should be able to improve its position in rankings like the one compiled by the Liberalization Index, and others of the same kind,

30. AC 3012.

31. Art. 47 of Law 23 July 2009, n. 99.

32. In this case, see Autorità Garante della Concorrenza e del Mercato, "Proposte di riforma concorrenziale ai fini della legge annuale per il mercato e la concorrenza. Anno 2014," AS1137, 2014.

33. Federica Guidi, "Audizione della Ministra dello sviluppo economico, Federica Guidi, nell'ambito dell'esame del disegno di legge C. 3012 e abbinate, recante Legge annuale per il mercato e la concorrenza," June 30th, 2015.

34. Ministero dell'Economia e delle Finanze, *Documento di economia e finanza 2015. Sezione III: Programma nazionale di riforma*, approved by the Council of Ministers on April 10th, 2015.

35. Alberto Alesina - Francesco Giavazzi, "Ascoltare i cittadini non le lobby," *Corriere della sera*, August 4th, 2015; Alberto Mingardi, "Più libertà contro le lobby," *La Stampa*, February 20th, 2015.

36. See, for instance Koske *et al.*, "The 2013 update of the OECD product market regulation indicators"; Magda Bianco - Silvia Giacomelli - Giacomo Rodano, "Concorrenza e regolamentazione in Italia," Banca d'Italia, *Questioni di Economia e Finanza*, n. 123, 2012.

and enjoy the fruits of a greater economic dynamism, greater social mobility, and greater innovation.

As highlighted in former editions, Italy can get a major dividend if it consistently and radically implements a liberalization policy. The objective of the Liberalization Index is to stimulate our country, as other members of the European Union, to advance on this path, not least by means of a sober acknowledgment of the progress made so far.

Europe itself can benefit from the spreading of a competition culture, and from adopting rules that liberalize the economy. This benefit is not measurable, from a European point of view, only on the basis of economic growth, but also of increasingly integrated markets: opening to competition can generate a *bottom up* process of European unification between markets; a process which would be more effective, more rapid and shared than any *top down* imposition of regulatory standards. At least in some cases, the European Commission seems to appreciate this potential benefit of political and institutional, more than economical, nature. The Liberalization Index shows to any State where it can act, and which examples to follow. Europe need not to invent new regulatory frameworks: it should only spread within its own boundaries existing best practices which have been successfully implemented elsewhere.

Essay

Austerity is not enough

by Rosamaria Bitetti

More than six years have gone by since the outset of the "Great Recession." Most European countries still struggle to return to their previous growth rates, which already appeared to be unsatisfactory in comparison to the performance of other OCSE countries, not to mention emerging and transitional economies. Nowadays, Europe is facing the challenges of stagnation, youth unemployment, decreasing productivity accompanied by high deficit and government debt, and characterized by a great fragility of the financial sector. In addition, the crisis also boosted social unrest, since the younger generations and the most vulnerable classes have experienced a severe reduction of their incomes and access to the labour market. The task of tackling these policy problems in a context where using the traditional economic stimulus approach is no longer viable compels policymakers to look at the necessary reforms to facilitate a greater and more inclusive growth.

Indeed, the crisis has forced a number of countries to control spending and adopt more responsible fiscal policies, often referred to as *austerity*. In truth, most European countries have been content of keeping their spending constant, instead of reducing it. But not being able to resort anymore to public spending as a tool to artificially stimulate a depressed economy is a strong constraint, imposed by inter-European agreements, international markets, economic principles and the most basic common sense. We cannot avoid fiscal responsibility, but we cannot ignore that it implies hard and painful choices, as shown by the recent events in Greece, as well as in any country whose economical performance is in decline. If it is no longer possible to resort to Keynesian interventions that would stimulate the economical activity postponing the costs to the future, then, the only way to minimize the negative consequences of fiscal responsibility is to return to growth.

The complementarities between measures of fiscal stabilization and reforms which could assist growth are extremely important. First of all, for a simple mathematical reason, since a fiscal adjustment is not just a matter of how many outlays are cut or how much taxes are raised to increase the public revenues. As a matter of fact, the government debt is not relevant *per se*, but as a share of the GDP and its expected growth. Consequently, the growth of economic activity is critical to improve the spending-GDP ratio: government debt, even if it is high in absolute terms, is bearable if, and only if, the country is credibly able to generate in the future a large enough national income to pay it back. On top of this, there is also a reason of social justice: a growing economy is more dynamic, more capable of including in the labour market those sectors – for example young people and women – who are traditionally excluded in a society embalmed by regulation.

What can governments actually do to facilitate growth? Most economists agree they need to help markets to work efficiently: enforcing contracts, making it easier to start up a business and to innovate, diminishing uncertainty for firms, preventing the protection of particular industries from creating distortive profits which would degenerate in higher prices for the economy as a whole.

1. Structural reforms and their impact

Structural reforms are aimed exactly at this: creating a legislative framework capable to tie individual initiative and creativity to wealth. In a famous lecture at the American Economic Society, Mancur Olson explained that, when the institutional framework of a social and economic system is inefficient, opportunities cannot

be grasped, it is as if "passers-by left bills on the pavement, not taking them": this happens because the institutional frame does not provide the right incentives to recompense hard work, entrepreneurial courage and innovation. On the contrary, it hinders them, and so opportunities of collaboration, investment and growth are lost.[1]

Structural reforms are useful in order to improve incentives and remove obstacles to economic growth, for instance making the labour market more adaptable and improving the Product Market Regulation (PMR), or at any rate acting in ways that liberalize and increase competition in the products and services markets; or, in general, improving the normative and regulatory framework businesses act within.

Academic literature, despite the disparate models used in its analyses, presents quite similar insights about the potential impact of these reforms. For instance, both Bayoumi, Laxton and Pesenti and Everaert and Schule provide an estimate of how the liberalization of the labour market and the improvement of PMR could contribute to a 10% improvement in GDP for the most rigidly regulated countries.[2] A 2012 research by the International Monetary Fund, which relies upon its Global Monetary and Fiscal projection model, estimates that filling the gap between the European situation and the OECD best practices in the labour market would spur a growth of its GDP of 1.5% in the first five years, and of another 2.5% following PMR reforms. Even a cursory revision of the Active Labour Market Policies, concurrent with labour market reforms, could increase growth of another 0.6% starting as early as in the first year.[3] The European Central Bank has reached similar conclusions relying on the micro-founded, multi-country Euro Area and Global Economy model (Eagle), demonstrating, in addition, that any impact would already be felt in the short term. In fact, it was found that European countries which implemented more structural reforms between 2008 and 2013, are currently enjoying a better performance in exports, and therefore a higher competitiveness, than countries where reforms have been less incisive.[4] According to Anderson, Hunt and Snudden, structural productivity and labour reforms can compensate the effects of both the contraction of public spending and the stabilization of tax revenues in the 2014-2018 period, but in peripheral European countries[5] this can only happen if substantial reforms are implemented. Beyond 2018, these reforms can, in the next ten years, make a contribution to the real GDP growth of between 3% and 8% in core regions, and of between 4.5% and 11% in peripheral countries – taking into account bigger cuts and taxes, which are necessary in both blocs of countries.[6]

If there is solid evidence that these reforms are effective in order to overcome the crisis, why are they so

1. Mancur Olson, "Distinguished Lecture on Economics in Government: Big Bills Left on the Sidewalk. Why Some Nations are Rich, and Others Poor," *The Journal of Economic Perspectives*, vol. 10, n. 2, 1996, pp. 3-24.

2. Tamim, Bayoumi - Douglas Laxton - Paolo Pesenti, "Benefits and Spillovers of Greater Competition in Europe: A Macroeconomic Assessment," *Working Paper 341*, European Central Bank, 2004; Luc Everaert - Werner Schule, "Structural Reforms in the Euro Area: Economic Impact and Role of Synchronization across Markets and Countries," *Working Paper Series*, n. 06/137, IMF, 2006.

3. Bergljot Barkbu - Jesmin Rahman - Rodrigo Valdés, "Fostering Growth in Europe Now," *IMF staff discussion note,* June 18th, 2012.

4. Central European Bank, *Economic Bulletin*, n. 2/2015, p. 9.

5. In a number of policy analysis, the European area is divided into two regions, one with bigger problems of fiscal sustainability, called "periphery," and one where these problems are less severe, called "core." In the quoted paper, the "periphery" region includes Greece, Ireland, Portugal and Spain.

6. Derek Anderson - Benjamin Hunt - Stephen Snudden, "Fiscal Consolidation in the Euro Area: How Much Pain can Structural Reforms Ease?," *Journal of Policy Modeling*, vol. 36, n. 5, 2014, pp. 785-799.

controversial? In these cases, we are not facing a problem of economic theory, but an issue of economic policy: it is hard to take policy decisions that, while leading to increased prosperity, are extremely unpopular. This is because, by removing restrictive regulations and opening up protected markets, the privileges of concentrated interest groups are taken away, leading these groups to become particularly aggressive during recessions in the effort of procuring political protection in the face of the contraction of the markets they operate in.[7]

This kind of reforms is characterised by costs that are immediately visible on the market which is being liberalized, whereas benefits for the population as a whole are smaller and harder to see: this is why these reforms come up against the so-called short-sightedness effect, a sort of disregard for the long-term horizon that makes it preferable for politicians to put off future costs, in order to please the electorate or the pressure groups which support them.[8] Similarly, the benefits of liberalization policies are spread out among a vast pool of beneficiaries, which as a consequence do not have the same incentive in organizing as the rentiers in defending their positions.

Even though the myth of structural reforms involving concentrated costs in the short term, which are particularly painful in a period of crisis, and spread out benefits that become mainly apparent in the long term is easily used by politicians who wish to put off unpopular reforms, in actual fact this myth is not supported by empirical analysis. Analysing in the aggregate structural reform implemented in the last three decades in OECD countries, Buis *et al.* identify the horizon along which the reform effects fully manifest themselves: the reactions of the main aggregated indicators (GDP growth and employment rate) to the different reforms of labour, product market regulation and taxation require a long time before fully materializing. But short-term effects, when significant, hardly involve aggregated economic losses; in contrast, they often yield immediate benefits.[9] A recent study for the European Commission has reached similar conclusions, using the multi-regional macroeconomic model *Quest* (European regions at a high level of reforms, the rest of the Euro Area, the rest of the World) to analyse the impact of structural reforms in a macroeconomic environment where it was not possible to make recourse to debt or liquidity increases, and it showed that responses to regulatory shocks are both negligible and of an extremely short duration, as they are rapidly offset by the growth of productivity when institutional transmission channels are efficient, and that it is therefore inefficient to postpone reforms during a period of crisis.[10]

Particularly in the years after the last crisis, many governments have been forced to face a number of problems as to regulations and bottlenecks which slowed down their countries' productivity. As we can see in figure 1, in the years 2011-2012 quite a few countries have been more reactive to the OECD reform suggestions, gathered in the annual report *Going for Growth*. Even though in 2013-2014 the response rate has been lower for almost every country which had shown the highest reforming activity in the first period, the wave of reforms has not yet stopped.

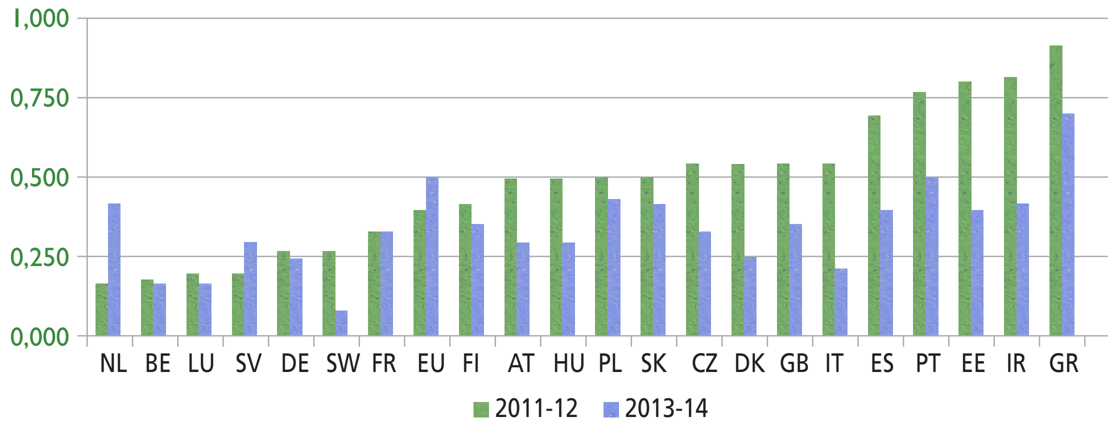
7. Mancur Olson, *The Logic of Collective Action Public Goods and the Theory of Groups*, Cambridge (Mass.), Harvard University Press, 1971. For an application to public expense and regulation, see Rosamaria Bitetti, "Democrazia e mercato 'spacchettati': un approccio micro," in Raffaele De Mucci (edited by), *Economia di mercato e democrazia. Un rapporto controverso*, Soveria Mannelli (CZ), Rubbettino, 2015, pp. 59-102.

8. James Gwartney - Richard Stroup, *Economics, Private and Public Choice*, 2d ed., New York, Academic Press, 1980.

9. Romain Bouis *et al.*, "The Short-Term Effects of Structural Reforms: An Empirical Analysis," *OECD Economics Department Working Papers*, n. 949, 2012.

10. Lukas Vogel, "Structural Reforms at the Zero Bound," *European Commission Economic Papers*, n. 537, 2014.

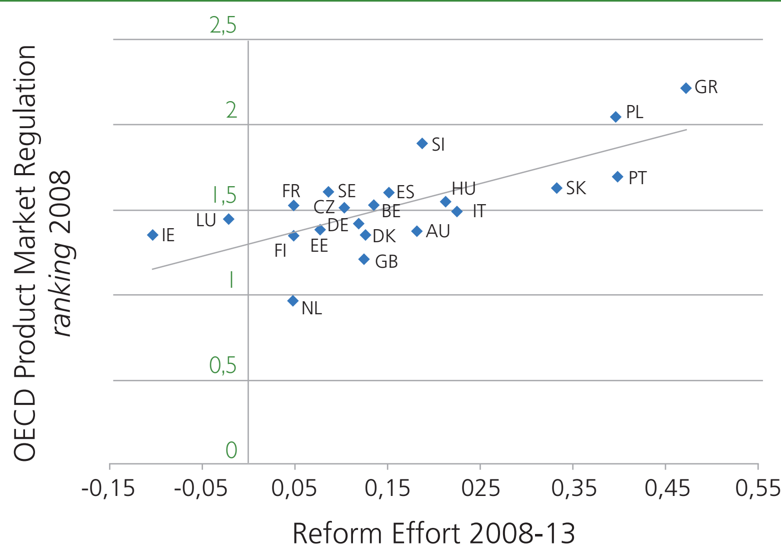
Figure 1. Response to policy recommendations from the main European countries



Source: Elaboration on OECD data, *Going for Growth 2015*

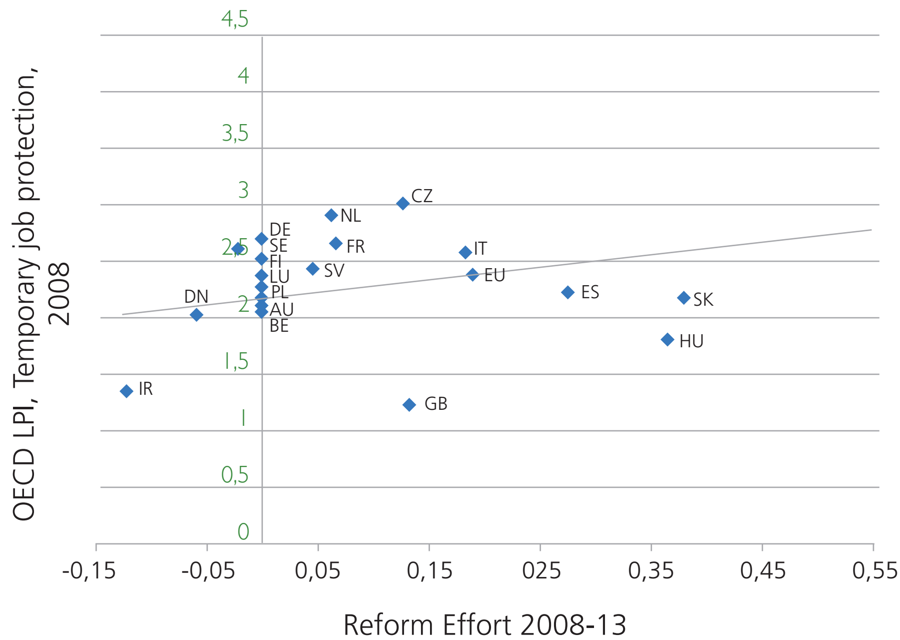
As a matter of fact, the economies that faced the greatest challenges were indeed the most proactive in their reforming efforts: as to Product market regulation (figure 2), the reform effort is represented by the ratio between the country's ranking in 2008 and the improvement shown in the assessment in 2013, according to the OECD product market regulation index, a composite set of indicators which measure the quality of regulation in five network sectors and five services sectors. As to the labour market regulation (figures 3 and 4), the relative improvement between the respective rankings in 2008 and 2013 is measured by means of the OECD Employment Protection indexes database: to have evidence of the demise of the twin contractual typologies in the job market, the significant indicator should be the convergence of regular and temporary employment.

Figure 2. Improvement of the quality of the product market regulation with respect to the 2008 position



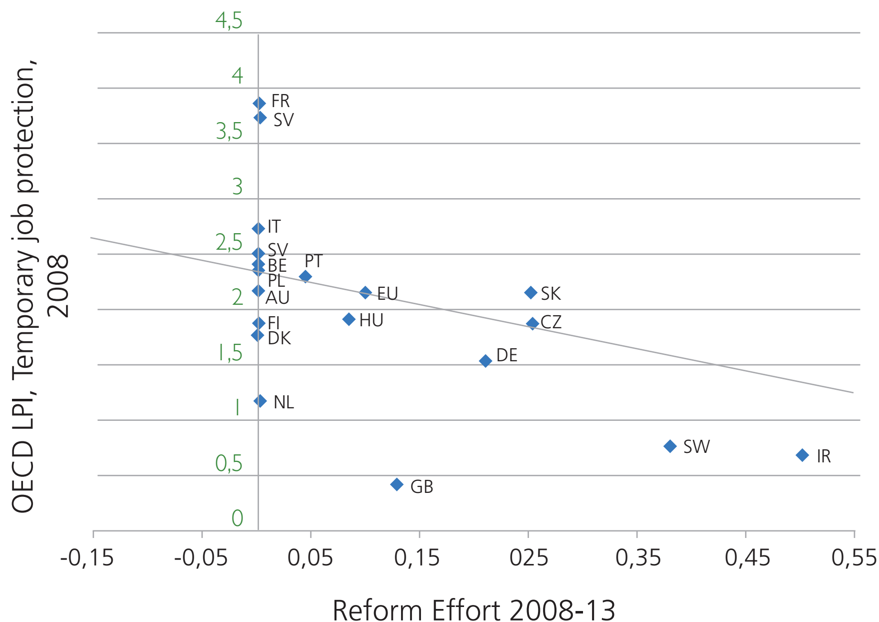
Source: elaboration on OECD, *Product market regulation*, 2013

Figure 3. Improvement of the regular job regulation with respect to the 2008 position



Source: *elaboration on OECD, Employment protection database*

Figure 4. Improvement of the temporary job regulation with respect to the 2008 position



Source: *elaboration on OECD, Employment protection database*

As we will see in more depth in the case studies analysed in the following paragraphs, the countries which best responded to the challenge of structural reforms, by implementing them in their anti-crisis policies, were those that also show a better performance in overcoming the effects of the crisis itself. However, those were countries which started from a very low level of regulation quality when compared to European or OECD area countries, or where structural reforms had not been yet implemented with the necessary conviction. What has been done until now, according to OECD estimates, has contributed to the GDP growth of around 5% in OECD countries. There is however still plenty to do, and the countries who are most distant from the best practice might see a further growth of up to 10%, if they aligned the quality of their regulation to the best performers'.[11]

2. Lessons from the reformer countries

To understand in detail the relationship between reforms and growth, we will analyse four of the peripheral countries who were hit the most by the crisis. This analysis shows that the way reforms are implemented is no less important than their actual content: the more daring, rapidly implemented and broad-spectrum they are, the more incisive their effect will be on growth. On the other hand, uncertainties and delays in the implementation of the reforms once these are enacted tend to delay the effects on growth, and consequently curtail the political momentum of the reform agenda.

2.1. Reforms in Spain

Since 2008, Spain experienced a serious contraction of her GDP and a substantial growth of unemployment, especially for the young. The recovery, started in 2013, has been eased in by what was probably the most ambitious reform agenda in Europe.

