ITALIAN MIGRATION TO THE UK: CURSE OR OPPORTUNITY?

By

The Association “Talented Italians in the UK”

PROGRESS REPORT

14 December 2018
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Talented Italians In The UK

Italian Migration To The UK: Curse Or Opportunity?

Progress Report – 14 December 2018

Foreword

by Professor Sir Anton Muscatelli
Principal and Vice Chancellor of the University of Glasgow

This paper analyses the phenomenon of Italian migration to the UK and notes how, in very real terms, this has become a ‘brain drain’ for Italy. The nature of Italian emigration has changed over the post-war period. The evidence in the paper shows that this change has been significant. Many of the Italians who have come to the UK in recent years are young and educated. They come to the UK to study and/or to develop their professional and technical skills, and then choose to remain.

A major driver of this inflow of labour, as the authors show, relates to the flexible nature of the UK labour market relative to the Italian labour market. Rates of unemployment for younger skilled workers are much higher in Italy. The strength of the UK University system also acts as an attractor for young Italians coming to the UK.

As the authors note, the flows of educated workers to the UK from Italy, given the demographic trends in Italy, would not be sustainable in the long run. It will have a negative long-run impact on the human capital stock and the Italian economy. We know from the economics of migration that the flow of talent can have a very positive effect for the host country but a deleterious effect on productivity and growth on the country of origin.

The loss of skills explains why the Italian Government has sought to create fiscal incentives to attract talent from abroad. However, ultimately these measures will not be sufficient to offset the negative effects of emigration, as they impact on a small fraction of those on high incomes. Brexit may of course also have an impact and slow down the movement to the UK. In large part this will be more dependent on how the UK economy fares after Brexit than on the immigration regime: insofar as the flows are of highly skilled migrants, the future UK immigration regime will still allow highly talented Italians to come to the UK to work and settle here.

Ultimately if Italy wishes to retain more of its talented young workforce it needs to address two issues. First, through structural reforms it needs to ensure that its labour market becomes more flexible and dynamic. Second, it needs to look at its higher education system and how it can become more internationally competitive. Many early career professionals will move from Italy to the UK following postgraduate study in the UK. Indeed, the UK benefits generally from post-study recruitment into various sectors from across Europe. More generally, relative fiscal regimes and the economic environment in both countries will also matter. How these evolve post-Brexit will be an important factor in the future.

The authors have done an excellent job in outlining the evidence on Italy-UK migration, and the factors underlying it. The policy solutions to address this issue are inevitably complex and multi-dimensional and will be the subject of debate in years to come.
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ITALIAN MIGRATION TO THE UK: CURSE OR OPPORTUNITY?

By Brunello Rosa and Flavio Mondello Malvestiti

28 November 2018

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Key Takeaways

The “Third Italian Diaspora”
- There are around 700,000 Italian residents in the UK, their favourite destination for migration recently.
- Italian emigration has intensified: the ongoing wave of migration has been called “third Italian diaspora.”
- There are 5 million Italians officially living abroad; around 70 million people worldwide have Italian origins.

Micro and Macro Causes of the Diaspora
- **Micro:** Italy invests plenty of financial resources for the education and healthcare of its citizens, but does not offer them opportunities to thrive, creating a strong incentive to emigrate. Italy’s ease of doing business compares unfavourably with a number of its competitors, for a number of well-known reasons: an economic fabric still dominated by small-sized firms, often run by family owners with little incentive to engage in R&D; excessive and baroque bureaucracy, pervasive corruption and rent-seeking behaviour, widespread and socially accepted tax evasion; a high level of infiltration by organised crime.
- **Macro:** An incomplete EU and monetary union favours the migration of people from countries with a lower per capita income to those with higher living standards. In theory, labour mobility in a complete monetary, economic and political Union should create benefits for all countries. In practice, the incompleteness of the Union means that “core” countries benefit from net immigration and “peripheral countries” suffer from net emigration.

A High Cost for Italy
- **Direct costs:** prudent estimates show that Italian emigration costs Italy around 1% of GDP growth per year.
- **Indirect costs:** a reduced cultural and social development, for example as a result of reduced diversity, a lack of re-inclusion of former high-potential expats and missed lessons of best practices from abroad.

A Huge Benefit for the UK
- The UK benefits immensely from migration (Italian and otherwise) in terms of GDP growth, fiscal revenues and employment. Studies suggest that a 1% increase in the migration share of adult population can raise GDP per capita and productivity in the long run by 2%. The OBR forecasts that Brexit-induced reduction in migration will reduce trend output growth by 0.3% per year (net of the impact of lower productivity).

Every Sector Shows Variations of the Same Picture
- We analyse various sectors individually: healthcare and research, hospitality, construction, finance, manufacturing, public administration. In each of them we find variations of the same theme: migration is essential for the success of the industry, as migrants create value and help achieve wage moderation. The UK is able to provide opportunities that Italy is unable, and sometimes unwilling, to offer.

Policy Suggestions for the UK and Italy at a Macro, Micro, and Sectoral Level
- **UK:** Every future scenario in which labour mobility and the influx of migrants in the UK is reduced will result in a fall in potential economic output, which will also make the country more prone to inflation. So, if Brexit does occur, the government should try to minimise its impact on intra-European labour mobility.
- **Italy:** A number of fiscal measures have been adopted in the last few years to incentivise the return of Italian emigrants. These measures have not stopped the phenomenon of mass emigration.
- **At the macro level,** Italy should fight for the completion of the economic and political union of Europe, with the implementation of direct fiscal transfers to compensate indirect fiscal transfers resulting from migration. **At a micro level,** Italy should implement structural reforms to help create a more favourable business environment and allow its talented individuals to thrive without necessarily having to emigrate.
- **At a sectoral level,** more financial resources should be devoted to attracting UK researchers and health-care professionals to Italy, and more recognition should be given to the past activities and experiences of Italian professionals returning from abroad. The government should make sure that those who qualify for the fiscal incentives to return to Italy fully exploit existing programmes (for example, by incentivising enrolment with AIRE). **LSE’s ownership of Borsa Italiana** could make Italy become a hub for sales to Southern Europe and Middle East clients. In the construction industry, Italy could replicate the UK’s Permission Development Scheme, which allows the refurbishment of existing buildings with a licence that can be obtained within eight weeks submitting a request to do so.
ITALIAN MIGRATION TO THE UK: CURSE OR OPPORTUNITY?

by Brunello Rosa and Flavio Mondello Malvestiti

1. Introduction

This paper was written by several members of the association Talented Italians in the UK, who are motivated by two ongoing phenomena. First, Brexit. At a time when the UK is about to leave the European Union, we feel it is important to re-affirm the importance of the contribution of Italian “economic migrants” to the economic, social and cultural development of the UK.

Second, the phenomenon of Italians migrating abroad (and specifically, emigrating to the UK). This is a phenomenon which is now accelerating and, according to various reports (discussed in Box 2), has returned to levels not seen since the years after WW2. For several years, this type of migration has been labelled using the buzzword “brain drain” (“fuga di cervelli”). But the dimension and variety of the phenomenon is such that not just élite academics are leaving Italy. It is an entire generation of frustrated and hopeful youth in search of their once-in-a-lifetime opportunity. We believe that if Italy wants to overcome its current difficulties (epitomised by what economists refer to as low and falling “growth potential”), it cannot continue to ignore the wealth of experience of its citizens who have relocated abroad, and it cannot afford for this loss of investment in its citizens to continue much longer.

What are the objectives of this paper? First, we want to collect and synthesise in one place all the most relevant studies and statistics on the phenomenon of Italian emigration to the UK. Second, we wish to increase the level of awareness regarding the cost of migration for Italy and the benefit of migration for the UK, at a time when both countries seem to be less willing to recognise such costs and benefits. Third, we would like to propose policy actions to be taken in order to mitigate the extent of this phenomenon in coming years.

Our ideal target audiences are businesses and business associations that want to understand the risks and opportunities deriving from talent mobility between the two countries, and policymakers in both countries who wish to take actions to either mitigate or benefit from such mobility.

This paper is organised as follows: after this introduction, Section 2 discusses the dimensions of the phenomenon of Italian emigration to the UK. Within this section, Box 1 briefly recalls the history of migrations from Italy to the UK, and Box 2 compares the statistics and findings of other studies. Section 3 discusses the general causes of migration, Section 4 the costs to Italy, and Section 5 the benefits for the UK (with Boxes 3 to 7 providing a deeper look into some specific sectors in which Italian economic migration has been particularly strong: finance, healthcare and research, hospitality, manufacturing and construction). Section 6 discusses what could happen to Italy if the phenomenon continues at its current pace. In this section, Box 8 discusses the cost of bureaucracy for Italy and compares it to that of the UK. Section 7 suggests some policy options to mitigate the phenomenon, with Box 9 recalling all the policies adopted so far, mostly in terms of tax incentives. Section 8 concludes.
2. Dimensions of the Phenomenon - The Recent Wave of Migration from Italy to the UK

The history of Italian emigration is long, and (as Box 1 discusses below in greater detail) started long before the political unification of the country. There have been two significant waves of Italian migration, which historians call “diasporas,” in the nation’s history. The first occurred during the decades following unification, ending under the rule of the Republican Fascist Party between 1922 and 1923. The second wave of mass migration took place during the post-WWII period, prompted by harsh domestic post-war conditions and by foreign demand for labour. This wave gradually declined during the 1970s. The ongoing migration today can be considered Italians’ “third diaspora.”

Recent Migration Statistics and Trends

According to the latest UK Census, carried out in 2011 by the Office for National Statistics (ONS), there were 131,195 Italian-born residents in England, 3,424 in Wales, 6,048 in Scotland, and 538 in Northern Ireland. However, the figures from the UK and Italian statistical offices tend to underestimate the phenomenon (as we discuss in greater detail in Box 2). According to the former Italian Consul General, it is highly likely that the number of Italians living in the UK is actually over 700,000, more than double compared to the official 315,000 Italians registered at AIRE, the Italian register of foreign residents. A possible reason for this discrepancy is that the compulsory registration of Italian citizens to AIRE is not enforced. ONS statistics appear to confirm this. There are over 454,000 Italians who registered for a National Insurance Number (the British equivalent of Italy’s “codice fiscale,” which is necessary to work in the UK); more than 51,000 Italians registered for one in 2017 alone.

The UK is among the preferred countries to which Italians emigrate. According to ISTAT, the share of Italians who consider the UK as their favourite migration destination is continuously increasing. In 2016, almost 20% of all Italian emigrants registered with AIRE went to the UK. The number of Italians emigrating to the UK has been steadily increasing since 1995, when ISTAT official records began. Official Italian statistics show that the yearly flow of Italians emigrating to the UK increased by 862% (almost tenfold) between 1995 and 2016. The number of Italians emigrating to the UK increased by around 7% y/y on average until 2011, when the flow of emigrants began to increase exponentially, at an average yearly growth rate of 35% since 2011 (Figure 1).

Figure 1: Trend of AIRE Registrations in the UK

In 2016, the number of Italians residing in the UK increased by almost 40% as compared to 2015, with around 27,000 Italians changing their residence to the UK. While some commentators suggested that this increase in the number of registrations to AIRE was due to a behavioural effect deriving from Brexit and the perceived necessity to prove residency requirements, we believe that the result shown by the 2016 data is a continuation of a well-established trend that has gone on since 2011, a trend that has been caused in part by the Euro crisis affecting peripheral Eurozone countries.
BOX 1 - A Brief History of Italian Emigration To The UK

By Paolo Taticchi and Giovanni Alberto Cervini

The history of Italian emigration is extensive, beginning long before the political unification of the country. Centuries of war, famine, political exile, economic stagnation, and population growth have led to a high level of internal and external migration since the Middle Ages. However, mass migration only began to occur at a significant magnitude after the unification of Italy in 1861. In fact, the phenomenon of Italian emigration was so prominent during the late 19th century that, in 1901, the Commissariat General of Emigration was established with the purpose of measuring and safeguarding the mass emigration of Italians.

