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**Research Report**

## Is Immigration Necessary for Italy? Is it Desirable?

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## Is Immigration Necessary for Italy? Is it Desirable?

*Luigi Bonatti (EconPol Europe, University of Trento)*

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# **Is immigration necessary for Italy? Is it desirable?**

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## **1 Introduction**

The departing point of this article is the recognition that Italy—together with other Southern European countries—represents an anomaly in the history of modern migration, being a country that in the last three decades has attracted a substantial number of migrants even if its employment rate has remained structurally low because of a persistently high unemployment rate (especially amongst the young cohorts) and—above all—of its population's low participation to the labor market (especially in the South). The recent success of populists in the Italian general election has much to do with this anomaly. In its current version, indeed, the Italian populism is a two-headed animal with two mouths: one mouth has been fed by the lacked inclusion in the formal economy of a large number of Italians (particularly in the South), the other mouth has been mainly fed by the large number of—badly integrated—migrants who have entered Italy in recent years causing distress amongst many Italians.

Scope of this article is to illustrate some facts in order to escape from the obtuse dispute between anti-immigrant propagandists on one side and do-gooders with their rhetoric of immigrant reception on the other, thus showing what the above-mentioned anomaly implies and what are the possible policy options for dealing with it.

The article is organized as follows. Section 2 illustrates some stylized facts that are peculiar to Italy and are relevant for any assessment of the short and long-term effects of migration. Section 3 discusses the conditions of immigrants in the Italian labor market, and their implications on poverty and Italy's public finances. Section 4 is devoted to the immigrants' impact on Italy's aggregate productivity and their likely future effects on the structural change brought about by technological progress. Section 5 presents some number raising serious doubts about the alleged necessity for Italy to rely on migrants to outweigh the decline of its native workforce, and it argues that an increase of the employment rate is likely to raise the natives' fertility rate. Section 6 explains why it is highly unrealistic that Italy can integrate in the formal economy those million of natives that are out of

employment and at the same time integrate immigrant inflows comparable to those of the recent past. Section 7 concludes.

## 2 Italy's peculiar features

As preliminary remarks, it is useful to recall some stylized facts that are peculiar to Italy and are relevant for any assessment of the short and long-term effects of migration on this country.

- i) In comparison with the other advanced economies, Italy displays low employment rates (see figure 1), with a very large fraction of its youth population that is out of employment (as a result of high structural unemployment and low rates of participation to the labor market): in 2017 Greece, Italy and Spain had the lowest employment rate of the EU among the persons aged 15-39 years (46.3% in Greece, 47.6 in Italy and 54.2% in Spain, whereas the average EU rate was 61.8%). Actually, Italy is the only industrialized country in Europe—together with Greece—whose employment rate is persistently lower than 60%, almost 10 percentage points below the EU average (if the Italian employment rate were equal to the EU average, Italy would have slightly less than 26 million employed workers rather than the approximately 23.2 million that has now) and almost 20 percentage points lower than that of the most virtuous northern European countries. It is South Italy that pushes the Italian average well below the European one: only 44% of working-age residents in the “Mezzogiorno” are employed (in South Italy, the female employment rate is 32%, a level comparable only to that of Turkey).<sup>1</sup>
- ii) Italy's sharp and persistent territorial dualism (along the North-South axis) is quite unique amongst the advanced economies: in 2017, GDP per capita in South Italy was 55% of that of the rest of the country (approximately the same level as that at the beginning of the 1970s). Notice that this huge differential can be imputed almost equally to the lower fraction of the working-age

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<sup>1</sup> Another Italian anomaly is that the employment rate of the immigrants is persistently higher than that of the natives. Such anomaly reaches its peak in the South of Italy, where the employment rate of the extra-EU migrants is much higher than that of the natives (the European record belongs to Campania, with a differential of almost 16 percentage points).

population that is employed in the South and to the lower productivity level of the South (more than 20% lower than in the rest of the country, see Banca d'Italia, 2018). This implies that, if the Mezzogiorno had the same employment rate as the rest of the country, the differential in GDP per capita between the former and the latter would be halved.

iii) In the last two decades, Italy's productivity has been stagnant and economic growth has been anaemic (see figure 2): "Over the period 1995-2016 the performance of the Italian economy was poor not only in historical terms but also and more importantly as compared with its main euro-area partners. Italy's GDP growth – equal to 0.5 per cent on an average yearly basis against 1.3 in Germany, 1.5 in France and 2.1 in Spain – was supported by population dynamics, entirely due to immigration, and the increase in the employment rate, while labor productivity and in particular TFP gave a zero (even slightly negative) contribution..... In the private non-financial services, hourly productivity has declined by 0.4 per cent on average over the last fifteen years" (Bugamelli et al., 2018: p.7).

iv) Italy has a serious problem of fiscal sustainability: in 2017 its public debt as a percentage of GDP was 131.2 (in the same year the EU average was 81.6).

v) Italy's informal economies is estimated to be one of the largest in the industrialized world: among 21 OECD countries considered by Schneider and Williams (2013), in 2012 Greece was estimated to have the largest shadow economy (24% of its official GDP), Italy the second (21.6%), Portugal the third (19.4%) and Spain the fourth (19.2%). According to INPS, in 2014 more than 3,500,000 labor units (15.7% of the total) were irregular.