Labour Market

The Spanish labour market was characterised by rules protecting existing jobs which were stricter than the OECD average. Due to its rigidity, the Spanish market could not handle the shock of the crisis: in 2011 unemployment in Spain reached 26.7%, the second highest in Europe, and more than three times the OECD average (7.9%). In a time of economic recession, high salaries and hindrances to the firing of redundant employees prevent the hiring of new workers and the creation of new enterprises. Since 2012, the Spanish government has thus implemented an important labour market reform, aimed at promoting greater flexibility. First, they have moved from collective bargaining on a national or regional level to bargaining at the single enterprise level: this has allowed troubled companies to avoid the constraints of collective contracts and to contain the loss of jobs. On the one hand, this has led to lower salaries, thus harming the life quality of employees, but on the other – according to analyses from OECD and Ministerio de Empleo y Seguridad Nacional – these costs have been compensated by a drastic reduction in the loss of jobs and better quality of employment. With the recovery of economic growth and the reduction of unemployment, we expect that the bargaining at the single enterprise level will make the growth in enterprises' productivity trickle down on salaries, which will start to grow again in the most productive sectors. In the long run, this will cause more resources to be allocated to internationally competitive sectors and will stimulate the training of better human capital and,

11. Organisation for Economic Co-operation and Development, *Economic Policy Reforms 2015: Going for Growth*, Paris, OECD Publishing, 2015. Similar results have been reached in Goldman Sachs, "Our 2011 GES: A Sharper Signal for Growth," Goldman Sachs Global Economics, Commodities and Strategy Research, 2012.

therefore, higher salaries. These reforms have proceeded alongside a strengthening of the policies for facilitating the return of the unemployed to the labour market, which the involvement of private partners to public agencies, creating a national platform to seek employment and binding the national budget allocation to the results of the regional agencies.

Furthermore, the 2012 reform has increased flexibility of entry to and of exit from the labor market itself: the conditions for lawful dismissal for misconduct have been brought nearer to the European average, and the requirement of official authorisation for collective redundancies has been abolished.[12] The indemnity in case of wrongful termination has been considerably reduced, even though it remains one of the highest in Europe.

Overall, this reform has promoted the increase of new recruitments, in particular for contracts of indefinite duration: according to OECD empirical analysis, it is estimated to have created some 25.000 new contracts of indefinite duration each month, especially in small and medium enterprises (with less than 100 workers). A decreasing number of fixed-term contracts has not been renewed, and the period of transition between one contract and another, for workers with a fixed-term contract, has shrunk. The reduction, however minimal, of the dualism between protected and temporary employees, has not only bettered the conditions of the most disadvantaged – unemployed and temporary workers – but also allowed an improvement of productivity and a partial recovery.[13]

Product market regulation

Between 2008 and 2013 Spain has not significantly improved its position in the OECD index of Product Market Regulation. However, several reforms have enabled an increase of productivity and facilitated the establishment of new enterprises. Among these, a range of reforms aimed at simplifying administrative rules lowered the entry costs in the market for new enterprises. Between 2010 and 2015, Spain has considerably improved the *Starting a Business* indicator of the World Bank ranking *Doing Business*: in a ranking aimed at measuring the gap of each country with the best performers (rated at 100), Spain has moved from 58.8 to 88. In 2012, it has lowered administrative fees and the minimum capital required for the establishment of new concerns. In 2014 it has removed the requirement for a municipal license and has made the Commercial Registry Office more efficient. In 2015 it has introduced a unified system of electronic certification for several agencies which release the required authorizations for starting a new enterprise, significantly reducing the transaction costs for start-ups.[14]

The "Ley de Garantia de la Unidad del Mercado," approved in 2013, has decreased the fragmentation in local markets through the application of the single national certification principle, which enabled firms authorised to trade goods and services in one region to market them in the rest of the country. The transposition of the Services Directive, in 2009, abolished the requirement of the municipal authorisation for the sale of goods to the public, while in 2012 the opening hours, the discount sales periods and the length of holidays for commercial shops have been liberalised. More recently, the procedures to open small shops have been simplified;

12. The annulment of the official requirement has increased the judiciary uncertainty for collective redundancies, which decreased in number, whereas individual dismissal increased. This effect was further magnified by the fact that redundancies in large enterprises entailed a tax, which was intended to cover the re-training of dismissed employees. According to the OECD, this has contributed to the fact that among large enterprises there has been a lower rate of new hirings than that of small enterprises. In 2013 the Spanish Government has proposed a further reform, whose results are still not clear, in order to reduce this asymmetry.

13. OECD, *The 2012 Labour Market Reform in Spain: A Preliminary Assessment*, Paris, OECD Publishing, 2014.

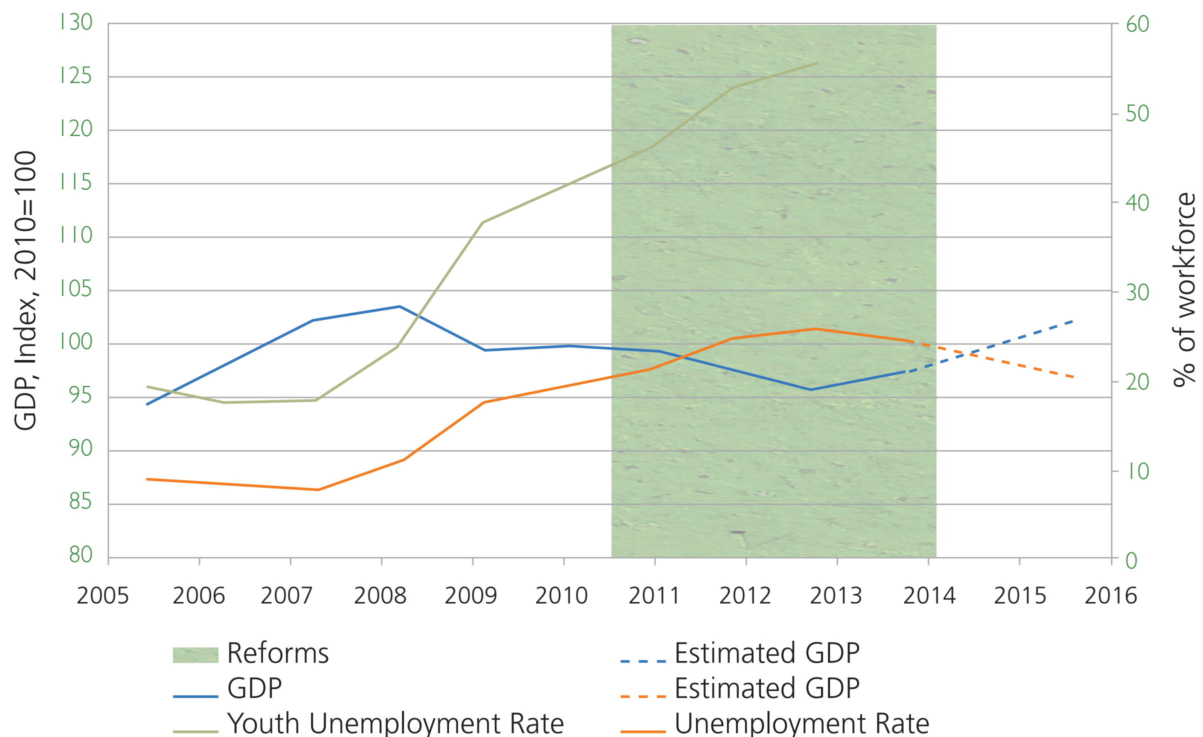
14. World Bank, *Doing business. Economy Profile 2015 Spain*, Washington, World Bank, 2015.

consequently, in the following years the birth of new enterprises with less of 9 workers has experienced an average growth of more than 10%, while in the medium-sized enterprises (9-19 workers) and in the larger ones (20 or more workers) growth has been of just a little more than 2%.

In transposing the services directive, Spain has established a modern framework for liberal professions: tariff restrictions have been abolished (with the exception of public notaries) and recommended fees by professional organisations (which is a tool for tariffs aligning) has been banned; advertising barriers have been removed and it is now easier to collaborate for professionals in different fields. Even though the empirical effect of these reforms is hard to judge, the role of professional services as drivers of knowledge and innovation causes the loss in productivity due to the protection of those professions with rigid entry barriers to slow down innovation. Furthermore, restrictions on competition lead to high prices, which are then transferred on all industrial sectors using those services.

Spain has returned to growth, as we can see in Figure 5: new enterprises were created, unemployment decreased. Youth unemployment is still among the highest in Europe, which is a symptom of a strong dualism in the labour market, and the education system still has scope for improvement. A number of the reforms still have to bear complete fruit, and the projections of a 2.6% growth for 2016 incorporate part of these expectations.[15] Nonetheless, further and more incisive reforms are needed to bring Spain to the level of the European best performers.

Figure 5. Principal indexes in Spain



Source: Eurostat, 2015-2016 Projections of the European Commission

15. European Commission, "European Economic Forecast," *European Economy* 2, 2015.

2.2. Reforms in Portugal

When Portgual was invested by the crisis in 2009, it already was one of the weakest economies in Europe, featuring an average growth between 2008 and 2011 of some 1% and salaries which were much higher than bearable by its economy, mainly based on labour-intensive sectors and therefore very exposed to international competition. In 2011 the financial assistance program by the European Commission and the International Monetary Fund has started, and an important program of fiscal stabilization and structural reforms, which ended a year ago after having achieved the stated goal of bringing about an economic recovery.

Labour Market

Before the crisis, Portugal had the most rigid legislation in terms of protection for workers with a regular contract, and the highest dualism between types of contract:[16] this stood in the way of the creation of new jobs and of the mobility of employment between different sectors, jobs, and enterprises, thus limiting the growth of productivity of the country. In 2012 the Portuguese government, in agreement with social actors, has significantly reformed the labour code, decreasing its rigidity, aiming at closing the gap with the most widespread level of protection among European countries. This happened, for instance, by decreasing the amount of the severance payment, weakening protections against individual dismissals and introducing the possibility of extending fixed-term contracts. The unemployment subsidy, one of the highest in Europe in terms of both amount and length, which discouraged the search for new jobs and burdened public accounts, has been reduced.

The reform of the labour code has made the organisation of working hours easier, halving the mandatory pay for overtime and establishing a more flexible limit for the working schedule. In particular, article 208 provides for a "time bank," negotiated between employees and employer, which considers the possibility of having two hours of overtime each day, to be compensated later with paid holidays or a reduction of the working time at other times.[17]

The government has improved its active labour policies, promoting short training classes, providing financial support in order to facilitate internships and binding subsidies for new recruitments to the offer of training programs for under-30s or over-45s.

Today Portugal has regained a total of 8 positions in the OECD index for labour protection with respect to 2008: it still has one of the most rigid protections in Europe; aligning it to the average European level could lead to a further reduction of the unemployment rate of 1.8%.[18] However, the first hopeful signals are already appreciable: according to the European Commission Business Service, the reform has contributed to decreasing the worsening of the demand for labour.

Product market regulation

After the crisis, Portugal has embraced an ambitious and fast-paced reform agenda in order to improve markets regulation, marking the second most significant increase in *Product market regulation* OECD indexes (-40%), improving, in particular, the government control indicator (-0.71) and the barriers to entrepreneur-

16. OECD Database, Indicators of employment protection, *http://goo.gl/u6wWlL*.

17. International Labour Organization, *Tackling the Jobs Crisis in Portugal*, 2014.

18. Romain Bouis - Romain Duval, "Raising the Potential Growth After the Crisis: A Quantitative Assessment of the Potential Gains from Various Structural Reforms in the OCSE Area and Beyond," *OCSE Economic Department Working Papers*, n. 835, 2011.

ship/simplification of bureaucratic procedures indicator (-2): the impact of these reforms has been assessed at about 3% of the GDP before 2020, but, if more incisive changes will be approved in the future, it could reach 5.5% of the GDP.[19]

The most striking aspect, the one related to bureaucratic simplification, has been marked by a change towards a zero-authorisation regime, substituted by *ex post* checks. Several legislative innovations for industrial, commercial and tourist sectors have been informed by this principle. Municipalities, which in the past were the principal bottleneck in this regime, have played a key role in the reform. In two of the sectors monitored by the European Commission (hotels and restaurants), the percentage of new entries has returned to a level higher than before the crisis (respectively, from 12.69 in 2007 to 12.91 in 2013 in the restoration sector, from 7.24 to 10.88 for the hotel business).

Another important reform was the introduction of a "transversal" rule, modelled on the English "one in, one out," which provides for regulators which propose measures that go to increase costs for enterprises the obligation of removing at the same time other regulations which are made outmoded and entail the same financial burden.

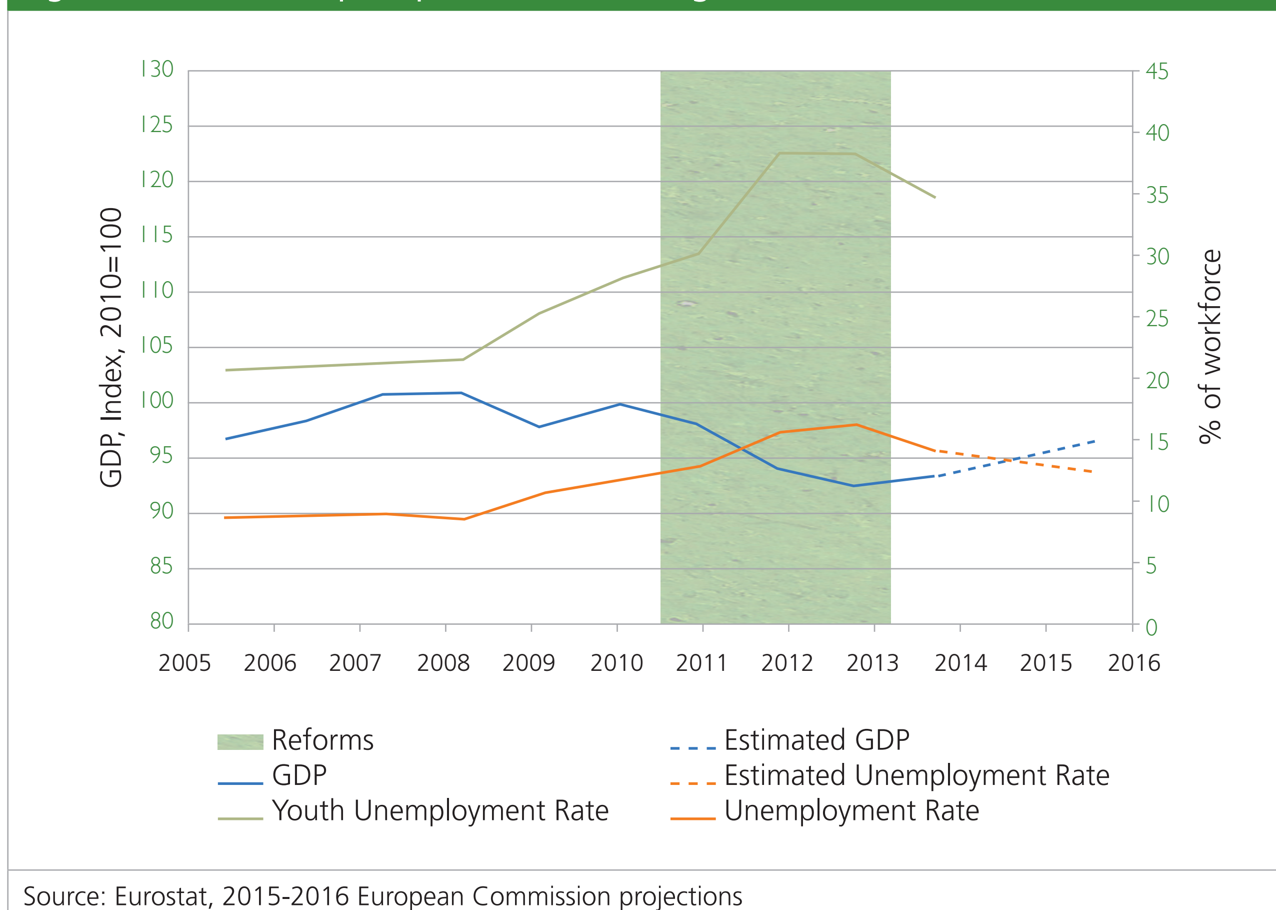
In 2013 a framework law has been approved in order to improve the quality of network industries regulation, strengthening the powers of regulation authorities, liberalizing and privatizing several public enterprises as postal services and energy companies. Recently, of the divestment was announced of public shares from the main transportation companies which were still under government control. In order for privatisations to contribute to growth, however, it is necessary to improve the regulatory framework, lest the inefficiencies of public monopoly are simply shifted to a private monopoly. The improvement of OECD indexes of Product market regulation are evidence of the Portuguese commitment: for instance, in the last few years demand mobility was enabled for electricity end consumers, and the tariff regulation for the gas sector has become more transparent. In the telecommunications sector a framework law has been adopted, intended to facilitate the birth of new operators and to open the market to international operators, favouring the switch among operators: in 2013 the number of new subscriptions to broadband and mobile internet services has increased, also thanks to the multi-service auction taking place, in a competitive fashion, for a broad portion of the spectrum.

The transposition of the new services directive has occasioned the approval of a range of reforms which have simplified the access to several regulated professions, not to mention the creation of an online platform to fulfil bureaucratic procedures. In 2012 a framework law has been enacted which redefined the role of professional associations in regulating professional services, dispensing with their mandatory nature. Decreasing the role of professional organisations is a critical element of every reform which aims at increasing competition. Professional associations, in fact, serve to protect the interest of members of a profession, often at the expense of consumers and newcomers: when they receive the power to regulate the access, they impose conditions concerning access which do not correspond to a genuine need to protect a substantial interest or a quality level, but to the need for a reduction in competition between current and prospective members. It is estimated that in Portugal accountants have a profit mark-up up to 40% higher than what would be possible in competitive conditions closer to the OECD average, thus burdening all the users of their services.

In Portugal's case as well, reforms have brought about both a reduction of unemployment and a GDP increase (Figure 6): even though both are still far from pre-crisis level, the observed change leaves leeway for hope. Moreover, Portugal is still far from regulatory best practices, as shown by its ranking in different international indicators, as Doing Business or the OECD PMR: this means that plenty of regulatory burdens still hinder the growth of the country, but, at the same time, that a lot of opportunities for further reforms exist as well.

19. OECD, *Portugal: Deepening Structural Reform to Support Growth and Competitiveness*, Paris, OECD Publishing, 2014.

Figure 6. Reforms and principal indexes in Portugal



Source: Eurostat, 2015-2016 European Commission projections

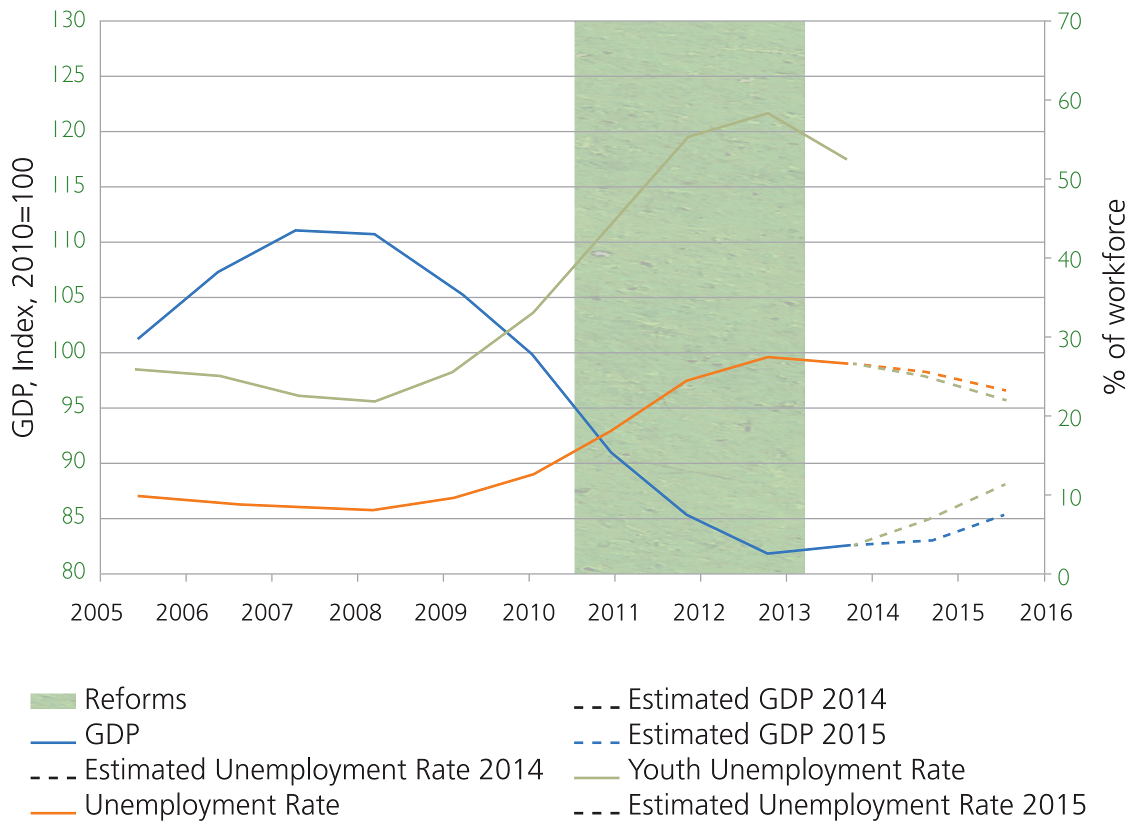
2.3. Reforms in Greece

When Greece was invested by the crisis in 2008, it was characterised by a low level of growth, very high public spending – mainly caused by welfare policies more oriented towards indulging interest groups than reducing poverty – a rigid marketplace, some of the highest regulatory limits to competition in developed countries and highly inefficient public institutions. The implementation of reforms, imposed by international institutions as a condition for the bailout, has been aggressive at first, but significantly slowed down later. Furthermore, the first reforms agenda focused almost exclusively on fiscal responsibility measures, paying little attention to pro-competition measures, which were subsumed in the second round of reforms.[20] The slowness in returning to growth has caused the reforms agenda to lose its political momentum, particularly between 2014 and 2015. The slowing-down of reforms, in its turn, has caused a significantly lower level of GDP and employment growth when compared to the expected levels were the planned reforms be fully implemented (Figure 7).