There have been two significant waves of Italian migration, called “diasporas,” in the nation's history. The first occurred during the decades following unification, ending under the rule of the Republican Fascist Party between 1922 and 1923. While the unification of Italy is credited with uniting the citizens from its various states, it also broke down the feudal land system that had existed previously, leaving many Italians landless or without sufficient profitable land. Additionally, the unification resulted in improved medical healthcare facilities, hygiene, and food supplies, leading to overpopulation and unemployment, which in turn led to increased emigration around the turn of the twentieth century. In the decades following WWI, migration halted due to the Great Depression and the rise of fascism, only to begin again in the 1950s under the label second diaspora. Prompted by harsh domestic post-war conditions and the foreign demand for labour, mass emigration gradually declined during the 1970s.

Overall, it is estimated that approximately 13 million Italians left their homeland during the last hundred years or so, in search of better lives in Africa, America, Oceania, Europe, and the UK.

The United Kingdom has played an important role in the history of Italian emigration. It is reported that Italians settled in the UK as early as SS BC, following an expedition by Julius Caesar and a later invasion during Emperor Claudius' reign. During the Middle Ages, as early as 1000 AD, Italian workers were reportedly living in Southampton as sailors and tradesmen, and in London as bankers and businessmen, beginning to form a ‘small but influential community’. In the years that followed, Henry VIII's Tudor England was considered a refuge for Protestant Italians when compared to their papal homeland, prompting more to migrate and contribute to England’s thriving art, music, and literary scenes.

Following the Napoleonic Wars that opened the nineteenth century, Italian migration to the UK became less of a choice and more of a necessity. The consequent destruction of farmland pushed those working the land away from Northern Italy and towards the British coasts. Typically, Italians found occupation as street performers and musicians or as roving organ grinders and statuette makers. As mentioned before, the unification of Italy led to the first great wave of migration, and one of its main destinations was the United Kingdom. During this period, most Italians were poor and uneducated migrants who settled mainly in London, where it is reported that over half of the UK Italian population lived in 1901. By the start of the First World War, it is estimated that their number was approximately 25,000 in the UK as a whole. The particular sectors where Italians travelling to the UK found work during this period meant that they were not perceived as a competitive threat by British workers, hence they did not receive the same antipathy that Jewish or Irish migrants in the UK experienced at the time.

During the following decades, Italians transitioned to other occupations such as in the hotel, catering and food trade industries. West End restaurants and hotels in London employed many Italian waiters, cooks and kitchen porters, while many street food and drinks vendors settled down in shops. By 1931, there were 1183 Italian restaurant owners in the UK, in addition to the 4200 members of the Italian Association of Ice-Cream Vendors.

Despite WWII, the fascist restrictions to emigration and stricter UK immigration rules had interrupted migrations to the UK. During the 1950s migration towards the UK resumed. Small groups of Southern Italians moved to different pockets of England, such as to Bedford and Peterborough in the mining and steel industries. In industrial towns, the London Brick Company employed thousands of Italian workers during the boom of the post-war reconstruction industry. Some unusual features of this wave include the important presence of women in the rubber and textile industries or in laundrette, and the emigrants’ Southern Italian origin, as Southern Italy was characterised by harsher conditions than the rest of the country.

By 1972, it is reported that Italian population in the United Kingdom amounted to 213,500 individuals, including British-born Italians. Following the admission of the UK to the European Union in 1973, the migration of Italians towards Britain became simpler. However, people leaving Italy in the ’70s and the following decades were not uneducated and poor workers anymore, but businessmen, executives, and employees of various corporations.
What These Migrants Do

It is not only about quantity. The breakdown of ISTAT numbers by demographic characteristics shows an extremely worrying picture: almost 80% of those emigrating to the UK are of in the working age range 18-64. Of those, 60% are between 18-39 years old. These figures suggest that “economic migrants” make up for the majority of the immigrant influx to the UK. Economic migrants tend to be fiscally beneficial to the receiving country and directly add to its economic activity (see Section 5 for greater details). As a result of this phenomenon, Italy is experiencing an abrupt increase in ageing population, combined with a demographic decline. This phenomenon represents not only a “brain drain”, but a dramatic outflow of economic resources, reducing both Italy’s potential and actual economic output.

This picture becomes even worse if we look at the educational statistics of Italians emigrants. Over 30% of those emigrating to the UK hold a university degree. This is higher than the proportion of graduates who move to other parts of the world. The UK is extremely attractive for young graduates, offering substantially better job and career opportunities (see Boxes 3 to 7 for a sectoral analysis).

According to ISTAT’s survey on graduates’ job opportunities (“Inserimento professionale dei laureati”), many of the most recent migrants who moved to the UK have a scientific background (see Figure 2). Interestingly, those tend to match with professions within the UK’s occupation shortage list. Italian emigrants are helping to close the UK’s gap in scientific (STEM) occupations that native workers could not fill entirely on their own.

Figure 2: Proportion of Recent Italian Graduates Moving to the UK

Source: ISTAT, authors’ calculations

BOX 2 - A Bird’s Eye View Of Other Studies And Their Findings
By Chiara Orlandini

 Often referred to as the Italian “diaspora” (see Box 1 for historical references), migration from Italy follows three waves. The first started in 1880, two decades after the unification of the country, and ended in the early 1920s with the rise of Fascism. The second started at the end of WW2 and ended around the 1970s. Collectively, these two migration waves constituted the largest voluntary migration period in documented history; by 1978 roughly 25 million Italians were residing outside of Italy. The third wave of emigration is happening presently, with figures of Italians residing abroad rising by 60.1% in the past 11 years, from 2006 to 2017. Here we summarise the statistics, findings, and results of other studies on this topic.
According to **AIRE (the Italian register of foreign residents)**\(^{25}\), in January 2018 approximately 5.1 million Italians were residing abroad, representing 8.5% of the 60.5 million Italians living within the borders of Italy (see **Figure B2-1**). This figure compares with the 3 million Italians registered as foreign residents in January 2006. Between 2017 and 2018, the number of Italians residing abroad and registered to AIRE rose by more than 140,000 individuals (+3.3%). As mentioned in the main text of this report, since registering to AIRE is mandatory but not enforced, the actual number of Italians permanently living abroad is certainly greater than AIRE figures suggest. This is evidenced by the Italian foreign office data, which estimates that nearly 5.4 million Italians currently live abroad.

Figure B2-1: Italian Citizens Registered to A.I.R.E. - Historical Data

Source: AIRE. Absolute values expressed in millions, during the period 2006-2018.

According to **Fondazione Migrantes**\(^{26}\), 128,193 Italians emigrated to 193 destinations in the world in 2018, an increase of 3.3% since 2017 and a further increase of 36.2% since 2013 (**Figure B2-2**). The regional origin of these emigrants is surprising: whereas in the past most Italians emigrated from the Southern regions of the country, now most emigrated from Lombardy (nearly 22,000 emigrants), Veneto (11,132), or Emilia-Romagna (12,912), all northern regions (apart from Sicily with 10,649 emigrants and Puglia with 8,816). In the latest report, the preferred destination is Germany, where 20,007 individuals registered to AIRE in 2018, surpassing for the first time the UK (which experienced a 25.2% decrease in AIRE registrations, most likely due to Brexit). The three largest communities of Italians residing abroad remain unchanged: Argentina (819,899), Germany (743,799) and Switzerland (614,545).\(^{27}\) Overall, Italians emigrate towards Europe (2,684,325 people, 54% of the total AIRE-registered residents), of whom 1,984,461 (39.9%) reside in Eurozone countries, 2,010,984 (40.3% of the total) emigrate to the Americas (mainly Central and South America, with 32.4%). Only 147,930 (3%) are in Oceania, 65,696 (1.3%) in Africa, and 65,003 (1.3%) in Asia.

Figure B2-2: Italians in the World

Source: Migrantes-Italians in the World Report, based on A.I.R.E. data
According to ISTAT\(^\text{28}\) (the Italian official statistical institute), in 2016, international net migration grew by more than 10,000 people, reaching 144,000 (+8% compared to 2015): immigration flow was nearly 301,000 people (+7% compared to 2015), and emigration reached 157,000 (+7% compared to 2015). The largest age cohort of Italian emigrants is between 25-39 years old (around 41.3% of the total), compared to only 14.9% of emigrants over 50 years old; some 13.5% of emigrants are 0-9 years old, while 77% are among the active population (22-54 years old), showing that the two main causes of emigration are family reunification and work. It is also clear that emigrants tend to be highly educated, with 27.9% of emigrants having at least completed a secondary school education. In 2016, 25,000 emigrants older than 24 years held a secondary degree: a sharp increase compared to 2015 (+9%). Emigrants with a medium or low educational level increased by 11%.

According to IDOS\(^\text{29}\) (Il Dossier Statistico sull’Immigrazione), the current migration wave is as large as the one that occurred in the aftermath of WW2. In 2016, 285,000 Italians emigrated abroad, compared to approximately 300,000 in the years following WW2. Although the study is based on ISTAT figures, the final number of estimated total emigrants is 2.5 times higher than those figures; the study takes into account the evidence (confirmed by AIRE figures in the UK and Germany) that the number of new residents is statistically around three times higher than ISTAT figures. A worrying fact is that most emigrants are highly educated: university graduates, postgraduates and PhDs who have emigrated imply an estimated €9bn in loss for the State, which invested money to educate them (at least in the case of the lower portions of this educational bracket) but now cannot recover all or part of this investment through fiscal levies on their income, or benefit from their positive influence on economic growth, research, and innovation.\(^\text{30}\)

According to the OECD\(^\text{31}\) (The Organisation for Economic Cooperation and Development), Italy is among the countries with the highest number of emigrants (ranked 8th behind Mexico and ahead of Vietnam and Afghanistan). Essentially involving people between 25 and 44 years old, the emigration flow grew by 11% in 2016 (for a total of 115,000 people) according to AIRE, figures that OCSE estimates being only a minor proportion of the real flow of 125,000-300,000 emigrants. Germany and the UK rank the preferred countries where Italians emigrate. Within the overall trend of increasing migration, a growing number of highly educated people emigrate: almost a third now holds a university degree, whereas in 2002, 51% of emigrants above 25 years old had (at best) completed compulsory education. This “brain drain” negatively affects the present and future of the country, as every educated emigrant represents a lost investment. The study also reveals that two-thirds of the Italians who emigrate to work abroad never come back.

As discussed in the body of this report, Confindustria\(^\text{32}\) (Italy’s employers lobby group) reckons that the main driver of Italian emigration is the high level of youth unemployment, which in turn negatively affects the county’s growth, creating a vicious cycle that is very difficult to break. From 2008 to 2015, when unemployment in Italy rose from 6.7% to 11.9% (from 9.8% to 18.9% for those under 40 years old) 509,000 Italians moved their residency abroad. Around 260,000 (about 51%) of them were between 15 and 39 years old, compared to the national average of 28.3% for the same age group. Considering an average family expense of €165k to grow and educate a child from birth to 25 years, Confindustria estimates an overall loss of €42.8bn in human capital for the country as a result of this emigration. Considering the year 2015 alone, when a peak of 51,000 individuals under 40 years old (compared to 21,000 in 2008) emigrated from Italy, the loss is estimated to be 8.4bn€. In addition to the social cost for the family, the study adds €5.6bn spent by the State in education from primary school to university, adding up to a total estimated loss of €14bn for 2015 alone (a figure that is also considered to underestimate the true cost). This societal cost is further aggravated by the fact that young emigrants are often among the most motivated, entrepreneurial and highly educated of people. They represent a big loss in human capital for Italy both in financial terms and in their innovation, potential being exported abroad, which in the long run materially affects the country’s growth.

3. General Causes of the Phenomenon: EU/EZ Transfer Union, Growth Differentials and Lack of Opportunity

There might be numerous individual and collective reasons for people to leave their country and look for a better life abroad: search for better work opportunities, socio-cultural dissatisfaction with own country, prospects of a faster career progression, etc. Here we aim to provide a more general explanation of the phenomenon. We believe there are two main concurring explanations, one at the macro and the other at the micro level.