vi) The increase in relative poverty that Italy displayed in recent years is due to the foreign-born residents (see figure 3).<sup>2</sup> Moreover, 30% of the latter live in absolute poverty (see table 1).<sup>3</sup>

vii) Italy's total fertility rate is one of the lowest in the world: 1.34 in 2016 (in the same year the EU average was 1.6). As a result of low fertility, Italian population is expected to decline: according to the UN's projections (median variant), in the absence of any migration, Italy's current population of 60,665 thousand people will shrink to 51,014 in 2050 (or to 50,617, according to the ISTAT median scenario).

viii) Given its orographic conformation, the Italian territory is quite congested. Indeed, Italy is prevailing hilly (41.6% of the total surface), with large mountainous areas (35.2%) and a relatively small fraction of its total surface consisting of plains (23.2%). In 2017, Italy's population density amounted to approximately 201 inhabitants per square kilometer (much higher than the EU's average density of 120.91 inhabitants per square kilometer); and it is concentrated in the plains (48.7%), with some areas (such as the coast of Campania) that are among the most populated in Europe, 38.9% of the Italian population live in the 3,369 municipalities located in hilly areas (41.6% of all Italian municipalities), and only 12.4% are resident in the municipalities located in mountainous areas.

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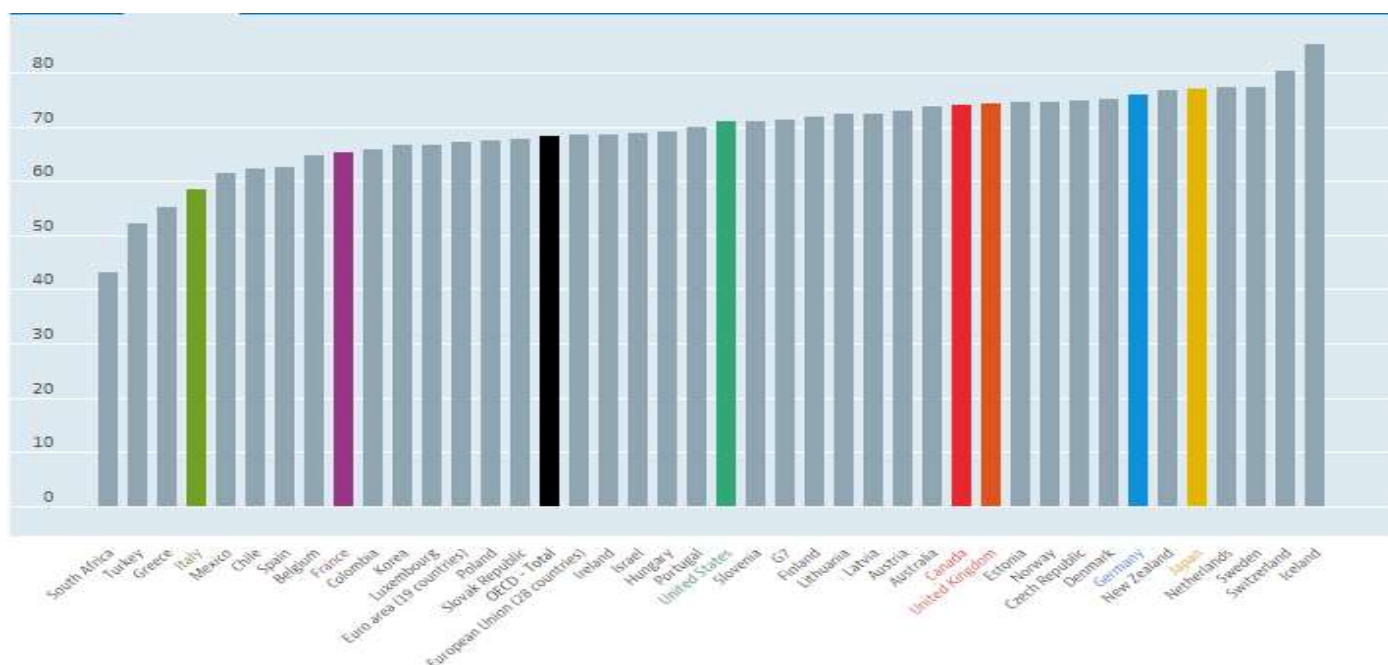
<sup>2</sup> In Italy, the relative poverty threshold for a two-person family is equal to the average per-capita expenditure in the country, which was 1,085.22 in 2017. For families of different size, the threshold is computed by applying an equivalence scale that accounts for the economies of scale obtainable with a larger number of family members.

<sup>3</sup> «Absolute poor» are for ISTAT those who cannot afford to buy a basic basket of goods and services that are deemed essential for subsistence (thus, the income threshold below which somebody is classified as absolute poor varies with the number of household's components and the location where they live). For instance, for an adult (aged 18-59 years) living alone, the poverty threshold is 826.73 euro per month if s/he lives in an urban area in the North, 742.18 euro if s/he lives in a small city in the North, and 560.82 euro if s/he lives in a small city in the South.