Even though most of the reforms introduced in Greece were oriented towards budget cutting, a few were introduced in order to improve the functioning of the market, particularly form the perspective of Product Market Regulation, where Greece displayed some of the worst rankings in the OECD PMR Index.

20. Alessio Terzi, "Reform Momentum and its Impact on Greek Growth," *Bruegel Policy Contribution*, n. 2015/12, July 2015.

Figure 7. Reforms and main indexes in Greece



Source: Eurostat, European Commission 2015-2016 projections

Labour market

As to the labour market, the most important innovation was switching in 2011 from a national bargaining system to a individual-company bargaining system, irrespective of its size. Severance pay for professionals has been decreased to a maximum of the equivalent of 12 months of salaries, thus bringing it to the same level of other jobs', while the dismissal notice was shortened from 24 to 4 months. However, no further measures were introduced to further decrease the dualism in the labour market: in contrast, the lowering of the minimum wage, deemed necessary to fit the labour cost to the economic cycle, disproportionally weighed on younger workers in comparison to already much protected contractual situations (the reduction has been of 35% for under-25 workers; of 22% for others[21]). If in OECD ELP indexes the regulation of regular contracts has passed from 2.8 to 2.4 after the 2011 reforms (and was still unchanged in 2013), for fixed-term contract it has been initially made even more constraining (from 3.1 to 3.2), to be only relaxed to 2.9 in 2012.[22]

21. OECD, *OECD Economic Surveys: Greece 2013*, Paris, OECD Publishing, 2013.

22. OECD Database: Indicators of employment protection, *http://goo.gl/GJmJMf*.

As regards active policies for labour market, in the past the protection of the unemployed was seen less as a neutral instrument aimed at all workers than a form of welfare to the benefit of favoured pressure groups, and very low attention has been paid to re-training and re-entry policies. In 2013 an analysis and evaluation system was introduced, as well as training courses as a condition for unemployment benefit: however, according to the last OECD assessment, activation programs should still be a policy priority.[23]

Product market regulation

With a score of 2.21 (from 0 to 6, in order of regulatory burden), according to OECD Greece was in 2008 the country with the worst and most closed market regulation quality in Europe. It was however also the country characterised by the most significant improvement in the PMR index in 2013, coming close to the OECD average, with an improvement of 0.51 for what concerns the sub-indicator of public control, 0.61 for obstacles to entrepreneurship and 0.30 for other obstacles to trade and international investments.

Until 2013, several efforts were made in order to facilitate the retail trade: for instance, discounts have been allowed all year long (while sales period remain centrally pre-determined), opening on holydays has been allowed for up to 7 days a year, the time-restraints for warehousing and sale of long-life dairy have been removed, the route constraints for touristic buses have been removed, and the ceiling on profits and weight was likewise abolished, as well as temporary licenses for commercial trucking. Even though these are steps in the right direction, these changes emphasize how overbearing and anachronistic regulations were before the reforms, and are still far from bringing Greece closer to the best practices of international regulation.

From the standpoint of liberalizations, Greece is implementing a very gradual agenda, which provides for the liberalization and reform of the gas and electricity markets starting from late 2015. This agenda, which still needs the enactment of secondary legislation, also provides for the ownership unbundling of the electric transmission net, for the unbundling of a number of segments of the gas market (receiving the indications of the EU "Third Energy Package") and for the privatization of several facilities. By 2018, the possibility will be given to consumers – starting with industrial users and later broadening its scope to private consumers – to choose their provider in the free market. Some privatisations are planned in the sectors of ports (Piraeus and Thessaloniki ports), of airports and of regional railways, but tender notices still have to be issued. As to networked services, the problem of reform application is plain to see, which a "de jure" (that is, relative only to the primary normative) index as PMR cannot fully grasp, as it does not take into account the possible problems in the implementation. Nonetheless, implementation is an important obstacle to growth, slowing down the effects of market opening.

According to the International Monetary Fund, in fact, the reforms uncertainty has prevented the lower prices which would have enabled families to better weather the lowering of real salaries and the shrinking of several elements of public welfare. "While labor market reforms are causing a notable decline in nominal wages, this has only to a very limited degree been reflected in lower prices, because of failure to liberalize closed professions and more generally open up to competition. This is another reason for why too much of the burden has so far fallen on those earning wages and pensions".[24]

Another sector where Greek regulation was particularly constraining was the professional services, among the worst in Europe and OECD countries. This allowed a higher mark-up to some protected sectors, which

23. OECD, "Country note: Grece," in *Going for Growth 2015*.

24. International Monetary Fund, *Greece – 2013 Article IV Consultation Concluding Statement of the IMF Mission*, IMF, 2013, *https://goo.gl/cBv0Lx*.

was shifted – in the guise of higher prices and less innovative services – both to companies, which suffered the burden of higher transaction costs, and consumers, who found themselves with a decreased purchasing power. In 2011, a framework law (law 3919/2011) was introduced in order to establish the principle of professional liberty, which abolished in principle fixed tariffs or mandatory minimum fees, and replaced administrative authorisation licensing with a notice system, in case the necessary credentials were provided. In 2014 legislation has been enacted with the aim of opening mediation to non-lawyers and to start the assessment of notaries' tariffs in order to align them to European best practices. According to a study of the Centre of Planning and Economic Research, reforms have significantly opened the market, transitioning (in a scale from 0 to 12, where 0 is completely liberalised) from 5.8 to 2.3 after the reforms, reducing previous restraints of some 74%.[25] However, not least because of an insufficient mechanism of reforms monitoring, it is hard to assess how effective these were (for instance, it is possible that the minimum prices maintain even though not regulated anymore, due to alignment among professional organisations) and what rigidities still need to be taken care of.[26]

Finally, Greece has made significant effort in order to improve the environment where companies operate, reducing structural obstacles and regulation costs. In 2011 the General Electronic Commercial Registry (Gemi) was introduced, which allows the digital handling of the electronically scanned documents enabling the registration online of new companies and is linked to the tax authority database. In 2012 Greece introduced a new kind of limited liability company without a mandatory minimum capital and a procedure of facilitated setup (Ike), which, since 2013, has become the most used procedure for starting new enterprises.[27] Thanks to these reforms, Greece has climbed 110 positions in *Doing Business*, reaching 36th position out of the 189 countries in the 2014 report.

In conclusion, the Greek recovery bears the brunt of too many uncertainties in the implementation of the reforms, of a low focus on pro-competition measures as compared to budget-cutting, and of too weak an effort in those institutional channels which should allow to potential competition to expand from reformed sectors to the whole economy.

2.4. Reforms in Italy

The Italian economy has been hit by the great recession after years of stagnant growth since the Nineties. In this case as well, the crisis just heightened the urgency of structural reforms to remove the obstacles which stand in the way of growth. In the OECD *Product market regulation* indexes, in 2008 Italy stood in 15th place among OECD countries, while in 2013 it was 6th, with an improvement of 0.22. From the analysis of the World Bank, *Doing Business*, as well, Italy has improved its position from 2012 (87th place out of 185), to the 44th position in 2015 (out of 189), but it is still far from overcoming the effects of the crisis.

In 2011-2012, Italy managed to respond quite well to the OECD policy indications in the *Going for Growth* report (0.545), registering nonetheless a downturn in the next two years (0.214).

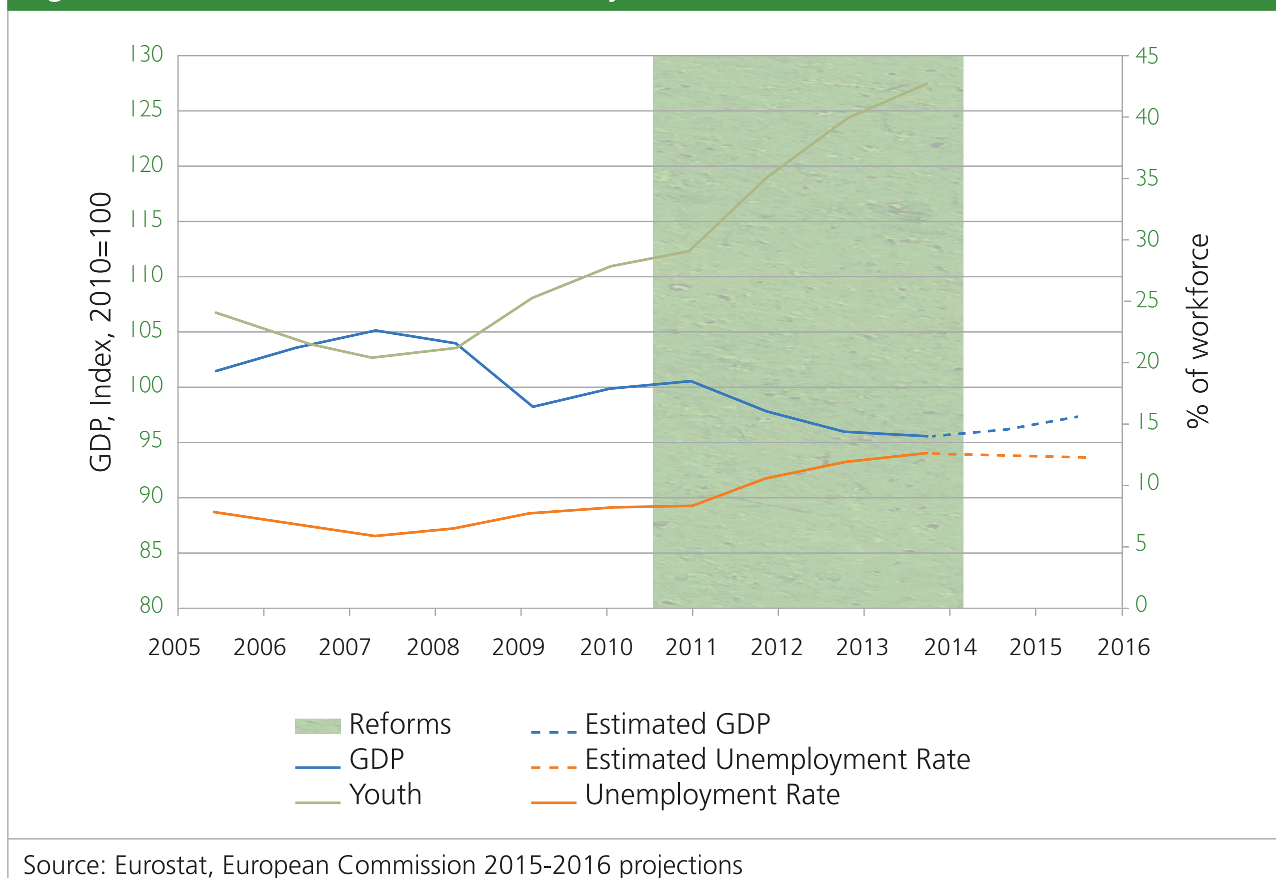
However, as we can see from the main indicators, recovery has been slow (Figure 8).

25. KEPE Centre of Planning and Economic Research, *Impact Evaluation of Deregulation of Professions with Significant Contribution to the Greek Economy,* 2013.

26. European Commission, "Market Reforms at Work in Italy, Spain, Portugal and Greece," 2014.

27. *Ibidem.*

Figure 8. Reforms and main indexes in Italy



Source: Eurostat, European Commission 2015-2016 projections

In part, the delayed recovery is due to the obstacles in the implementation of the reform laws, as measured by international indexes: in the Report *Structural reforms in Italy: impact on growth and employment*, the OECD points out that, considering the next two years, the Italian government significantly reduced (but did not entirely remove) the backlog in the drafting of regulations needed to actually implement the laws enacted in 2012 and 2013.[28] This is symptomatic of an institutional problem that impinges in the reforms governance, that goes to hinder the actual implementation of the reforms: for their effect to be felt in the economy, in fact, economic actors must be able to see them as credible signals of change, in order to accommodate their plans to the new reality. If this does not happen – or does not happen in a systematic manner – the implementation of the reforms agenda proves to be a gruelling process, not least because political actors do not reap the benefits – in terms of higher and widespread growth – of measures that hurt the previous position of small, concentrated interest groups. Emblematic is the case of the *Legge annuale per il mercato e la concorrenza* (Annual Bill for Market and Competition), provided for by Article 47 of the Law n. 99 of 2009, and presented for the first time to the Parliament in 2015,[29] the provisions thereof were heavily amended by the Italian House (the draft law was debated in the Senate while this essay is being closed).

Let us go on to examine the main reforms.

28. OECD, Structural reforms in Italy: impact on growth and employment, Paris, OECD Publishing, 2015.

29. *Legge annuale per il mercato e la concorrenza*, presented on April 2nd, 2015, *http://goo.gl/WDe9FZ*.

Labour Market

The Italian labour market has always been heavily regulated, and is characterised by a very strong dualism between strongly-protected contracts and "atypical" contracts, which disproportionally concern youth, women, and non-skilled workers.[30] It is furthermore characterised by an absence of general policies for the labour market and by a consistent recourse to subsidies intended to avoid the bankruptcy of specific companies, thus preserving the employees' income.

In the OECD database on the regulation of labour protection, in 2008 Italy achieved a score of 3.3, the second worst after Portugal. In particular, Italy's low score was mainly due to its rules against dismissal "without just cause," which provide that – even in case of technical or production reasons – the dismissal must be preceded by an attempt to transfer the employee or train him for a different task. For instance, for a worker who had been working for 20 years in the same company (with more than 15 employees), the compensation before dismissal was equivalent to 21 months of pay, against the OECD average of 6 months.[31] Such a constraining legislation of labour protections hinders turnover in sectors where this is naturally high, as in the case of industries requiring highly-skilled employees and characterised by a high degree of technological innovation: the rules in force are thus a significant burden for companies operating in highly innovative sectors.[32]

In 2012 the so called *Riforma Fornero* (*Legge n. 92, 28th of June, 2012*) was approved, which provided for simplified procedures for the dismissal of employees for economical reasons, new rules on fixed-term employment (with simplified dismissal in the first month since the start of the contract) and the introductions of the *Assicurazione sociale per l'impiego* (ASPI–Employment Social Insurance), a new system of "shock absorbers" which was to merge unemployment benefits with the subsidies offered in case of collective redundancies (wage support measures). In the 2013 edition of the Employment Protection Legislation database, Italy marked a little improvement (2.8) and rose of one position.

In this case as well, the reform has never been fully implemented, but some elements have been introduced in a later reform of the labour market, the so-called *Jobs Act*, a series of measures enacted between 2014 and 2015. This reform provides for the introduction – and its support by means of tax incentives – of a single contract with increasing protections over time, intended to decrease the dualism between different kinds of contract: in case of newly employed on contracts of indefinite duration, protections increase in time. In case of wrongful dismissal, the compensation is the equivalent of one month's wage for each working year, up to six years in companies with less than 15 workers, and up to 24 in companies with more employees. A rapid conciliation procedure, in which the employee receives a monthly salary for each year of service (up to 18), exempted of fiscal and social liabilities, is also provided. The potential improvement, though, is limited by the fact that it only applies to new contracts, while for extant ones the same old, constraining, regulations that were in force before still apply.

The reform is also intended to tackle the social security system, which until now has largely favoured industrial workers with wage support measures, introducing a form of *flexsecurity*, by means of the extension of ASPI and introducing the principle of benefits being conditional to the employees participation to programs offered by the National Employment Agency.

Unfortunately, this series of reforms also provides for, on an experimental basis, the introduction of a mini-

30. OECD, *OECD Employment Outlook 2014*, Paris, OECD Publishing, 2014.

31. OECD, *OECD Economic Surveys: Italy 2015*, Paris, OECD Publishing, 2015, p. 61.

32. Andrea Bassanini - Luca Nunziata - Danielle Venn, "Job Protection Legislation and Productivity Growth in OECD Countries," *Economic Policy,* vol. 24, n. 58, 2009.

mum wage. Although this may constitute a simplification with respect to the current system of a national collective contract, whereby bargaining is made at the level of individual industries, as opposed to companies or individual employees,[33] it can entail significant risks, creating barriers to entry and increasing the costs of operation for companies, particularly in areas suffering from a high productivity gap such as the Southern part of the Country.

It is hard to evaluate the effects of such recent reforms, still not fully implemented, but the EU projections of growth for 2016 tend to be positive. According to OECD the range of measures provided for by the *Jobs Act* is "expected to boost GDP by 0.6% after five years and 1.2% after ten years. The positive GDP effect comes through higher employment, with 150,000 new jobs created after five years and 270,000 new jobs created after ten years."[34]

Product market regulation

As already noted, Italy has improved its position in the PMR Index by 0.22 between 2008 and 2013, thanks in particular to a decreased public control and ownership on networked enterprises and the lower recourse to regulations of prices or otherwise to command-and-control regulatory measures.

In particular, in 2012, a number of measures were undertaken to reform professional services, abolishing mandatory minimum tariffs, liberalising the use of advertising and enabling joint-ventures of different professionals. Unfortunately, at the same time it was allowed to professional associations to indicate a reference price for legal fees, therefore weakening the effects in this sector. The component "regulation of conduct" of professional services of PMR saw a radical improvement, from 2.06 in 2008 to 0.19 in 2013. In the period between January 2012 (when the reform was implemented), and April 2014, the European Commission has measured a growth of the sub-component of lawyers and accountants in the Index of consumers price of 1.4%, as compared to an overall increase of 4.4% of the Index, and of 3.3% of services in general. This could be also due to the general situation of crisis, but it should be noted that the previous, established trend for these fees was to grow at the same pace as the general prices index.[35]

As for networked services, in the last few years the legislative framework has been reformed, granting more powers to the Anti-trust Authority, and bringing under the control of independent authorities the areas of transportation (highways, railways, seaports, airports), water and mail, previously regulated by the Ministries, which controlled, directly or indirectly, each company. The *Autorità per le garanzie nelle comunicazioni* (Authority for telecommunications, Agcom) has also approved the functional carve-out of the fixed line business of Telecom Italia (the incumbent), in order to guarantee to all operators access to the network on a non-discriminatory basis. Wholesale markets of electricity and gas are substantially liberalised, whereas significant barriers still remain on retail markets.

Finally, since 2011 a number of efforts were made to simplify the administrative requirements for new businesses, as with the case of the introduction of a digital register of enterprises and a simplification of the limited liability company status, which now entails decreased minimum capital requirements and lower administrative costs. Between 2012 and 2013 procedures have been facilitated to obtain environmental and

33. For how this system is more inefficient even for the bargaining at central level, as it is not able to soften the macroeconomic variations, see Lars Calmfors - John Driffill, "Bargaining Structure, Corporatism and Macroeconomic Performance," *Economic Policy*, vol. 3, n. 6, 1988, pp. 13-62.

34. OECD, *Structural reforms: impact on growth and employment*.

35. European Commission, "Market Reforms at Work in Italy, Spain, Portugal and Greece".

building permits, and certifications through online procedures. Furthermore, likewise in 2012, measures have been introduced to simplify the exit from the market, introducing pre-bankruptcy measures (agreements with creditors) which would allow a short period of time for the restructuring of the company, before answering to creditors. In the first months since its implementation (September 2012-June 2013) 3.900 applications to use this procedure were made, as compared to the 1.100 applications to use the previous procedure in the year before the reform's implementation.[36]

The *Decreto Salva Italia* (d.l. 201, 2011) has liberalized the working hours of all retail outlets, not only of those in touristic areas,[37] and has lessened several restrictions, as those that prescribed a minimum distance between dealers in the same line of business. The fuel retail sale was deregulated, removing a number of constraints to self-service stations, the range of items that can be sold besides fuels, and authorizing the opening of stations near supermarkets.

To conclude, it is fair to say that in response to the crisis Italy managed to take steps in the right direction in order to solve the problems caused by a significantly rigid labour market and of an inefficient regulation of goods and services, although they still are not sufficient to completely remove the barriers that are still hindering growth, particularly in comparison to the results achieved by countries such as Spain and Portugal.

