Quotidiano USA - ed. Europa THE WALL STREET JOURNAL EUROPE 19-GEN-2010
Diffusione: n.d. Lettori: n.d. Direttore: Patience Wheatcroft da pag. 2

Italy is vital to European recovery

BY CORRADO PASSERA

As we start a new year, the priority for Europe must be to foster a new phase of strong economic growth. As Europe's third-largest economy, Italy could play a central role in promoting that growth—especially if it can resolve the structural challenges that hold it back.

A diversified economy (with low levels of private indebtedness, the absence of a housing bubble and the soundness of its banking system) contributed to Italy's ability to absorb the worst of the financial crisis relatively better than many other countries.

Despite these strengths, there are no simple recipes for a return to sustainable growth. If we look at the current situation in Europe and at specific issues besetting a country such as Italy, it is clear there are neither shortcuts nor panaceas. What is required is a medium-term plan implemented in a consistent and determined way to get the four key engines of growth running efficiently.

The first is business competitiveness: the capacity to innovate and to internationalize. The ability to develop and invest in these two capabilities depends on the strength of a firm and its ability to achieve critical mass, on its capitalization, its financial governance, and on the quality of its management.

The second engine relates to the effectiveness and efficiency of the national system. In this category, I include structural components that affect the functioning of a country and that impact corporates but can't be determined by them. The most important is the infrastructure endowment. By this, I mean physical infrastructure such as transport and logistics, telecoms and energy networks as well as intangible infrastructure such as R&D networks, education and training (key factors to make the most out of a knowledge society), security and justice, the tax system, central and local government services, and the financial and credit industry with its regulatory and supervisory frameworks and institutions.

Third is social cohesion, upon which the competitiveness of firms and of the overall system, the propensity for growth and for investment in the future is heavily dependent. This way of seeing things is very different from social Darwinism and the "*homo homini lupus*" idea underpinning the most extreme liberalist ideologies that have enjoyed much success in recent years. Social cohesion is in turn the end product of multiple mechanisms that mitigate social hardship, provide mutuality insurance against risks and ease fears of the present and future.

The fourth and final engine is dynamism, which is the energy a society expresses and the pace at which it advances. There is a vast array of important "soft" elements that determine overall dynamism: in particular social mobility, both vertical and horizontal, meritocracy, competition and labor-market rules, as well as the effectiveness and efficiency of the decision-making process.

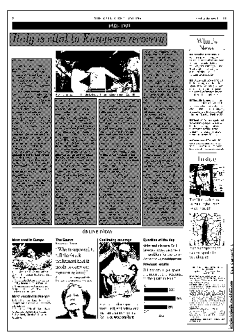
Italy has two of these engines pulling in the right direction, though they could do with revving up: business competitiveness (borne out by resilient Italian exports) and social cohesion (borne out by the achievements of its welfare state). But our two other engines are idling, and perhaps even pulling in the wrong direction: the quality of the national-system (where delays and inefficiencies are mounting in all fields) and in overall dynamism, where Italy can be regarded as one of the worst performers, notably due to the fragmentation and sluggishness of the decision-making process and not withstanding enormous energies that today are wasted but could come from more inclusion of young people and women.

In Italy, the resources needed to guarantee social cohesion, at least in the short term through the mechanisms of social protection, were wisely set aside as soon as the virulence of the financial crisis became apparent.

The key question now is where to concentrate efforts to accelerate the other three drivers and obtain positive effects both in the short and longer term?

Our corporate competitiveness (we have over four million SMEs) could be encouraged by strong fiscal incentives for innovation and internationalization as well as for consolidation.

Meanwhile, the effectiveness and efficiency of the overall national system would benefit from a strong acceleration of the infrastructure-investment program. If we want to fill the gap we have accumulated and to give our economy a positive shock, we have to invest between €200 billion and €250 billion in five to seven years—it is big money but this 2% to 3% of our GDP would be a formidable trigger and would pay for itself. We have to fund this investment without increasing public debt, which remains a top priority across Europe. It wouldn't be easy to fund such investments, and we will have to tap all possible



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sources: public funds already allocated but not yet spent, EU funding, private finance and capital as well as from efficiencies in public spending, addressing tax evasion, and sales of public assets.

However, there would remain the biggest problem of all, one that certainly isn't unique to Italy but that by itself could make any financial resources useless: the slowness and the inefficiency of the decision-making process, be it political, administrative, institutional or legal.

Italian decision mechanisms need profound reform. It is a reform that costs nothing and could save billions of euros, but would face thousands of obstacles, because it would entail a reshaping of empowerment and accountability at all levels. However, democracies that don't work and that accumulate delays in the economic and social field are those that are more fragile and, in the long run, more at risk.

Without growth, or with inadequate growth, none of the major problems we remain confronted with can be solved. In particular, unemployment, public debt, the stresses on the welfare state, and the productivity gap will continue to trouble Italy. Europe needs more growth and better quality growth and it needs Italy to make its contribution.

The construction, integrated functioning and maintenance of the four engines is an important measure of any nation's leadership and the responsibility of every decision-making member of that society. When the four engines are pulling in the same direction and at the same speed, this creates confidence, an inexhaustible renewable resource that paves the way to sustainable growth.

—Corrado Passera is chief executive of Intesa Sanpaolo