

REGULATION AND PRODUCTIVITY IN SERVICES

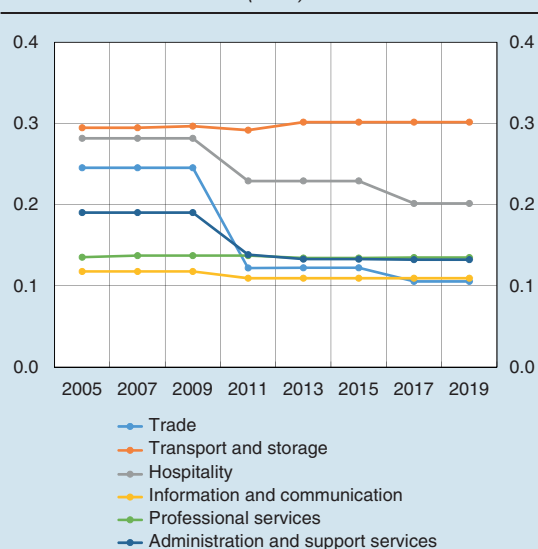
Since the second half of the 1990s, labour productivity growth in Italy has been well below that of the main euro-area economies.¹ This has mainly been driven by the substantial stagnation in non-financial services, which account for more than two thirds of total domestic value added. Growth in manufacturing has been very pronounced, albeit less than in other advanced economies.

Market access rules can have an impact on productivity by affecting firms' selection, demographics and, ultimately, level of competitiveness. These rules are particularly important in the service sector, which is marked by strict business conduct regulations and less competitive pressure from abroad.

The requirements for accessing certain professions – such as holding a given diploma or completing training of a specific duration – raise the human capital profile of those who start these activities. At the same time, they may discourage others who, despite having excellent professional skills, cannot or do not wish to pursue careers with particularly long entry times. The legislation governing the set-up of business activities (e.g. in terms of health and safety, noise pollution, environmental impact and fire prevention) aims to reduce the negative externalities that may arise from these activities, but it also lays down administrative requirements – involving numerous and lengthy procedures – that affect the costs of entering the market. In light of these conflicting effects, only empirical analysis can provide insights into the overall economic impact of regulation.

The market entry regulation index shown here (Figure A)² indicates that in most sectors, analysed in great detail, rules have become less stringent in Italy since the mid-2000s owing to a series of legislative measures aimed at reducing entry costs (e.g. the transposition of Directive 2006/123/EC on services in 2010 and the reform aimed at streamlining administrative procedures passed in 2016).

Figure A
Service market entry regulation index (1)
(units)



Source: A. Cintolesi, S. Mocetti and G. Roma, forthcoming, op. cit.
(1) The index summarizes, at the five-digit Ateco taxonomy level, both the scope of the professional requirements and the complexity of the administrative requirements for each activity; it ranges from 0 to 1, where 0 (1) is the minimum (maximum) point of regulation observed for each economic activity. The value shown in the chart is the simple average across the economic activities within each sector in the key.

¹ M. Bugamelli and F. Lotti (eds.), 'Productivity growth in Italy: a tale of a slow-motion change', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 422, 2018.

² A. Cintolesi, S. Mocetti and G. Roma, 'Productivity and regulation: evidence from Italian firms', Banca d'Italia, Temi di Discussione (Working Papers), forthcoming.

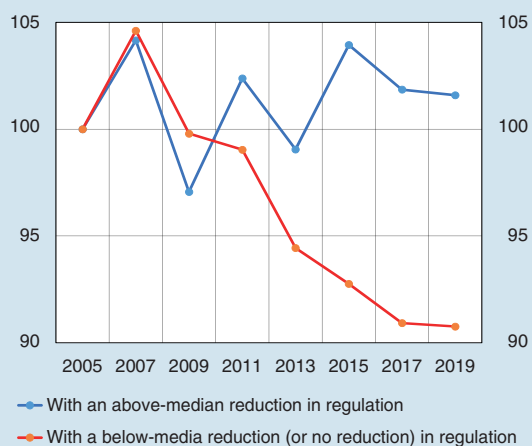
The decline in this index has been particularly marked for trade, hospitality and other business support services. However, significant differences in services remain, both between and within sectors.

Productivity growth has been less disappointing in sectors where the decline in the market entry regulation index was more marked (Figure B). A cumulative positive effect on productivity growth in non-financial services of between 3 and 5 percentage points can be attributed to the easing of start-up constraints between 2005 and 2019. This affected the average productivity of new and existing firms. The latter, presumably as a result of increased competitive pressure,

also recorded an improvement in allocative efficiency, buoyed by the increase in the size of the most efficient firms. The reduction in market entry regulation also led to a 5 per cent fall in the price of services offered over the period as a whole.

Figure B

The impact of regulation on productivity (1)
(Index numbers: 2005=100)



Source: Based on Istat's data on firms' financial results.
(1) Developments in labour productivity (as measured by the value added-to-employee ratio) in sectors of economic activity marked by a change in the regulation index above the median (blue line) and below the median (red line).