3. How to follow up on reforms

A survey of the relevant economic literature and case studies provide evidence that reforms do have an impact, and that this is greater the more ambitious the reform agenda is. If reforms work and yield advantages in the long and medium term, why, then, are they not implemented more often? The answer is, because they are not popular enough. And they are not so because in politics it is difficult for common people to perceive their benefits, whereas for interest groups that could be harmed by markets opening it is easy to organise and to make pressure on policymakers, as well as to influence the media and consumers, namely the parties that would most benefit from the reforms. Policy problems are, in fact, social constructions, with an objective component and a cognitive one: on one side there is a problem, on the other there is its perception, as well as the perception of a possible solution.[38] If the lack of competition is not perceived as a problem, and markets opening as a feasible solution, it can be scarcely conceived that pressures shall be made in order to achieve it. This notwithstanding, we have still much to gain from reforms: as we saw above, according to OECD countries featuring the largest gap with best practices could see further growth of up to 10%, were they to bring the quality of their rules to the level of those countries where it is less invasive and stringent[39].

How can we defuse this vicious circle? Certainly a good dose of political courage is needed – or a lot of desperation. During a crisis, more reforms are done. It is useful then to have an external bond, such as the European Union or the International Monetary Fund, to force policymakers to make unpopular choices; however, as we have seen in the case of Greece, commitments requested form external actors are not always focused on both growth and fiscal responsibility.

36. *Ibidem.*

37. Result today endangered by the Legislative Proposal AC 750 A/R, which provides for reinstituting limits for working hours and holidays.

38. Murray Edelman, *Constructing the Political Spectacle*, Chicago, University of Chicago Press, 1988.

39. OECD, *Going for Growth 2015*. Similar results have been obtained in Goldman Sachs, *Our 2011 GES: A Sharper Signal for Growth*, Goldman Sachs Global Economics, Commodities and Strategy Research, 2012.

It is important to learn the lesson about the complementarity of these reforms. First, the feedback effect: labour market reforms should be preceded or accompanied by product market reforms. Weakening job protections and improving proactive policies for the labour market can entail, in the short term, lower nominal wages for employees, but this effect can be offset by means a greater purchasing power as consumers. With more competition in the goods and services markets, non-competitive profit margins shrink and lower wages can buy more goods. Moreover, the reduction of barriers to entry allows the establishment of new companies, and therefore the creation of new jobs: from a recent transversal study on 18 OCSE countries, there is evidence that small firms with less than 5 years of life contribute on average to the creation of 42% of new jobs. The effect of a greater dynamism in the creation of new businesses can yield a greater equality of income than the labour protection measures.[40]

Reform programs should also involve a review of the institutional framework of the country where they take place. Any reforms program should be less a sporadic effort – only dictated by a crisis or by the need to meet the requirements of international organisations – than a systematic commitment. If the perception of a commitment to reforms is missing, investments in the liberalized sectors will not be made, new businesses will not be created and consumers will be unable to benefit of greater competition. An efficient regulatory system should dispense with rules that only benefit privileged groups, establish checks limiting the output the of new rules, and create institutions that monitor their implementation. In order for structural reforms to generate their effects, it is necessary to ascertain that any legislative changes are actually implemented: a number of national OCSE reports and surveys of the EU emphasise the countless hindrances that delay the effects of reforms, such as the need to enact secondary legislation, the transposition to the regional government level, insufficient administrative capabilities or poor communications.[41]

Finally, the reforms program should be as big, transversal and systematic as possible: if only a sector is deregulated and others are not, the risk exist that economic rents would be shifted from one to the other, without a substantial lowering of prices of intermediate goods and services and, as a final result, of consumer prices. The effects of structural reforms are propagated through various channels, and it is important to have a wide-ranging reforms program lest these channels are obstructed, and liberalizations entail losses for a sector without spreading their benefits to the economy as a whole. The combined impact of co-ordinated reforms is definitely bigger than the one of any single reform alone.[42]

40. Chiara Criscuolo - Peter N. Gal - Carlo Menon, "The Dynamics of Employment Growth: New Evidence from 18 Countries," *OECD Science, Technology and Industry Policy Papers*, n. 14, 2014.

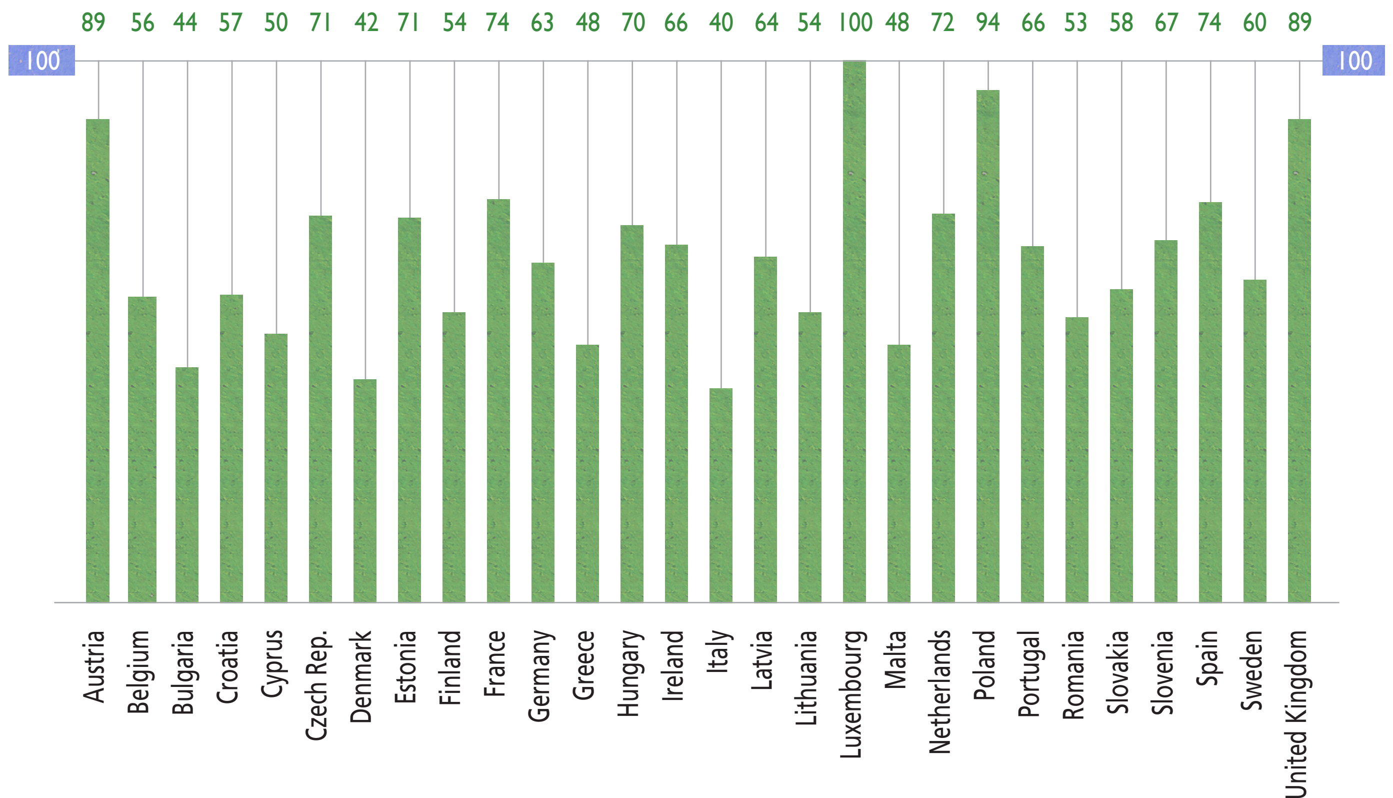
41. Drafting from several national reports, OECD, *Going for Growth 2015*; and European Commission, "Market Reforms at Work in Italy, Spain, Portugal and Greece."

42. Derek Anderson - Bergljot Barkbu - Lusine Lusinyan - Dirk Muir, "Assessing the Gains from Structural Reforms for Jobs and Growth," in Martin Schinder *et al.* (a cura di), *Jobs and Growth: Supporting the European Recovery*, Washington, IMF, 2014.

Chapter 1

Automotive fuel market

Carlo Stagnaro



1. General overview

The automotive fuel market is characterized by rather idiosyncratic circumstances. On the one hand, as a result of its inherent specific features, it maybe be considered, at least potentially, as free of barriers to a fully competitive system, so that regulatory action would appear to be unwarranted (beyond and above the current safety and environment requirements).

On the other hand, its evolution over time – together with a series of rigidities due to a number of regulatory choice (particularly at a local level) – gave rise to several hurdles to the smooth functioning of this market, thus engendering an extremely heterogeneous scenario at a European level.

These hurdles are exacerbated by the natural trend to reduce consumption – in its turn influenced by the current economic circumstances – but is mainly due to structural factors.

Indeed, in a mature market, the ordinary turnover of the vehicles yielded an increasingly efficient car fleet, which is characterized by a lower fuel requirement for the same amount of driven kilometers.

Within the framework of the Index of Liberalization, the market's degree of openness is determined by

three key indicators.

The first factor to take into account is the gas tax. Fuel are a natural source of tax revenue, because of the relative rigidity of the demand. Furthermore the presence of strong environmental externalities (as well as other kinds of externalities) seems to warrant, at least up to a point, the taxation of these goods.

At the European level, member countries must comply with a mandated floor for excise duties: nevertheless, they are allowed to nudge upwards their effective rates (and, in fact, they do it). In competitive terms, the impact of the taxing burden is not insignificant, since it pushes the pump prices upwards and decreases the consumers perception of the price difference between different suppliers.

The second factor concerns the after-tax prices. In fact, the cost of raw materials is essentially uniform at a European level. This suggests that the differences between the national average prices – which can be explained by a number of causes, including the different impact of the regulations in force in each member State – can be accounted for by the varying effectiveness of the competitive framework in each national market.

The third factor is due to the different level of organization and development of the distribution network: as a matter of principle, in a country where competition is allowed to freely operate, we can expect the nature and the features of the supply network are expected to change over time, differing from the by-now-obsolete model of the mere fuel retailer.

As a consequence, an increasingly widespread recourse to novel distribution outlets and procedures rcan be considered a proxy of the effective market's openness and of the nature, more or less distortive, of the national and local regulations.

Luxembourg is, under this respect, the most liberalized country. In the Index it scores 100 points, followed by Poland (94), Austria (89) and United Kingdom. These countries stand out for their reasonably moderate tax burden, their after-tax prices (among the lowest prices in Europe) and an innovative distribution network.

Furthermore, it must be stressed that in many European countries no detailed information on the latter point is available.

Italy ranks at the last position (40), preceded by Denmark (42) and Bulgaria (44).

2. Methodology

As we have outlined above, the liberalization of the automotive fuel distribution network is determined by three factors: tax, price and organization, each attributed the same weight in the assessment of the overall Index.

Tax takes into account the VAT rate and the excise duty rate as of July 2015 for each of country.

Price represents the average industrial price (that is the after-tax price) of the fuels (with reference to the average price in 2014.)

Organization summarizes information about the fuel sector's organizational latitude and dynamism within the different countries.

In particular, as of January 2014, the percentage of self-service installations and of those that also sell non-oil products have been used as a proxy. When data wasn't available, the level of the worst-placed country for the same variable has been adopted.

When applicable (namely, for all tax and price indicators) when grading each country we have made recourse to a weighted average for gas and diesel fuel (using the consumption of individual products as weight). Compared with 2014, the scoring method of the tax indicator is the only thing that has been modified. This means that there is a variation in the score assigned to most countries. Nevertheless, this variation only had a negligible influence on the ranking: basically, the score assigned to each single country in accordance with this

indicator now depends not only on the gap between the country's and the minimum levels of excise, VAT and after-tax prices, but also from the range between the minimum and the maximum values.

The sources of our data are: the European Commission (for information on taxation), and the statistical section of the Unione Petrolifera website (for indicators relative to industry prices and the indicators used to assemble the organization ranking).

3. Italy

In 2015 Italy is once more the less liberalized country in Europe.

Italy stands out for a very low performance on tax matters and is characterized by an extremely negative performance in the modernization of the distribution network. With regard to the price indicator, it ranks in the middle of the chart. This offers a few interesting insights.

First, it can be said that the unsatisfactory degree of competition in this sector in Italy is largely due to the tax burden, which limits de facto the consumers' freedom of choice, so that price competition becomes less effective.

Second, observing that average (before tax) prices are not significantly different from other European countries' suggests the operation of competition dynamics to be effective as to the comparison between different market actors, both in the case of branded and "white" fuel stations.

Last, the very poor network efficiency is mainly ascribable to the adjustment costs, whose modernization is often obstructed or delayed by a number of regulations. These measures, adopted in many regions and, in some cases, challenged by the national Government, concern in particular "third fuel" regulations and impose a number of discriminatory requirements against the new entrants.

The first draft of the national bill on competition adopted by the Government provided for measures aimed at preventing the introduction of such barriers but, as a result of a number of amendments introduced by Members of Parliament, it seems to have been somewhat weakened.

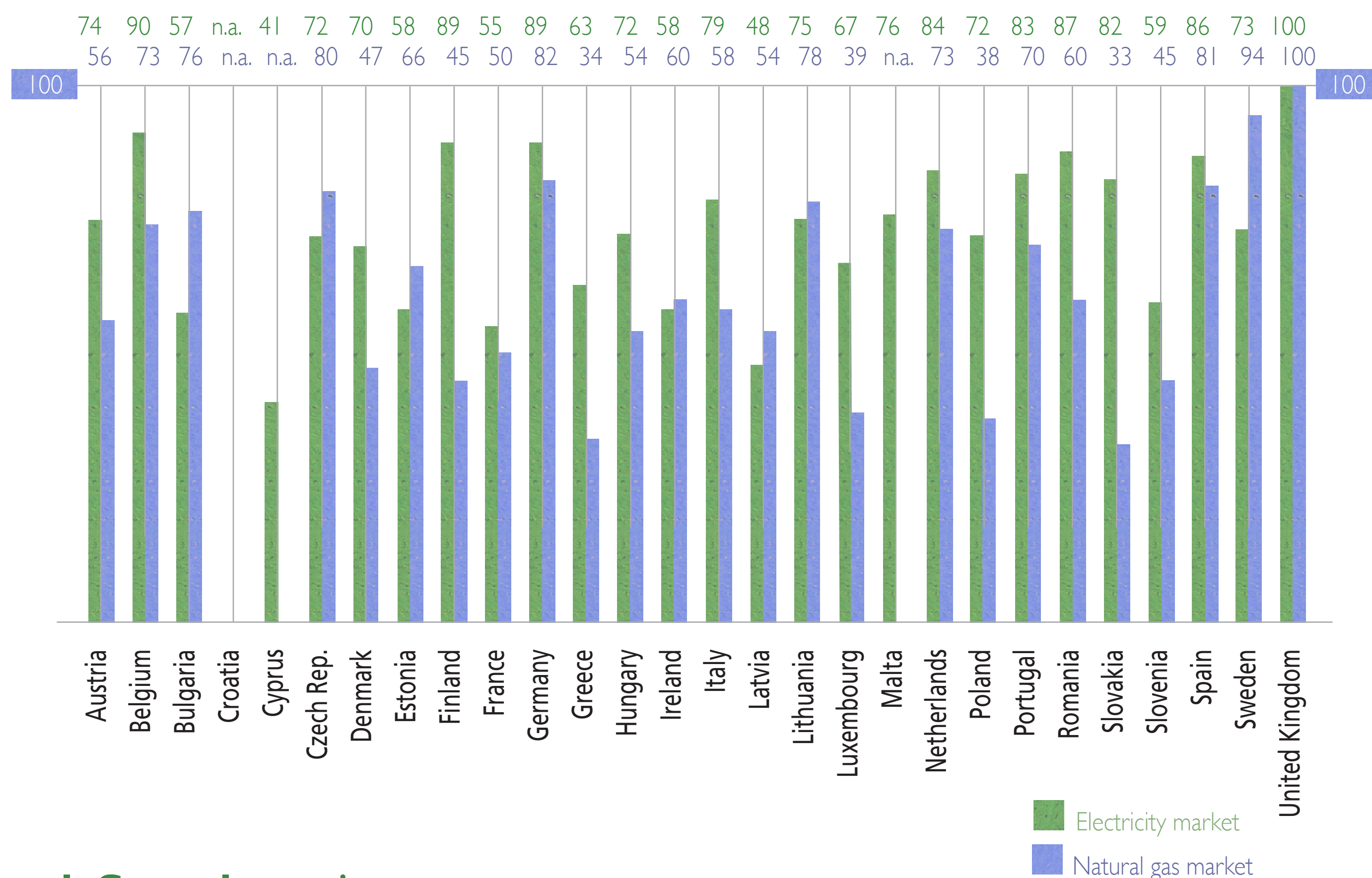
Automotive fuel market

Chart 1. Automotive fuel market – Liberalization Index 2015				
	Tax [0-10]	Price [0-10]	Organization [0-10]	Index [0-100]
Austria	6,91	7,26	8,53	89
Belgium	5,98	5,72	2,78	56
Bulgaria	8,5	0	2,78	44
Croatia	4,49	7,34	2,78	57
Cyprus	7,07	3,14	2,78	50
Czech Rep.	6,8	6,46	5,06	71
Denmark	3,87	0,54	6,41	42
Estonia	7,54	7,94	2,78	71
Finland	2,98	3,08	7,83	54
France	6,15	10	2,78	74
Germany	5,78	7,62	2,78	63
Greece	4,39	3,73	4,15	48
Hungary	4,42	5,86	7,75	70
Ireland	4,34	6,9	n.a.	66
Italy	2,91	4,7	2,78	40
Latvia	7,79	5,98	2,78	64
Lithuania	7,84	3,3	2,78	54
Luxembourg	9,68	5,82	10	100
Malta	7,44	2,04	2,78	48
Netherlands	4,3	7,43	6,82	72
Poland	6,3	8,06	9,67	94
Portugal	5,37	5,21	6,37	66
Romania	5	5,79	2,78	53
Slovakia	7,11	4,92	2,78	58
Slovenia	5,46	8,86	2,78	67
Spain	7,74	3,45	7,85	74
Sweden	1,78	6,69	6,87	60
United Kingdom	3,5	9,37	10	89

Chapter 2

Electricity and natural gas market

by Simona Benedettini



1. General overview

For the European energy markets 2015 will be remembered as the *Energy Union* year. The European Commission has identified, by means of a quite ambitious Communication, the next steps necessary to achieve an Energy Union through the accomplishment of the internal market for energy and natural gas.

The Communication stresses different points for each market. As to the development of internal electricity markets, the Commission finds competition and regulation to be the crucial factors, whereas for the achievement of a single market for natural gas, Brussels highlights instead the importance of infrastructures to guarantee the markets material integration.

The Liberalization Index therefore needs to be considered with the framework presented by the *Energy Union* Communication, in two ways: (i) identifying the critical problems which hinder the realization of harmonized regulatory and competition structures along the electricity markets of the member states; (ii) identifying the crucial regulatory and competition issues that accompany the development of the infrastructures deemed necessary to the development of an internal market for natural gas.

Electricity and natural gas market

For the electricity market, the Liberalization Index finds the first source of criticalities in the missed privatization of the main players operating in the segments of power generation, as well as of the supply and management of transmission and distribution networks. The majority of the 27 countries monitored[1] is indeed characterized by a high level of pervasive public participation in the different areas of the sector, which has significant consequences both in terms of accomplishment of the liberalization process and of actual competition. Member states that feature a massive government presence in the electricity generation and supply areas also show, on average, the highest level of concentration in those same areas.

According to the *Energy Union* communication, one of the main barriers to the development of an internal electricity market is the adoption of retail prices rules for domestic consumers. In this regard, the Liberalization Index shows how half of the monitored countries still have constraints to the free formation of retail prices. Moreover, even if in most countries the incumbent operator is experiencing a progressive shrinking of its market share, performances in terms of switching rates diverges greatly among different member states.

Another concern for the European Commission is the recourse to tools to support conventional and renewable generation. In regard of thermal power generation, Brussels is worried not only by the mere adoption of such tools, suspected to be equivalent to state aid, but also by their heterogeneity. The Liberalization Index confirms the preoccupations of the Commission, pointing out that a sizeable portion of member states adopts the so called *CRMs*, and does so in very diverse ways.

As to intermittent generation, all monitored countries subsidize photovoltaic and wind-powered generation. Once more, member states adopt heterogeneous instruments: Green Certificates, Feed-in-tariff or Feed-in-premium.

In the case of the unbundling of distribution and transmission systems, the heterogeneity among countries is smaller. Indeed, nearly all prefer mechanisms of legal unbundling. Property separation remains the privilege of a minority of States among the twenty seven monitored ones.[2]

As for the natural gas market, the Liberalization Index displays a significant level of public participation, when present, among the shareholders of the main operators in the different areas of the sector. Nevertheless, public intervention seems to smaller than that in the electricity market. In the import/export and supply segments of the natural gas we have a higher rate of countries which have completed the privatization process in comparison to the electricity. Where present, the State holds participation shares that fluctuate, on average, between 30 and 100 percent of the capital of the main operator in the sector.

A considerable correlation between the public participation level in the natural gas import/export and supply segments and the concentration level in the same is also observable in the natural gas market.

For natural gas supply, the majority of the countries considered in our analysis still adopts forms of regulation of domestic consumers' retail prices. Moreover, a significant subset of these countries shows

1. Namely, all EU Member States except Croatia, which has not been included in the present chapter due to problematic data retrieval and utilization.