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\(^{28}\) ISTAT (Istituto Nazionale di Statistica)

\(^{29}\) IDOS (Il Dossier Statistico sull’Immigrazione)

\(^{30}\) OECD (Organisation for Economic Co-operation and Development)

\(^{31}\) Confindustria (Confederazione Italiana dell’Industria Manifatturiera)

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The Macro Level: An Incomplete EU/EZ Transfer Union and Growth Differentials

One of the main causes behind migration from Italy to Germany and (at least for now) the UK is the fact that the European Union, and, within it, the Eurozone, are incomplete transfer unions. In a complete transfer union, when the barriers to free circulation of people between various areas with different degrees of wealth and economic growth fall, people will naturally tend to move from the poorer areas to the richer areas. By doing so, the rich areas become richer and the poor areas become poorer: that is a “natural” phenomenon. In complete transfer unions, however, these flows are compensated by direct and indirect fiscal transfers from the richer areas to the poorer areas, to allow the poorer areas to develop and, over time, to mitigate and eventually stop (or possibly even reverse) the migration flow, once the level of wealth within the transfer union has become more homogeneous. So, when unions are properly set up and completed, they eventually tend to have a positive impact on both their richer and poorer members (regions or countries).

When Germany re-unified in 1989/90, this is exactly what happened. The West imposed on the East an unrealistic exchange rate (1:1 between the West German and East German Deutsche Mark), which caused the collapse of the already less-developed economy of the East, with millions of people moving from the East to the West in search of better economic opportunities and more freedom. The West compensated the East for this by carrying out a massive fiscal expansion aimed at the re-construction of the East, with all citizens paying a solidarity tax surcharge that they continue to pay today. Over time, the economic divide between West and East, though it still exists, has been mitigated.

In contrast, when Italy unified in the 19th century, similar transfers between the North and the South of the country had very different results. Given inefficiencies in the allocation of resources, the South has remained consistently poorer than the North. Something similar is happening at the European level. Given the lack of an explicit mechanism for fiscal transfers, the “periphery” of the Eurozone and the EU is becoming permanently poorer than the core (the core being represented by Germany, France and the pre-Brexit UK). Until this system of fiscal transfers is established, which is very unlikely to occur in the foreseeable future, the core will continue to benefit from the transfer of labour and capital from the periphery, including from Italy, and thus will not have any incentive to change the status quo.

Diverging Economic Fortunes

Setting aside for a moment the incomplete institutional architecture of the EU and Eurozone, instead focusing purely on economic factors, the huge displacement of Italian workers to the UK could be explained by the significant difference that exists between countries in some leading economic indicators. In a recent study, Fort and Portes suggest that the employment rate differential between the UK and its immigrants’ country of origin is a significant driver of migration. The graph below (Figure 3) shows that the theory of Fort and Portes holds true for Italian emigration.

Figure 3: Number of Migrants and Employment Differential Between Italy and the UK

Source: ISTAT, authors’ calculations
In the last five years, the number of Italian citizens moving to the UK has risen more than fourfold according to official statistics, reaching almost 27,000 people in 2016, up from 6,000 in 2011 – a 354% increase! During the same period, the gap between the employment rate of the UK and Italy has risen by roughly 4%. This economic driver of migration is also confirmed by an OECD study. The 2018 International Migration Outlook shows that the reasons for migrating to the UK are different for OECD and non-OECD citizens. 65% of migrants who come from OECD countries seem to be motivated by opportunities to work, whereas non-OECD migrants move to the UK mainly for reasons of education or family.

The Micro Level: Lack of Opportunity for People Who Have Been Heavily Invested In

Establishing implicit or explicit fiscal transfers from the richer areas of the union to the poorer helps, but it is unlikely to be a sufficient condition for a proper completion of the integration process (since throwing money at an inefficient system means wasting precious resources). So, a well-designed system of fiscal transfers needs to be accompanied by the implementation of structural reforms by the receiving country. Therefore, besides the macro explanation there is also a micro-economic one, which can be understood by way of a framework developed by the World Bank in a recent study. Figure 4, taken from that study, shows a diagram in which is presented, on the horizontal axis, an index that assesses the opportunity for people in a country, essentially measured by the level of preparedness of younger generations; and on the vertical axis is the level of opportunity for firms, as measured by the typical “ease of doing business” index in a country. The cross lines in red represent EU averages.

The top right and bottom left quadrants are where most countries are expected to be found (and in effect are found) – typically countries with highly educated people offer more opportunities for their companies. The top left quadrant is where you find countries which offer lots of business opportunities but do not have enough resources to invest in their youth (Czech Republic, Lithuania); the bottom right quadrant shows those countries that invest a lot in their people, but then do not offer them enough work opportunities. Italy stands out in this quadrant. Having a high-potential population combined with low growth potential is the recipe for incentivising brain drain and economic migration in general.

**Figure 4: Italy Is An Outlier In The “Wrong” Quadrant: It Does Not Provide Opportunities For The People It Has Invested In**

Source: World Bank. Cross-lines are EU averages. Opportunity for people is measured by PISA reading scores in 2015, corrected for inequality opportunities (variation in PISA scores explained by social-economic status of students) and the proportion of young people that leave school with lower-secondary education at most. Opportunity for firms is measured by the 2017 Doing Business distance-to-frontier index. Cyprus is not included as some key data were not available.
A brief history of scientific migration between Italy and UK

The movement of health care professionals and researchers between Italy and UK has always occurred, obviously increasing in scale along with the advancement of travel and communication systems. This bi-directional, temporary and episodic phenomenon, initially less relevant in science than in other cultural disciplines such as poetry or painting, started to become massive and primarily uni-directional – from Italy to UK – after WWII. The increasing attitude of Italian scientists and health care professionals to move to Great Britain can be attributed to the change in leadership in the biosciences that occurred after the war, from Central Europe (in particular, Germany) to the United States and Anglo-Saxon countries. Moreover, while the first generation of Italian scientific migrants, after an interval abroad, usually came back to their home country enriching it with the experience they had gained, over time an increasing number of scientists and health care professionals started to settle in the United Kingdom permanently, often reaching significant professional positions there, in turn representing a further point of attraction for young Italian researchers and doctors considering a move abroad.

The current scenario

According to data collected by Roberto Di Lauro, the former scientific attaché to the Italian Embassy in London, over 3500 Italian scientists live and work in the UK, more than 250 in the area of Medical Sciences with a position in UK universities. However, it is not easy to gather exact figures and an up-to-date mapping of Italian researchers and health care professionals working in Great Britain, since they represent a continuously changing population. This is due to the fact that a significant number of them who come to the UK for short internship periods do not register to AIRE or to the UK National Health Service. Moreover, nationality is a sensitive piece of information that cannot be provided by universities or medical services. In fact, in the survey performed by Professor Di Lauro, the list of Italian scientists had to be extrapolated from the list of the entire staff of UK universities on the basis of a potential Italian surname.

As far as medical doctors are concerned, data provided by Gianluca Fontana, Senior Policy Fellow and Director of Operations at Imperial College, indicate that they more than doubled in recent years, from 1500 in 2005 to 3700 in 2015. At present, health care professionals and scientists refer to two major scientific societies: the Italian Medical Society of Great Britain (IMSOGB) and the Association of Italian Scientists in UK (AISUK).

The Italian Medical Society of Great Britain (IMSOGB, www.imsogb.org) is a not for profit unincorporated association of health care professionals founded in 1997. The Society’s main aim is to establish a professional and social network among its members and links with health care institutions in Italy and the UK. The Association of Italian Scientists in the UK (AISUK, www.aisuk.org) brings together academics and other researchers in the three domains of Physical Sciences and Engineering, Social Sciences and Humanities, and Life Sciences. The aim of the Association is to promote scientific collaborations between Italian and British scientific institutions, research centres, industries and foundations, and promote the mobility of researchers between Italy and the UK. The two societies include prestigious members with positions in the UK science and health care system. Many of these members appear in the list of the 4500 Top Italian Scientists (www.topitalianscientists.org).

An important aspect of the Italian scientific migration to the UK is represented by students at UK universities, both undergraduates (including those of the Erasmus programme, which upon Brexit will probably be discontinued) and postgraduates attending Master’s or working towards their PhD in Great Britain. They have represented a growing population in recent years, and a significant portion of the 750,000 foreign students providing an income of £26 billion pounds to UK universities. Last year, nearly 135,000 EU students attended UK universities out of the 1.6 million first-time undergraduates, and nearly 50,000 postgraduates. Interestingly, the number of European students has actually increased to more than 100,000 for the first time – a rise of nearly eight percent. Among these students, according to data from the UK Council for International Affairs, Italian students represent the third largest national community after Germany and France, but with a much faster growing trend that might make Italian students the largest community among Europeans in British schools in 2017-2018 (Figure B3 -1). Many of these students are part of well-structured and very active associations such as those at King’s College or UCL. Interestingly, a private Italian University – the Niccolo’ Cusano University – also established a branch in the UK (Nicolo Cusano Italian University London; NCUUL), which has recently been recognized as an appropriate organization to offer higher education programmes leading to the recent validation of its studies by the Open University.
The weaker Pound and the British government’s commitment to help fund educational placements might be responsible for the high migration of students to UK. The number of EU students in Britain is nevertheless expected to be severely reduced when the country leaves the EU next year. A report by the Higher Education Policy Institute think tank estimated that the number of students would drop by as much as 60%. Universities UK, the vice-chancellors’ umbrella body, is warning that without action universities will face “sudden, steep declines” in EU student numbers post-Brexit. In response to this, Damian Hinds - the UK education secretary - said undergraduates from EU countries attending English universities after September 2019 will incur the same annual tuition fees as their English peers and will also have access to the same government-backed student loans for the duration of their degree programmes. This implies that, after Britain’s formal exit from the EU, the mobility of students and their capacity to access UK-based education should remain intact.

**Figure B3-1: Top 10 EU Countries of Domicile (Excluding UK) For Students’ Enrolment In 2013-2017**

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<tbody>
<tr>
<td>Germany</td>
<td>13,735</td>
<td>13,425</td>
<td>13,675</td>
<td>14,06</td>
</tr>
<tr>
<td>France</td>
<td>13,560</td>
<td>12,525</td>
<td>11,955</td>
<td>11,5</td>
</tr>
<tr>
<td>Italy</td>
<td>13,455</td>
<td>12,135</td>
<td>10,525</td>
<td>9,55</td>
</tr>
<tr>
<td>Republic of Ireland</td>
<td>10,070</td>
<td>10,245</td>
<td>10,905</td>
<td>11,49</td>
</tr>
<tr>
<td>Greece</td>
<td>10,045</td>
<td>9,79</td>
<td>10,13</td>
<td>10,67</td>
</tr>
<tr>
<td>Cyprus</td>
<td>9,145</td>
<td>9,33</td>
<td>9,745</td>
<td>10,295</td>
</tr>
<tr>
<td>Spain</td>
<td>8,820</td>
<td>7,84</td>
<td>7,04</td>
<td>6,585</td>
</tr>
<tr>
<td>Romania</td>
<td>8,110</td>
<td>7,2</td>
<td>6,59</td>
<td>6,515</td>
</tr>
<tr>
<td>Poland</td>
<td>6,585</td>
<td>5,655</td>
<td>5,245</td>
<td>5,2</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>6,585</td>
<td>6,195</td>
<td>6,255</td>
<td>6,355</td>
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</tbody>
</table>

Source: UKCISA

From all the figures above, and from data on the increasing number Italians migrating to the UK, it is evident that, despite the obstacles represented by some requirements to study and work in the UK, such as the expensive and increasingly difficult language test (IELTS), the Italian scientists and health care professionals migrating to UK represent a growing population, contributing significantly to the efficiency and income of the UK. On the other hand, although little data is available regarding the number of UK scientists and professionals moving to Italy, there is no doubt that an imbalance in migration does exist. This imbalance has profound economic effects. Not only is the cost for the education of its researchers and health care professionals covered by Italy not sufficiently reflected in the return of benefits and services that accrues from their activity, but EU financial support to these sectors will not be equally distributed among countries that contribute equally to the funding of these sectors in the EU budget. For instance, data presented by Professor Antonio Guarino at a meeting of Italian Academics held at King’s College on June 30, 2017, shows that, while the number of ERC starting, consolidator and advanced grants awarded to Italian and UK scientists is approximately the same, the UK tends to receive the most funds in the final distribution of resources, a result of the high number of Italian scientists who move to the UK for their studies compared to the very low number of UK scientists who decide to carry out their research abroad (and in particular, in Italy) (Figure B3-2).