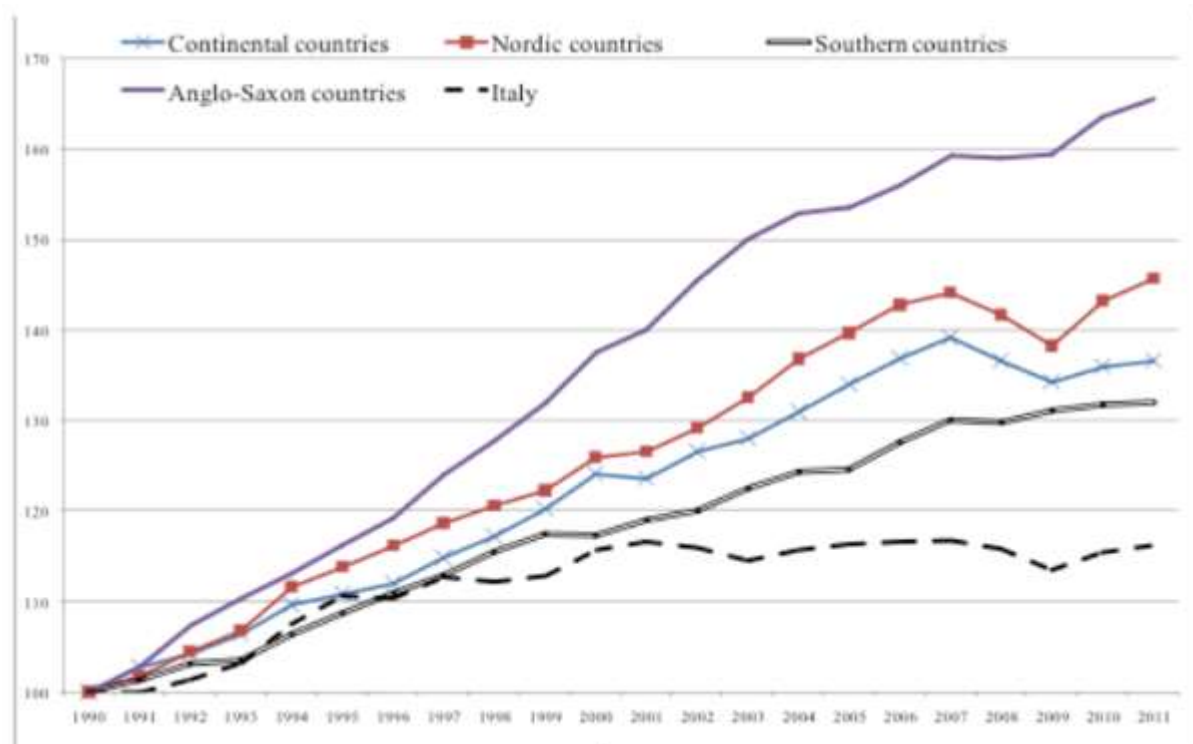
**FIGURE 1 EMPLOYMENT RATE IN OECD COUNTRIES, 2018**

(% of working-age population—population aged 14-64—that is employed)



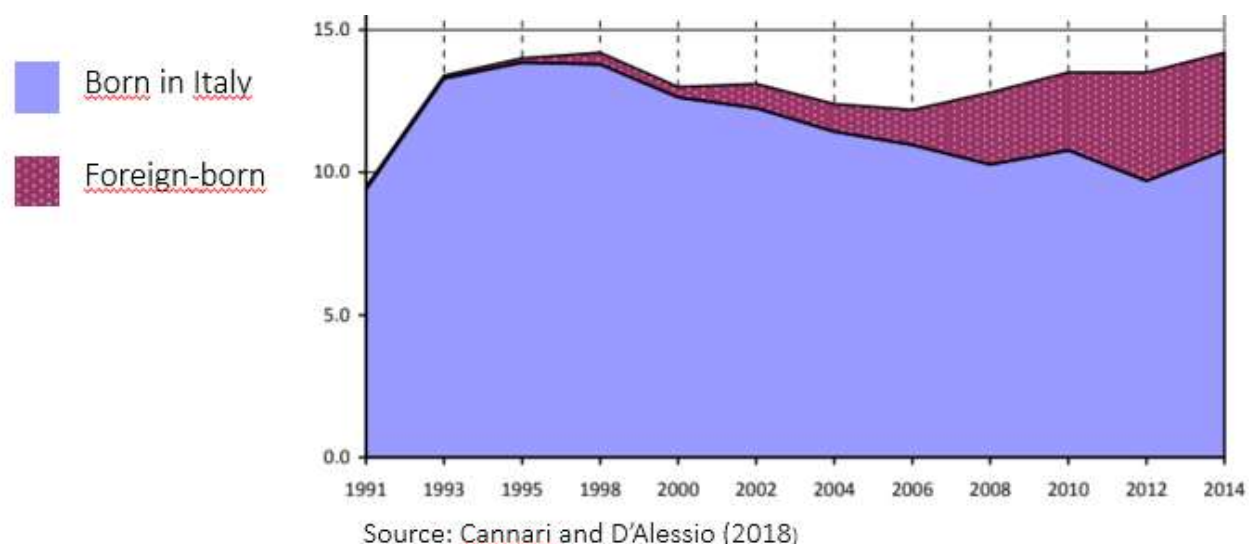
Source: OECD.

**FIGURE 2 LABOR PRODUCTIVITY, 1990=100 (GDP per hour worked)**



Source: OECD Productivity Statistics.

**FIGURE 3** RELATIVE POVERTY IN ITALY BY PLACE OF BIRTH, 1991-2014  
(% of individuals)



**TABLE 1** ABSOLUTE POVERTY IN ITALY BY PLACE OF RESIDENCE AND PLACE OF BIRTH, 2017 (% of households)

|                         | North | Center | South | Italy |
|-------------------------|-------|--------|-------|-------|
| Italian-only households | 3.1   | 3.3    | 9.1   | 5.1   |
| Mixed households        | 20.1  | .      | .     | 16.4  |
| Foreign-only households | 27.7  | 23.8   | 42.6  | 29.2  |

Source: ISTAT, Households economic conditions.

