

ANNUAL REPORT 2012

The state of the Nation

Summary

read by Istat's President, Enrico Giovannini, in the
Sala della Lupa, Palazzo Montecitorio, Rome, on
Tuesday, May 22nd, 2012



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SUMMARY

President of the Chamber of Deputies, Representatives of the Government, authorities, Ladies and Gentlemen,

Today the National Statistical Institute presents its twentieth Annual Report on the state of the Nation, a product of the high level of expertise and diligent commitment of its entire staff. The Report, which is designed to provide an essential tool for reflecting upon social, economic and environmental conditions in our Country, and which this year has been thoroughly revamped in terms of structure and graphic layout, has significantly influenced the history of Istat and many of its current executives. Not only has it been an extraordinary training ground for many researchers, but also a continual source of new ideas which went on to become part of current production of statistical information and analyses. Moreover, while in 1993 the Annual Report consolidated Istat's status as a research institute (which it had already been granted by law four years previously), the fact that it has been presented to the Chamber of Deputies since 1998 is clear evidence of the Institute's role in serving the Italian society as a whole.

Of course, Istat's commitment goes far beyond drawing up the Annual Report. In 2011 the 15th General Population and Housing Census – the preliminary results of which were released a few weeks ago – was conducted in a highly innovative way and by using the most advanced technologies (questionnaires were completed online by over 21 million people). The past year was also one in which the use of statistics produced by the Institute grew in an unprecedented fashion: the amount of Gigabytes downloaded from www.istat.it more than doubled in two years, as did the dissemination of microdata files for research. Statistical information has never had a higher profile in the traditional media, and Istat's presence on social networks is growing rapidly, as is the use of citizen- and business-oriented online services. Over the past year, Istat also underwent a far-reaching internal reorganisation, implemented a number of innovative statistical and management projects and commenced the activity of the Scuola Superiore di Statistica e Analisi Sociali ed Economiche (Advanced School for Statistics, Social and Economic Analyses). According to a survey conducted on our behalf by an

authoritative private institution in April 2012, 76 per cent of the population said they had confidence in Istat, an increase of three percentage points on last year.

These results have been achieved despite a reduction in state funding, a hiring freeze and cuts in spending on training. Yet, – while taking into account the difficulties of public finances – it is precisely because this is a time of difficult choices for the Country, and the availability of reliable information about the economic and social context assumes crucial importance, that I believe the time has come to invest adequate resources in Istat and official statistics, instead of allocating half the amount spent in other European countries such as France. Moreover, the resources made available for 2013 under existing legislation will not be sufficient to ensure the functioning of the Institute.

The case of Greece has dramatically shown what happens when, in the information society, a national statistical institute does not provide reliable data. In light of the results achieved in recent years in terms of innovation and efficiency, which place Istat at the forefront of the international scene, I am sure that the Government and Parliament will not allow our Country's credibility be reduced because the statistical information required by EU and national regulations cannot be produced.

The Country's difficult situation

In the summer of 2011 the structural nature of the crisis was perceived by public opinion

2011 marked the return of financial instability in the euro area, which continues to jeopardise the very foundations of the European Monetary Union. In this context, Italy has faced one of the most difficult crises in its history. In recent months there has been a marked change in the Country's collective psychology and political scene, resulting in the reshaping of economic and social policy, factors which will inevitably have a major impact on the country's short - and medium-term prospects.

The realisation that the crisis is structural in nature was sudden for Italy, and traumatic for many. The frantic series of economic policy measures undertaken in the summer of 2011 attempted to tackle a growing lack of confidence in Italy's ability to sustain its public debt levels and meet the conditions necessary to remain in the EMU. The adoption of drastic measures to accelerate the process of debt elimination thus rendering sovereign debt more sustainable has reduced the risk of financial collapse, giving Italy time to initiate structural reforms in line with commitments undertaken in the EU context.

Indeed, the beginning of 2011 was marked by the continuation of the cyclical upturn in developed economies and strong growth in emerging ones. In Italy, increased exports and sustained consumption levels were accompanied by a slight upturn in investment. Although starting from the second half of 2010 industrial production had shown signs of a slowdown, in the second quarter of last year, Gross domestic product (GDP) grew by one per cent on a year-over-year basis. Recovery in labour demand, after having led to an increase in hours worked and a partial reining-in of Cassa Integrazione Guadagni (CIG, short-time working allowance) seemed set to be translated into employment growth. The

unemployment rate stabilised at a lower level than the European average, while business and household confidence was improving.

Starting from summer, the difficulties that emerged in the financial markets led to a sharp deterioration in the economic outlook, influencing the behaviour of enterprises and households. The former revised their production and investment plans downwards, while the latter suffered the immediate effects of fiscal measures and will suffer those of future measures relating to pension and labour market reforms: a reduction in real disposable income, which had already fallen significantly in previous years, was compounded by a contraction in expected disposable income in future years. Confidence worsened and, just as in the 1992-1993 crisis, a fall in consumption kicked in immediately, due not least to an increase in precautionary savings.

Starting from the third quarter of 2011, GDP began to contract once again, with the decrease becoming more marked the following quarter and the first quarter of this year. Net foreign demand was the only component that sustained – and continues to sustain – the momentum of GDP, thanks to positive export performance, especially on extra-EU markets, in the light of a sharp contraction in imports. Signs of difficulty in the world of enterprise continue to multiply, due in part to late payment by government bodies and in part to credit crunch phenomena, which increased in the early months of this year, involving mainly small businesses but also financially sound ones.