**Figure B3-2: Starting, Consolidator, and Advanced ERC Grantees in 2007-2016**

Source: Courtesy of Antonio Guarino, President of AISUK. Notes: In the middle bar for each country, in blue is research performed in the country, in orange is research performed abroad. In the right bar for each country, in blue is research performed in the country, in orange is grants brought to the country from foreign researchers.
The Brexit scenario

The uncertainty regarding the final outcome of the EU-UK negotiations makes it difficult to predict the effects of Brexit on migration. Certainly, the most undesirable scenario possible would significantly affect the mobility of students, researchers and health-care professionals as well as the UK’s NHS and research funding.

A strong commitment from European and Italian institutions is therefore of paramount importance to protect the rights of European migrants to continue to reside in the UK and access the UK’s higher education system. At the same time, however, a phenomenon of counter-emigration could be triggered by an uncertain or undesirable scenario. For academics, the current university legislation includes some preferential recruitment pathways for scientists who have been working abroad. Yet, there is no specific legislation to adequately acknowledge the past activity of health care professionals (hospital and NHS doctors, nurses, physiotherapists, etc.) who have been working abroad. The Italian health care system would certainly benefit from attracting, through specific parallel and additional recruitment pathways, some of the many highly qualified health care professionals currently working in the UK.

In conclusion, while offering them a great opportunity for professional development, the migration of Italian and European researchers and health care professionals to the UK has also provided a significant cultural and economic contribution to the UK itself. Although the UK will still be open to hosting qualified workers arriving from the Continent, Brexit might be the best occasion for a re-balancing, for both countries and individuals, of the benefits and opportunities created by the migration of skilled professionals in sectors such as health care.

We believe this is a very credible framework by which to explain the migration phenomenon for Italy. The country clearly invests in its own people, thanks also to a Constitution that designates health care and education as citizens’ rights, compared to other countries (such as the USA) in which these services are conscious investment decisions made by individuals who can afford them. Effectively, in Italy, excellent state education is provided in most cases from primary school to university, and healthcare remains largely paid for by general taxes paid throughout peoples’ lifetimes.

It is true that recently emerged statistics show that Italy has the lowest percentage of citizens with a tertiary degree among EU countries (apart from Romania). However, it is also true that people educated in Italy often excel abroad (although their success is hard to measure statistically). In addition, in spite of recent reforms, pensions for retirees in Italy are still more generous than in many other countries, and a wide and deep system of social protection as well as family networks provide a complete framework of safety nets that rarely results in situations of extreme social exclusion as can be found in other countries. So, in Italy most people are heavily “invested in” in terms of education, healthcare received, social inclusion, etc. In the following section we will quantify this “investment” in individuals, to estimate the direct cost to Italy of having its people emigrate.

Figure 5: Transparency Corruption Perception Index: In 2017 Italy Ranked 60th, But Was 69th In 2014

Source: Transparency International Corruption Perception Index – Perceived Levels of Public Sector Corruption in 176 Countries.
At the same time, the system does not provide opportunities for these highly invested in individuals that would allow a good return on investment for the country, the economy and the society as a whole. There are several causes for this lack of opportunity, which to a large extent are well known; without aiming to be complete in listing them, they include the following. First, the economic fabric of Italy is still dominated by small-sized firms, which have little incentive to do research and development and are often conducted by family owners instead of being professionally managed (so there is often an insufficient distinction between ownership and management). This reduces the growth potential of companies and the economy as a whole, as well as social mobility, both of which partly explain the stagnant GDP growth Italy has experienced during the last three decades. This system is partially the result of baroque bureaucracy (discussed in depth in Box 8), pervasive corruption (Figure 5), rent-seeking behaviour, widespread and socially accepted tax evasion and elusion, and a high level of infiltration by organised crime in the productive fabric of business and society.

Second, there is a subtler cause, linked to how society has evolved in Italy with respect to the UK. The roles and positions attainable in the UK by these “invested in” individuals are more gratifying than those in Italy. This is not just an economic issue, yet neither can it be discounted simply with reference to Italy’s lesser meritocracy and a heavier bureaucracy (though both are related to the problem). It is, rather, the fact that when a position is attained in the UK, be it in academia, business, government, etc., it comes with an implicit level of recognition from society. This results in more gratification for the holder of that position, but also in greater leverage in decision-making and a stronger incentive to improve one’s performance and impact in the conduct of the job. In the UK, the public remains somewhat resilient to populist perspectives and so still firmly recognises the importance of having experts hold the right positions in decision-making processes. This difference is particularly disappointing to, for example, academics who are trying to return to Italy and hope to be acknowledged for their skill and potential contribution to the bettering of its systems and society.

All these and other dimensions are often measured by means of indicators (see table in Figure 6, also presented in Figure B8-2) that together constitute the synthetic “Ease of Doing Business” index (Figure 7). As mentioned previously, most of these factors that drag down Italy’s growth potential are well known. The question is what the country (and by this we mean its wider civil society, as opposed to solely its political class, which is an expression of that society) is willing to do in order to overcome these historical shortfalls.

**Figure 6: The Most Problematic Factors for Doing Business in Italy**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inefficient government bureaucracy</td>
<td>17.6</td>
</tr>
<tr>
<td>Tax rates</td>
<td>17.3</td>
</tr>
<tr>
<td>Restrictive labor regulations</td>
<td>11.0</td>
</tr>
<tr>
<td>Tax regulations</td>
<td>10.5</td>
</tr>
<tr>
<td>Access to financing</td>
<td>9.6</td>
</tr>
<tr>
<td>Policy instability</td>
<td>8.2</td>
</tr>
<tr>
<td>Inadequate supply of infrastructure</td>
<td>5.5</td>
</tr>
<tr>
<td>Insufficient capacity to innovate</td>
<td>5.3</td>
</tr>
<tr>
<td>Corruption</td>
<td>4.6</td>
</tr>
<tr>
<td>Government instability/coups</td>
<td>3.8</td>
</tr>
<tr>
<td>Inadequately educated workforce</td>
<td>3.4</td>
</tr>
<tr>
<td>Poor work ethic in national labor force</td>
<td>1.6</td>
</tr>
<tr>
<td>Crime and theft</td>
<td>1.3</td>
</tr>
<tr>
<td>Poor public health</td>
<td>0.1</td>
</tr>
<tr>
<td>Inflation</td>
<td>0.0</td>
</tr>
<tr>
<td>Foreign currency regulations</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: World Economic Forum, Executive Opinion Survey 2017. Image: WEF Global Competitiveness Index 2017-2018. From the list of factors, respondents to the World Economic Forum’s Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

The “acid test” to see whether these issues have been resolved or not is represented by the “net migration” figures. If those who leave the country are more than those returning to the country or coming from similar countries, then it means that those issues still continue to be significant.
It is, however, not just a question of numbers. How long do people who have returned to Italy actually remain before leaving again? And, if they do stay, do they succeed as much as they did when they were abroad, or do they regret their choice to have returned? In general, migrants trying to return experience all sorts of economic, social and financial barriers to re-entry. Either they regret their choice, or they decide to leave again. We clearly appreciate and encourage the internationalisation of the Italian workforce with periods spent abroad. But spending a period abroad is different than individuals buying a “one-way ticket” and never returning to the country that so heavily invested in them.

4. A High Cost for Italy

If Italians having emigrated to other countries could return to their country of origin after a period spent abroad (including in the UK), migration would probably represent a net benefit for Italy. In fact, returning migrants would be able to apply their increased skillset in Italy, “import” best practices, exhibit their increased productivity in their new job. However, if the “return ticket” never gets acquired, Italian migration is likely to represent a net cost for the country. This cost can be quantified to some extent, even if the complexity of the phenomenon only allows for an approximate and imperfect estimate.

Clearly, depending on the methodology adopted, estimates could vary significantly. We will use the methodology adopted by Confindustria, Italy’s employers lobby group. In a recently published report, Confindustria, assuming a households and state expenditure of EUR 275,000 per capita for general care (including health) and education (in the age period between 0 and 25 years), estimates the “direct” cost of emigration to be around EUR 14bn per year. It also suggests that this figure is, if anything, actually likely to be an under-estimate. Assuming an error of around one-eighth, this could mean a cost close to EUR 16bn per annum: equivalent to 1% of the Italian GDP (Figure 8)\(^\text{47}\). These figures are not dissimilar to those provided by IDOS, which we discussed in Box 2. These figures only refer to direct costs and are still an under-estimate: indeed, it does not take into account the loss of value created by persistently high youth unemployment, even if the unemployed people remain in the country and do not emigrate.

Perhaps even more relevant are the indirect costs, which can be summarised as follows:

a) **Indirect economic costs**: consisting of the fact that people do not create families in the country they are leaving from, but do form households in the country they are moving to, resulting in additional consumer spending and investment in such countries; and

b) **Social costs**: reduced cultural and social development in the country they are leaving, due to reduced diversity, lack of re-inclusion of former expats, lost lessons of best practices from abroad; etc.
BOX 4 - Financial Markets: A Long History of Italian Success

By Ludovico Latmiral

According to a recent PWC report on market access in financial services across EU27 and UK\(^{46}\), the UK accounts for nearly a quarter of the gross value added (GVA) generated by the EU in the sector (approximately twice the contribution of Italy and France), with the City of London responsible for more than half of this activity. Overall, it has been estimated that 2.2 million people work in Britain’s financial sector, which is indeed an important source of corporate tax revenue for the government. Financial services contribute to two-thirds of the UK’s trade surplus in services, and about six trillion euros (37% of Europe’s financial assets) are managed in London, twice the amount of those managed in Paris. London is also the biggest player in Europe’s €5.2 trillion investment banking industry. In particular, the City has a dominant position worldwide in FX and interest rate derivatives trading, accounting for approximately 80% of volumes within the EU, as well as 80% of EMEA US investment bank revenues.

Hosting 40% of the headquarters of top 250 companies with global or regional HQ in Europe, London is also a truly multicultural economic hub. The UK is the only country in EU15 where the share of workers in financial services is significantly higher among foreign-born individuals than among native-born ones\(^{46}\). Recent data from the migration observatory at the University of Oxford\(^{42}\) show that London accommodates a considerable fraction of the country’s immigrants, accounting for 38% of its total foreign-born population (of whom 2.8% are Italian). EU arrivals represent approximately 11% of the City’s 400,000 workers, a share that is significantly higher than the 7.6% rate of EU-born workers at the national level.

More specifically, it has been estimated by the ONS\(^{51}\) that nearly 24% of EU14 immigrants work in financial and business services. Italians are in line with this trend, and also account for 6.2% of employees within the M&A sector\(^{52}\). However, immigration of professionals from Italy has been increasing in the last few years and, in 2016, 14% of analysts hired into investment banks were Italian\(^{53}\), representing by far the largest share of foreign-born workers to hold such positions. Banks tend to hire Italians to oversee their businesses in Italy, which accounts for a significant share of their businesses within the EU. Statistics provided by Bocconi University on its Master Statistics program confirm this trend: two thirds of graduates obtain a job position abroad, 60% of which are based in London. Several factors may explain such a large-scale phenomenon. One is that the lack of attractive job positions in Italy encourages young graduates to emigrate and perform well abroad, as success in banking can translate into a high level of wealth when it is taken back home. Another is that Italians are naturally gregarious and commercial-minded, which helps them in sales, and they have a high “networking tendency”.

The Impact of Brexit

According to the think-tank Bruegel\(^{54}\), London could lose 10,000 banking jobs and 20,000 positions in financial services as clients move 1.8 trillion euros of assets out of the UK upon Brexit. This would have a very significant impact on the UK economy as the financial services industry creates an estimated £190 billion worth of value each year, equivalent to around 12 percent of the total UK economy. Besides, financial services are probably the easiest sector in which to carry out relocations, thanks to the flexibility of its businesses (it faces neither intrinsic geographic constraints, nor infrastructure that is difficult to relocate) and employees.

It should not come as a surprise that EU net migration data from the ONS\(^{55}\) show a decline of more than half from its peak of 189,000 registrations in the year leading up to the Brexit referendum, to 87,000 in the year ending in March 2018. Net migration of EU15 migrants – one of the groups considered most economically beneficial to the UK, composed of older EU member states such as Germany, Italy and Spain – fell from 73,000 in 2016 to 45,000 in 2017. In particular, the number of sponsored visa applications in financial services decreased by 4% (from 6,700 to 6,400) in the year ending in March 2018.