### 3 The conditions of immigrants in the Italian labor market and their implications

Flanking the large number of working-age natives who do not work, in Italy there are approximately two and one half million employed foreigners among the slightly more than five million of foreigners who are regularly resident in Italy according to the official statistics (see table 2). The overwhelming majority of the foreign workers are employed in low or very low value-added activities (see figure 4 and table 3), and the enterprises owned by them are –with a very few exceptions—small or very small and are mainly active in the retail and in the construction sector

(respectively, 45.4% and 21% of the single-person enterprises owned by extra-EU immigrants). Only very few foreigners have medium or high-skilled jobs, and many of them with a degree in science, technology, engineering or mathematics (STEM) have to take unqualified jobs: 47.5% of the extra-EU workers with STEM degrees are employed as unskilled workers (as opposed to 1.8% of the natives).<sup>4</sup> Incidence of irregular work amongst immigrants is very high<sup>5</sup> and is maximal amongst the immigrants who are irregularly present in the Italian territory. (ISMU Foundation estimates that in 2018 there were in Italy 533,000 irregular immigrants).

Given their low-qualified occupations and low reservation wages, immigrants' incomes are concentrated in the lower tail of the distribution: according to INPS, the average annual earnings of the extra-EU workers are 35% lower than the average annual earnings of all workers (13,927 euro against 21,509 euro). In particular, 46.9% of the extra-EU workers earn less than 800 euro per month, and 35.7% of them between 800 and 1,200 euro per month. Thus, it is not surprising that a large fraction of the foreign-born households who are regularly resident in Italy are poor or very poor (see figure 3 and table 1), are in the no-tax area (below 8,174 euro per year for employees) and are eligible to receive the basic income recently established by the Italian government ("reddito di cittadinanza").<sup>6</sup> In spite of their low incomes, foreign workers' remittances amount to little more than 5 billion euro per annum, thus implying that approximately 0.3% of the value added produced in Italy is spent in the migrants' native countries.

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<sup>4</sup> Dell'Aringa et al. (2015) use data drawn from the Italian labor force survey to show that returns to human capital is much lower for immigrants than for natives, suggesting that human capital acquired in foreign (and especially in developing) countries is poorly transferable.

<sup>5</sup> In a study based on a sample survey, ISFOL (2014) finds that 41.6% of the foreign workers in Italy are irregularly employed, 37.3% are regularly employed and 18.4% are not employed. Of those irregularly employed, 82.5% have no form of labor contract ("black" labor), while the remaining 17.5% have some form of contract but work according to modalities that do not comply with existing norms ("grey" labor).

<sup>6</sup> In order to prevent most immigrants from accessing the newly established basic income, the Italian government decreed that to be entitled to it an individual must have been continuously resident in the country since at least 10 years, a clause which is likely to be declared discriminatory by the Italian Constitutional Court.

**TABLE 2 IMMIGRANTS AND LABOR MARKET IN ITALY (I quarter 2017)**

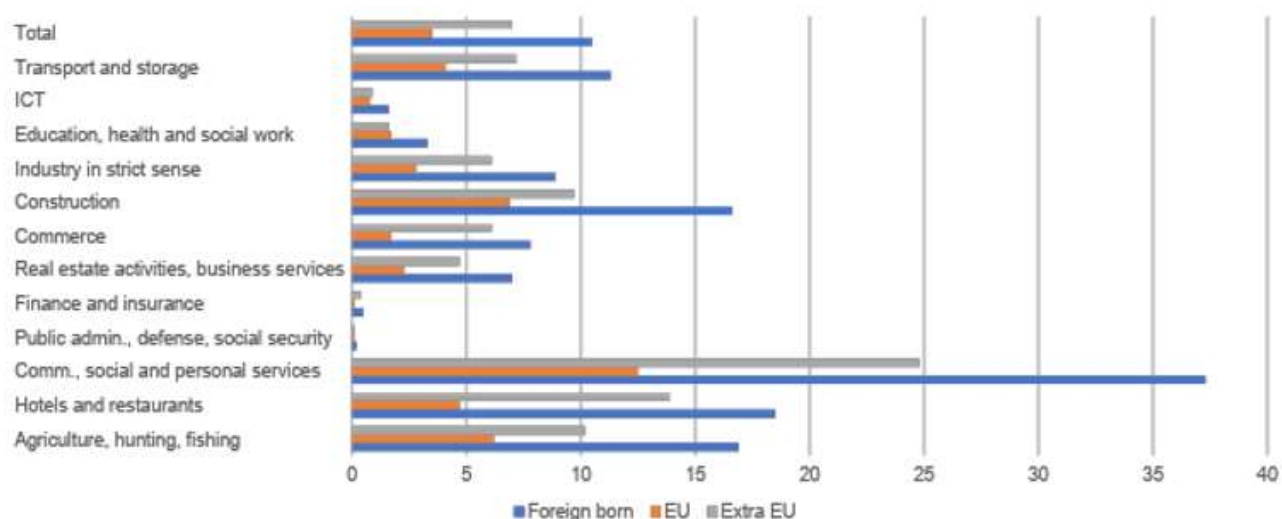
|  |   |
|--|---|
| <b>Regularly resident foreigners aged 15-64:</b>         | 4,100,826                                       |
| <b>Regularly resident foreigners who are employed:</b>   | 2,430,409 (59.3% of the foreigners aged 15-64)* |
| <b>Regularly resident foreigners who are unemployed:</b> | 415,229 (10.1% of the foreigners aged 15-64 )°  |
| <b>Regularly resident foreigners who are unactive:</b>   | 1,255,187 (30.6% of the foreigners aged 15-64)” |

\* Of which: 1,635,300 extra-EU (67.3%) and 795,100 EU (32.7%)

° Of which: 283,837 extra-EU (66.9%) and 131,392 EU (33.1%)

“ Of which: 897,411 extra-EU (71.5%) and 333,093 EU (28.5%)

Source: ISTAT, Foreign residents in Italy.