A new recession starting from the third quarter ...

Despite a slight increase (0.4 per cent) in total employment, over the past year the employment rate among foreigners rose by 8.2 per cent (despite a decrease in the specific employment rate), while the employment rate among Italians fell by 0.4 per cent. Female employment rose (+1.2 per cent), while male employment remained essentially steady. Youth employment declined (-2.8 per cent), as did employment in the 30-49 age group (-0.5 per cent), while it increased (+4.3 per cent) among the over fifties, partly due to changes in pension entitlement requirements. Permanent and full-time employment decreased by 0.6 per cent, while fixed-term employment (including collaborations) increased by 5.3 per cent, and part-time employment by two per cent, albeit largely “involuntary” (that is, accepted in the absence of full-time employment). Unemployment started to grow again in autumn, as a result of greater participation in the labour market, especially among the youth: over 30 per cent of active youths are now unemployed. The use of CIG also increased during the first months of this year.

...and unemployment up again

Inflation remained high throughout 2011, driven by rising energy and food import prices; in the first few months of 2012 it remained stable, at 3.3 per cent, with the inflation gap widening in relation to the rest of the euro area. The increase in prices of frequently purchased goods (4.7 per cent in April) was significantly higher than the average increase. Moreover, in 2011 industry, commerce and a substantial part of the service sector reacted to the decline in demand with a reduction in profit margins, while for the financial and business service sector they remained unchanged, after the sharp drop in 2010.

Food and energy inflation rises again

The various adjustments designed to rebalance public finances led, in 2011, to general government net borrowing (3.9 per cent of GDP) being 0.7 percentage

Budget measures
reduce deficit and
rein in growth in
public debt

points lower than in 2010 and slightly lower (0.2 per cent) than the euro area average; of the major economies, only Germany achieved a better result. A reduction in public spending as a percentage of GDP (from 50.5 to 49.9 per cent) contributed to the contraction of public debt, accompanied by a slight increase in the ratio of tax revenue to GDP (from 46 to 46.1 per cent). The overall tax burden fell slightly (from 42.6 to 42.5 per cent), while current taxes and charges on households decreased from 29.6 to 29.3 per cent. The government debt-to-GDP ratio rose to 120.1 per cent, an increase of 1.5 percentage points from a year earlier. In comparison with the pre-crisis period (i.e. 2007), this ratio increased by 17 per cent in Italy and by almost 21 per cent on average across the euro area.

Real household
income falls for the
fourth year in a row,
and the propensity
to save falls to
8.8 per cent

In this context, and in the presence of a marked slowdown in wage dynamics, household real disposable income declined in 2011 (-0.6 per cent) for the fourth year running, returning to the same level as a decade previously: in per-capita terms it was four per cent lower than in 1992 and seven per cent lower than 2007. In four years the loss in real terms (at 2011 prices) was 1,300 euros per capita, while households' propensity to save fell from 12.6 to 8.8 per cent.

1992 and 2011: two crises compared, two Italys compared

Looking at the current economic situation and casting one's mind back to 1992-93, one cannot but feel a sense of *déjà vu*. At that time, the instability of European financial markets was caused by Denmark's failure to ratify the Maastricht Treaty and the shadows which this cast on the inauguration of Monetary Union; today the instability stems from the disclosure of Greece's accounting tricks and the slow, inadequate reaction of the countries which in the meantime have created that Union. Twenty years ago the tasks of the future European Central Bank (ECB) were discussed, as were the constraints to be imposed on various countries to ensure the system's stability. Today the topic of discussion is the need to complete the existing institutional framework and to ensure the long-term sustainability of public finance by modifying national Constitutions. However, one cannot but stress how Italy's weakness – then as that – has strong internal origins, arising from high levels of public debt and clear fragilities in the socio-economic and political system, which threaten Italy's solvency and international credibility, as well as the economic well-being of its citizens.

Some might think that nothing has changed in these twenty years. Yet this is not the case. Over this period Italy's society and economy – the former more than the latter – have undergone major transformations. Yet these have evidently been insufficient to prevent history from repeating itself, albeit in different forms, or to structurally reduce the strong social, regional, generational and gender gaps that continue to characterise Italy.

The initial results of the recent census show an increase in population of 4.7 per cent since 1991, representing over 2.7 million more people, almost all of them foreign. Since 2001 the foreign population in Italy has almost tripled and, next to the substantial stability of the Italian population, now accounts for 6.3 per cent of the total. For many foreigners, if not all, a significant process of integration

Italy's difficulties
also stem from
the fragility of its
socio-economic
system

Population
increases, due to the
foreign component,
which has tripled in
size over the last
ten years

and rootedness has been achieved: almost half of non-EU immigrants have a permanent residence permit, and while in 1992 approximately 4,000 people acquired Italian citizenship through marriage and naturalisation, in 2010 the number was over 40,000. The 78,000 children born in that year (13.9 per cent of the total) have two foreign parents, to whom nearly 27,000 born to mixed couples can be added. As of 1 January 2011, non-EU minors legally registered in Italy totalled 760,000: of these, about 420,000 were born in Italy. Overall, foreign children recorded in the population registers number almost one million.