However, while there is no clear post-Brexit scenario, it is widely assumed that there will be very little relocation of financial activities to Italy\(^{56}\), with the exception of those several hundred bankers who cover the Italian market and will probably be transferred to Milan. Frankfurt, where most clearing activities will likely be relocated, and Paris, where the European Banking Authority is moving, will play a leading role in the process, though Milan could leverage British ownership of the Italian stock exchange company (which is part of London Stock Exchange group) for a share of its trading activities.
A country losing its most active population is destined to suffer high direct and indirect economic costs, as well as a reduced level of socio-cultural development. Additionally, when migration occurs towards countries similar in dimension and socio-economic structure, the damage is twice as great. In fact, a citizen who has been taken care of and educated with public money that leaves the country is a direct loss for the country they have left, and a direct gain for the country receiving them. Put in economic terms: GDP is a measure of the value added to an economy; if citizens leave Italy for a similar country (e.g. UK, Spain, France), they do not add their value to Italy, and do add their value to the recipient country, so the difference in performance between these two countries increases in both directions, in turn creating a further incentive for others to embark on similar migrations.

On the other hand, according to a different line of thought, emigration would represent a sort of “insurance policy” for otherwise unemployed people – the fact that there are other countries where they can go and apply their skillset implies a reduced probability that the value of that skillset gets lost because of hysteresis. Additionally, still according to this line of thought, if Italians could not emigrate, the unemployment rate would be higher and salaries lower than otherwise. So, the real issue is not that Italians emigrate, but the fact that Italy is not able to attract skilled immigrants to include in its workforce. Italy should be able to attract skilled migrants from any country, not just incentivising the return of Italians having previously migrated abroad.

5. Significant Benefits For The UK

Whether Italian immigrants are beneficial to the UK or not is a question of complementarity. Migrants who tend to complement native workers add to the economic and social life of the host country. On the other hand, if migrants are substitutes for native workers, then a displacement of natives in favour of migrant workers can occur, potentially resulting in social tensions. Having said that, while in the short run the complementarity/substitutability of native and immigrant workers can create social and political frictions, recent studies highlight how free movement of labour tend to be beneficial for the employment levels of the receiving country in the long run, since the increase in productivity deriving from migration allows native workers to do jobs that would not be available otherwise.

At first glance, macroeconomic statistics suggest that migrant workers in the UK have been complementing rather than substituting native workers. The UK unemployment rate has fallen rapidly and steadily since 2014,
when migration was reaching record highs. As a result, there was no substantial displacement of native workers in favour of migrants at the macro level. This is true not only for high-skill jobs. Low-skilled workers enabled British natives to take better paid and more qualified jobs (see Boxes 5 and 7).

Economic literature presents a wide range of estimates related to the economic impact of migration. In a recent study\textsuperscript{58}, the OECD underlines how immigration affects three different components of the economy: 1) the labour market; 2) fiscal revenues and 3) economic growth.

\textit{Impact on the Labour Market}

The British labour market is one of the most significant pull factors for immigration. 50\% of immigrants stated that their reason for coming to the UK was to find employment.\textsuperscript{59} The economic growth of the country and its flexible labour market led to an increase in the demand for both high-skilled and low-skilled labour. In fact, migrants filled multiple gaps in employment both in rapidly growing and in declining sectors of the economy. The data acquired by the Office for National Statistics show that 3.4 million foreign workers are currently part of the UK labour market. Approximately two million migrants are currently employed in manufacturing, hospitality, healthcare and financial services, which are considered to be the main drivers of the economic growth of the country.\textsuperscript{60}

\textit{Impact on Fiscal Revenues}

There have been debates on the fiscal impact that immigrants have when they establish themselves in a specific country. A general belief is that immigrants tend to receive more benefits than natives and occupy job positions that are taken away from the British population in general. As we discussed above, however, immigrants actually tend to fill gaps in the labour market that are left empty due to shortages of workers. Thus, as the OECD shows in its report, migrants have a positive impact on public finances. In fact, because of their immigration status, which is primarily as members of the workforce rather than as dependants, they provide more in taxes and contributions than they receive in benefits.

\textit{Impact on Economic Growth}

International migration leads to \textit{direct} and \textit{indirect} effects on economic growth. Regarding the direct impact, several studies have been carried out on the impact of migration on a country’s GDP (growth, level and per capita) as well as productivity\textsuperscript{61}. Those studies show that immigration, especially of skilled workers, tends to increase a country’s productivity, GDP growth and long-term potential output. For example, D’Artis Kancs and Patrizio Lecca\textsuperscript{62} underline how the integration of immigrants into the welfare system leads to economic expansion. Even though integration might be costly for public budgets in the short term, it creates fiscal benefits that, in the long run, outweigh any incurred costs. In addition, if we consider the lifetime fiscal contribution of immigrants, those who arrive at working age can be viewed as net positive assets, their value amounting to the level of public funding they received in their country of origin. Without aiming for completeness, it is worth reminding here some of the most relevant results.

Ortega and Peri (2014)\textsuperscript{63} in a recent cross-section study found that a country with a migration share 10\% higher than another country would have a long-run level of income twice as high. Jaumotte et al. (2016)\textsuperscript{64} found that the magnitude of the estimated effect of the migration share on GDP per capita is sizable. Their estimates suggest that an increase in the migration share of adult population by 1\% can raise GDP per capita and productivity in the long run by up to 2\%. Perhaps surprisingly, they found that the estimated aggregate impacts of high and low skilled migration are not significantly different. Boutbane et al. (2015) found that in most OECD countries, taking into account the skill composition of foreign-born migrants, a 1\% increase in the migration of foreign-born workers would increase productivity growth between 0.6\% and 1\% per year, and that a 50\% increase in the average annual net migration rate of the foreign-born generates an increase of 0.3\% in productivity growth per year.
Looking specifically at the UK, Boutbane et al. found that a 1% increase in the migrant share of the working age population leads to a 0.4-0.5% increase in productivity. This is higher than in most other advanced economies and reflects the relatively high skill levels of migrants to the UK. Their data set, however, only runs up to 2006. The impact of migration on GDP in the UK could also be seen from a “negative” perspective, i.e. what would be the output loss deriving from reduced immigration. The UK’s Office for Budget Responsibility (OBR, 2016) forecasts that Brexit-induced reductions in migration will reduce trend output growth by 0.3% per year, based solely on the impact on the growth in the labour force (without considering the impact on productivity). This is consistent with the estimates made Cross-Whitehall on the impact on GDP deriving from Brexit and its various repercussions. The government’s calculations show that, over 15 years, the fall in immigration deriving from Brexit could make the level of output being reduced by more than 1% compared to the counterfactual of no Brexit.

Portes and Forte (2016) estimate that a reduction in net migration of 100,000 units by 2020 deriving from Brexit would result in total population falling by 0.15% and the migrant share of the working age population by 0.20%. Using the estimates of Boubtane et al. mentioned above, this would reduce GDP per capita by about 0.1%, and GDP by about 0.3% compared to a counterfactual scenario where EU migration remains constant. Using the estimates of Jaumotte et al. also quoted above, GDP per capita would fall by about 0.4% and GDP by about 0.55%. In order to facilitate a comparison with the estimates produced by HM Treasury of the long-term impacts of Brexit, they also calculate the impact on GDP per capita up to 2030, assuming that migration remains at these reduced levels after 2020. Here the impact on GDP per capita ranges from a fall from 0.92% to 3.38% under the central scenario, and from 1.53% to 5.36% under the extreme scenario.

As to the indirect effects of international migration on economic growth, a key point is that migrants boost the UK’s working-age population. They are usually concentrated in the younger, economically active, healthier age group. This increase in the young population influences economic growth, reducing the dependency ratio and increasing the productivity of the country. Moreover, immigrants contribute to the economic growth of the host country since they share their knowledge and increase the stock of human capital. Higher levels of human capital tend to result in faster technological progress and higher levels of innovation.

Through the analysis of the OECD study described above, we can assume that Italian migrants go to the UK primarily for reasons of employment. According to ISTAT data from 2016, approximately 60 percent of the Italians who requested to be part of AIRE were between 18 and 39 years old. Roughly 30 percent of young Italians (aged 25 or higher) who changed their country of residence in 2016 had attained a university degree. Hence, they were contributing to the UK rather than receiving benefits from its welfare system. As mentioned above (and discussed in detail in Boxes 5, 6 and 7), migration is not only about “brain drain,” finance, and research. It is also about there being lower educational entry requirements to certain professions.
BOX 5 – The Hospitality Industry: A Lost Haven?

By Stefano Potortì

The restaurant industry in the UK has grown massively between 2009 and 2016 (from 61,192 to 83,635 restaurants and food service companies) creating thousands of job opportunities for young (and not so young) Italians who wanted to leave their country and move to London for an opportunity and a fresh start. Finding a job in a restaurant in London used to be possible within a week of arriving in the city, with or without prior experience. A growing market, a meritocratic system, a better salary than in Italy (considering the combination of gross salary and tips in the form of service charges; see Figure B5-1), and career advancement opportunities were some of the main reasons that led so many people to choose London as their destination for a life change, or for more profitability continuing a profession they had started in Italy.

For others, the restaurant industry was a temporary starting point from which to get familiar with the city, improve their English language skills, and then start looking for a job in a different sector within a few months. This could explain the large number of Italians who have a degree coming to London to work in the hospitality sector.

The majority of people moving to London were between 18 and 32 years old.

Figure B5-1: Summary of Annual Salaries By Industry in 2017

<table>
<thead>
<tr>
<th>Annual salaries of restaurant staff in London in 2017, by job type (in 1,000 GBP)</th>
<th>Minimum</th>
<th>Average</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area or Operations Manager</td>
<td>40</td>
<td>55</td>
<td>100</td>
</tr>
<tr>
<td>Assistant General Manager</td>
<td>26</td>
<td>28</td>
<td>36</td>
</tr>
<tr>
<td>Assistant Manager</td>
<td>21</td>
<td>25</td>
<td>28</td>
</tr>
<tr>
<td>Bar Manager</td>
<td>19</td>
<td>25</td>
<td>31</td>
</tr>
<tr>
<td>Chef De Partie</td>
<td>22</td>
<td>25</td>
<td>29</td>
</tr>
<tr>
<td>Commis Chef</td>
<td>16</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>Executive Chef</td>
<td>40</td>
<td>50</td>
<td>80</td>
</tr>
<tr>
<td>General Manager</td>
<td>30</td>
<td>35</td>
<td>75</td>
</tr>
<tr>
<td>Head Chef</td>
<td>30</td>
<td>40</td>
<td>65</td>
</tr>
<tr>
<td>HR or Training Manager</td>
<td>25</td>
<td>34</td>
<td>45</td>
</tr>
<tr>
<td>Pastry Chef</td>
<td>19,5</td>
<td>22</td>
<td>28</td>
</tr>
<tr>
<td>Sous Chef</td>
<td>28</td>
<td>35</td>
<td>40</td>
</tr>
<tr>
<td>Supervisors or Head Waiter</td>
<td>18</td>
<td>22</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Statista 2018

A report from KPMG dated March 2017 states that “the UK hospitality sector is highly reliant on EU nationals, with between 12.3% and 23.7% of the sector’s workforce made up of EU migrants.” London itself relies on Europeans workers for between 26% and 38% of its workforce (see Figure B5-2). Service sectors such as hotels (22.1% - 34.1% made up by EU nationals) and restaurants (13.8% - 26.1% EU nationals), and, within these businesses, roles including waiters and waitresses (75.3% EU nationals), chefs (24.6% EU nationals) and housekeeping staff (37.1% EU nationals) are more reliant on EU workers. The report estimates that the hospitality sector requires 62,000 EU migrants per year to maintain its current level of activity.

The post-referendum environment has produced a different scenario for the industry. Despite the increasing number of restaurants closing down during the past twelve months, operators are struggling with staff recruitment. A poll of 100 restaurant owners has showed that 80 percent of them believe that there are fewer people who are keen to move to London and find a job in the hospitality industry than there were a year ago. It is also getting difficult to find staff already based in London, a sign that many people have left the capital to seek better opportunities somewhere else.