**FIGURE 4 EMPLOYED FOREIGNERS BY SECTOR (% of total employment in the sector)**

Source: Ministero del Lavoro e delle Politiche Sociali (2018).

**TABLE 3 OCCUPATIONS WITH THE HIGHEST PRESENCE OF EMPLOYED FOREIGNERS (% of total employment in the occupation)**

|   |      |
|---|------|
| <b>Housework &amp; childcare:</b>                                     | 74   |
| <b>Home care for seniors:</b>   | 56.1 |
| <b>Street vendors:</b>  | 51.6 |
| <b>Shepherds &amp; woodcutters &amp; fishermen:</b>                   | 39.8 |
| <b>Labourers:</b>   | 29.8 |
| <b>Specialized workers &amp; artisans in the construction sector:</b> | 29.5 |
| <b>Unskilled workers in the construction workers:</b>                 | 29.1 |
| <b>Cleaners in offices and hotels:</b>                                | 27.9 |
| <b>Goods handlers:</b>  | 25.4 |
| <b>Painters:</b>  | 25   |

Source: Fondazione Leone Moressa (2018).

In the light of the facts outlined above, one should doubt about the alleged positive contribution that immigrants are supposed to make to the long-term sustainability of Italian public finances. In general, the existing literature emphasizes that the most significant determinant of migrants' net fiscal contribution to the host country is the extent to which they are integrated into the formal labor market (for a survey, see OECD, 2013; Preston, 2014). This is particularly true in countries that—guaranteeing universal access to publicly-provided basic goods such as health and school services—make the estimated present value of net fiscal contributions of newly arriving immigrants crucially dependent on the expected stream of taxes and social contributions that these households are going to pay over their lifetimes. Hence, for assessing the long-term effects of immigration on the public finances of a country like Italy where immigration is a recent phenomenon, it is of little significance if the taxes and social security contributions that the foreign-born households are currently paying are slightly larger than the value of the government transfers and public services that they are currently enjoying.<sup>7</sup> It is straightforward, indeed, that nowadays the foreign-born population—having entered Italy quite recently—is younger than the ageing native population, thus compensating the lower taxes and pension contributions that it pays because of its low wages and precarious jobs with the lower health services and pensions that it enjoys relative to the natives because of its younger age.<sup>8</sup> But this is bound to change soon as also the foreign-born population will be ageing.<sup>9</sup> Furthermore, growing

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<sup>7</sup> According to the Moressa Foundation, a foundation for advocacy of migrants, in 2015 the migrants' net contribution to the Italian public budget was +2.8 billion of euro. Brambilla and Forlani (2018) claim that the criteria adopted by the Moressa Foundation strongly underestimate the public spending and overestimate the revenues due to migrants.

<sup>8</sup> At the moment, in Italy there are only 130,000 foreign-born retirees (of which 50,000 are pensions provided under public assistance programs that are unrelated to paid contributions), less than 1% of the total number of retirees.

<sup>9</sup> INPS (2017) presents the results of a simulation exercise aimed at estimating the impact on the Italian pay-as-you-go pension system of the absence of any migration inflow from the present to 2040, taking as a reference the average number of migrants that entered Italy in the years 2006-2009 (140,000 per year), and assuming that each year 5% of the migrant population leaves the Italian labor market and that their average pay is 2,700 euro per annum in the first year of work to reach a maximum of 9,500 euro afterwards. According to such exercise, halting any migration inflow would cause a net loss of 37.5 billion of euro to the Italian pension system, resulting from the difference between a reduction in paid contributions of 72.6 billion of euro and a reduction in pension outlays of 35.1 billion of euro. However, this exercise has three main shortcomings undermining the significance of its results. First, by truncating the exercise to the year 2040, the calculation includes only the years in which practically all the immigrants that would have entered Italy from the present to 2040 are still active and pay some pension contribution, while ignoring the years after 2040 in which they would have retired and received their pension. In other words, the exercise does not look at the present value of the net contributions that the newly arriving immigrants would have made over their entire lifetimes, but rather it estimates the pension contributions of the newly arriving immigrants minus the pension expenditures related to these immigrants in each year

social assistance and fiscal transfers will be needed to tackle the poverty that is so diffuse amongst migrants.

The functioning of Italy's labor market and the structure of its economy are such that it is high the risk for a large share of second-generation immigrants to remain segregated into the same low-paid and precarious segments of the labor market of their parents. In a country like Italy where the intergenerational income mobility tends to be low even amongst the natives, the fact that a large fraction of the young individuals (aged 15-34) with foreign-born parents are NEET, i.e. not in education, employment or training, (26% against 20% of those with Italian parents) induces some pessimism about the possibility to avoid the entrenchment of what is already visible now, namely the emergence of sharp inequalities along ethnic lines and the formation of a foreign-born underclass. This prospect is not reassuring, considering that second-generation immigrants usually have aspirations very similar to those of the native population, and that their frustration may feed among them feelings of discrimination and antagonism towards the host countries' institutions and culture.