The improvements in survival rates that we have experienced in the past twenty years have been extraordinary: female life expectancy has increased from 80.6 to 84.5 years, while for men it has increased from 74 to 79.4 years. The fertility rate remains low: after reaching its lowest point in 1995 (1.2 children per woman), it climbed until 2008 – stabilising at 1.4 children per woman – due to the contribution of foreign women, whose behaviour is however approaching that of Italian women. The combination of increased survival rates and decline in fertility rates has made Italy one of the countries with the highest level of ageing: currently, there are 144 people aged 65 and over for every 100 people aged under 15; in 1992 this ratio was 97 to 100.

Increasing life expectancy, fewer children, increasing share of the elderly ...

The structure of Italian households has changed, too: the number of members has decreased, while numbers of single people, couples without children and single-parent households have increased. The percentage of married couples with children has fallen from 45.2 to 33.7 per cent, while the percentage of new household types has increased. The traditional household is no longer the dominant model, even in the South: the number of civil unions has quadrupled and the share of births to unmarried parents (20 per cent) more than doubled.

...Increasing number of households, but increasingly small in size

Children leave their parental home later and all life stages are shifted forward including the one at which people become parents. The percentage of young people aged between 25 and 34 who still live with their parents has increased by nearly nine per cent and now stands at about 42 per cent.

The labour market has changed, too. Between 1993 and 2011 the number of labour units rose by almost 1.3 million (+5.7 per cent). However, the employment rate grew by only slightly over three per cent (from 53.7 to 56.9 per cent). During this period male employment fell by 40,000 units (-0.3 per cent) despite the contribution of immigrants, while female employment increased by 1.7 million units (+22.2 per cent), almost all in the Centre-North, thanks to the spread of part-time employment, which accounts for two thirds of this growth. Nevertheless, the employment rate for women continues to be significantly lower than the European average.

Over the last twenty years, employment has grown only due to the female component ...

Despite an overall increase in payroll employment by 13.8 per cent the introduction of new types of employment contracts, designed to increase flexibility in entering the labour market, has caused fixed-term employment to increase by 48.4 per cent. Today, over one third of 18-to-29-year-olds have fixed-term employment contracts, as against an average of 13.4 per cent. The gap between the overall employment rate and the youth employment rate, which was 3.8 per cent in 1993, had risen to nearly 16 per cent by 2011, while the gap

...however, job insecurity has increased greatly for young people and women

calculated on the basis of the unemployment rate is now almost twelve percentage points. Twenty years ago youth unemployment was mainly considered as a phase of transition towards stable employment. Today it is characterised by alternating with insecure employment. While in the early 1990s a third of young people in atypical employment had found stable employment one year later, this now applies to 18.6 per cent of cases. If the approximately 2.1 million *NEETs* – that is, young people aged between 15 and 29 who are not in employment, education or training – are added to this figure, one may fully grasp the dramatic situation in which young people find themselves today.

Women more highly educated than men, but labour market gaps remain extremely wide

The female participation rate in education is now higher than the male rate (93 and 91.5 per cent, respectively); females also complete their education more frequently than males (78 per cent of female students obtain an upper secondary diploma, compared to only 69 per cent of male students). In the world of work, however, considerable differences remain, and the increase in employment among women was concentrated in those sectors where their presence was already relatively high and in part-time jobs. In 2010 two thirds of women employed part-time wanted a full-time job (the figure was one third six years earlier).

More generally, women still face a significant disadvantage in the event of pregnancy: having a child, in fact – together with job precariousness – is the fundamental element which accounts for the probability of losing their jobs after 10 years, especially due to their inability to reconcile the roles of mother and worker. Moreover, the crisis of 2008-2009 exacerbated the difficulties of women: specifically, in the industry sector (excl. constructions) the decline in female employment doubled compared to male one and for women the risk of losing their job – other conditions being equal – was 40 per cent higher than for men.

Globalisation, new technologies and the euro have changed the Italian economy, yet with disappointing results

Over the last twenty years the intensification of trade, production and financial relations between countries and the technological revolution have led to major changes in the global economy. Italy has taken part in this process in ways that only partly resemble those of the major advanced economies. During this period, in fact, the Italian economy has grown at an average annual rate of 0.9 per cent in real terms, a significant gap compared with its European partners which has widened still further in more recent times.

The euro has protected the Italian economy from the instabilities that characterised the 1970s and 1980s, marking the end of severe, protracted inflationary episodes. Yet in the 2000s, i.e. when the introduction of the Monetary Union ought to have led to a more rapid reorganisation of the economic system, the reallocation of production between sectors was less intense than in the previous decade. On the other hand, the single currency appears to have improved the performance of firms already exporting to the euro area markets other than those of the *European core* economies (Germany and neighbouring countries).

Manufacturing specialisation has changed little. However, there are fewer large firms

The shift towards services has boosted, on the one hand, sectors related to the new information and communication technologies, and on the other those designed to meet the demand for care and assistance and for intangible needs. Today, Italy's economic structure is more like that of its European partners than twenty years ago. However, Italy's specialisation in manufacturing remains essentially the same as it was in the 1970s and its level of diversification similar

to that of 1992, while the importance of large enterprises gradually declined.

The results of this process have been a continuous decline in the ratio of value added to manufacturing output, a significantly lower growth in productivity than European partners, and higher inflation even after the introduction of the Monetary Union. While in 2000 price levels in Italy were approximately 95 per cent of the European Union average, and prices in Germany about 10 per cent above it, in 2010 prices in both countries were around four per cent higher than the average EU level. In ten years consumer prices in Italy have risen by 25.5 per cent, while in Germany they have risen by 18.1 per cent. Only in sectors exposed to processes of liberalisation have price trends favoured Italy, which has experienced large increases in the relative prices of many services (for example recreational, insurance, financial and transport services) and certain goods (for example unprocessed food and clothing).

