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**Lectio Magistralis by
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Building a Future for Italy's Youth—Challenging the Present, Daring the Future
Bocconi University Inaugural Speech

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Good morning everyone—*Buongiorno!*

President **Mario Monti**, Rector **Andrea Sironi**—thank you for the kind introduction.

Distinguished professors, students and guests—thank you for welcoming me here today.

It is a great honor to deliver the inaugural address for this academic year at Bocconi—one of the most prestigious universities in Europe, and indeed, the world.

What I admire about Bocconi goes well beyond its academic and intellectual excellence. Bocconi truly embraces a global view in its curricula, in its culture, and in its values. The spirit of tolerance and multilateralism runs in your DNA! And in this, I hope you agree, we are very much alike!

It is also such a pleasure to be back in *Milano!* I am always reminded of my first visit to *Santa Maria delle Grazie* and of the genius of da Vinci. It is true, he left his mark in many cities during his lifetime—but it was really in *Milano* where his genius and talents were nurtured and began to flourish.

Da Vinci was the quintessential Renaissance Man—a multi-talented visionary well ahead of his time. He dared the future by challenging the present, and he was not shy to challenge others.

I was struck by this one quote of his, which is now a favorite of mine: “*Chi poco pensa molto erra.*” “*He who thinks little, errs much.*”

So, today, when thinking about my favorite subject, the economy, let us think a little bigger. Let us start from a blank canvas, as da Vinci, and imagine the future.

Normally we would use bright colors to paint that future, using imagination, energy, and hope. But these days, darker colors seem more in order, and this is what I would like to talk to you about. The grey clouds of entrenched low growth and high unemployment, especially among the young. How can we get the color of hope back into this picture?

I am troubled to no end by the stark contrast between the benefits and promises that education brings with it—here at Bocconi and elsewhere—and the harsh reality that many young adults face in the labor market. That they do not get the chance to apply their educated minds to the workplace, to hone their skills in the day-to-day work environment, or to gain the experience necessary to embark on successful careers. This has become a pervasive problem in Europe, and it is particularly acute in Italy.

This is not just a cross for the young to bear. Sooner or later this is a cross that *society* will need to bear. Persistent unemployment not only undermines economic activity, it undermines people's self-esteem, and it tears at the fabric of society and institutions by breeding inequality and sometimes violence.

Tackling the problem of youth unemployment is therefore a shared responsibility—between government, the private sector, and society as a whole—at both the national and European levels. With this in mind, I would like focus on three key topics that can help shape your future:

- (i) First, a deeper look at the problem of youth unemployment;
- (ii) Second, the remedies that can be pursued at the national level to tackle it ; and
- (iii) Finally, policies at the Euro Area level to complement and reinforce national policies to support growth and combat youth unemployment.

1. Youth Unemployment—Causes and Consequences

Today, unemployment among Italy's youth stands at more than 40 percent—the highest in almost 30 years. If the unemployed could form their own region, they would be almost as big as Umbria—700,000 people. These numbers would make Mona Lisa frown, not smile!

The IMF is publishing today a paper called “*Youth Unemployment in Advanced Europe: Searching for Solutions*” which looks at this very issue, not just for Italy but for other countries in Europe as well. Here are two key messages from that paper:

- ***First, when growth is low, youth unemployment is high.*** On average, across advanced European countries, the impact of weak growth on youth is *three times larger* than that for the adult unemployed. In fact, about 70 percent of the increase in youth unemployment in vulnerable countries during the crisis can be traced back to feeble growth.

What is the implication? Reviving growth is a first order priority. Our research shows that one additional percentage point of GDP growth in Italy can lower the youth unemployment rate by 0.6 percentage points. That's a lot of people going back to work. This would be an important step forward.

- ***Second, institutions matter.*** In many countries, including Italy, youth unemployment was already quite high when the global crisis struck. The crisis simply made the situation worse.