2. Guidelines 72/2009/EC and 73/2009/EC introduce two different models of transmission facilities into electricity and natural gas markets: ITO (Independent Transmission Operator), and ISO (Independent System Operator). For the sake of coherence with the 2014 Index, we equated the ITO model to the legal unbundling and the ISO model to the property unbundling. Indeed, according to Guidelines, the operator who chooses to adopt the ISO model must follow the property unbundling rules. In the ITO model case, the net-operator can hold property of the infrastructure, granted certain standards of organizational and legal separation in regards of the other components of the chain he is vertically integrated in.

a very high level of concentration of the retail segment, which has an impact in terms of low switching rates. At the same time, the performance of member states in terms of switching is very heterogeneous.

As for unbundling systems, we can apply the same considerations we have made for the electricity market. Indeed, nearly the majority of monitored states leans toward legal unbundling. In contrast, property unbundling is pursued by a minority of these countries.

2. Methodology

The 2015 Index differs from the previous year analysis for two aspects: it broadens the sample of countries from 15 to 27 and it analyses the preferred *unbundling* model, making only reference to the sectors of transmission and distribution of electricity and natural gas.

For both markets and for each of the 27 analyzed countries we have examined the liberalization rate of the following segments in electric and natural gas market:

- production – for natural gas we also considered a country's gas imports when a gas production was not available
- transmission
- distribution
- supply

Different indicators have been developed for each segment in order to measure their respective openness rate relative to different dimensions. For each indicator member states are ranked so that the highest places are given to the most liberalized countries – with reference to that specific indicator – and the lowest to those with a lower rate of liberalization.

For each segment considered, we arranged a synthetic ranking based on the average position of each country in every segment. If different countries have the same score in each indicator, they will rank equal. The average position of each country in the synthetic rankings gives us the final ranking, which is representative of the liberalization rate of a country entire electricity and natural gas market.

The two datasets for the Index have been gathered from: ACER, *Market Monitoring Report*, 2014 (http://goo.gl/XfdL8W); CEER, *National Reporting*, 2014 (http://goo.gl/26mzrh); CEER, *Status Review of Renewable and Energy Efficiency Support Schemes in Europe*, 2015 (http://goo.gl/ymtoFJ); European Commission, *Legal Sources on Renewables* (http://goo.gl/LNEeK3); European Commission, *Single Market Progress Report*, 2014 (http://goo.gl/hZRsMC); European Commission, *Study on Tariff Design for Distribution Systems*, 2014 (http://goo.gl/Yy17ND); OECD, *Indicators of Product Market Regulation* (http://goo.gl/a7EIXB).

3. Electricity market

3.1 Indicators used to estimate the electricity market Liberalization Index

Power Generation

1. Average share held by the government (directly or indirectly) in the capital of the leading operator of the segment.

This variable, expressed as a percentage, measures the Government participation share in the stock of the leading power generation operator. Monitored countries have been sorted in ascending order: at the bottom

are the countries where the Government has no share in the capital of the main operator, on top the ones where the share is highest.

2. Market share held by the power generation leading operator.

This variable, expressed as a percentage, measures the market share held by the main operator in the power generation segment. Countries in our sample have been classified in ascending order depending on the size of their market share. The bigger this share, the less likely that we have adequate market openness in power generation and, therefore, the more probable it is that such market is still significantly concentrated. The indicator can have the following values: 3 if the market share of the leading operator is greater than 90 percent, 2 if it is between 50 and 90 percent, 1 if the main operator market share is less than 50 percent.

3. Type of regulatory tools supporting power generation from renewable intermittent sources.

This indicator classifies the different countries in our sample according to the type of mechanism used to support power generation from renewable intermittent sources: solar and wind. We have considered two different indicators for wind-powered and photovoltaic generation. In particular, countries have been classified in ascending order, starting from the ones which do not use incentive mechanisms at all to the ones which use the heaviest-impact mechanisms such as *feed-in tariffs*.[3] In particular, the indicator takes the following values: 4 means that a country adopts a mechanism based on a *feed-in tariff* in support of wind- and photovoltaic power generation, 3 means it adopts a *feed-in premium*, 2 means the country adopts Green Certificates, 1 means it does not adopt such mechanisms at all. In case a country adopts two or more of these mechanisms, we provided an average rate of the rates associated to each type of mechanism. For instance, if a country adopts both a *feed-in tariff* and a *feed-in premium* to support wind-powered generation, it will receive a 2.5 rate for the corresponding indicator.

4. Type of regulatory tools to support power generation capacity.

This indicator shows the adoption of CRMs in order to further the capacity adequacy of power generation. This indicator classifies the different countries depending on the adoption of market-oriented mechanisms or more controlled ones. In particular, the indicator takes the following values: 4 if the adopted mechanism is a *capacity payment*, 3 if it is a *strategic reserve*, 2 if the adopted instrument is a *capacity market*, 1 if investments and availability of generation capacity are promoted only through the signals given by the *spot* electricity market.

Electricity Transmission

1. Share held by the government (directly or indirectly) in the capital of the leading operator of the segment.

This variable, expressed as a percentage, measures the Government participation in the capital of the of the transmission network operator. Countries in our sample were classified in ascending order, starting from any country having no government participation in the capital of the main operator of the segment, to the one where such share is highest.

2. Nature of the vertical separation of transmission operations from the other segments of this industry.

This indicator shows the type of unbundling of electric transmission activity from the other segments of the sector that has been realized. Countries in our sample have been classified in ascending order, from the coun-

3. For a detailed analysis and taxonomy of the different regulatory instruments intended to provide incentives to the renewable sources electric generation, see, for instance, Ecofys, *Design Features of Support Schemes for Renewable Electricity*, 2013, *http://goo.gl/T37wWb*.

try where the vertical separation between transmission activities and other activities is clearer, i.e. A genuine property separation is achieved, to the country where a vertical integration pattern still exists. The indicator takes the following values: 4 in case there is no form of vertical separation, 3 in the case of accounting separation, 2 in the case of functional separation, 1 in the case of property separation.

Electricity Distribution

1. Share held by the government (directly or indirectly) in the capital of the leading operator of the segment.

This variable, expressed as a percentage, measures the government participation in the capital of the main operator of the distribution net of the country. Countries in our sample have been ranked in ascending order so that the bottom one has no government participation in the capital of the leading operator of the segment and the top one has instead the highest rate of participation.

2. Nature of the vertical separation of the distribution segment from other segments of the industry.

This indicator shows the kind of unbundling achieved between electric distribution operations and other segments of the sector. Countries in our sample have been progressively classified, from the country where the vertical separation between distribution activities and other activities is clearer, i.e. A genuine property separation is achieved, to the country where a vertical integration system still exists. The indicator takes the following values: 4 in case there is no form of vertical separation, 3 in the case of accounting separation, 2 in the case of functional separation, 1 in the case of property separation.

Retail market

1. Share held by the government (directly or indirectly) in the capital of the leading operator of the segment.

This variable, expressed as a percentage, measures the government participation in the capital of the leading supplier of electricity. The 27 countries in our analysis were ranked in ascending order, from the country where there is no government participation in the capital of the main operator of the segment, to the country where such share is highest.

2. Market share held by the leading operator in power supply.

This variable, expressed as a percentage, measures the market share held by the main operator in the electric power supply. Countries in our sample have been progressively sorted according to the size of the leading operator market share. The greater the share, the less likely it is that an adequate openness to competition of the power supply can be found and, therefore, the more probable it is this market will suffer significant concentration. The indicator takes the following values: 3 means the market share is more than 90 percent, 2 means that the market share rates between 50 and 90 percent, 1 means the market share is less than 50 percent.

3. Switching rate of domestic consumers.

The switching rate measures the percentage of domestic consumers who have changed operator in a given year. All other things being equal, elevated switching rates have been associated to a greater awareness by consumers in the market and to a higher level of competition between operators. Countries have therefore been classified from the one with the highest switching rate to the one with the lowest.

4. Existence of price regulation for domestic consumers.

This indicator verifies the existence of an end user price regulation for electric power. In particular, the indicator's value is 1 when, in a given country, consumers can be subject to "safeguards" such that they do

not satisfy their energy needs by shopping in the market, but go through entities that act on their behalf in the wholesale electricity market. This causes the component of their energy bills directly attributable to their electricity consumption to be established and regularly updated – similarly the other components of the bill – by the relevant national regulatory authority. The indicator is 0 when a country does not provide forms of regulation of the final price of power, and such price is, therefore, decided through the operation of the market and not by means of periodic updates by the regulator.

3.2 Liberalization Index of electricity market: focus on Italy

Italy ranks 10th in the liberalization ranking of the electricity market, behind United Kingdom, Belgium, Finland, Germany, Romania, Spain, Netherlands, Portugal and Slovakia. As previously noted, the overall Liberalization Index provides that the most liberalized country scores a 100% mark.

Italy's performance, which also feels the impact of the broadening of the sample of countries in our analysis, is essentially due to the dynamics which affect the electric power generation and supply segments.

As to electric generation, Italy is characterized by a public participation level in the leading player of the segment that is well above the public participation level of countries featuring a better score, with the exception of Finland and Slovakia.

Moreover, while the majority of the monitored member states does not adopt mechanisms in support of the conventional generation capacity, Italy, as well as Spain and Portugal, uses a *capacity payment* in order to guarantee the integrity of the electric energy supply. This mechanism shows a higher degree of regulation pervasiveness, compared to the United Kingdom *capacity market* and Finland's strategic reserve.

The dynamics concerning the electric power supply segment also have an important impact on Italy's place in the 2015 Index. Moreover, we have to point out that such dynamics play a more decisive role in explaining Italy's performance than the facts we observed in regards to generation.

As for the retail segment, first of all we can observe that, with the exception of Finland, Slovakia and Romania, Italy is characterized by a higher level of public participation in the share of the segment main operator capital than the other countries which rank higher in the Index.

Furthermore, the weight of the retail prices regulation for domestic consumers is also fundamental. Indeed, apart from Spain and Romania, all the seven countries that come before Italy in the Liberalization Index are characterized by the absence of retail price regulations, which are on the contrary determined exclusively by the market.

Finally, despite the satisfactory switching rates registered in Italy, the majority of the countries that are better placed in the Index – Belgium, United Kingdom, Spain, Portugal, Netherlands – feature a greater consumers' activity in the market.

Chart 1. Electricity Market – Liberalization Index 2015					
	Generation [1-28]	Transmission [1-28]	Distribution [1-28]	Retail [1-28]	Index [0-100]
Austria	11,1	13,5	15,25	17,125	74
Belgium	19	20,5	13,25	16,5	90
Bulgaria	8,7	7,5	19	8,875	57
Croatia	n.a.	n.a.	n.a.	n.a.	n.a.
Cyprus	15,2	4,25	3,25	8,875	41
Czech Rep.	13,2	13,75	13,75	14,75	72
Denmark	19,2	13,75	9	11,875	70
Estonia	8,7	13,75	9	13,5	58
Finland	17,7	18,5	16,25	15,875	89
France	10	11,75	12,75	8,375	55
Germany	17,7	15,75	17,25	18	89
Greece	8,1	13,5	15,25	11,625	63
Hungary	11,2	7,5	19	18,25	72
Ireland	12,9	7,5	11,75	12,875	58
Italy	15,9	14,75	16,75	13,5	79
Latvia	8,7	7,5	9	12,25	48
Lithuania	11,2	13,75	18,5	14,5	75
Luxembourg	11,6	11,25	11,25	17,5	67
Malta	13,1	27	8	10,625	76
Netherlands	19,7	13,75	15,25	15,875	84
Poland	19,5	13,75	9	13,625	72
Portugal	12,3	22,75	19	10,25	83
Romania	18,5	12,75	19	16,5	87
Slovakia	18	13,75	15,25	16,625	82
Slovenia	11,7	7,5	9	17,375	59
Spain	12,3	21,5	19	13,5	86
Sweden	15,1	13,75	15,25	12,125	73
United Kingdom	17,7	22,75	19	17,25	100

4. Natural gas market

4.1 Indicators used to calculate the liberalization index of the natural gas market

Natural gas production and import

1. Share held by the government (directly or indirectly) in the capital of the leading operator of the segment (natural gas production or import).

This variable, expressed as a percentage, measures the Government share in the capital of the leading operator in the natural gas production segment. With reference to countries where such information is not available, due to the fact that their natural gas need is exclusively or predominantly satisfied through imports from other countries, we considered the information about the leading operator in the natural gas import segment.

2. Market share of the main operator in gas production (or import).

This variable, expressed as a percentage, measures the market share held by the leading operator in the natural gas production (or import). Countries in our sample have been classified in ascending order based on such market share size. The bigger their share, the less likely that an adequate openness to competition of the market of natural gas production or import exists and, therefore, the more probable it is that these markets still remain significantly concentrated. The Index takes the following values: 3 if the market share is greater than 90 percent, 2 if it is between 50 and 90 percent, 1 if the main operator market share is less than 50 percent.

Gas transmission

1. Share held by the government (directly or indirectly) in the capital of the leading operator of the segment.

This variable, expressed as a percentage, measures government participation in the capital of the transmission grid operator. The countries considered have been sorted progressively, starting from the country having no governmental share in the capital of the main operator of the segment, to the one where such share is highest.

2. Nature of the vertical separation of the distribution segment from other segments of the industry.

This indicator shows the kind of unbundling realized between the gas transmission activity and the other segments of the sector. Countries in our sample have been ranked progressively, from the country where the vertical separation between transmission activity and other activities of the industry is clearer, i.e. property separation is achieved, to the country where a vertical integration system still exists. The indicator takes the following values: 4 in case there is no form of vertical separation, 3 in the case of accounting separation, 2 in the case of functional separation, 1 in the case of property separation.

Gas distribution

1. Share held by the government (directly or indirectly) in the capital of the leading operator of the segment.

This variable, expressed as a percentage, measures government participation in the capital of the main distribution network operator in the country. The countries considered have been sorted progressively so that the last one has no government participation in capital of the main operator of the segment, and the first one has the highest.

2. Nature of the vertical separation of the distribution activity from other segments of the industry.

This indicator shows the kind of unbundling realized between the natural gas distribution activity and the

other segments of the sector. Countries in our sample have been progressively ranked, from the country where the vertical separation between distribution activities and other activities is clearer, i.e. property separation is realized, to the country where a vertical integration system still exists. The indicator takes the following values: 4 in case there is no form of vertical separation, 3 in the case of accounting separation, 2 in the case of functional separation, 1 in the case of property separation.

Retail market

1. Share held by the government (directly or indirectly) in the capital of the leading operator of the segment.

This variable, expressed as a percentage, measures government participation in the capital of the capital of the main supplier of natural gas. The monitored countries have been sorted progressively, from the country where there is no Government participation in the capital of the segment main supplier, to the country where such participation is the highest.

2. Market share held by the main operator in natural gas supply market.

This variable, expressed as a percentage, measures the market share held by the main operator in the natural gas supply market. Countries in our sample have been progressively sorted with reference to the size of the main operator market share. The greater such share, the less likely that we will find adequate openness to competition in the natural gas supply market and, therefore, the more probable it is this market will suffer significant concentration. The indicator takes the following values: 3 means the market share is more than 90 percent, 2 means that the market share rates between 50 and 90 percent, 1 means the market share is less than 50 percent.

3. Switching rate of domestic consumers.

The switching rate measures the percentage of domestic consumers who have changed natural gas supplier in a given year. All other things being equal, high switching rates have been associated to a more aware action of consumers in the market and to a higher level of competition between operators. Countries have therefore been ranked from the one with the highest switching rate to the one with the lowest.

4. Existence of price regulation for domestic consumers.

This indicator verifies the existence of an end user price regulation for natural gas. In particular, the indicator takes value 1 when, in a given country, consumers can be subject to "safeguards" so that since they are not sourcing directly from the market – but rather through organizations that act on their behalf on the wholesale power market – the of the utility bill associated to the power consumption is decided and periodically updated, as well as the other parts, by the national regulatory authority of the sector. Indicator is instead 0 when a country does not provide forms of regulation of the final price of natural gas, and such price is, therefore, decided through market logics and not through periodic updates of the regulator.

4.2 Liberalization Index of the natural gas market: focus on Italy

Italy ranks 14th in the liberalization ranking of the natural gas market, behind the United Kingdom, Sweden, Germany, Spain, the Czech Republic, Lithuania, Bulgaria, Belgium, the Netherlands, Portugal, Estonia, Ireland and Romania.[4]

A first explanation of Italy's performance comes from the fact that the privatization process in the segments of production and import of natural gas was never completely carried out. The public participation level in the leading operator of the segment is higher than that in all the better-placed countries in the ranking, with the exception of Romania.

The level of concentration observed in this segment also contributes to explaining Italy's ranking. The leading operator in the production and import segment has a market share between 50 and 90%. However, countries which score better than Italy find themselves in the same condition, with the exception of United Kingdom, Germany, Spain, Lithuania and Bulgaria.

Similar considerations also apply to the natural gas supply. Even though market concentration levels tend to be equal between Italy and the countries ahead of it in the Index, the picture changes if we look at the public intervention level. In fact, with the exception of Lithuania and Portugal, the public participation in the leading operator of the Italian retail market is higher than that of all the member states which rank better in the Index.

Just as for the electric market, price regulation for domestic consumers also plays a fundamental role in explaining Italy's performance. In fact this country, along with Spain, Portugal, Lithuania, Estonia, Ireland and Romania[4] among the top fourteen of the Index, still adopts the regulation of retail prices for domestic consumers.

4. For Malta and Cyprus there is not sufficient data available to be able to calculate the rank of these countries in the Liberalization Index.

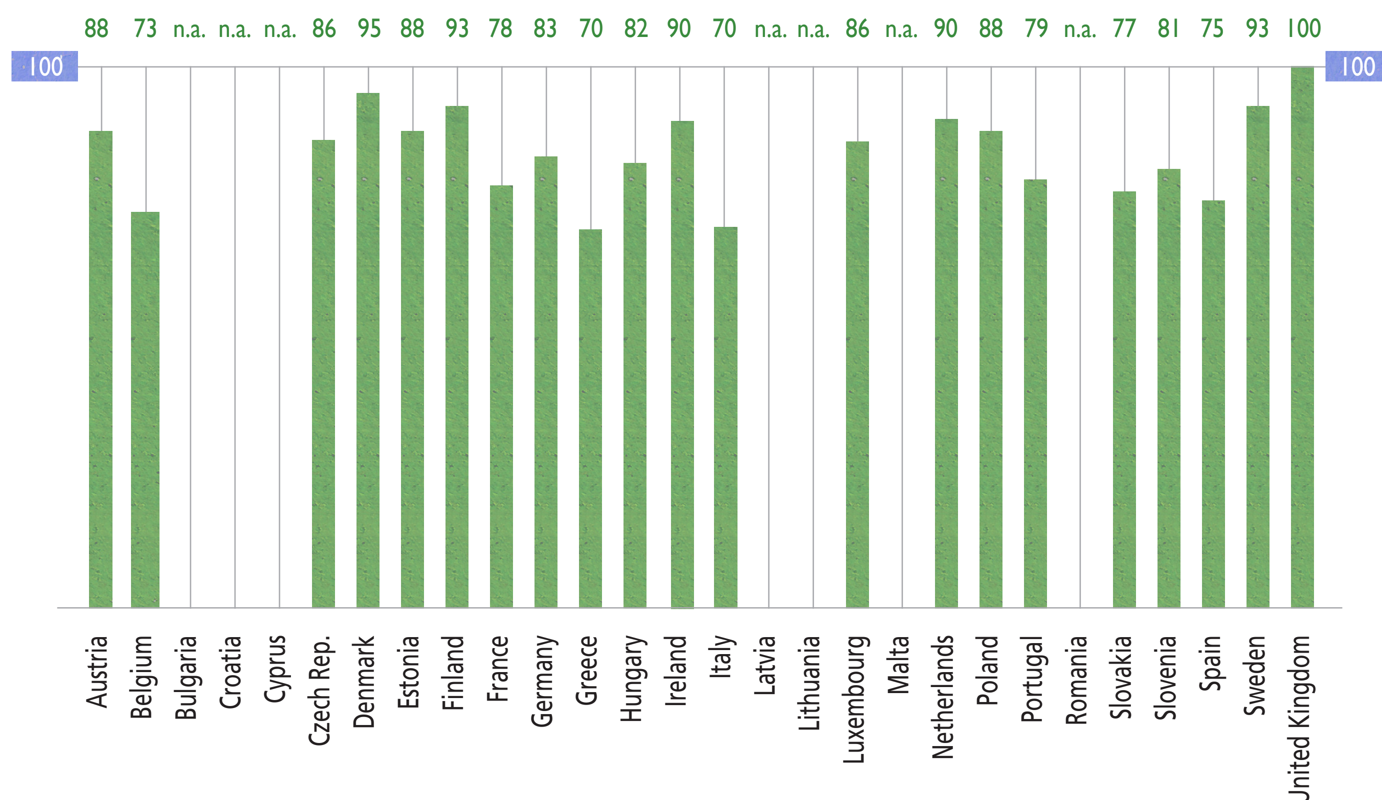
Chart 2. Natural gas market – Liberalization Index 2015

	Production and import [1-28]	Transmission [1-28	Distribution [1-28]	Retail [1-28]	Index [0-100]
Austria	10,5	13	8,5	13	56
Belgium	19,5	14,75	9	15,5	73
Bulgaria	19,5	6,25	20	n.a.	76
Croatia	n.a.	n.a.	n.a.	n.a.	n.a.
Cyprus	n.a.	n.a.	n.a.	n.a.	n.a.
Czech Rep.	15,25	15	14,75	19,66667	80
Denmark	12	12	6,25	8	47
Estonia	11	12	20	10	66
Finland	7,25	9	7,75	12	45
France	10	10,5	10,5	9,666667	50
Germany	19,5	15	14,75	n.a.	82
Greece	3,25	9,5	10	5,166667	34
Hungary	6,75	6,25	14,75	15,5	54
Ireland	n.a.	12	11,5	12,5	60
Italy	11	11,5	11,5	13	58
Latvia	11	11,5	n.a.	10	54
Lithuania	19,5	20,75	n.a.	7	78
Luxembourg	4,75	8,5	7,5	10,83333	39
Malta	n.a.	n.a.	n.a.	n.a.	n.a.
Netherlands	n.a.	12	16,25	16	73
Poland	8	12	6,25	4,833333	38
Portugal	12,5	20,75	12,5	10,66667	70
Romania	8,5	15,75	n.a.	n.a.	60
Slovakia	2,5	6,25	9,5	8,333333	33
Slovenia	9,5	11	2	13,5	45
Spain	19,5	18,25	14,75	12,5	81
Sweden	15,25	20,75	20	19,66667	94
United Kingdom	19,5	20,75	20	19,66667	100

Chapter 3

Labour market

by Fabiana Alias



1. General overview

The worsening of the labour market in the EU area is undoubtedly a consequence of the economic global crisis, which has caused the demand for labor to shrink and, for certain countries, of a structural change of the economy, with the curtailment of entire industries which previously accounted for an important share of total employment. This is the case for the manufacturing sector in particular.