The “relaxation” of the Italian economic system and policy after entering the EMU is even more evident when observing trends in public finances. After the 1992-1993 crisis, Italy had made an exceptional (and for many – including its European partners – unexpected) effort just to meet the Maastricht criteria. In the late 1990s the primary surplus was approximately five per cent of GDP, while net debt was close to two per cent; the tax burden was approximately 42 per cent of GDP and public expenditure (net of interest) was 41 per cent. The debt-to-GDP ratio was falling steadily (in 2000 it was 108.5 per cent, down from a peak of 121.2 per cent in 1994). By around 2005, however, debt had risen once again, to four per cent of GDP, while the primary surplus had almost been wiped out and the trend of a declining debt-to-GDP ratio had come to a halt: after a renewed, small improvement, the situation worsened again as a result of the crisis, so that in 2011 debt was close to four per cent of GDP, the primary balance was slightly positive once again, the tax burden stood at 42.5 per cent and government spending (net of interest) was 45.6 per cent.

In the years from 1992 to 1993 income from employment as a percentage of total value added stood at close to 47 per cent. After falling by about five per cent up until the beginning of the 2000s, it gradually rose again, settling at around 45 per cent in the last three years. Between 1993 and 2011, contractual wages and salaries remained unchanged in real terms, while actual wages and salaries increased by 0.4 per cent a year. During the same period current taxes and charges on households increased from 28.5 to 29.3 per cent. The composition of disposable income changed too: the share of wages increased (from 39.4 to 42.8 per cent), while that of self-employment income decreased (from 28.5 to 25.3 per cent), as did the share of income from capital (16.6 to 6.8 per cent), which fell in particular between 2000 and 2010. In contrast, the share of social security benefits increased (25.4 to 32 per cent), and not simply as a result of the crisis of the last few years.

As a result of the reduction in the propensity to save-over 13 per cent between 1992 and 2011 - and of government transfers to households, expenditure-based relative poverty indicators have remained stable over the last fifteen years, at around 10-11 per cent. The large gap between North and South has remained unchanged, too: in the northern regions the poverty rate was 4.9 per cent in 2010 while in the southern regions it was 23 per cent. In contrast, the

Italian consumer prices at the same level as Germany's

Public finance: the “euro dividend” was squandered in the first decade of the twenty-first century

Income from employment falls as a percentage of GDP, while the composition of household disposable income changes: the role of social security benefits increases

Relative poverty remains stable as spending is sustained by the reduction in propensity to save

composition of household consumption expenditure has changed significantly: between 1997 and 2010 the percentage of household consumption on housing increased greatly (by more than six percentage points, that on energy increased less, while all other items saw their share fall. The poorest households increased consumption by 44 per cent, drastically reducing non-essential expenses and the quality of products purchased (20 per cent of them use *discount supermarkets*). Purchases by middle-class households grew by 25 per cent and are now more oriented towards non-food products, with a sharp increase in expenditure on housing (rent, utilities, etc.). Finally, richer households spent only 14 per cent more in 2010 than in 1997, with a greater share going – in addition to housing – on other goods and services, which increased by half a percentage point: in particular, the cost of life insurance, fees for professional services, personal and children's items, and meals and drinks out outside the home, grew in relative terms.

The analyses of the Report clearly show how poorly Italy, during the last twenty years of consolidation of European integration, has used the opportunity to solve some of its traditional problems, such as the imbalance of public finances, the North-South divide, gender differences, the underutilisation of human resources, (especially youth), and the hardship of large or more vulnerable households. On the other hand, a look at the elements that most concern the population shows that beyond the cyclical fluctuations between 1998 and 2010, unemployment and crime have remained consistently at the top of the list, leaving all other problems (environment, immigration, debt, etc.) a long way behind.

Indicators regarding crime are better than average European indicators, in contrast to the 1980s

With regard to crime, although the total number of reported crimes has remained stable, the incidence of murder (except for murders perpetrated against women), organised crime and theft has fallen sharply compared with 1992 figures. In contrast, reported cases of fraud, extortion and sexual violence have risen sharply. Overall, in 2010 Italy's crime indicators were better than the European average, in contrast to the trend seen in the 1980s. The percentage of foreigners for which a crime has been reported has increased considerably over time, in parallel with the growth in the foreign population. However, for 20 per cent of them, the most serious offence concerned violation of legislation regarding lawful residence.

On the other hand, while in 1993 the overall unemployment rate stood at 9.7 per cent, in the immediately following years it exceeded 11 per cent, between 2000 and 2010 it fell significantly (down to 6.1 per cent in 2007) and went up during the crisis years. Despite the magnitude of the crisis and the increase in labour supply, unemployment in 2011 was 8.4 per cent, below the European average.

Budgetary rigour, growth and fairness

The Italian political agenda, as in the rest of Europe, is based on three fundamental pillars: budgetary rigour, growth and fairness. While a consensus appears to have formed regarding these aims, – even in the media – public debate has clarified that very different timescales are required to achieve them: budgetary rigour in the short term, growth in the medium term, and fairness in both phases.