#### **4 Immigrants, productivity and structural change in the Italian context**

The fact that the net increase in employment occurred in Italy in the last quarter of century has been due to immigrants undertaking low and very low value-added activities (notice that during the crisis years 2008-2014 the employment of Italians decreased by one and half million, while the employment of foreigners increased by half million) has contributed to that stagnation of aggregate productivity which has been one of the characterizing features of the Italian economy in the last

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going from the present to 2040, year in which the overwhelming majority of these immigrants are likely to be still active. Second, the exercise considers only the pensions that these immigrants would be entitled to receive because of their paid contributions, ignoring those other money transfers that elderly households with low or no pension are entitled to receive as supplements to their income. More in general, the study does not capture the overall impact that these households would have on Italy's public finances, since it focuses only on the pension system and does not account for the cost of other public services (health, schools...) to which they would have access against the other (modest) tax payments that they would be supposed to make in addition to the pension contributions. Third, this exercise neglects the fact that the absence of migrants would have effects on natives' employment and wages, with relevant implications for the pension system and public finances.

twenty-five years. Apparently, it has not materialized in Italy the positive effect on aggregate productivity brought about in other advanced economies by the replacement of natives engaged in low-productive activities with cheap foreign labor, thus allowing the former to move towards higher value-added activities (see Jaumotte et al., 2016, for a recent survey; see also Farré et al., 2011; Fogel and Peri, 2016). Even if there is some evidence that the availability of immigrants for home services (care, cleaning and similar) has contributed in recent years to raise the labor-market participation of Italian women (in particular, of highly educated women) (see Barone and Mocetti, 2011), this has not had any visible positive impact on aggregate productivity. Furthermore, this potential benefit of low-skilled immigrants is more than offset if in the host country there are ample reserves of low-skilled natives who are not employed and are in need of subsidies and transfers.<sup>10</sup> This is the case of Italy, where the low-skilled natives who are inactive or unemployed represent a substantial fraction of the working-age labor force.

In a longer-term perspective, one should expect that the abundance of low-skilled immigrants will accelerate the tendency of routine-biased technological progress to polarize the job market, namely to reduce the number of middle-income jobs involving routine tasks in favor of a growing polarization between relatively few well-paid jobs where technology complements highly skilled labor in complex tasks and a large number of low-income service occupations.<sup>11</sup> More specifically, in the Italian context a large supply of foreign manpower—largely unskilled and with a low reservation wage—is likely to favor the «lock-in» of the Italian economy along a trajectory characterized by a large number of small low-productive enterprises, relatively few technologically advanced firms and a highly dualistic labor market. This will perpetuate the current dominance of productions intense in unskilled labor and of a production mix disproportionately consisting of low-

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<sup>10</sup> Bratti and Conti (2018) explain their finding that large waves of low-skilled immigrants have no impact on the adoption of innovations in Italy by arguing that this is due to their similitude to the natives' skill structure, which prevented a dramatic rise in the relative abundance of low-skilled workers.

<sup>11</sup> OECD (2017) remarks that in the majority of OECD countries migrants are more concentrated than natives in jobs involving routine tasks (in European OECD countries, 47% of foreign-born workers are working in occupations that primarily involve routine tasks). This renders them more at risk for job loss as automation progresses.

technology goods and services. The international literature confirms this effect associated to a large supply of low-skilled immigrants:

“Firms choose technology, often associated with a specific type of capital equipment, also responding to the skill supply in the labor force (as illustrated in Acemoglu 2002). For instance, facing a larger supply of manual skills, firms will choose more manual intensive techniques (possibly reducing mechanization of some processes, as shown in Lewis 2011), or in some locations in which immigration is non-college-intensive, firms can use technology that makes more intensive use of such workers (as shown in Peri 2012)” (Peri, 2016: pp. 14-15).

## **5 Immigration, demographic decline and congestion in Italy**

The usual objection to those raising doubts about the alleged benefits of immigration in the Italian context is that in any case there is no alternative to immigration, since “Italy needs migrants to outweigh the decline of its native workforce”. Is this proposition true?

Actually, it is false; and one can easily ascertain its falsity by a simple back-of-the-envelope calculation. According to the UN’s median-variant projection, in the absence of any migration, Italy’s current population of 60,391 thousand people will shrink to 51,014 in 2050 (to 50,617 according to the ISTAT median scenario). In 2018, Germany’s employment-to-population ratio is 0.54. If Italy had in 2050 the same employment-to-population ratio that Germany has now and the UN’s projection turned out to be right, Italy’s total employment would be—in the absence of any migration—approximately 4 million more than its current number of employed persons (23,300).

One could argue that without migration Italy will have in 2050 an older demographic profile than the demographic composition that Germany has now, and that therefore it is unrealistic that in the middle of this century it will be able to overcome the threshold of 27 million of employed persons in the absence of new migrants. However, it is totally realistic to state that a gradual but substantial increase of Italy’s extremely low employment rate would allow it in the medium run to manage its



demographic transition without necessarily resort to immigrants, and—above all—to raise its income per capita, especially in those areas of the Mezzogiorno where it is very low now. Moreover, an increase of the employment rate would lay the foundations for a progressive recovery of fertility. Indeed, economic theory univocally predicts a positive effect of employment on men's fertility decisions due to the increase in income (the income effect), and the international evidence shows that in the advanced economies there exists a cross-country positive relationship between the female employment rate and the fertility rate (see figure 5). In fact, the difficulty to find occupations providing an acceptable and sufficiently stable income represents the major disincentive for the young adults to have children, since it induces them to postpone or even to renounce to have a baby.

