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**A No vote in the Italian referendum will derail essential reforms**
*Prime minister Renzi is heading in the right direction but needs more time*

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A single number, hourly labour productivity, explains the sorry state of the Italian economy. On a scale set equal to 100 in 1995, 20 years later the index has risen to 140 in the US, 130 in Germany, France and the UK, 125 in Portugal and 115 in Spain. In Italy it has barely reached 105.
How could this happen? Forget measurement errors and the underground economy. Yes, the rise of the service sector has made it harder to measure how productive a person is when she or he works — but services represent a smaller fraction of the economy in Italy compared to, say, France or the US and they have also grown by a smaller amount. The underground economy is large but it was even larger years ago: recent labour market reforms and the subsidies to companies that hire new workers have, if anything, reduced the incentive to divert goods to the black market.
How do we explain the puzzle? There are various possibilities. One is the small size of Italian companies: they have on average four employees compared with 12 in Germany and 19 in the US. More productive companies start small but eventually grow; Italian companies start small and stay small. One important reason is family ownership, a feature of 86 per cent of all Italian companies. Unlike in Germany — where at 90 per cent there is an even higher proportion of family-owned companies — 66 per cent of family-owned companies are also managed by a relative. The number in Germany is 28 per cent. While a less developed financial market is part of the story, the local "family culture" is the most important.
In the past 20 years, Italy has resisted excessive churn in the labour market. Before reforms introduced a year ago by the government of Matteo Renzi, social protection meant protecting jobs, not workers — a principle strongly championed by the all-powerful unions. The result has been that unproductive companies have been kept alive through government subsidies and lack of competition, preventing more productive enterprises from replacing them. This has been particularly true in the public sector, where, for example, unproductive city-owned companies in the waste-collection business have been protected by laws that do not allow the entry of private competitors. Another example is medical supplies, where large, low-cost distributors such as Boots or CVS are not allowed to enter the market (this last restriction is about to be abolished by the government).
It is no surprise that the adoption of information technology, one of the main drivers of productivity growth in these two decades, has been particularly slow in Italy. Small, subsidised, protected companies are typically slow at introducing new technologies. Add to this a stultifying bureaucracy and the productivity statistics look even less surprising.
Last but not least, consider human capital. Italy is consistently among the EU countries with the lowest university completion rates. A university degree is not a necessity for all workers, of course: Italian artisans and designers are wonderful but they cannot sustain a country of 60m people. Moreover, among Italian university graduates less

than one out of three studies for a degree in engineering or in the sciences, compared with 40 per cent who graduate in law or the humanities.

Much-needed reforms have begun under Mr Renzi, starting with the thorny question of employment contracts. About a year's worth of data allows us to estimate the effects of the flexible contracts introduced as part of the 2015 Jobs Act. The increase in employment in this period is the result in part of the economic recovery, in part new worker subsidies, but also to a significant extent the result of the new contracts.

The process of reform has been too slow. The perfectly bicameral parliamentary system means bills go back and forth between the upper and lower houses, which is a feature that Mr Renzi's proposed constitutional changes — the subject of Sunday's referendum — would eliminate.

Mr Renzi has said he will resign if his proposals are rejected. He believes that, without the changes he seeks, the work of reform could not proceed at the necessary pace. An example is the competition bill tabled by the government almost two years ago, which has since ping-ponged between the Chamber of Deputies and the Senate.

With Mr Renzi's government, Italy has refreshed its political class: the average age of ministers has fallen from 52 in the last government of Silvio Berlusconi, and 64 in Mario Monti's administration, to 48 under Mr Renzi. Similarly, one out of two ministers in this government is female, compared with 6 out of 25 under Mr Berlusconi and only 3 out of 19 under Mr Monti.

Were Mr Renzi to resign, the dream of a generational change among Italian politicians would vanish. And with it, I fear, the chances of Italy remaining in the euro.