Why is that? Because certain labor market characteristics—such as high levels of protection for workers on permanent contracts or large hiring costs—conspire against youth employment. And in countries such as Italy, they make youth unemployment *even more sensitive to growth*.

Let me put these two findings in perspective and give you a sense of magnitude. Between 1996 and 2001, Italy was able to reduce its total unemployment rate by 7 percentage points by growing at an average rate of almost 2 percent per year.

The problem is that our current forecasts for growth are far weaker—about 1 percent annually over the next four years. At the same time, inflation remains persistently low—usually a clear sign that resources remain underutilized.

Low growth and low inflation are a toxic mix. They create a vicious circle: if you expect low growth in the future, you will invest less, and hire less, today. Overcoming this vicious cycle is the challenge, not only for Italy, but for Europe as well.

2. Unleashing Italy’s Potential—Past is Not Prologue

This is where we lay the dark colors on our canvas aside. We need to think bold and colorful when we act, and action is needed on the structural reforms and institutional changes that could unleash Italy’s productivity and growth.

As the father of the “third dimension” that provided perspective and improved contrast, *Leonardo* revolutionized the way in which we conceive objects and innovate. So just as he would point out that a painting in 3D is far more convincing and appealing to the viewer, let me give you my set of reforms in three dimensions as well.

The first dimension is labor market reform. The Italian labor market today suffers from what some call a “duality,” and others refer to as an “insider-outsider” problem. Insiders have permanent contracts with a high degree of protection; while outsiders, mostly young people, are hired on temporary contracts and receive little training.

This is not only unfair, but also inefficient. Companies have little incentive to invest in young people. This is why the ***Jobs Act***—and its focus on creating a *new labor contract with gradually increasing protection*—is so important to tackle pervasive duality and make the market work better for both workers and firms.

Another important element of the Jobs Act is *active labor market policies*. These include helping the unemployed to receive the training and job search assistance they need. Austria, Finland and Sweden all show that these policies can work. In Sweden for example, incentives for the young unemployed to actively seek jobs are paired with active job matching support and apprenticeship training if needed.

Even then, the Jobs Act would need to be complemented with measures to lower marginal tax rates—or the “*tax wedge*”—which discourage investment in labor and capital. Despite recent efforts, this labor tax wedge in Italy remains well above the OECD average.

Why is this important? Reducing the labor tax wedge in Italy to the average European level could lower youth unemployment by some 4-8 percentage points. That could mean anywhere from 60,000–130,000 young people going back to work!

New markets and open markets can also be powerful catalysts for job creation. For example, opening up the legal profession and enhancing competition in the retail sector can boost productivity and facilitate movement of workers across sectors where they are most needed.

Think back to da Vinci. He changed locations and jobs quite frequently—moving from Firenze to Milano, Roma, Bologna and Venice to Clos Luce in France—and reinventing himself wherever he went—as a painter, sculptor, engineer, anatomist, musician and mathematician. A flexible and open labor market was essential for da Vinci’s entrepreneurial and innovative spirit to thrive. This is the spirit and dynamism that we would like to see rekindled in Italy—a rejuvenated Italy for the 21st century.

So labor market reform is the first dimension. ***The second dimension is judicial reform.***

A major factor behind Italy’s weak business environment is its lengthy judicial process. By some estimates, it takes more than a *thousand days* to enforce a contract in Italy—*more than twice* the OECD average.

And the regional disparities in judicial efficiency are large, especially in labor courts. For example, it takes less than 300 days to resolve a labor dispute in Piemonte or Trentino, but more than a thousand days in Puglia or Sicilia—the regions facing some of the most challenging economic situations.

Greater judicial efficiency would lower the cost of credit, encourage investment, and importantly, facilitate employment. In fact, our research on regional disparities suggests that *halving the duration of labor disputes* raises the probability of being employed by about 8 percent.

Measures such as the online civil trial (*processo civile telematico*) introduced earlier this year can deliver important efficiency gains. The success of the “Strasbourg Program” adopted by the Turin Court is a powerful demonstration that developing court performance indicators can help increase judicial efficiency and accountability. Embedding this approach throughout the country could be a promising next step.