A fertility recovery in Italy would also require reforms making the welfare system less unbalanced in favor of the old cohorts and more supportive of the young people that desire to rear children (for instance by providing childcare services for all at subsidized prices or for free). More ambiguous is the relation linking migration inflows to the fertility of the native population. The notion of impure or congested public goods “for which consumption is non-rival at low population size but becomes increasingly rivalrous as population grows” (Preston, 2014: p. F571) can be of some help for shedding light on this relation. This notion makes reference to the congestion diseconomies that large inflows of migrants may generate by reducing the utility obtainable from childcare facilities, hospitals, schools, parks, transport infrastructures, etc., thus making more costly and less pleasant for the native population to rear children (Azarnert, 2017). Obviously, governments can invest resources for expanding the supply of these congested public goods. By contrast, they can do very little to increase the availability of land. Hence, the long-term trend of residential land prices, which is the main determinant of house prices and rents, can be pushed up by migration inflows. In its turn, this tends to raise the house-price to income ratio, thus making harder for young adults to gain access to affordable housing arrangements that are suitable for rearing children (Malmberg, 2012). Also for Italy there are empirical studies finding that immigration raises average housing prices at the city level, while it reduces price growth in those city neighborhoods that are more immigrant-dense, since

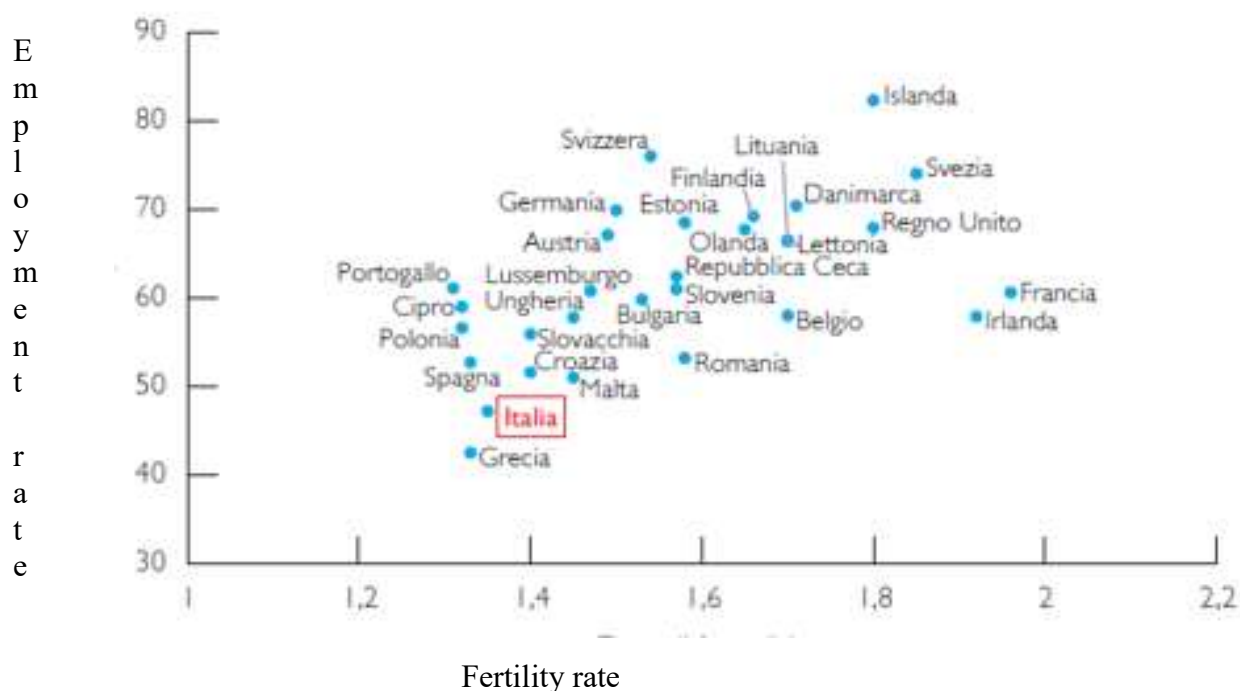
the natives tend to move away from them towards other areas of the city, thus revealing that they perceive a deterioration in the local quality of living due to the presence of immigrants, especially if a large fraction of the latter are irregular. (see Accetturo et al., 2012; Antonucci and Marella 2017; Forte et al., 2018).

Movements of housing prices associated to immigrant inflows reflect the increase of urban rents driven by growing population density, together with the negative impact of immigration on local amenities and congested public goods such as health and school services. Both effects may adversely affect the native population's fertility rate and its quality of life. More in general, less human pressure seems desirable for a densely populated country like Italy. It is true, indeed, that in the last decades many peripheral areas predominantly located in mountainous territories have been abandoned by the native population, which has been increasingly concentrated in congested, trafficked and highly polluted flatlands and coastal plains that have been intensively built-up.<sup>12</sup> However, a significant territorial redistribution of population, with massive movements of people and productive activities away from the highly congested areas, is very unlikely both for economic and socio-cultural reasons. Hence, new large influxes of migrants would exert addition pressure on area that are already very congested.

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<sup>12</sup> From the 1950s to now, land consumption, i.e. the conversion of land with healthy soil and intact habitats into residential, commercial, office, or other built-up areas, went from 2.7% to 7.65% of Italy's total territory (see ISPRA, 2018).