It is still too early to get a clear understanding of the phenomenon, but some of its causes could be:

- The weakness of the Pound compared to the Euro makes some European countries or UK cities outside London more appealing for working in the hospitality industry;
- The uncertainty about the post-Brexit rules is creating a generally negative feeling;
- With many restaurants closing down, people are worried about a possible recession; and
Negative articles in the press may be causing further concerns. The industry is already experiencing a shortage of personnel: there will not be enough extra EU resources to help fill positions in Britain, and the low unemployment in the UK shows that unemployed British will not be able to solve the problem themselves (see Figure B5-3).

Figure B5-2: Distribution of UK and EU Nationals Employed in the Hospitality Sector, by Occupation

<table>
<thead>
<tr>
<th>Occupation grouping</th>
<th>UK-born</th>
<th>EU nationals</th>
<th>Rest of World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher managerial and professional</td>
<td>3.4%</td>
<td>0.7%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Lower managerial and professional</td>
<td>18.6%</td>
<td>9.9%</td>
<td>14.1%</td>
</tr>
<tr>
<td>Intermediate occupations</td>
<td>4.3%</td>
<td>3.5%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Small employers and own account workers</td>
<td>10.6%</td>
<td>2.5%</td>
<td>11.4%</td>
</tr>
<tr>
<td>Lower supervisory and technical</td>
<td>21.2%</td>
<td>35.7%</td>
<td>27.2%</td>
</tr>
<tr>
<td>Semi-routine occupations</td>
<td>20.9%</td>
<td>20.2%</td>
<td>20.6%</td>
</tr>
<tr>
<td>Routine occupations</td>
<td>21.1%</td>
<td>27.6%</td>
<td>19.3%</td>
</tr>
</tbody>
</table>

Source: KPMG analysis of LFS data

Figure B5-3: Percentage of Workers in Each Role Occupied by EU Nationals

<table>
<thead>
<tr>
<th>Job role</th>
<th>Percentage of workers in each role made up of EU nationals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bar staff</td>
<td>11.3%</td>
</tr>
<tr>
<td>Catering and bar managers</td>
<td>20.8%</td>
</tr>
<tr>
<td>Chefs</td>
<td>24.6%</td>
</tr>
<tr>
<td>Cleaning and housekeeping managers and supervisors</td>
<td>23.7%</td>
</tr>
<tr>
<td>Cooks</td>
<td>15.4%</td>
</tr>
<tr>
<td>Customer service assistants</td>
<td>4.7%</td>
</tr>
<tr>
<td>Customer service managers and supervisors</td>
<td>7.2%</td>
</tr>
<tr>
<td>Hotel and accommodation managers and proprietors</td>
<td>13.5%</td>
</tr>
<tr>
<td>Housekeepers</td>
<td>37.1%</td>
</tr>
<tr>
<td>Kitchen and catering assistants</td>
<td>21.6%</td>
</tr>
<tr>
<td>Other</td>
<td>15.7%</td>
</tr>
<tr>
<td>Receptionist</td>
<td>18.7%</td>
</tr>
<tr>
<td>Waiters and waitresses</td>
<td>75.3%</td>
</tr>
</tbody>
</table>

Source: KPMG analysis of BHA survey
Italians are entrepreneurial, but in Italy they are also scarcest. TechItalia (the largest meetup and now accelerator for tech startups), formed in 2016, according to the Startup Europe Partnership.

Italian entrepreneurs and startups are frequently more interested in investing in innovative businesses abroad, while Italian entrepreneurs and startups have a lot of difficulty (with a few notable exceptions of course) to attract large-scale investment that would allow them to compete at international level. The overall capital invested in Italian start-ups is equal to approximately 0.05% of Italy’s GDP; the untapped potential here is evident when considering the fact that Italy ranks 8th in the world for GDP, which suggests that there is a strong economic base in Italy from which start-ups might pull, especially if we look in comparison to the UK. According to the dossier SEP Monitor “Scaleup Italy”, written by Mind The Bridge, the UK has produced ten times the number of scale-ups than Italy, amounting to 22.4 times more investment.

Both Italy and the UK have entrepreneurial cultures, economies rich in SMEs and a strong heritage and celebrated histories in industry and commerce. Italians are entrepreneurial, but in Italy they are ultimately restrained by the scarce incentives that exist for businesses, by an obsolete and under-developed legal and financial system and a natural tendency to create micro-enterprises as opposed to start-ups.

The Italian entrepreneurial community is well integrated and supported by some key financial and representative institutions: the Italian Chamber of Commerce, Italian Trade Agency, SMAU, Intesa San Paolo, London & Partners, and aggregated groups of professionals, equity partners, angel investors and specialized funds that help drive business, innovation and partnerships. For example, Techitalia (the largest meetup and now accelerator for tech start-ups by Italians), iStarter (with a presence in both Italy and the UK) and i2i (“Italians to Italians”, so far, the only known fund to invest exclusively in start-ups by Italians in the UK), to name but a few. Whether the UK will remain a fertile ground for Italian businesses depends on the final shape of the Brexit deal. However, given the importance of the Italian entrepreneurial experience, we should focus more on how to bring talent back home and make it prosper, for the sake of the country as a whole.

**Italy vs UK: Statistics of Investment at A Glance**

- Dealroom⁷⁶, which follows the trend of investments in startups, finds that in the UK $24 billion were invested over the last six months. In Italy, during the same period, the figure is only around $72 million. Italy invests around thirty times less than the UK in innovative companies.
- The Startup Europe Partnership⁷⁹ estimated that 86% of all seed and series A rounds were led by Italian investors, but this number dropped to 78% for series B and then to about 50% for later stages. “They are seeking investments in other ecosystems like Berlin, Barcelona and London. Many are flying to New York or Silicon Valley. So, we are not closing the cycle, which means we cannot attract other investors.”
- 94 Italian tech scale-ups were acquired by foreign companies between 2010 and 2016, according to the Startup Europe Partnership.
- 11% of Italian start-ups have decided to incorporate themselves abroad. 20% of Italian start-ups have decided to scale-up abroad.
- Among European countries, Italy is in the 11th place both in the number of innovative businesses it has and for the amount of money it has raised.

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**BOX 6 – Manufacturing and Investment: Space to Grow**

By Industrial Associates of the Italian Chamber of Commerce and Industry for the UK

Over the last few years, the younger generation of Italians has emigrated to the UK not just to look for new professional opportunities or because of a desperate need to find work, but also to find more fertile ground in which to kick-start their entrepreneurial endeavors. Despite Brexit, the number of Italians moving to the UK could even increase in the short term, as entrants might want to pre-empt any new British controls that may be put in place. Behind this phenomenon, there is the fact that Italian graduates feel frustrated and undervalued, and therefore prefer to move abroad.

But this phenomenon is not only about people. It is also about innovative investments. “Italians invest in startups, and they do so frequently. But they invest in startups abroad”, Cellini from Innogest Capital recently said⁷⁸. Italian investors are frequently more interested in investing in innovative businesses abroad, while Italian entrepreneurs and startups have a lot of difficulty (with a few notable exceptions of course) to attract large-scale investment that would allow them to compete at international level. The overall capital invested in Italian start-ups is equal to approximately 0.05% of Italy’s GDP; the untapped potential here is evident when considering the fact that Italy ranks 8th in the world for GDP, which suggests that there is a strong economic base in Italy from which start-ups might pull, especially if we look in comparison to the UK. According to the dossier SEP Monitor “Scaleup Italy”, written by Mind The Bridge, the UK has produced ten times the number of scale-ups than Italy, amounting to 22.4 times more investment.

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BOX 7 – The Construction Industry: Brains and Arms
By Domenico Meliti

The British construction business has been characterised by the presence of non-UK workers for a long time, and many of them have come from EU countries. However, while many available surveys tell about percentages of non-UK workers in this sector, their roles, skills, and qualifications are still quite unknown. One of the few pieces of research available, the Migration Research Report by CITB (Construction Industry Training Board) gives us some useful information and corrects some platitudes about their positions and their skills, for example highlighting that it is not true these workers only provide unskilled or low-skilled labour for cheap money; they can also play significant roles within construction firms. Getting this kind of information will allow us to better understand the status of Italian immigrants in the construction business.

We also want to analyse the role of Brexit and its likely subsequent restrictions by discovering the extent to which construction firms depend on their non-UK workforce and whether EU nationals who work in the UK are currently considering moving to another country. Needless to say, London makes an exception on many parameters: for example, half of London’s construction firms admit they depend on EU workers, and while it seems this does not affect the rest of the country, it does, because firms in other regions may experience skills shortages in the future due to workers moving to London to fill the vacancies left by migrants. However, we do not know how likely this scenario is, since according to the report over 75% of migrant workers in the construction industry were expecting to stay in the UK for the next year, and 56% said they wish to remain in the UK until retirement.

Let us see what the current situation of EU nationals in the UK construction industry is according to the previously mentioned CITB report.

Employment of EU Nationals in the Construction Industry: The Current Situation

There are some key points we want to highlight:

- The majority of workers remains British – only 1 out of 8 is not born in the UK (with the exception of London, as mentioned above, where this ratio rises to 1 in 2);
- EU countries are the most common countries of birth for non-UK workers, mainly because of the lack of bureaucracy required in moving;
- On average, migrant workers are younger than their British counterparts, particularly in the 25-34 age cohort; and
- EU workers in construction industries occupy all kinds of positions, from site labourers to directors, and including architects, designers, and engineers.

EU Workers in The British Construction Industry

According to the most recent reports from LFS (Labour Force Survey), around 2.1 million people worked in the construction sector in 2015, and approximately 250,000 of them were born outside the UK, in particular in EU countries. This means that 12.6% of construction workers in the UK were not British-born. It also seems like this percentage has increased consistently in recent years. In 2007 foreign construction workers were only 8% of the total construction workforce. Regarding the countries where these workers were born, Italy is not among the top-ranked positions, even though accession countries are the major contributors to this industry (as shown in Figures B7-1 and B7 – 2).

The LFS data show that, while across the country the 87% of construction workers are British, in London half of the construction workforce is made up by migrants. In the South-East the situation is quite similar, while in the North and outside of England the migrant workforce touches its lowest point (9% in Scotland, 5% in Wales, 3% in Northern Ireland, according to ONS). Migrant construction workers are concentrated in two age groups: 25-34 and 35-49. In
contrast, in the 50+ age group the British-born workforce prevails. This clearly means that migrant workers are lowering the average age of the industry. The CITB report also shows the reasons why employers choose migrant workers, and – as the following paragraph shows – we can see there are quite a few (Figure B7-3).

The main reason is simply availability: the majority of the applicants for construction jobs come from EU countries, and employers are picking the best candidates from that pool. Moreover, from the interviews with the employers who took part in the survey it can be seen that there is always a shortage of skilled labour, so the nationality does not matter to the employer: it is all about the skills workers possess. Another interesting reason is work ethic: employers find non-UK workers more reliable and more hard working than their British colleagues. The impression we get is that productivity is the major focus of construction employers, and they think that migrant construction workers can guarantee it. According to CITB, 92% of employers who hired migrant workers stated that the myth of the “cheaper labour” supplied by such workers was not a motivating factor, rather their skills and qualifications were. In fact, many EU students who get a degree in one of the branches of construction studies in their country of origin are likely to find a job in the UK, Italians included.

Figure B7-3: Top Reasons for Hiring EU Workers (%)

Source: IFF Employer Survey. All employers interviewed in this survey had hired non-UK workers (Base: 216)

The Impact of Brexit

Around one out of six employers thought themselves to be dependent on migrant workers in some way, especially in London. As the CITB shows, there was also a substantial difference between native and non-native workers: electrical, plumbing, and installation sectors were less likely to be dependent on migrants, while architects, designers, and managers were more likely to depend on foreign workers (Figure B7-4).