Thus, if at a general glance the employment levels before the crisis have been generally eroded in the overall European picture, European countries have evidenced different responses to the crisis, both as to their economic recovery capability and to the accommodation of the labor market to the new economic circumstances.

Achieving a satisfactory economic recovery proved to be easier in the most virtuous countries, which entailed a positive impact on the labour market as well. On the contrary, in other member states, the crisis highlighted the severe shortcomings in the labour market which in the "fat years" were partly obscured by

economic growth.[1] These problems are caused by a number of factors which, together, can impact the creation of job demand, decreasing employers' propensity to hire.

Such factors can be identified with an excessively strict regulation of the labour market or with a significant "fiscal wedge," which drains enterprises of useful resources to invest, to innovate and, ultimately, to create new jobs or to better pay the existing ones.

A further factor which is also common to almost every EU country, albeit not to the same extent, is that young people have been hit hardest by the crisis, which also caused a worsening in the NEET[2] phenomenon. Young people have paid the highest price in terms of employment, with regards to both the number and the quality of offers. There is a direct correlation between youth unemployment and a rigid labor protection system – especially regarding temporary contracts – because such protections become an entry barrier, preventing young people from entering the labour market for the first time. In fact, in the current uncertain circumstances, young people get into the labour market through non-conventional contracts. In addition, it is becoming increasingly rare to see this contracts stabilized or renewed – with the latter even being sometimes prohibited by the law – and to therefore see the worker go unemployed.

The NEET phenomenon, though widespread in Europe, followed disparate courses in different countries: on one hand we have quite virtuous countries (Germany in particular), and on the other, countries which saw a NEET exponential growth (Greece and Spain).

In the last years, the countries in the most parlous circumstances and characterized by a segmented labour market – as Spain, Portugal, Greece and Italy – have carried out reforms intended to make the labour market more flexible and dynamic and to decrease the degree of dualism characterizing it.

Drawing a comparison with the general framework described in the Liberalization Index 2014, no particular change emerges: the United Kingdom confirms its first place as the most liberalized country among the EU, particularly thanks to the *regulation* ranking. As to the *performance* indicator, Denmark has improved its position, obtaining the best rate along with Austria.

2. Methodology

The methodology, unchanged from the previous report, gauges the labour market liberalization degree through two indicators: *regulation* and *performance*, which weight in the assessment of the overall Liberalization Index for the sector as two thirds and one third, respectively.

The first indicator, *regulation*, takes into account the level of regulatory protection of employment and the impact of the tax wedge. It draws on OECD data regarding permanent workers protection against individual and collective layoffs, and to the discipline of temporary work forms. As such, the indicator measures the degree of rigidity of the protection systems in force on 31 December 2012 in each of the countries considered in our analysis.[3]

1. As highlighted in the 2013 version of the Index, the labor market is influenced by a number of factors, such as the labor cost borne by companies, the difference between such cost and the workers actual wages (the so-called tax wedge), the regulation on entry in the labor market and on layoffs, the pension system discipline. Such elements, regulated by the law, are significantly different depending on the member state considered, in spite of the harmonization policy in the labor field that from almost 40 years has been carried out in Europe.

2. *Not in employment or in education or training*, young people between 15 and 25 years who are unemployed and are not in an education/formation training, or not even looking for job due to disbelief in their employability.

3. In this regard, we have to point out that the last updated data date back to 2013; therefore, they do not take into account the regulatory changes adopted in Italy between 2013 and 2014 (see the heading *Italy* below). The indicator remains instead valid for all the other considered Countries.

The *performance* indicator looks instead at the actual labour market outcomes in each EU member state. In particular, it estimates its vibrancy taking into account three dimensions: long-term unemployment)above 12 months), youth unemployment and the size of the corresponding workforce. In this case, too, data are drawn from the OECD.

The score of each member state rates on a scale that goes from 0 to 10.

3. Italy

Italy in 2015 confirms itself as one of the countries with the most rigid labour markets, ranking last along with Greece. However, as we already pointed out, the *regulation* indicator, updated to 2013, does not take into account some important legislative measures adopted in 2014 which, once taken into account, would likely improve Italy's rank. In particular, we refer to the so-called *Jobs Act*.

The first of these measures – adopted by Decree-Law n. 34/2014, converted into Law n. 78/2014 – concerns the short-term contract discipline. The decree liberalizes the use of this instrument: it rescinds the duty to provide reasons for the limitation of the work hours and it allows the contract to be renewed up to 5 times within 36 months.

The other significant measure, adopted by the Decree-Law n. 66/2014 and converted into Law n. 89/2014, concerns the tax wedge. It provides for both the reduction of the IRAP (a generic tax on businesses) rates and a 40% decrease of the annual tax down payment. With regards to the payroll tax component borne by employees, it establishes the so-called "fiscal bonus," namely an automatic credit which results in a fatter paycheck for the employee. Such bonus, though, can be awarded only to employees with a gross income under 26,000 euro per year.

As to the performance indicator, Italy ranks third to last, gaining one position on Spain. In such a weak labour market as the Italian one, characterized by the highest unemployment rates ever, the situation is particularly critical for young people. What is more, in Italy the NEET phenomenon is rather peculiar, as it reached a worrying size well before the financial crisis and affecting a broader age range (15-29 years) than the European average.

Labour market

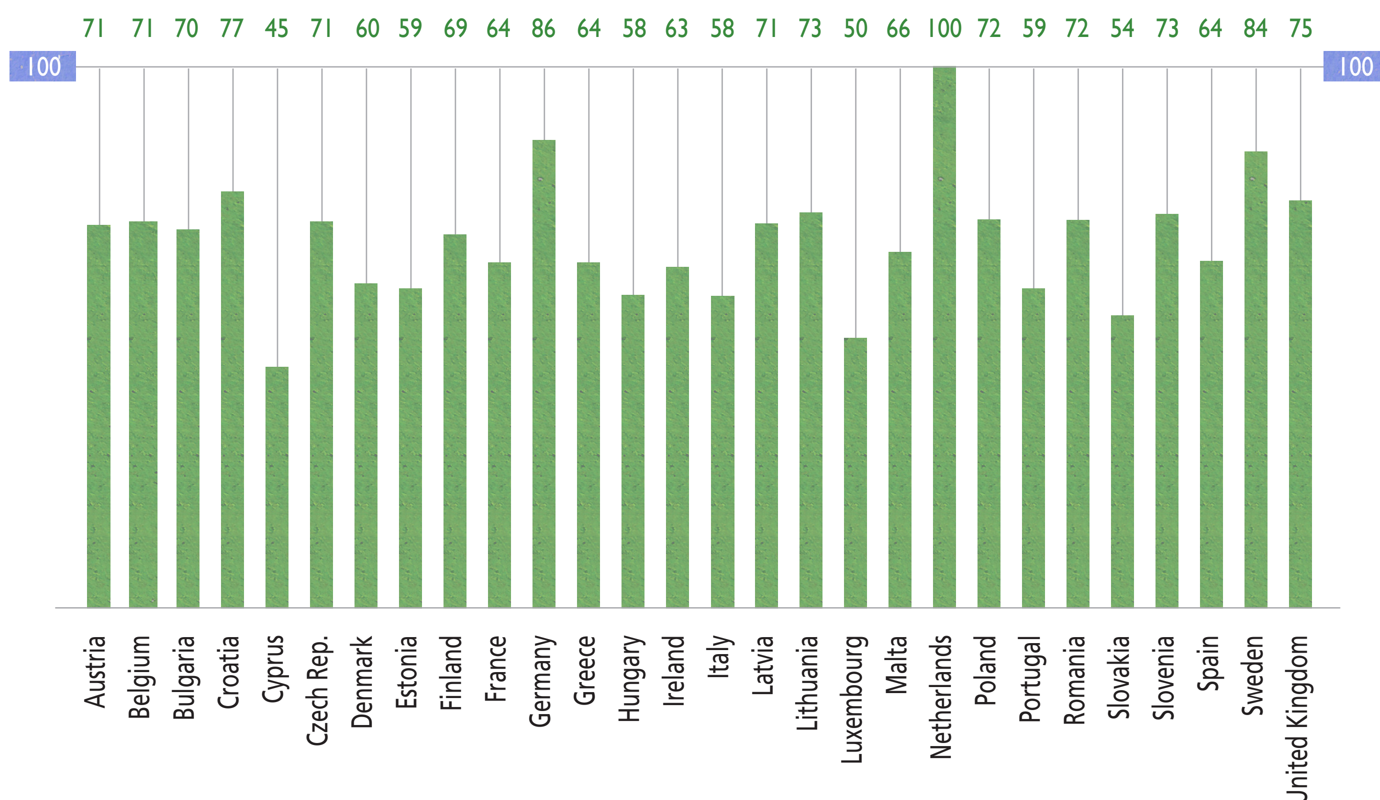
Chart 1. Labour market – Liberalization Index 2015

	Regulation [0-10]	Performance [0-10]	Index [0-100]
Austria	5,2	8,13	88
Belgium	4,46	6,33	73
Bulgaria	n.a.	n.a.	n.a.
Croatia	n.a.	n.a.	n.a.
Cyprus	n.a.	n.a.	n.a.
Czech Rep.	5,57	7,01	86
Denmark	5,91	8,13	95
Estonia	5,71	7,01	88
Finland	5,8	7,84	93
France	4,82	6,71	78
Germany	5,03	7,38	83
Greece	5,54	3,71	70
Hungary	5,36	6,6	82
Ireland	6,55	5,83	90
Italy	4,98	4,8	70
Latvia	n.a.	n.a.	n.a.
Lithuania	n.a.	n.a.	n.a.
Luxembourg	5,34	7,46	86
Malta	n.a.	n.a.	n.a.
Netherlands	5,76	7,45	90
Poland	5,92	6,68	88
Portugal	5,62	5,28	79
Romania	n.a.	n.a.	n.a.
Slovakia	5,63	5,02	77
Slovenia	5,39	6,23	81
Spain	5,55	4,7	75
Sweden	5,76	7,9	93
United Kingdom	6,75	7,37	100

Chapter 4

Postal services

by Massimiliano Trovato



1. General overview

Formally, the liberalization process of the mail delivery market has reached its completion in Europe between 2011 and 2013, which was the deadline for fully implementing the third postal Directive and repealing every remaining monopolistic reserve. This has been the case, with some marginal but significant exceptions (Cyprus and Romania's delays; the failed repeal of the incumbent's privileged position in the delivery of legal acts in Italy, Portugal and Spain).

Nevertheless, looking more closely to the sector we can appreciate a more nuanced picture. On one hand, the absolute contestability degree of postal market is far lower than that in other industrial sectors that have experienced a similar legislative evolution. On the other hand, despite the substantial homogeneity of the regulatory frame and once again stressing the disappointing general level, we noticed significant differences between proactive and more relaxed countries. In other words, we ought to say that a formal liberalization is a necessary but not sufficient condition to reach a substantial one.

2. Methodology

The analysis presented in this chapter considers three indicators (*regulation*, *access* and *market*), which are themselves composed of several qualitative and quantitative sub-indicators. The final rating of each indicator is the result of the arithmetic mean of its relative sub-indicators. In the same way, all indicators contribute for a similar share to the overall Liberalization Index, rescaled so that the most liberalized country scores a 100% rating.

The *regulation* indicator looks at the regulatory framework of the sector, considering the degree of liberalization, its completion date and the regulator's autonomy degree. For the above mentioned reasons, results are rather homogeneous, with some exceptions.

The *access* indicator measures the entry barriers kept in place by the regulation system. In particular, we refer to: the scope of the so called universal service, which can be limited to basic services (single shipments) or extended to massive mailing, direct mailing or to every postal service; any compensation for the burden sustained in delivering the universal service, which can be financed through the general taxation or a specific fund paid for by all operators; to the discipline of operating permits, be it a general authorization or a license, not least in respect of the services we mentioned; finally, to the legislation on VAT exemptions.

The *market* indicator deals with the actual degree of competition achieved in the market, estimated on the basis of the market share of each operator but the incumbent; with the share of the incumbent capital held by the State and with the share from proper postal services in its total revenues.

The data used in this chapter is drawn from a Wik report completed for the European Commission in 2013 (*Main Developments in the Postal Sector*, 2010-2013), which - even if not fully up to date - is still the most accurate and dependable source for statistics in the sector. Moreover, wherever possible, we have amended and integrated the data form this report with any information on the most recent developments.

The most liberalized Country is Netherlands, followed by Germany and Sweden; at the bottom of the ranking we find Slovakia, Luxembourg and Cyprus.

3. Italy

With a score of 58%, Italy confirms her backward position as to the liberalization process of the postal services market.

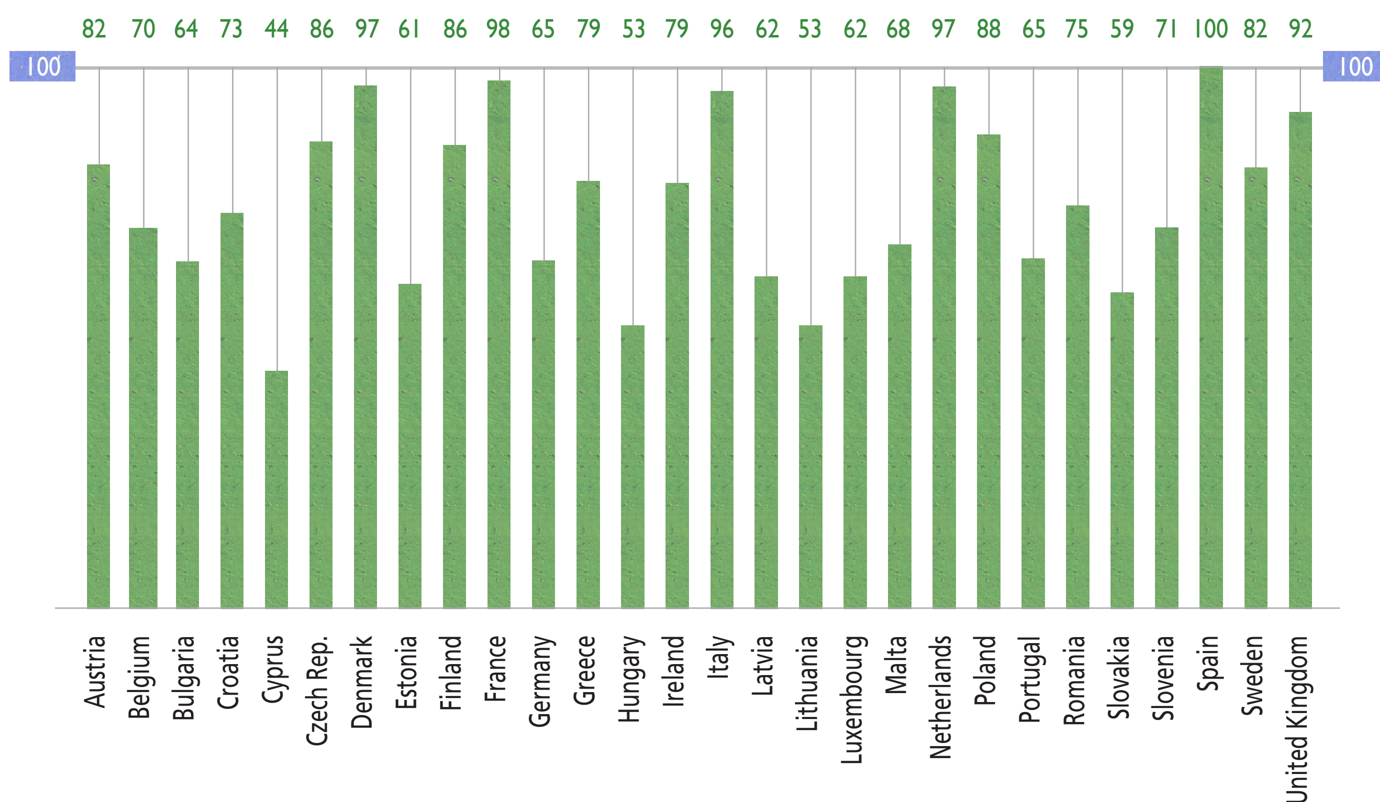
The indicator regulation is relatively encouraging: European directives were implemented without delay (with the significant exception of the exclusive grant to the incumbent of the delivery of judicial documents, the abrogation thereof was further postponed), whereas the exclusive competence of the national regulator AGCOM for any regulatory issue guarantees a high degree of indipendence form political interference. As to the access to the market, the broad scope of the universal service – although it could well be decreased – is roughly in line with the other countries in our analysis, whereas the compensation for the burdens of universal service, the entitlements regime, and the regulation of the exemption from the VAT – which was revised and somewhat improved in 2014 – are quite disappointing facets.

Lastly, despite the relative vibrancy of the ranks of the competitors of the incumbent – which saw the improvement of the leading competitor's share and the growth a a number of important market actors – the impact of the public listing of the incumbent Poste Italiane in the second half of the past year cannot yet be properly appraised. Any assessment must wait for the next edition of the present Index. However, it can be noted that this – very partial – privatization shows little sign of setting right the unhealthy mingling of Poste Italiane's core business (postal services proper) and financial and insurance services, that account for the greatest share of the incumbent's revenue.

Chart 1. Postal services - Liberalization Index 2015

	Regulation [0-100]	Access [0-100]	Market [0-100]	Index [0-100]
Austria	86,67	60	37,4	71
Belgium	86,67	55	43,33	71
Bulgaria	86,67	70	25	70
Croatia	80	70	50	77
Cyprus	34,44	50	33,33	45
Czech Rep.	80	80	25	71
Denmark	75,56	60	20	60
Estonia	68,89	62,5	21,67	59
Finland	77,78	82,5	20	69
France	86,67	60	18,33	64
Germany	90	77,5	54,67	86
Greece	80	55	30	64
Hungary	76,67	60	15	58
Ireland	64,44	60	38,33	63
Italy	83,33	45	23,33	58
Latvia	80	70	33,33	71
Lithuania	80	80	28,33	73
Luxembourg	57,78	50	23,33	50
Malta	57,78	50	63,33	66
Netherlands	78,89	92,5	88,33	100
Poland	80	70	36,67	72
Portugal	61,11	42,5	50	59
Romania	70	67,5	48,33	72
Slovakia	57,78	50	31,67	54
Slovenia	86,67	75	26,67	73
Spain	75,56	50	41,67	64
Sweden	88,89	90	40	84
United Kingdom	71,11	75	48,33	75

Chapter 5
Telecommunications
by Massimiliano Trovato



1. General description

Thanks in no small measure to the technological achievements of the recent decade-and-half, the telecommunications market has most resolutely embraced free market principles.

Placing controls on the retail prices has long become obsolete; a detailed regulatory system is still present, which chiefly impacts the relationship among the operators and between the operators and the regulators: however, even if it would be premature to set aside permanently the legislation wars and the time in which *competition by litigation* seemed to be the only conceivable form of competition, today we observe a greater attention to investments and innovation.

This is clearly the case of the operators, but it is also true of the public decision-makers, that for several years – believing, whether rightly or wrongly, that the goal of making the telecommunications competitive had been reached – have been wondering how to achieve performance levels in line with some extremely specific (but apparently quite arbitrary) standards. However, the problem of competition – all too hastily shelved – emerges again in the identification of the optimal strategies to encourage private investments – or,

in less creditable instances – to provide public resources to offset supposed market failures. The case for a consolidation of this market at the European level is argued without regard for the concrete threat of a re-monopolization.