Beyond the concrete measures to achieve fiscal consolidation the most important decision taken in 2011 in terms of budgetary rigour was to include in the Italian Constitution a commitment to achieving a structurally balanced budget. As happened with the ratification of the Maastricht Treaty, the public does not seem to be fully aware of the implications of this decision. Therefore, it is worth pointing out that – given the high levels of public debt and interest payments – it calls for a very substantial primary surplus to be achieved and maintained for several years, irrespective of cyclical fluctuations. According to Government forecasts, the primary balance, adjusted cyclically and for one-off measures, will need to increase from 1.3 per cent of GDP in 2011 to 4.9 per cent in 2012 and 6.1 per cent in 2013, then remain unchanged. Given that government gross fixed capital formation is approximately two per cent of GDP, and unless the intention is to further reduce this already small amount, in order to accomplish the established goals it will be necessary to maintain the current primary surplus over the cycle at approximately eight per cent of GDP, an unprecedented level in Italy's history. Of course, such a result can be achieved by various combinations of revenue and expenditure, with differing effects on growth, which is in turn an essential ingredient if the unsustainability of the debt is to be avoided: in any case, the effort deriving from the commitment undertaken remains a tremendous one.

Change to the Constitution to ensure a balanced budget

The overall framework is characterised by the said public finance constraints, reduced scope for expanding consumer demand, high levels of uncertainty about the future of the European economy and the great opportunities offered by the expansion of emerging and developing economies. Today, more than ever before, the growth of the Italian economy over the medium term appears to be strongly tied to the interrelationships with the rest of the world. As the third chapter of the Annual Report shows, these interrelations depend on three crucial, closely interconnected factors: competitiveness, productivity and capital resources, especially intangible capital.

The positive performance of exporting firms after the 2008-2009 crisis was mostly achieved on non-European markets, while on European markets the expansion has been much smaller, at around half of the former. Over the past three years exports by large firms, for all types of products, have grown more than those by small-to-medium firms, which have a greater presence on the European market. This comparative advantage points to the need to deal resolutely with the problem of the size structure of Italy's manufacturing industry, which, despite some advantages, risks penalising the Italian economy in the medium run in terms of emerging markets penetration. Italy's international specialisation is still based on traditional *Made in Italy* and precision mechanical engineering products, with minimal differences compared with ten years ago, despite the intense process of repositioning "within" the model of specialisation and the increase in the quality of exports.

The crucial role of exports for growth ...

The internationalisation of Italian industry has also produced an increase in intra-industry trade (i.e. trade within the same sector or the same production supply chain), especially with Germany, Romania, India and China, but a limited growth in direct investment inflows and outflows. Compared with its European partners (especially France and Germany), for Italy the levels and dynamics of these flows

...however, Italy's international positioning remains disappointing

are very low, a clear sign of Italy's lack of attractiveness or aggressive business strategies in this regard. The result is that the share of Italy-based foreign multinationals and that of Italian multinationals abroad are significantly lower than those of major competitors.

Activation of domestic production by exports is declining

It must not be overlooked that the profound transformation of global supply chains underway is adversely affecting Italy's economic performance: increasing foreign energy dependence, despite lower quantities imported, affects the balance of trade structurally, a phenomenon which is presumably set to continue in the future, given projected energy price increases over the medium term. Moreover, the internationalisation of the Italian economy is producing – other conditions being equal – an increase in the import content per unit of GDP, which means that an expansion in exports activates an ever smaller share of domestic production. While for example in 1995 an increase of 10 per cent in the former caused the latter to grow by 8.3 per cent, by 2010 this figure had fallen to 7.5 per cent. Total requirements of foreign intermediate inputs in industry increased by over 35 per cent, while requirements of domestic intermediate inputs decreased by almost 10 per cent. This phenomenon has mainly regarded low-to-medium technology production and has offset the increased activation deriving from growth in foreign demand for services, a sector in which domestic production covers most of the market and in which Italy has a large foreign deficit.

If, therefore, the future of the Italian economy depends on foreign demand, the points evidenced herein demonstrate the urgent need for a strategic choice concerning Italy's international positioning which can change the trends that have emerged in the last decade by aiming at a systemic approach to internationalisation. The same applies to productivity, where the decline observed between 2000 and 2010 is unique in Europe. In this regard it is worth noting that for European countries, labour productivity is positively correlated with the enterprise birth rate, an indicator that takes on relatively modest values in Italy, despite the high proportion of small businesses.

Furthermore, the analysis of the different factors contributing to productivity trends in the decade preceding the 2008-9 crisis highlights the weak role played by the so-called “intangible assets”, i.e. investment in research and development, new technologies, organisational innovation and human capital. In other words, the Country does not seem to have seized the opportunities offered by the current transition towards a “knowledge” economy, with the resulting loss in system efficiency, measured by the decline in *total factor productivity*. In particular, the leverage effect of the adoption of information and communication technologies (ICT) found in many other European countries has been lacking.

The analyses carried out in the third chapter of this Annual Report outline a sort of agenda for transforming the hope of a significant, lasting growth into concrete results, to which all of the components of the “Italian System” must contribute: to promote the redefinition of the size structure of the Italian economy and its international positioning by attracting foreign capital and strengthening Italy's presence on the international services market; to increase the flexibility of product and factor markets so as to raise the birth rate of innovative firms; to

The role of “intangible assets” in competitiveness and productivity growth

make up lost ground in terms of the overall efficiency of the economic system, through private and public investments in intangible assets and human capital; to improve the logistics and transport system, where Italy displays clear inefficiencies (in part linked to small firm size) and losses in competitive position, as well as an excessive proportion of goods transported by road; to increase the efficiency of the civil justice system (where delays discourage foreign investment and penalise domestic firms), mainly through a reduction in the high “litigation” rates allowed by the Italian regulatory system, by increasing economies of scale that are not exploited in the courts (for example by “specialising” individual judges) and reviewing their geographical distribution; and last but not least, to reduce the underground economy and tax evasion, whose negative effects in terms of fair distribution of its burden are compounded by those resulting from clearly inefficient enterprises remaining on the market, constituting an obstacle to the necessary acceleration of production modernisation and of the efficiency gains that the Country desperately needs.