That said, only about 25% of construction employers stated that their businesses will be negatively influenced by Brexit. Some reasons worry these employers more than others in this regard. However, CITB specifies that these results might be influenced by the uncertainty around the implications of Brexit. The pattern suggests that Brexit is more likely to impact businesses that directly employ EU workers: the higher the number of EU workers in a firm, the more likely that firm is to report an impact. Thus, construction firms in London will experience a greater impact than other firms in the rest of the UK. In fact, according to the CITB data, three out of five London firms expect at least one of the negative impacts mentioned in the chart to occur. In particular, they worry about an economic slowdown (21%), staff shortages (20%), a lack of client investment (19%), and skilled labour shortages (16%).

Figure B7-4: The impact of Brexit

Source: IFF Employer Survey. All employers interviewed in this survey had hired non-UK workers (Base: 216)
6. If The Phenomenon Continues: Threat Or Opportunity For Italy And The UK?

The obvious questions that emerges from the considerations above is the following: can Italy afford the current trend to last much longer? Can it afford to be subject to further brain drain? The answer is also obvious: no, it cannot. If the trend is not reversed, it is likely that Italy’s growth potential, which is already extremely low\textsuperscript{83}, will continue to fall over time, until its GDP is no longer able to support the massive public debt that it has accumulated over the years. Italy and Italians are fully responsible for the accumulation of such a massive public debt, which is mostly a result of the country’s inefficiencies (including its bureaucracy; see Box 8). If such a momentous market event takes place, anything could happen as a result, including Italy leaving the single currency, then experiencing a period of hyper-inflation (due to the introduction of a new, weaker currency) before converging towards a new equilibrium that is difficult to imagine at this stage.

In all this, Brexit could only help at the margins. As the experience of the two London-based agencies showed\textsuperscript{84}, Italy is not in an excellent position to benefit from the UK leaving the EU. In terms of financial services (as discussed in Box 4), while part of the core of the industry will remain in London, some entities will relocate to various cities: banks towards Dublin and Frankfurt, asset managers towards Paris, pension funds towards Amsterdam, insurance companies towards Munich, etc. It is not obvious what parts of the system should migrate towards Milan. Plus, if London gets a preferential status (somewhat like a city-state) after Brexit, and so in effect remain within the EU, some of these moves from London to other cities might not even occur.

\textbf{BOX 8 - The Hidden Cost of Bureaucracy: Italy vs. the UK}

\textit{by Leonardo Simonelli Santi}

The cost generated by Italian bureaucracy is one of the motivations pushing young professionals and aspiring Italian entrepreneurs to leave Italy to come to the UK. In Italy, there are excellent public servants who do an incredibly responsible and professional work. Unfortunately, there is also an excessive and increasing number of bureaucrats who may ruin the quality of what used to be an Italian point of excellence: the dedicated men with the spirit of the “risorgimento”, and the post-war “Italian miracle.” The damage of excessive bureaucracy has been known for a long time (even from the era of “Chinese mandarins”), but its negative impact on economic growth and society is amplified by the speed required to make decisions in the current globalized economy. Slowness, muddiness and lack of transparency are extremely costly.

In the Italian case, regulators and productive activities are too closely linked together, producing a number of difficulties, more than in other countries in the world. Many people have studied this phenomenon, suggested solutions and brought best practices from abroad. Despite this attention, Italian bureaucracy has grown at a worrying rate. The definition of bureaucracy in the Oxford Dictionary\textsuperscript{85} is “a system of government in which most of the important decisions are taken by state officials rather than by elected representatives”; in another definition it is “a self-protecting organization that, when established, is very difficult to eliminate.” This partly explains why, so far, none of the attempts (often lacking in the necessary energy and courage) in Italy have succeeded yet. Since its inception, bureaucracy has been very difficult to reform, especially due to its self-defense barriers aimed at protecting its own privileges. The attempts of various illustrious economists who have rightly defined bureaucracy as the deadly sin that hampers Italian development, show that if the situation does not change quickly, not only will the exodus continue, but it will be increasingly difficult to attract talent and investment to our country.

This box provides a high-level description of the waste, privileges, and absurd rules created to justify the salaries of mediocre officials, who are notoriously more attentive to the form than to the substance of problems, which can foster corruption and bad practices. It is therefore necessary to reduce not only the number of people in these positions, but also carry out a generational turnover, involving the introduction of new personnel, more impartial and efficient and new technologies, including those adopting “artificial intelligence.”

\textit{From the data, it seems more than ever that Italy can no longer bear the costs of its pervasive bureaucracy, along with all its damages, delays, and propensity to favor “informal” solutions. These make us non-competitive, with very few development opportunities, especially for young people.}
With less burdensome procedures and bureaucracy, the UK is 39 positions ahead of Italy in Ease of Doing Business.

In addition to the definitions described above, the Oxford Dictionary also defines bureaucracy as any “excessively complicated administrative procedure”. Bureaucracy costs Italy billions of Euros every year. Regarding the burden of Italian bureaucracy placed on the country’s private enterprises (in particular P.M.I.), the research centre of CGIA of Mestre has published several essays based on data from Banca d’Italia, Ufficio Studi Confindustria, Presidenza del Consiglio, European House of Ambrosetti. With the authorization of CGIA, we give a summary of these costs (Figure B8-1):

**Figure B8-1: Some inefficiencies of enlarged Public Administration**

<table>
<thead>
<tr>
<th>Inefficiencies</th>
<th>Estimated annual economic impact (billions €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA Debt</td>
<td>57</td>
</tr>
<tr>
<td>Logistic-infrastructural Deficit</td>
<td>42</td>
</tr>
<tr>
<td>Burden of bureaucracy on PMI</td>
<td>31</td>
</tr>
<tr>
<td>Civil justice delays</td>
<td>16</td>
</tr>
<tr>
<td>Public transports inefficiencies</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Elaboration Ufficio studi CGIA of various sources

Inefficiency in resource allocation, time-consuming and costly procedures, required authorizations and slowed-down business planning are all consequences of a system that is mired in useless red tape, resulting in a much lower “ease of doing business” in Italy compared to other countries, including the UK (Figure B8-2).

**Figure B8-2: Ease of Doing Business: UK vs Italy**

Source: World Bank, Author’s calculations

The World Bank produces a yearly publication66 on the ease of doing business in different parts of the world. In its latest publication, Italy ranked 46th among all countries, compared to the 7th place of the UK. The UK performs better in general in all the indicators composing the index. In particular, it is much easier and less expensive to open a business in the UK than in Italy. It takes twice as many days in Italy to start a business and it is considerably more expensive to do so (on average, it requires 13.7% of per capita income to start a business in Italy). Once a business is started, it has to survive and thrive: a 77-position gap in the ranking exists between Italy and the UK on this front. For example, in Italy it takes - on average - 1,120 days (over 3 years) to enforce a contract, against 437 days in the UK. For every contract enforced in Italy, there are 2.6 more contracts enforced in the UK. Paying taxes, in addition to being more burdensome, is also a more complicated process in Italy. Italy is ranked 112th (out of 190 countries) in this category, compared to the UK being ranked 23rd. In Italy, one has to deal with the revenue agency 14 times per year, compared to 8 times in the UK. In Italy, it takes more than twice as long to comply with tax authorities: 238 hours per year, compared to 110 hours in the UK.
7. Policy Suggestions: What Could Italy And The UK Do To Mitigate The Phenomenon?

Given the considerations described above, any policy actions should be focused in the following directions:

1) **At the macro-economic level**, Italy should continue its campaign to ensure that the EU/EZ moves closer to becoming a transfer union, even knowing that this attempt will prompt opposition from Germany and other core countries, which are afraid to be asked to pay for the debt of peripheral countries. Even if in theory the European Union was created with the idea of benefiting all its member countries, in practice its incompleteness means that the various countries will have to fight to obtain the benefits that derive from their participation to the EU. Italy should be aware that Germany will continue to ask for “risk reduction” before “risk sharing,” and that the most it can obtain would be Germany eventually accepting that the reduction and sharing of risk are two routes that need to be travelled down in parallel to one another, rather than one at a time. The idea of Italy going to Brussels and “putting its foot down” (“sbattere i pugni sul tavolo”) has never led anywhere useful. Italy needs to remain cooperative and compliant in its dealings at the European level, while advancing its rightful requests, knowing that this will remain a battle for decades, not months.

2) **At the micro-economic level**, Italy should on the one hand continue to remove the factors that cause people to move abroad: bureaucracy, corruption, rent-seeking, tax evasion and elusion, organised crime, etc. On the other hand, Italy should also continue providing positive incentives for people to return home from abroad. These incentives do not need to be only of a fiscal nature (as they have been so far; see Box 9). It must also be clear that for those who decide to come back, the same level of openness and freedom experienced abroad will be felt at home, and the same career opportunities will be available. Clearly, removing familism, cronyism, nepotism, and other such factors will take a long time, but we need to at least start the process of trying to reduce them.

At the level of specific sectors and industries, some policy actions could also be taken:

a) In the health-care/research sector, Brexit should prompt a revision of the tables that compare the current academic position in the UK with those for recruitment in Italy, in order to make returning home gratifying even for well-established and highly qualified scientists. Additional financial resources for this type of recruitment, or to finally attract UK researchers and health-care professionals to Italy, would also be welcomed. On the other hand, there is no specific legislation aimed at adequately acknowledging the past activity of health care professionals (hospital and NHS doctors, nurses, physiotherapists, etc.) who have been working abroad. The Italian health care system would certainly benefit from attracting, through specific parallel and additional recruitment pathways, the many highly qualified health care professionals working in the UK.

b) Regarding fiscal incentives, given the arguments discussed above, the Italian government might want to take appropriate action to prevent the risk of tax measures discussed above not being fully exploited. The current mechanism of determining residence may result in thousands of high-net-worth or highly-skilled individuals and nationals being, on one hand, in possession of all the legal requirements to access the tax advantages, while on the other hand unable to be approved for the sole reason that they failed to enrol to the AIRE register and are therefore deemed Italian residents.

c) The discussion of the current scenario shows that the hospitality industry has already been affected by post-Brexit results. Any UK-EU deal that restricts the movement of people (or a no-deal outcome) will result in a shortage of personnel that cannot be filled by British workers alone, given Britain’s low unemployment rate. A transactional period in which there is no change to the current legislation will allow operators to implement contingency plans that cannot be carried out at present because of the uncertainty regarding future rules.

d) In the financial market sectors, from the perspective of trading and clearing activities the London Stock Exchange’s ownership of Borsa Italiana is an opportunity for Italy. Italy could aim, for example, to be a hub for sales client accounts for Southern Europe and the Middle East.
determination would be of paramount importance in this regard, particularly in case of a hard Brexit, as most clearing and stock trading activities would likely be relocated to US/Asia and continental Europe, respectively. Turquoise platform, i.e. the European MTF for equities, could be moved to Amsterdam, while most European clearing would be internalized by Eurex in Germany and LCH SA in France (which is 60% owned by LSE group). On the positive side, we can mention that from the beginning of March, every other European government (apart from the UK government and UK-based banks) will access MTS Cash via new venues based in Milan. The platform "plays a key role in linking sovereign borrowers with the investment banks that help price the bonds and sell them to asset managers". It would be regrettable if Italy was not able to leverage more of its close relationship with the UK to benefit from relocations in financial sectors, should such relocations take place.

e) In the **construction industry**, as we saw, there is a large gap between London and the rest of the country in terms of relying on migrant workers; the former is highly dependent on migrants while the latter would still be able to replace them with native-born workers. Still, Brexit is a major concern for the whole industry, as there are several negative effects that may arise from it, from rising costs to reduced investment (in 2017, Italy exported over EUR 900 million of construction business-related goods). Italian institutions should seriously consider adopting a more streamlined legislation to mirror the UK in terms of planning requirements. A good example of this is the so-called Permitted Development Scheme, which allows people to refurbish existing buildings and obtain a licence within eight weeks of their submission of a request to do so. In the UK, this has proven to be a great tool to regenerate empty commercial units or office blocks and convert them into residential properties.

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**BOX 9 – Beneficial Tax Regimes To Attract Foreign Workers And Investors**

By Alessandro Belluzzo and Silvia Verona

A new beneficial tax regime has finally been implemented in Italy, one aimed at attracting highly educated and specialised individuals who have been living and working abroad. This tax regime has been in place since 2010, when Law Decree 78/2010 was introduced. In the Law Decree 147/2015, amendments were made to the rules regarding workers.