In fact, whether a market remains contendible depends less by the number of operators than by its regulatory framework and by the freedom of any operator to enter, exit or operate in the market. Hence, it is desirable that the government does not interfere with the consolidation efforts taking place throughout Europe. Good rules are often the most unobtrusive.

2. Methodology

The liberalization degree of Telecommunications is assessed on the basis of three indicators – market, infrastructures and switching – further articulated, in their turn, into sub-indicators. The average of the sub-indicators scores builds the overall score for each indicator. The indicators' average measures the total liberalization Index.

The *market* indicator concerns the competition framework, and aims at providing a picture of the respective roles of dominant actors and their competitors. More specifically, we take into account the market shares of new entrants in the fixed line broadband networks (in terms of lines) and in fixed line voice communication (in terms of minutes of traffic), as well as of the number of operators in addition to the dominant one in the mobile phone market (in terms of users).

The *infrastructure* indicator concerns the technological mix in this sector. The importance of this indicator is due to the fact that competing platforms guarantee a more robust and sustainable competition among services. We thus have assessed the concentration index, as related to the different broadband technologies. However, the telecommunication industry is characterized by an uncommon degree of diversity in the infrastructural stock of the different operators. For this reason, distinguishing between infrastructure competition and services competition it is not enough, but it is necessary to identify the specific setting where competition is taking place.

In order to describe such granularity, we distinguished not only the different technologies, but also the different ways to access to them, giving higher scores to those who guarantee a major autonomy in the service supply. So, in comparison with the fixed lines system, we took into account the relative capacity of proprietary infrastructures, unbundling, shared access, bitstream and mere traffic resale; as regards mobile communications, we stressed the distinction between virtual and infrastructure operators and we awarded a premium to the infrastructure operators which offer 4G networks.

The *switching* indicator aims at evaluating the degree of competition by means of user number portability, which is the primary tool for switching operators in all the countries we have considered. More specifically, we have taken into consideration the share of portability transactions on the total active lines (both fixed and mobile).

The overall index of the most liberalized country is taken as 100%; the other results are ranked in proportion to the relative gap with the leading country. The most liberalized country is Spain, followed by France, Denmark and Netherlands. At the bottom of the ranking are Cyprus, Lithuania and Hungary.

In comparison to 2014 the top-ranked countries of the Index are more closely placed to each other, partly as a consequence of the demotion of France and Netherlands, due to a number of gaps in the availability of the data.

The chapter makes use of the data that the European Commission collected and published in the survey of the Member Countries' place in the European regulatory framework; in particular, the collection of data used in this paper dates from 2013.

3. Italy

With a score of 96% Italy finds itself in the top segment of the rankings. The assessment of the several indicators is quite homogeneous. Nevertheless, within the single indicators there still is a significant gap, in term of results, between the fixed and the mobile industry.

More specifically, the overall market share if the two top mobile operators is unusually low, whereas the share of new entrants in the fixed line market is still under 50%. Similarly, Italy excels in the diffusion of mobile portability – where the impact of the significant share of pre-paid cards is likely stronger – whereas the portability of fixed line numbers is satisfactory, but still far from the comparable figures in the best-placed countries.

Another open question is represented by the poor competition degree among the different access technologies. This is mainly due to the persistent lack of cable lines and the belated growth of fibre optic lines, which only saw a promising boost in the last few months.

This notwithstanding, the overall competition framework in the fixed line market is showing clear improvements since a few years ago, thanks to the steady growth of the market share of new entrants – which is currently above 50% – and the further spread of the unbundling – namely, the kind of network access by the incumbent which best guarantees competitors a greater control on the services they provide.

Telecommunications

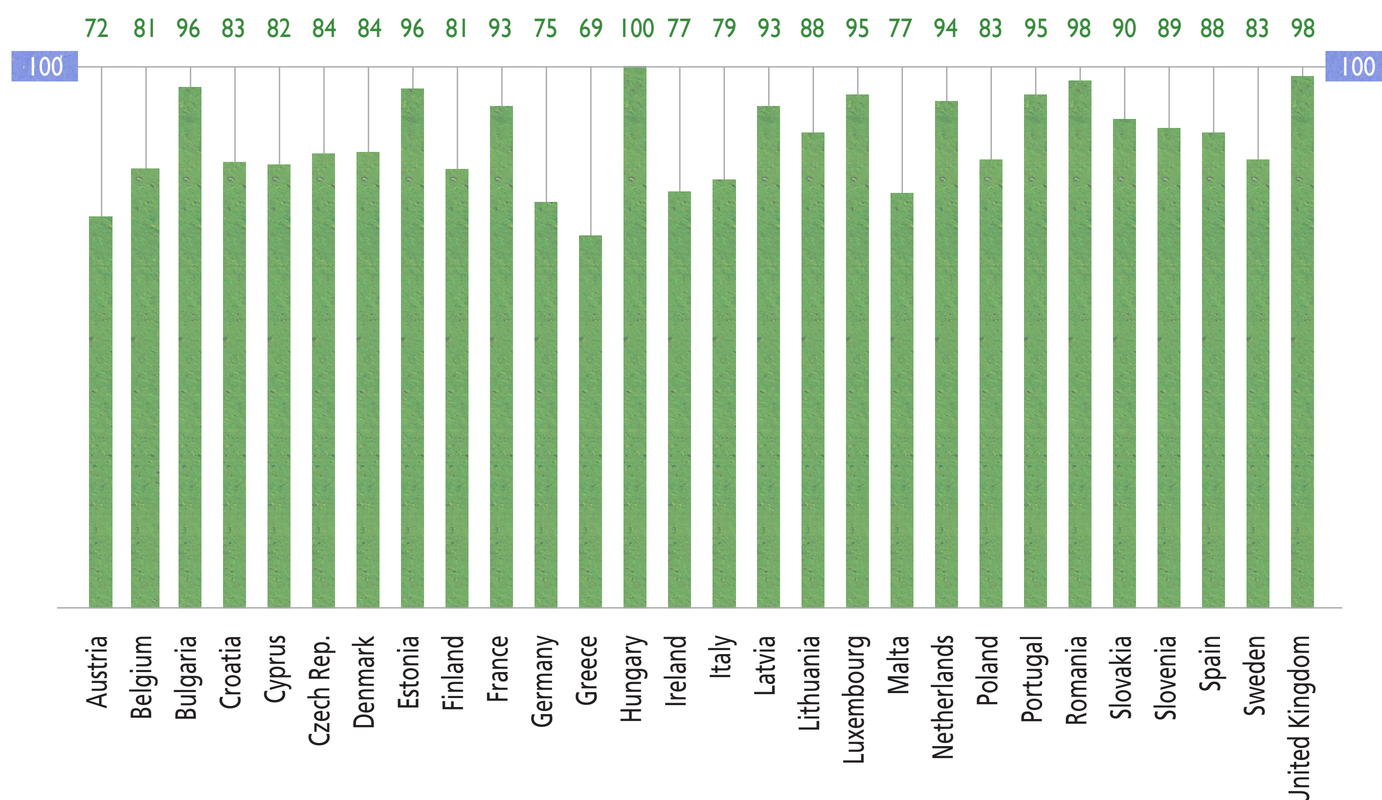
Chart 1. Telecommunications – Liberalization Index 2015

	Market [0-100]	Infrastructure [0-100]	Switching [0-100]	Index [0-100]
Austria	54,12	65,36	50	82
Belgium	54,29	50,21	38,89	70
Bulgaria	55,28	63,07	13,37	64
Croatia	45,07	56,03	50	73
Cyprus	22,59	51,18	15,92	44
Czech Rep.	63,57	80,41	33,68	86
Denmark	50,36	74,35	75,3	97
Estonia	42,79	76,67	6,87	61
Finland	68,77	69,69	38,62	86
France	71,41	78,58	51,06	98
Germany	57,53	70,36	4,99	65
Greece	58,04	61,96	41,65	79
Hungary	46,08	57,85	4,64	53
Ireland	68,73	58,26	34,99	79
Italy	64,63	68,97	64,8	96
Latvia	55,02	59,03	13,84	62
Lithuania	38,97	61,91	8,49	53
Luxembourg	55,71	56,73	15,99	62
Malta	42,37	67,71	29,75	68
Netherlands	59,26	75,86	64,41	97
Poland	75,09	80	26,9	88
Portugal	49,47	69,67	15,13	65
Romania	63,4	86,03	5,72	75
Slovakia	49,79	56,55	15,97	59
Slovenia	55,21	67,92	22,28	71
Spain	68,03	76,73	61,06	100
Sweden	64,16	82,09	22,51	82
United Kingdom	66,58	72,93	50	92

Chapter 6

Television

by Massimiliano Trovato



1. General description

In the last few years the television broadcasting market (or, more properly, the audiovisual media services market) experienced a rapid evolution, that saw an ever closer convergence with the traditional communications services. The impact of EU regulations is still less than in other industries: if, on the one hand, features such as broadcast content are still closely regulated, other issues – such as the relationship between operators and the role of public broadcasting services are largely left to the regulation of electronic communications or to the scope of national legislatures.

In principle, such state of affairs allows for significant differences in the way TV broadcasting services are managed and regulated within different Member States. These differences, however, are somewhat lessened by the impact of historical factors. For instance – with the partial exception of Luxembourg – all European States provide public television services through a government-owned entity. Differences are largely left to the preferred method to fund public TV operators, the kind of operations it is allowed to perform, and the centrality of its role in the industry…

Before illustrating the methodology used for this chapter, it is appropriate to stress three provisos related

to its boundaries. In the first place, it should be noted that the collection of data from this sector still follows traditional guidelines. This prevents a fuller picture of the audiovisual services market in its entirety and forces us to limit our analysis to the TV market strictly understood.

Similarly, as pertains to convergence issues, it is the case to observe that "pure" TV operators are just a part of the actors studies in our analysis, as TV services are increasingly but an element – however important – of a broader commercial strategy. The chief consequence is that gleaning reliable information on the revenues from TV services is impossible without a detailed analysis of each operator balance sheet – an endeavour that clearly exceeds the resources we can allocate to our study. The reader should be well advised to remember that the focus on data related to audiences and the revenue from advertising provides a picture that over-emphasizes the concentration of the market, particularly in those countries where pay-TV services are more widespread.

Lastly, despite pluralism in the market clearly favours pluralism in information and culture, this does not warrants the inference that the opening of a particular TV market entails its greater welcoming to a broader range of perspectives. In this study we content ourselves with analyzing the competitive setting of the market: in theory, it is perfectly possible that veritable bulwarks of freedom of speech coexist with relatively closed markets, whereas more vibrant settings from a competition perspective provide a less diversified range of offerings.

2. Methodology

The liberalization degree of the tv broadcasting sector is based on three indicators – platforms, public broadcasting services and market – which equally contribute to the overall Index definition; each indicator features three further sub-indicators, likewise weighted as one-third each of the entire indicator.

The *platform* indicator takes into account the technological environment, on the assumption that competition among access platforms can encourage competition among different services. In particular we consider the concentration of the access procedures and the penetration of digital- and pay-TV services.

The *public service* indicator looks at the operations of the public broadcasting service and at their impact on the market. The elements that have been analyzed for this purpose are the expected amount and the actual value of the annual fee; the incidence of the commercial revenue on the public operator's total revenue; the market share of the public operator in audience terms.

The market indicator describes the overall competition setting, analyzing the concentration in terms of both audience and advertisement sales, as well as the number of players in the market, weighed against the number of TV users, to minimize any distortion induced by the different sizes of the 28 countries studied.

The most liberalized country scores 100% on the Index, and the other countries are ranged in proportion of the gap form the leading country. In this market, the most liberalized country is Hungary, followed by United Kingdom and Romania; at the bottom of the Index are Germany, Austria and Greece.

Hungary scores well in all indicators: competition between technological platforms is vibrant, with a remarkably high penetration of cable TV, accompanied by a significant presence of satellite- and digital-TV, as well as of IPTV. The market share of the public broadcaster is relatively limited, in terms of both audience and commercial revenues. Lastly, the operators' market appears to be quite competitive and modestly concentrated.

The data we used in this chapter come from the annual reports compiled by the IP Network (International Key Facts Television) and by the European Audiovisual Observatory (*Television, Cinema, Video and On-Demand Audiovisual Services – The Pan-European Picture* and relate to 2013, exception made for the audience market share, which dates back to 2012.

3. Italy

With a score of 79%, Italy finds itself in the lower part of the rankings, although the gap from the top is relatively small. The platform market is still less developed than abroad: digital-TV dominates; satellite-TV scores a significant place, but remains basically stable, whereas the failure of IPTV to gain a foothold and the chronic lack of cable services are noticeable features of the Italian market.

As to the role of public TV in Italy, whereas the user fee is comparatively low, commercial revenues are approximately a third of the total – a significant share, that evidences a displacement effect in relation to the investments private operators. Furthermore, RAI gets close to a 40% share of the Italian audience – only exceeded in Europe by the German and Finnish public operators.

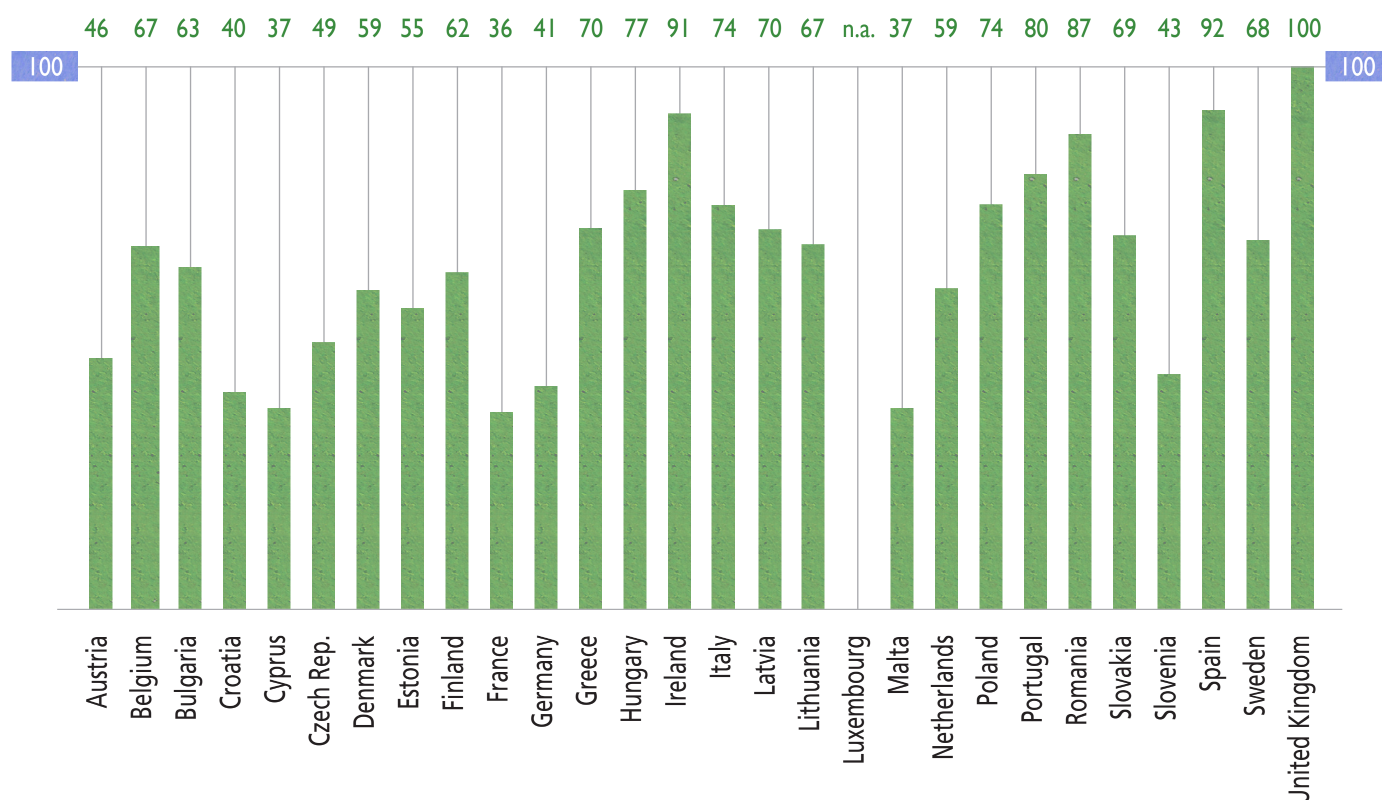
In sum, both the audience and the advertisement sales markets appear to be relatively concentrated (particularly the latter), whereas the extremely high number of operators – above 1,100 – is among the highest in Europe. As we noted in the Methodology paragraph, the data on concentration must be taken with a grain of salt, for the lack of uniform information on the total revenues. Italy is clearly a case in point, as its main national-level operator earns from advertising sales less than 10% of its total earnings, whereas between the HHI index based on advertisement sales and the HHI index based on total revenues there is a 1,500 points gap.

Television

Chart 1. Television – Liberalization Index 2015

	Platforms [0-100]	Public Service [0-100]	Market [0-100]	Index [0-100]
Austria	69,53	42,7	71,56	72
Belgium	66,37	72,04	67,12	81
Bulgaria	80,61	96,67	67,37	96
Croatia	61,39	90,47	60,5	83
Cyprus	77,49	72,12	59,43	82
Czech Rep.	72,23	80,43	61,88	84
Denmark	72,23	80,43	61,5	84
Estonia	87,67	93,31	64,26	96
Finland	86,18	69,21	51,06	81
France	87,85	69,63	80,99	93
Germany	58,18	56,76	76,73	75
Greece	54,51	66,67	54,68	69
Hungary	79,21	88,16	87,7	100
Ireland	82,14	57,34	56,92	77
Italy	63,65	62,87	75,67	79
Latvia	84,47	89,31	62,82	93
Lithuania	73,55	87,2	63,75	88
Luxembourg	85,1	100	56,02	95
Malta	85,29	30,89	79,23	77
Netherlands	86,37	80,78	73,22	94
Poland	80,36	61,23	70,46	83
Portugal	90,63	89,52	61,99	95
Romania	75,23	94,85	80,21	98
Slovakia	76,75	88,94	63,03	90
Slovenia	90,38	66,08	69,29	89
Spain	58,7	88,71	76,24	88
Sweden	82,36	59,24	69,87	83
United Kingdom	80,24	75,75	93,34	98

Chapter 7
Air transport
by Andrea Giuricin



1. Overall Picture

The air transport sector is characterized in Europe by one of the most successful efforts of liberalization and market opening.

In 2014 this industry saw in Italy the acquisition of a stake in Alitalia – the former "national champion" – by Etihad Airways, an Emirates company. This provided a greater stability in Alitalia's shareholder structure. At the same time, 2014 saw Ryanair overtake the Italian national carrier in terms of passengers in the domestic air market.

At the European level, we have observed the steady growth of low-cost carriers – Ryanair and Easyjet in particular – whereas traditional carriers keep struggling. The decline in the price of oil was a boost for the airlines' bottom line, as fuel used to be as much as 40% of total costs.

Despite the European drove towards greater market competition and integration, several barriers to entry persist, particularly wherever a strong "national champion" exists.

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2. Methodology

This year's Index – thoroughly revamped as compared to the previous years' – broadens our analysis to all the EU's Member States and is build upon two macro-indicators.

The first refers to regulation, to the regulator's independence from political interference, and to the presence of barriers to entry in the air transport industry. Four variables are considered, to score each individual country on a 1-10 scale, depending on the opening of the respective markets. Each variable is weighed as a quarter of the overall indicator, labeled RBI.

We have first considered the independence of the regulating agency, a crucial element for an effective operation of a competitive market. We have then taken into account the presence of barriers to entry – in particular those of a legal or regulatory nature – that prevent market actors to compete on a level playing ground. Similarly, airport-related barriers can hinder a carrier's access to a particular market. Last, we have considered an indicator related to the government's intervention in the air transport sector, especially in the last half-decade.

The second macro-indicator (market) takes into account the performance of the air transport market, and considers the growth of the market, the share of new entries and the supply's concentration.

The weight of the first macro-indicator is 3/5, whereas the second's is, correspondingly, 2/5.

Our data are gleaned from a number of studies and reports by the European Commission and Eurostat, and refer to 2014 – if available – or to 2013 in all other cases.

3. The Picture in Europe

The European air transport market is characterized by a growing concentration. Low-cost carriers keep growing, whereas traditional airlines tend to concentrate.

The emergence of IAG – gathering Iberia, British Airways and Vueling – saw the emergence in Europe of a third, large traditional carrier, together with Lufthansa and Air France-KLM.

In this sector airports are still characterized as natural monopolies. This implies the recourse to a degree of caution when considering mergers and aggregation between airport operators.

The United Kingdom still features the best ranking as to the RBI indicator, whereas Ireland, under this respect, is slipping down, in consequence of the Irish government's meddling in 2014 with the management of national carrier AerLingus.

Germany and France seem to be still averse to competition, primarily as a consequence of their efforts to shelter the respective incumbents against competition, to the detriment of consumers.