Even if such an agenda were to be fully achieved, it would only produce – as is unanimously acknowledged – significant effects in the medium term. This is why fairness, i.e. the economically and socially sustainable distribution of the advantages and disadvantages stemming from the hypothesised path of rigour and growth – including from an intertemporal perspective – must not constitute a mere appendage to the strategy for revitalising the Country, but one of its key ingredients instead. It must be stressed that fairness is used here not as necessary equidistribution of socio-economic results, but as equal opportunity regardless of place of residence, gender or condition of the family of origin, balance in intergenerational relations, consistency in the concrete application of the regulatory system.

Fairness plays a fundamental role, together with fiscal consolidation and reviving growth

Regarding many of these issues, the Annual Report highlights items which must supplement the agenda mentioned previously, analysing situations that significantly impact the sense of fairness, opportunity and “future” offered by our Country, such as social mobility between generations, income distribution, different employment prospects depending on the type of first job, the varying conditions of men and women, of Italians and foreigners, of residents in the regions of the North and those who live in the South. In such difficult times as today, social cohesion is not so much based on the results that are achieved today as on those which may reasonably be achieved in a multiannual perspective, that is, on the model of society to be built in the future.

With regard to social mobility, as measured by the movement from one social class to another in the space of a generation, the Report shows that in 2009, 62.6 per cent of individuals in employment were in a different social class from their fathers, a percentage similar to the one recorded in 1998. Those who improved their position were mainly the children of individuals who worked in the agriculture sector, which underwent profound changes during this period, while for the white-collar and urban working class mobility was considerably less. If we then analyse “relative mobility”, that is if we consider the situation net of changes in the structure of employment, the possibility of changing social class is fairly low and this tends to crystallise inequalities over time.

Low social mobility, even lower than in the past ...

...makes it more difficult for young people to improve their position

Observing these phenomena over a broader timescale, it is clear that the “upward” mobility which characterised young people in their twenties from all generations who entered the labour market up to those born in the 1950s has declined for the young people of subsequent generations. In parallel, the likelihood of experiencing “downward” mobility has increased: for example, examining labour market accessibility, individuals in employment from more recent generations, if they belonged to the white-collar or middle class, were downgraded more often than young people from previous generations), while children born to working-class parents were promoted less than their predecessors of the last 30 years.

Education a decisive factor for mobility. However, initial social status remains a major influence

Education is a key factor in fostering social mobility and stimulating economic growth through improved human capital. However, this too is affected by the social class of the family of origin: for the most recent generation, only 12.5 per cent of working-class children obtain a degree, compared to over 40 per cent of middle-class children. The dropout rate, too, is higher among the lower classes: 37 per cent of children born to working-class parents in the 1970s dropped out of high school, as against 8.7 per cent of those from higher social classes, over half of whom enrolled at university, compared with 14.1 per cent of working-class children, and the situation did not change significantly for those born in the 1980s.

If the first job is atypical, the likelihood of remaining in a condition of insecure employment or losing one's job is higher

The type of first job also appears to have a strong influence on long-term career prospects: among individuals born since 1980, the share of those entering the labour market with an atypical employment contract was almost 45 per cent, compared with 31.1 per cent of those born in the 1970s and 23.2 per cent for those born in the 1960s. Ten years after their first job, 29.3 per cent of people who have entered employment with an atypical contract are still in insecure employment, while approximately 10 per cent are no longer employed and a sizeable percentage have experienced “downward” mobility. When first jobs are permanent, after ten years a high percentage of the individuals concerned are still in stable employment.

Among those born in the 1960s, “always standard” workers have worked for 21 years against an average of 21.7 years on the labour market, while those who have had at least one atypical employment contract have worked for only 19 years, eight of which were spent in a condition of insecure employment. Among those born in the 1970s, “always standard” workers have worked for approximately 12 years against an average of 12.5 years on the labour market, while the others have worked for only 10.7 years, half of them in conditions of insecurity. Of course, the lower the social class of origin, the wider these gaps. All of this produces significant effects on life choices and on future earnings prospects in the medium and long term, especially in periods of prolonged crisis such as the present.

The “geography of poverty” has changed: the condition of households with minor children and households in the South has worsened, while it has improved for elderly households

After a sharp deterioration in the early 1990s, the inequality in income distribution remained essentially stable, albeit higher than the OECD average. Between 1997 and 2010 the situation for larger households and those with minor children worsened: overall, nearly two million children (18.2 per cent) lived in relatively poor households, 70 per cent of them residing in the South. The poverty rate

increased among self-employed and working class households, as well as among intergenerational households (by about eight percentage points): the number of intergenerational households with minor children almost doubled compared to 1997 (today they account for 14.5 per cent); among these, the poverty rate rose from 18.8 to 30.3 per cent. Overall, households with elderly people living alone or elderly couples saw the poverty rates decline (by seven and four per cent, respectively), thanks in part to a better pension contributions history than the previous elderly generation, except for single women aged over 65 with a low level of education and no - or very limited - working life.