The following individuals are eligible to apply for the new tax regime:

- **university lecturers, professors and researchers moving to Italy.** These workers may benefit from a reduced taxation of income generated by employment and self-employment activities involving research and teaching undertaken in Italy. Income arising from activities other than research and teaching will continue to be subject to ordinary taxation;

- **workers with a university degree** who have been resident abroad for at least 2 tax years; and

- **other workers, depending on other criteria** to be fully met, who have been resident abroad for at least 5 fiscal years.

In order to benefit from the favourable tax regime, a written request must be submitted to the employer. Commonly, a request form is made available by employers to new employees, who aim to benefit from this tax regime. The benefits will start to apply during the pay period following the request, by way of a reduced withholding tax. A new request must be submitted when changing one’s employment.

In cases in which the employer does not make the new beneficial tax regime available, taxpayers can apply directly for these benefits when submitting their tax returns.

Self-employed workers, lecturers and researchers can access the beneficial tax regime directly when submitting their tax returns. When issuing their invoices, a reduced withholding tax on the compensation received (made by the client pursuant to Article 25 of Presidential Decree No. 600 of September 29, 1973) is applicable.
The Italian tax package to attract investment and the relocation of high net worth individuals to Italy

Along the lines of tax strategies already implemented and put into force in other countries, Italy has been granting two significant tax benefit schemes since January 2017:

(i) **The new Italian “resident not domiciled” status via an annual flat tax rate** is subject to the applicant meeting the following criteria in full:

- they must be an individual (Italian or non-Italian national) and not a body or company
- they must transfer their tax residence to Italy. The individual is required to enroll with the Municipal Civil Register and must physically move and live in Italy and be enrolled in its official registers. Italian nationals relocating from abroad are also required to cancel their details from the Anagrafe degli italiani all’Estero register (“AIRE”) and enroll with the Municipal Civil Register.
- they must not have been Italian resident for tax purposes in the last 9 out of 10 tax years prior to the request. For Italian nationals, it is also a requirement to be enrolled in AIRE for the same period of time.

A taxpayer will benefit for a maximum of 15 years from a 100,000.00-euro flat tax rate to be paid each year and 25,000.00 euro as an option for relatives and siblings linked to the initial applicant. Such a flat tax will cover any tax that was due under an ordinary tax regime for all income generated abroad, except from capital gains arising from the sale of qualifying shareholdings in foreign companies executed within the first five tax years of tax residency that will therefore be subject to the ordinary tax regime.

Furthermore, via the “cherry picking” option, a taxpayer can exclude one or more foreign countries or territories from the option and tax them under the ordinary Italian tax regime, therefore benefitting from the foreign tax credit, where available (Figure B9-1 compares tax benefit schemes offered by various European countries).

**Figure B9-1: Fiscal Incentives of Various EU Countries For Foreign Residents**

<table>
<thead>
<tr>
<th>ITALY</th>
<th>UNITED KINGDOM</th>
<th>PORTUGAL</th>
<th>MALTA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Who</strong></td>
<td>Individual</td>
<td>Individual</td>
<td>Individual</td>
</tr>
<tr>
<td><strong>Requirements</strong></td>
<td>Move their residence to Italy</td>
<td>Resident but not domiciled in UK.</td>
<td>Have had no Portuguese resident in the previous 5 years.</td>
</tr>
<tr>
<td><strong>Duration</strong></td>
<td>15 years</td>
<td>15 years</td>
<td>10 years</td>
</tr>
<tr>
<td><strong>Tax treatment</strong></td>
<td>100,000.00 euro flat tax on foreign income and cherry picking option</td>
<td>No taxation on foreign income not remitted in UK subject to certain conditions and amount</td>
<td>Tax benefit up to full exemption on foreign income from specific activities, a part from income sourced in black list countries</td>
</tr>
</tbody>
</table>

Source: Belluzzo – International Partners

(ii) **Nationals of non-EU member states or Schengen Area countries can obtain a two-year renewable Investor Visa**, provided that they make an investment in Italy as follows:

- at least 2,000,000.00 euro investment in Bonds issued by the Italian Government;
- at least 1,000,000.00 euro investment in instruments representing capital in companies incorporated and operating in Italy;
- at least 500,000.00 euro investment in capital of innovative start-ups; and
- at least 1,000,000.00 euro in donations to philanthropic entities.

It must be noted that the above measures are based on the criteria of “residence” of the applicant. As per domestic law, an individual is tax resident in Italy if, for at least 183 days of the tax year (184 in case of a leap year):

- They have their abode or residence in Italian territory; or
- They are duly enrolled on the Municipal Civil Register.

This usually results in formality prevailing over the real situation that exists: notwithstanding the effective residency or abode out of the country being proven by documentation or other means, the Italian authority and case-law considers the simple enrolment with AIRE as an essential requirement to assess whether or not the individual is tax resident in the country.
8. Conclusion

The evolution of Italian migration to the United Kingdom in the last two decades epitomizes the pattern of the Italian migration of skilled workforce worldwide. By attracting the highest number of Italian migrants per year and being the preferred destination for tens of thousands of young, educated Italians, the UK shows, by way of contrast, the poor attractiveness of Italy, a country with one of the highest rates of net migration within the OECD.

The ongoing, “third wave” of Italian migrants to the UK, which has grown at an increasing pace since the 1980s, is not driven by destitute people leaving their home country to seek a better chance of survival, like it was during the period from the second half of the nineteenth century until the first quarter of the twentieth century, or immediately after the Second World War, or as is the case today for migrants coming from poor developing countries. Rather, the emigration of Italians today is mainly driven by young, educated people who are determined to apply their skills in labour markets in which they are most likely to realize their potential. The reasons for their departure from Italy derive from their desire to avoid the obstacles that they face in their home country, obstacles such as bureaucracy, corruption, cronyism, and nepotism. The UK proves to be the country that offers the greatest opportunities to them, allowing them to bolster their professional profiles and wealth.

The growing exodus of young, educated people is hardly going to be sustainable for Italy in the long term, given the high costs to the national economy required to invest in skills, health care and education. It is true that in a globalized and connected world the severing of a migrant’s ties with his or her home country is less final today than was ever the case in the past: people travel back home more often now, communicate with one another in real time, keep properties in their home country, and often reinvest back home in real estate or business opportunities.

Some repatriate upon their retirement, taking their financial savings back home with them. The Italian Government has created fiscal incentives to attract wealthy foreigners or wealthy Italians and academics back home, in order to counter the brain-drain of the past two decades that has taken place in the scientific and medical sector. These moves are welcomed but are still far from sufficient to reverse the tide of emigration. The solution to structural causes, both at macro and micro levels, still remains to be addressed fully.

The situation that we have described obviously does not fully take into account the impact of Brexit, as that process is still ongoing and uncertain. Will Brexit act as an incentive to attract a portion of Italian migrants back home? The UK decision to leave the EU has not created thus far significant opportunities for Italy in terms of attracting European companies or institutions leaving London. In addition, no major effect has been detected on UK European immigration, bar a decrease in the arrivals in the UK that are reflected in growing skills shortages in some areas such as the hospitality industry. Also, it looks like that the future for the roughly 3.4 million Europeans living in the UK appears to be secure in terms of their civil rights and economic opportunities.

It is important that the UK Government realize that European migrants are an invaluable asset to their economy. It is in the UK that these migrants have decided to develop their high level of economic and social potential. As far as Italy is concerned, in an open society the only way to reverse an exodus that has been thus far one-way-only, towards the UK, is to address structural problems. Doing so will help not only to fulfil the potential of a generation of young Italians who would be incentivized to remain at home but could also attract their European and international peers to Italy.
The “Association Talented Italians in the UK” comprises winners of the Talented Young Italian (TYI) award, a prize awarded every year by the Italian Chamber of Commerce and Industry for the UK, those of the Italy Made Me award of the Italian Embassy in the UK, members of other associations and selected individuals. The trait d’union of the TIUK members is that of being recognised as “talented” by external judges and the interest in contributing to the development of relationships between Italy and the UK.

While we all consider ourselves European citizens, here with the term “migrants” we indicate people born outside of the UK, who moved to the UK and settled there at some point in their life.


1 See http://consolondra.esteri.it/consolato_londra/it/latest_news/immigration_story/2017-12/RegionePiccola.html
4 Colucci, m. and Sanfilippo, M. (2010). Guida allo studio dell'immigrazione italiana.
19 55.5% (70,533) of emigrants are men. 60.8% are single and only 32.2% are married. 37.4% of migrants in 2018 are between 18 and 39 years old (almost 48.000). 25% are between 35 and 49 years old (+2,8% yoy), MIGRANTI, Rapporto Italiani nel Mondo, based on data from AIRE.
20 Other countries follow, in order: UK with 18,517 registered at AIRE in 2018; Switzerland with 11,931; France with 12,870; Brazil with 9,016; Spain with 7,395 and the USA with 6,233, MIGRANTI, Rapporto Italiani nel Mondo, based on data from AIRE.
22 According to IDOS, educating an individual cost the State €90k up to high school, €158k for a university graduate, €170k for a postgraduate and €228k for a PhD graduate. This mean that Italy lost €5.3bn only in university graduates and €3.5bn in high school graduates. This damage is partially reduced by the number of immigrants that contributes to 8% of the Italian national GDP: a growing number of educated people immigrate to Italy essentially from Eastern Europe (IDOS counts 244k university graduates and 800k high school graduates from 2001 to 2011).

Second, this strongly entails the business model of the country: free circulation of people (say, for simplicity, with a year of 50K emigrants (15% of the total). Estimated cost of household and state expenditure for care and education (0.25y): EUR 275,000 per capita. So, in 2015, with a year of 51.000 emigrants (15% of the total), the lost investment in human capital amounts to EUR 14bn. But this is likely an underestimate. This is not very dissimilar from the calculations made by IDOS and discussed in Box 2. According to IDOS educating an individual could cost the state 90,000 € up to high school, 158,000 € for a university graduate, 170,000 € for a postgraduate and 228,000 € for a PhD graduate.


The calculation derives from the following numbers. Between 2008-2015: more than 500K people moved residency abroad: 260K were 15-39 (51% of the total). Estimated cost of household and state expenditure for care and education (0.25y): EUR 275,000 per capita. So, in 2015, with a year of 51.000 emigrants (15-39), the lost investment in human capital amounts to EUR 14bn. But this is likely an underestimate. This is not very dissimilar from the calculations made by IDOS and discussed in Box 2. According to IDOS educating an individual could cost the state 90,000 € up to high school, 158,000 € for a university graduate, 170,000 € for a postgraduate and 228,000 € for a PhD graduate.


Migration Observatory.ox.ac.uk/2016


U. Batsaikhan et al, Brexit and the European financial system: mapping markets, players and jobs, Bruegel Policy Coordination 4, 2017

For example, see Dustmann and Preston (October 2018), “Free Movement, Open Borders and the Global Gains from Labor Mobility,” Centre for Research and Analysis of Migration and Department of Economics at UCL, which can be found here: http://academic-emberg.ch/wp-content/uploads/2018/11/EngelbergDialogues_Dustman_Forum.pdf

For example, see this very recent paper by Dustmann and Preston (October 2018), Free Movement, Open Borders and the Global Gains from Labour Mobility, Centre for Research and Analysis of Migration and Department of Economics at UCL http://academic-emberg.ch/wp-content/uploads/2018/11/EngelbergDialogues_Dustman_Forum.pdf

The impact of Talented Italians in the UK: a brief discussion on Italian Migration to the UK: Curse or Opportunity?

https://www.niesr.ac.uk/publications/economic-impact-brexit-induced-reductions-migration

There are no unique definitions of growth potential, and there’s an ongoing discussion between the Italian Treasury and the EU Commission over its estimate. It’s fair to say that Italy’s growth potential is likely to be between 0% and 1%, with 0.4% being a credible estimate. Having said that, Italy has also exhibited a negative total factor productivity (the residual from the estimates to the contributions of labour and capital to growth potential) for a number of years, which suggests that Italy’s growth potential could be even negative (i.e. like a company headed for bankruptcy, instead of creating value, it destroys value over time, mostly because of its unfavourable demographics and brain drain).

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With AMA going to Amsterdam and EBA to Paris.

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