**FIGURE 5 Fertility rate and female employment rate, 2015**



Source: INPS (2017)

## 6 To integrate new migrants or to integrate those Italians who are now out of the formal economy?

It is a matter of fact that most Italians do not anymore want to do certain jobs, namely those menial jobs that are now mainly done by immigrants. Thus, it is apparent that—to approach the EU's average employment rate—Italy should implement public policies providing natives with incentives for taking these jobs. In general, a mix of policies is necessary for creating those three additional million of decent jobs whereby Italy's employment rate would be aligned with the EU average. On the one side, these policies should set the conditions for attracting/stimulating the development of competitive firms, thus favoring the technological up-grading of the productive structure (especially in depressed areas), but on the other side they should make attractive for the natives those low value-added activities (mostly in services) without which it would be unrealistic to raise significantly the number of natives who are employed. It is beyond the scope of this article to elaborate on these

policies, and in particular on those aimed at making the low-skilled jobs more attractive for the natives, but—together with a substantial and permanent reduction of contributions and taxes on labor income—one can mention the policy instrument proposed by Phelps (1997), that is a graduated schedule of subsidies to employers for every low-wage worker they employ.

In sum, the creation of adequate incentives for inducing natives to accept occupations that in the last quarter of century have been increasingly carried out by immigrants would require costly public policies. However, also importing foreign manpower would require costly integration policies, beside large public spending for fighting poverty amongst migrants. Furthermore, in the light of any realistic assessment of the long-term growth potential of the Italian economy, a gradual but remarkable increase of the Italian employment rate is hardly consistent with the absorption and integration of new migration inflows comparable to those of the last quarter of century (or such as the 191 thousand per year that on average will enter Italy in the next half century according to the ISTAT projections). Indeed, a necessary and structural condition for the integration of immigrants is that they can find regular and decently paid jobs. But this will not be possible if at the same time Italy will have to create a sufficient number of jobs attractive enough for adding 3 million of natives to its employed workforce. With this regard, one should also consider that future prospective migrants will increasingly be young people coming from sub-Saharan Africa rather than East Europeans as in the recent past (see Hanson and McIntosh, 2016), which will be less employable —because of their age and greater cultural distance from the natives—relative to the East Europeans in those occupations such as housework, childcare and home care for the elderly that have constituted a large fraction of total migrants' employment in Italy.

## **7 Conclusion**

In this article it is argued that it is not desirable for Italy the perpetuation of its current socio-economic model that faces the demographic decline of the native population with a persistent inflow of migrants, which in the future—differently than in the past—will be increasingly coming from

extra-EU countries. Indeed, a peculiar feature of this model is the pathological coexistence of migrants overwhelmingly undertaking low and very low value-added activities with a large number of natives who are out of employment (in particular in the South, where the employment rate is extremely low amongst women and young people). The continuation of this model presupposes the consolidation of the tendency towards the creation of an underclass of migrants mostly employed in badly-paid jobs, often precarious and in the informal economy, which will require the implementation of policies of inclusion and poverty alleviation amongst non natives in order to reduce growing inequalities and avoid endemic social tensions. At the same time, its prolongation will fuel the existing discontent amongst that ample fraction of low-income Italian families who cannot find decent jobs and are currently asking for subsidies and social assistance. In addition, there is a high risk that a large supply of foreign manpower—largely unskilled and with a low reservation wage—favors the «lock-in» of the Italian economy along its current trajectory characterized by a large number of small low-productive enterprises, relatively few technologically advanced firms and a highly dualistic labor market.

The alternative scenario that is advocated in this article for the evolution of the Italian economy supposes that Italy's demographic decline will be tackled by gradually increasing the employment rate (currently one of the lowest in the industrialized world). As a matter of fact, simple calculations show that, if from now to the 2050 Italy aligned its employment rate to the level of the Eurozone core countries, it could increase its employed persons by approximately two million even if its population is projected to fall by 9 million in the absence of new migrants. Hence, it is at least questionable that Italy needs migrants to outweigh the decline of its native workforce. Obviously, appropriate policies should be necessary to bring about a significant rise of the employment rate, and above all to induce natives to take jobs that in the last decade have been increasingly done by migrants. Moreover, consistently with the available cross-country evidence, it should be expected that making easier the access of young natives to decent jobs would lead in Italy to a recovery of the fertility rate, especially if the higher employment rate were accompanied by better services for young families. Secondly,

restrictive migration policies may also help Italy to get out of the low fertility trap in which it is currently stuck by diminishing human pressure on congested public goods, and on the highly polluted flatlands and coastal plains intensively built-up in the last decades where its population has increasingly concentrated.

The structural policies that are necessary for raising natives' employment rate and fertility are costly. However, also importing foreign manpower would require costly integration policies, together with large public spending for fighting poverty amongst migrants. Furthermore, in the light of the long-term growth potential of the Italian economy, a gradual but remarkable increase of the Italian employment rate is hardly consistent with the absorption and integration of new substantial migration inflows. Even being optimistic about future economic growth, the Italian economy is not going to create enough decent jobs for both integrating the natives out of employment and give acceptable opportunities to a number of new migrants comparable to those that entered the country in the recent past.

Recognizing that it is not possible to integrate the natives who are out of the formal economy and at the same time to absorb and integrate new migration inflows is both intellectually honest and preliminary for curing the Italian pathology and raising the income of million of Italians. Such recognition should also induce those inspired by genuine humanitarian concerns for the migrants to prefer Italy's active commitment to assist and support socio-economic development in the migrants' countries of origin rather than let them enter Italy, thus running a high risk of remaining poor and marginalized. This commitment towards the developing countries (and in particular towards the sub-Saharan countries) is urgent on the part of the rich countries, although theory and evidence indicate that socio-economic development in low-income countries such as those of sub-Saharan Africa is not likely to reduce their migration pressure on the advanced economies in the short to medium term, since economic growth will increase people's capabilities and aspirations to migrate.

In any case, the great challenge that the most responsible components of the Italian society should tackle is to design the set of policies necessary to cure Italy's pathology, to create consensus on them

and consistently implement them, in the awareness that they require perseverance and take a long time.

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