In reiterating once again that widespread tax evasion produces adverse redistributive effects and distortions in the economy, it should be noted that over the last two decades changes made to the system of tax rates, allowances and deductions for calculating the payment of personal income tax (Irpef) have produced a system which is not always in line with the goal of fairness. Examples of these imbalances are the difference in tax burdens – incomes being equal – depending on the sources of income as well as the different options available to taxpayers – depending on their categories - to reduce the taxable basis through tax relief and tax evasion.

Combating tax evasion and reviewing the taxation system in order to achieve greater fairness

There is also the problem of the so-called “incapienti”, i.e. those individuals whose income is below the taxable threshold and so cannot fully utilise deductions for personal income tax purposes. They total more than four million people, 64 per cent of whom are retired or not in work, with a loss of potential benefits of around 2.6 billion euros per year (594 euros per capita). Similarly, the principle of progressive tax rates is applied at the individual level and results in a significant disadvantage for single-income households compared to two- or three-income households, given the same income. Finally, as deductions for income from employment differs from those for self-employment, income households with only self-employment income under 15,000 euros pay higher income taxes than others, given the same income. Conversely, however, as a result of more opportunities to reduce their taxable basis, households with only self-employment incomes above 25,000 euros pay – income being equal – lower personal income taxes than those with only income from employment. Debate regarding the delegated bill for tax reform and the subsequent acts based on it represents an important opportunity to review the current system on the basis of greater fairness.

Another factor of inequality is related to gender: although women have bridged old gaps in terms of education, an imbalance remains with regard to the labour market, income and distribution of roles within the couple – factors that are closely related. The pay gap between male and female workers increases with income and is much higher for higher income levels. Furthermore, together with Malta, Italy is the country with the largest proportion of couples with adult females (aged 25-54) who do not receive income (33.7 per cent). In one third of couples, women take care of almost all the domestic work and care, and this asymmetry is often associated with more limited access to the household's current account, low home ownership rates, lack of freedom to spend money on themselves, and little involvement in important decisions affecting the

Gender imbalances remain strong, even within couples, and this impacts women's employment opportunities

household. Only six per cent of couples share financial contributions and care duties equally.

Women's economic vulnerability within the household is also reflected in the condition of spouses after a separation or divorce: among women who experienced these events, the risk of poverty rate is 24 per cent. The equivalent rate for men is 15.3 per cent. However, if the woman is in full-time employment – a circumstance that is relatively less likely than for men – this difference vanishes.

Foreign households' average incomes are half those of Italian households

Despite the overall improvement of living conditions for foreigners, there remains a clear inequality between foreigners and Italians. Despite a higher employment rate (62.3 per cent as against 56.4 per cent for Italians), the average income of foreign households is still only approximately half that of an Italian household. Nearly 42 per cent of foreign children live in households suffering material deprivation, compared with 15 per cent of the Italian ones. Over nine per cent of foreign students are repeating the year at school (for Italian students the figure is four per cent), while 48 per cent are behind with their studies (compared with 8.5 per cent for the Italians). The school dropout rate is 43.6 per cent for foreign students who actually live in Italy (i.e. excluding those who have left the Country), while for Italian students it is 15.5 per cent. The incidence of *NEETs* among foreigners is 32.8 per cent, compared with a value of 21.5 per cent for the Italians.

The North-South divide remains pronounced, also with regard to public services ...

Finally there remains a large North-South divide which has widened during the recent years of crisis (the decline in employment began earlier and was more intense). Yet, this divide is a constant element of many analyses conducted, which are referenced here. In the South women enjoy fewer employment opportunities, as well as young people. Marked differences are also found in the provision of social services by municipalities (from nurseries to care for the elderly and disabled) and in related expenditure. The quality of healthcare services is lower, as is that of environmental services such as the supply of drinking water (with significant losses from mains pipe leakage) and waste collection (landfill is still the main means of waste disposal, while separate waste collection only covers 20 per cent of the population). Likewise, the provision and quality of local public transport are the poorest in the Country.

...despite a number of success stories among local administrations in the South

It would be a mistake, however, not to acknowledge significant success stories, such as waste collection, in which the gap between the North and the South is narrowing in many Southern municipalities, or social spending on the disabled in Sardinia, or the efficiency of drinking water supply in Basilicata and Calabria. This means that local governments can achieve significant improvements wherever they operate, and public opinion should take note of that with satisfaction, thus overcoming persistent stereotypes. Moreover, there is a greater regional convergence for those services in which delivery standards or "target levels" have been set.

Land consumption rates increase, especially in southern regions

It should also be noted that in the last ten years the South has seen significantly higher rates of land consumption than the rest of Italy. While for the Country as a whole such consumption has grown by 8.8 per cent since 2001, corresponding to an area equivalent to another completely built-up province of Milan (1,639

km²), in the South and the Islands the increase has been even greater (approximately 10 per cent). Of the provinces in the South, which were already highly built-up areas, Caserta (+18.4 per cent), Taranto and Catania (both over 11 per cent) recorded the largest increases. The trend is a cause for concern, as poor planning of forms of urbanisation can prove to be unsustainable from an environmental and economic point of view. For example, residential and business sprawl diverts land away from other purposes and functions, impoverishes the value of landscapes, reduces people's rootedness in the area in which they live, restricts accessibility to services on the part of individuals, and negatively impacts citizens' overall quality of life. This, too, has to do with fairness and, when the Nation considers what development model to adopt in the future, it is important that a clear choice will be made regarding the issue of land consumption, too.