The third dimension is the ***banking sector where reform is needed to make it stronger to support the recovery, especially in the small and medium enterprise sector.***

At present, the financial system in Italy is saddled with bad loans and constrained in its ability to provide credit. The ECB’s comprehensive assessment was an important step in outlining the magnitude of the problem and its potential remedies.

So what needs to be done? We need *insolvency regimes* to help businesses and households clean up their balance sheets. The same is true for banks. Write-off rates need to be stepped up significantly to bring down bad debt ratios to pre-crisis levels.

By the same token, reviving the *small and medium enterprise* (SMEs) sector can be crucial in facilitating the flow of credit to the economy. SMEs are the backbone of the Italian economy—they account for about 80 percent of the private sector workforce and 70 percent of business value-added.

Still, because of high leverage and weak profitability, they are suffering more than large firms from the financial crisis. A broad strategy focused on facilitating the restructuring of the SME sector would be a powerful impetus to growth and job creation.

Taking them all together: labor market reform, judicial reform, and banking sector reform are the dimensions we need to keep in our field of vision in painting the canvas of strong, inclusive, and job-rich growth in Italy.

3. Euro Area Policies—Supporting the Recovery

What about Europe? Italy has always been an anchor of European activity and stability—and the mutual prospects of Europe and Italy are inextricably linked.

Indeed, for Italy’s efforts to succeed, they must be complemented by a comprehensive strategy at the Euro Area level to support a durable and robust recovery. The euro zone has to fire on all cylinders.

Let me start with ***monetary policy***. It has been at the forefront of the policymaking landscape, and needs to continue to play a crucial role in supporting demand.

The ECB has taken bold steps in recent months—announcing significant outright purchases of private assets, for example. These measures should help prop up demand and fend off the risks from persistently low inflation.

Even so, should the growth and inflation outlook soften further, the ECB has indicated that it stands ready to expand its balance sheet even more, including through purchases of sovereign assets. This is to be welcomed—but monetary policy alone is not enough.

Fiscal policy also has a key role to play—and fiscal measures must be as growth- and job-friendly as possible. Think of cost-effective, efficient pan-European public infrastructure projects that could help lay the foundations for sustained growth. Think of cross-border investments in transportation, communications, and energy networks. These are key ingredients to support innovation and productivity growth.

Last, and very importantly, there is some flexibility within the rules of the Stability and Growth Pact to support public investment and implementation of ***structural reforms***. These may vary depending on the specific country, but include streamlining regulatory burdens, opening up product and services markets such as energy, and deepening capital markets. This flexibility should be explored to encourage productive outlays and measures to foster growth and job creation.

Conclusion

I know today's student generation is facing some of the toughest prospects in a very long time. Unemployment, especially of the young, is a blemish on any society. It erodes talent, saps aspiration, and depletes dignity. It is a multifaceted problem, and requires a multipronged solution.

The solutions I have laid out are neither in code nor are they spelled from right to left, so you will not need a mirror to decipher them. Cynics may say that reforms take too much time to take effect, and that the immediate outlays are unduly high.

But cynicism is a recipe for policy paralysis and economic inertia—a past that could very well be prologue. We must take a different path. One that is not easy, and requires hard work, but one that has the potential to bring about the change that is needed.

Italy has so often demonstrated its resilience in the face of difficult circumstances. So today I appeal to you to bet on a new future: one where the Italian genius is once again unleashed, where creativity and dynamism are the hallmarks of broad-based prosperity—among youth, women, entrepreneurs, and all Italians.

How would Da Vinci advise us? Think of how many years it took him to complete “The Last Supper”—four years by some accounts, and many more if we count the restorations! Yet today it remains one of the most beautiful and awe inspiring pieces of art ever created.

We all hold the tools to thinking, drawing, and building a brilliant future for our youth. Let’s use them wisely.

Grazie. Thank you.