The United Kingdom also leads in the Market Outcomes indicator – just like last year – due to both the robust growth in this market and particularly the low level of concentration and lower barriers to entry, as evidenced by an air transport market dominated by new entrants. Among the larger European countries, France and Germany offer the least positive setting, which is a major contributing factor to the high fare level in these markets.

Very few East European Member States feature a satisfying score in this ranking: of these, Slovakia offers the best performance.

4. Italy

In 2014, the Italian air transport market was nearly stagnant. Under this respect, the economic crisis only had a limited impact.

2014 was a year of transition. The foremost low-cost operator – Ryanair – overtook Alitalia – the historical incumbent – for number of passengers, despite the arrival of Etihad as a partner in the national carrier. The market share of the Alitalia group is steadily hovering around 50%.

In addition, the top-tier low-cost companies have increased their presence in the major Italian airport, Roma-Fiumicino, thus increasing the degree of competition in this sector. The three largest operators – Ryanair, Alitalia, and Easyjet – have an overall market share of 54%.

For all these reasons, Italy keeps showing a satisfactory competition setting, in spite of the repeated governmental interventions in Alitalia. The Index of Liberalization thus experienced a substantial leap, to a score of 74 on 100, due to the improved competition picture and the strengthening of the Transportation Authority. However, the powers of the regulator are to be consolidated, lest the opening of the market experiences a step backward.

Air transport

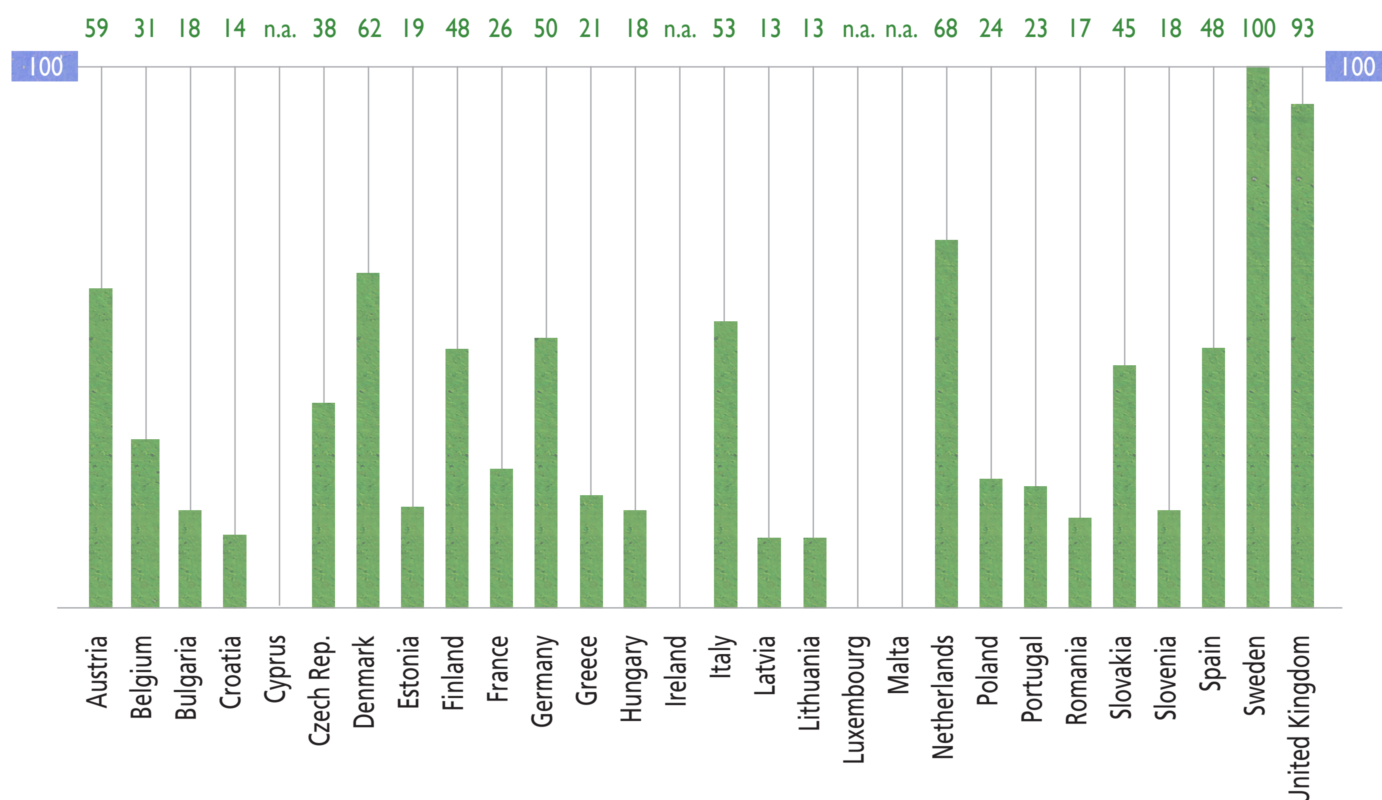
Chart 1. Air Transport – Liberalization Index 2015

	RBI [0-10]	Market [0-10]	Index [0-100]
Austria	4,5	4,33	46
Belgium	6	6,67	67
Bulgaria	4,5	7	63
Croatia	3	4,33	40
Cyprus	2,75	4	37
Czech Rep.	3,75	5,33	49
Denmark	5,5	5,67	59
Estonia	4,5	5,67	55
Finland	6,25	5,67	62
France	2	4,33	36
Germany	4,25	3,67	41
Greece	5,5	7,33	70
Hungary	6,75	7,67	77
Ireland	8,5	8,67	91
Italy	4	9	74
Latvia	6	7	70
Lithuania	6	6,67	67
Luxembourg	n.a.	n.a.	n.a.
Malta	2,25	4,33	37
Netherlands	6	5,33	59
Poland	5,5	8	74
Portugal	7	8	80
Romania	4,75	7,67	87
Slovakia	7,75	8,67	69
Slovenia	3,25	4,67	43
Spain	8,25	9	92
Sweden	7,25	6	68
United Kingdom	9,75	9,33	100

Chapter 8

Rail transport

by Paolo Belardinelli and Carlo Stagnaro



1. General overview

Rail transport is characterized by a precarious competitive setting. Almost everywhere in Europe the market is dominated by state-owned incumbents, and the scope of competition is limited, both for services open to competition in the market is possible and for those open to forms of competition for the market. Likewise, vertical integration is still a common problem.

Only a few countries saw improvements in their respective competitive setting, in particular Sweden, which already had – according to the Liberalization Index methodology – the most open market.

Moreover, during 2014 the European Parliament has weakened of the fourth Railway Package, under the pressure of a number of influential member states. Slowing down this process has worsened the growth forecasts of the sector, due to a weakened drive towards liberalization.

2. Methodology

In order to identify the degree of openness of the railway transportation market, we have taken into ac-

count two areas: one takes into consideration the regulatory frame and the other looks at the outcomes in the market.

The first indicator takes into account the degree of independence of the regulator, his actual powers and the level of separation between the operator of the railway infrastructure and the suppliers of the rail transportation services. Each entry contributes for a third to the determination of the overall indicator.

The market index, on the other hand, considers the openness of the different market sectors (particularly with regard to regional and high speed services) and the growth rate of the market in the last 15 years. For this index, every indicator weights for a third of the total as well.

The Liberalization Index of the railway market is therefore the result of the synthesis between two macro-indicators, *regulation* and *market*, which respectively contribute for one third and two thirds to the final result.

The data we used was gleaned from the European Commission documents related to the fourth Railway Package and from the Eurostat Transportation database. The data is from 2014, when available, or from 2013 in case no updated data was forthcoming.

3. European situation

At the European level, the situation is rather heterogeneous. A handful of countries have made substantial progress.

For instance, in Austria the private operator WestBahn is growing, partly thanks to the substantial investments in new railways. In Sweden, a Hong Kong operator, MTR, has entered the long-distance market. This is the first case of a non-EU actor offering railway services. In Spain, the Rajoy Government is signaling the intention to partially open the high-speed market, but only in the *corridor levante*. The process is slower than initially expected, but it is undoubtedly a step in the right direction. An interesting aspect about the Spanish reform is the creation of a company for the rental of railways, because the access to such lines is considered one of the main entry barriers of the railway sector.

This said, United Kingdom and Sweden remain the only successful cases in Europe, since they have implemented an actual vertical separation. This was made possible by the authority and the independence of regulators as well. Moreover, the fact that the operational costs of the English and Swedish rail network are kept under control seems to contradict the common prejudices on the economic benefits of vertical integration.

The situation seems to worsen in France. The SNCF operator is moving towards a total integration between the network and the service. This further reduces the space for a competitive market, space which was quite modest already, due to regulation inefficacy. In Germany, the long-distance market remains closed in practice, while the regional transport is only partially liberalized. We must although notice that an increasing number of *Länder* is contracting out the service.

4.Italy

Competition in the high-speed segment is yielding clear benefits for consumers, with regards to both prices and service quality. Significantly, in spite of the economic crisis, the high-speed train segment reported a demand increase of some 40% since the arrival of the first alternative operator.

As to the regional system, on the other hand, the situation is far less dynamic.

The Transportation Authority has undertaken a number of actions aimed at increasing competition, but their impact is still inadequate. Specifically, in recent times its sanctioning power was limited, thus decreasing its actual ability to have an impact. We believe that this will cause a downgrading of this element of the index, most likely as early as next year.

Overall, Italy's score is disappointing, only achieving 53 over 100. This is mainly due to the circumstances of the regional markets and to the inadequacy of the regulatory setting, not to mention the persistence of a pattern of vertical integration. All of this offsets the improvements, which are mostly due to high-speed segment.

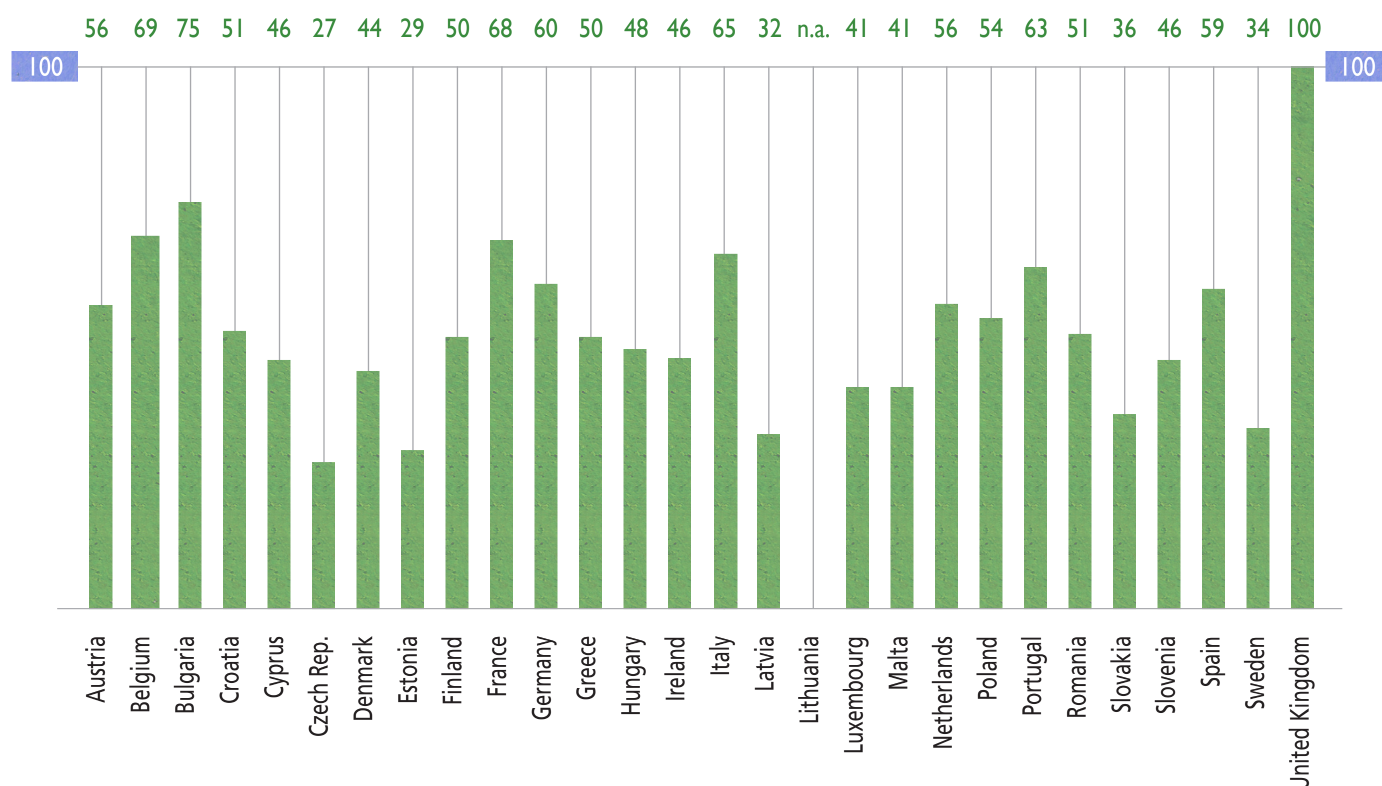
Chart 1. Rail Transport - Liberalization Index 2015

	Regulation & Network [0-10]	Market [0-10]	Index [0-100]
Austria	6,33	5,67	59
Belgium	4,33	2,33	31
Bulgaria	3,33	1	18
Croatia	2,33	1	14
Cyprus	n.r	n.r	n.a.
Czech Rep.	5,33	3	38
Denmark	7,67	5,33	62
Estonia	3,67	1	19
Finland	7,67	3,33	48
France	2,67	2,33	26
Germany	6	4	50
Greece	3	1,5	21
Hungary	3,33	1	18
Ireland	n.r	n.a.	n.a.
Italy	7,33	4,33	53
Latvia	3	0,5	13
Lithuania	3	0,5	13
Luxembourg	n.r	n.a.	n.a.
Malta	n.r	n.r	n.a.
Netherlands	9	5,67	68
Poland	3,67	1,67	24
Portugal	3	2	23
Romania	3	1	17
Slovakia	5,33	4	45
Slovenia	3,33	1	18
Spain	6,33	4	48
Sweden	10	9,67	100
United Kingdom	10	8,67	93

Chapter 9

Insurance

by Paolo Belardinelli



1. General overview

Insurance is a tool which allows individual actors to trade risks from each other. The insurance market exists to accommodate the risk aversion of consumers, who are willing to pay insurance companies to bear the risks in their place. Generally, the choice whether to purchase or not insurance and at which terms is left to the consumers themselves. In certain countries the purchase of insurance is compulsory under the law in specific cases (for instance, the civil liability insurance for auto vehicles in Italy). Such cases raise the most relevant challenges from a competitive perspective, since the demand is made less flexible in a market that already tends to be inherently rigid. This and other concerns drove the EU and its member States to heavily regulate the insurance sector, often yielding perverse outcomes.

As for other sectors, EU provisions exist intended to "build" a single European insurance market. When looking into these directives, divided between those addressed to life products and those intended to *non-life* ones, it would appear that regulators pursued a two-fold aim: on the one hand, they wish each EU citizen to have access to the largest possible insurance product range; on the other hand, they would like to guarantee that each insurance company recognized in one of the member states is free to compete all over Europe.

These directives, adopted between the early 1970s and the early 1990s, necessitated to tackle very disparate national environments, with the aim of overcoming a number of hurdles that caused companies form different jurisdictions to be discriminated against. In practice, form a regulatory standpoint, a number of nation-specific regulations are still extant, which we have attempted to disentangle in order to understand which country, among the ones we studied, can be defined the most liberalized.

With this in mind, the best indicators are the ones which directly reflect the legislator choices, as he is able to impose legal, regulatory or fiscal barriers and therefore set a limit to the competition level of any market. Nevertheless, in order to measure the liberalization level of such an intensely regulated industry as insurance, it seems reasonable to also include elements which reflect its particular structure besides explicit normative barriers, as the effects of over-regulation can be felt in very different ways.

In particular, according to our approach, the less discriminatory are the rules, the more liberalized is the country; the same goes for the consumer propensity towards mobility and the freedom for companies to organize their own business according to market rules instead of regulations. Indirect indicators of market permeability are, for instance, the presence of foreign insurers and a low level of concentration as to offers.

The most liberalized insurance market is that of the United Kingdom, characterized by the emergence of benchmarking services, which make offers more transparent and buyers more inclined to switch. Germany has the least concentrated market, while Belgium retains the best performance as to distribution channels. Denmark and Poland feature the lowest level of indirect taxation on the insurance premiums that we considered.

2. Methodology

The liberalization of insurance market is defined by two indicators: *design* and *structure*. Each indicator contributes with equal weight to the score of the final index.

The *design* indicator reflects the choices of the regulator, through the variables of *compulsory insurance*, *distribution* and *tax*.

Compulsory insurance consists in a dummy variable equal to 1 for those countries where work-related injuries insurance is made compulsory under the law, and equal to 0 those where this is not the case. The more liberalized a market is, the greater freedom agents have to choose among different options, something that becomes impossible with a legal requirement.

Distribution outlines the weight of alternative distribution channels for insurance products, such as brokers, direct sale and bancassurance, which represent how simple is it to access the market. Indeed, these distribution channels, unlike the one of agents, require a lower initial investment. The more common these kinds of channels are, the wider the market is.

Tax keeps track of taxation on the premiums of life, motor liability and health insurance. A low score on this indicator matches a high taxation. Though this may not be a direct measure of the competition level, it is important to highlight that higher taxation presents both an entry barrier on the offer side as well as an anti-competitive element on the demand side, as it levels up the different policies prices, making the differences between them not as relevant.

Structure indicator includes the *aggregators*, *concentration* and *foreign operators* variables, which are useful to show the market levels of competition.

Aggregators represents the benchmarking services penetration rate into the market. In particular, we used as an indicator the *pro capita* earnings generated by benchmarking services in each country. A good rate of development of benchmarking services implies a simpler way for the consumer to gain adequate information

in order to choose between the different insurance companies.

Concentration shows the market share of the five biggest operators. A higher concentration matches a lower score in the indicator.

Foreign operators is a proxy for the market's degree of openness, inferred on the basis of the share of foreign operators operating in the insurance market. A larger share of foreign operators indicates a greater market openness, and this yields a higher score on the indicator.

When data are insufficient to give a country a score, we have assigned the same score of the worst country for each variable. In this regard, we want to stress the fact that the greater the paucity of data, the worse the position of a country shall be in the final ranking. As a matter of fact, Denmark is the country most penalized by the method used, since we lack the data for three variables out of six. Greece, Luxembourg and the Netherlands follow in the line (data missing for two variables out of six).

As to Italy, we were able to find the necessary data for every variable, suggesting that the final ranking could be a little over-optimistic assessment of the relative position of Italy as compared to the other EU countries.

Regarding *concentration* and distribution indicators, we used a weighted average of premiums, availing ourselves of data for life and non-life sectors. In the case of tax, we used a weighted average of life, motor liability and health products premiums.

The data source on benchmarking services (aggregators) is a 2012 studio by CP Consulting. Information about compulsory work-related injuries insurance has been drawn from the European Commission website. Regarding all the other data, the source is Insurance Europe. All data refer to the year 2012.

3. Italy

Italy ranks fifth overall. Compared to the other EU members, Italy best performs in the structure indicator, in which is ranked in sixth place, thanks to the eighth, sixth and seventh position achieved, respectively, within the concentration, foreign operators and aggregators variables. In the benchmarking services case though, Italy only ranks second to last among the countries for which data are available. The real picture, therefore, might well be worse than what the ranking indicates.

In regards of design indicator, though, Italy ranks seventh. Considering that the Italian approach to regulating compulsory work-related injuries insurance is largely shared by other member states (on the basis of our data, only Bulgaria, Lithuania, Netherlands and Spain do not adopt it), the worst result is reserved to the distribution and tax indicators, in which Italy ranks respectively seventh and fourteenth. On the bright side, we should also take note that the design indicator is the one that politics can affect the most in the short term.

Insurance

Chart 1. Insurance - Liberalization Index 2015			
	Design [0-10]	Structure [0-10]	Index [0-100]
Austria	7,15	2,15	56
Belgium	8,07	3,4	69
Bulgaria	7,22	5,32	75
Croatia	6,88	1,59	51
Cyprus	4,82	2,87	46
Czech Rep.	1,67	2,91	27
Denmark	5	2,41	44
Estonia	3,33	1,54	29
Finland	6,95	1,35	50
France	7,68	3,73	68
Germany	6,29	3,77	60
Greece	4,48	3,92	50
Hungary	6,06	1,99	48
Ireland	6,33	1,36	46
Italy	7,15	3,67	65
Latvia	3,33	2,08	32
Lithuania	n.a.	n.a.	n.a.
Luxembourg	4,92	1,92	41
Malta	6,07	0,85	41
Netherlands	8,4	1,03	56
Poland	6,97	2,04	54
Portugal	7,41	3,13	63
Romania	6,79	1,67	51
Slovakia	4,81	1,21	36
Slovenia	5,65	2,07	46
Spain	6,56	3,27	59
Sweden	2,64	2,97	34
United Kingdom	7,98	8,72	100

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