Conclusions

Last year, when concluding my reading of the Annual Report Summary, I stressed the vulnerability of the "Italian System", of both enterprises and households, the need for our Nation to become aware of its problems, as well as of its strengths, and the lack of importance that Italian society seems to attach to the "time" factor, in a rapidly accelerating world. A year later, sadly, it can be said that 2011 has forced the Country, in traumatic fashion, to fully comprehend the seriousness of the situation, to discover that it is actually more vulnerable than previously thought and to get to grips with many unresolved issues, with an almost unprecedented acceleration in decision-making processes.

2012 will be remembered as an extremely difficult year economically and socially. The forecasts which Istat publishes for the first time today after being assigned the tasks previously performed by the recently disbanded Institute for Studies and Economic Analyses (ISAE) indicate a contraction in GDP of 1.5 per cent for this year. Household consumption and above all investment will suffer significant reductions (-2.1 per cent and -5.7 per cent, respectively), while net foreign demand will make a positive contribution, thanks to increased exports (+1.2 per cent) and a sharp drop in imports (-4.8 per cent). The projected decrease in employment (combined with an increase in unemployment) and restrained wage dynamics will contribute to a further decline in real household income, with inflation remaining high. In 2013, however, GDP is expected to increase by 0.5 per cent, driven by growth in exports (+4.0 per cent), while domestic demand is expected to remain constant, averaged over the year. The slight recovery in employment will probably not be sufficient to reduce the unemployment rate, while growth in prices is expected to slow.

The picture outlined for the next 18 months, which in many ways confirms the analysis conducted by other national and international research centres, indicates the need for Italy to keep its guard up on the fiscal policy front and highlights the importance of the evidence presented in the Annual Report on the topics of growth and equity.

In view of the commencement of a new parliamentary term of office, political and social forces will be called upon over the coming months to set out and

propose to citizens a medium-term outlook for the Country which respects the commitments undertaken to restructure public finances, but which is also convincing and capable of setting in motion the best resources – and there is no lack of them – that we have at our disposal. Let us think of women, who over the last twenty years have shown a remarkable dynamism in education and work, and hope to see their talents fully recognised. Let us think of young people, who represent huge potential for innovation which encounters enormous difficulty in expressing themselves. Let us think of foreigners, who wish to better integrate themselves into Italian society, in terms of entrepreneurship, too. Let us think of innovative companies that compete daily on domestic and overseas markets, which require efficient support facilities for modern internationalisation. Let us think of multinational firms that would be willing to contribute to Italy's economy if only certain socio-economic conditions did not penalise them, as it also happens with Italian firms. Let us think of the social capital that our regions have at their disposal, which even in the current crisis provide signals of extraordinary vitality and attention to situations of difficulty. Let us think of the examples of excellence that exist in the much-criticised area of Public Administration, where best practices (of which there is no lack) should be consolidated and disseminated, so as to restore the faith of honest taxpayers who expect efficient services in return for the taxes they pay. Let us think of the “third sector”, where solidarity and commitment to economic development come together in a synergy that is the envy of other countries. Let us think of centres of excellence in research and training in Italy, which are fully integrated in international circuits at the highest levels, which wish to find new forms of collaboration with the world of production.

In this regard, I like to think that Istat and the National Statistical System can be considered Italian strengths, that is, essential tools for describing significant phenomena, making analyses that can help in policy- and individual decision-making, enabling the evaluation of possible alternatives and results obtained and informing citizens, also with a view to international comparison and at a high level of geographical detail. The publication of the first year-end report on Equitable and Sustainable Well-being (BES, Benessere Equo e Sostenibile), will be another opportunity to share an economic, social and environmental reference framework, as a starting point for planning the future. The report will contain indicators and analyses regarding phenomena that the social partners have identified as being the most important for assessing the state of our Nation.

If rigour, growth and fairness are the three pillars on which to build our Country's future, one cannot but point out that the change will happen gradually. And in this “intermezzo”, which is neither short nor easy, maximum effort is required from all members of society, in the name of this common goal, to render the path that lies ahead socially sustainable. In this respect the “commons” and “intangible assets” are as important, if not more so, as personal or tangible assets: clarity regarding what goals and tools to adopt, commitment, individual and collective responsibility for their implementation, transparency and integrity on the part of all those who are called upon to take important decisions, and honest behaviour in the public and private spheres. These too are essential ingredients for a recipe

which, if it is to work, must rebuild a climate of mutual trust between the players of society, politics and economy.

In order to achieve the goals of sustainable prosperity towards which we are striving, it is essential to overcome the current – albeit understandable – climate of distrust, and the difficulties spreading through the countries of Europe. Although perhaps in 1992, when Italy subscribed to the project to create the European Union and the single currency, the implications of such a choice were not fully understood in society and in the economic fabric, twenty years later the indispensableness of a European perspective for successfully coping with the ongoing process of globalisation and ensuring a prosperous future for new generations cannot but be reiterated. The economic and social effects of alternative solutions would be devastating for our Nation and for its most vulnerable citizens. This is why it is up to all of us, and especially those of us who are in this room, to commit ourselves fully, here and now, to Italy's future and its citizens of today and tomorrow.

