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NATIONAL STATISTICAL SYSTEM
NATIONAL INSTITUTE OF STATISTICS

ANNUAL REPORT

The state of the Nation in 2010



Summary



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Tackling vulnerabilities,
ensuring cohesion,
speeding change



Tackling vulnerabilities, ensuring cohesion, speeding change

Mister President of the Republic, Mister President of the Chamber of Deputies, representatives of the Government, authorities, ladies and gentlemen,

This year Italy is celebrating the 150th anniversary of its unification and the National Institute of Statistics is about to conduct the 15th General Population Census. The clear link between the two events shows, once again, how statistics has accompanied our country's history from the beginning and still accompanies it today, thanks to the commitment of many people who dedicate themselves to measuring and analysing economic, social and environmental phenomena.

In 2010 Istat and the National Statistical System expanded their activity and the publication of statistical information, with highly satisfactory results. Istat, specifically, made nearly 300 products available to the general public, which were referenced by over 12,000 news releases. The number of users of the website, over 3 and a half million, grew by 16 per cent in a year, while the quantity of gigabytes downloaded from the site increased by nearly 50 per cent.

Embracing Istat's proposals, the Government and Parliament financed the general censuses, reviewed legislation concerning the *governance* of the Institute, increasing its independence, and established the Advanced School for Statistics and Social and Economic Analysis. It should also be mentioned that the transfer of the main tasks of the disbanded Institute of studies and economic analysis (ISAE) to Istat has enhanced its analytical and forecasting capacities. In 2010 the National Statistical System approved the Italian Code of Official Statistics, authorising Istat to monitor the correct implementation of the provisions contained therein on the part of the system's institutions, and set in motion a review of the existing regulations in order to help statistics departments to become more efficient and effective, thus sustaining the reform of the public administration and serving users better.

The 10th National Conference of Statistics, held in December and honoured by the presence of the Head of State, authoritative representatives from the government and from the institutional, academic and business world, showed once again the vitality of the system. Thanks to the contribution of over two thousand participants the conference, made it possible to sketch the outlines of "Statistics 2.0", that is, of the evolutionary process upon which public statistics must embark in order to help society to deal with the "data deluge" recently referred to by distinguished observers such as *The Economist* and *Science*, to allow it to have better knowledge of itself and make informed decisions aimed at increasing the well-being of its citizens.

This year too, for the nineteenth time, with this *Report* Istat offers a detailed portrait of the state of the country, based on reliable data and documented analysis. First of all, the volume traces the exit path for the international and Italian economy from the worst crisis since the second post-war period, indicating strengths and

weaknesses of the production system. In addition, the *Report* documents the conditions of the labour market and of Italian households called upon to cope with difficulties relating to the economic situation and structural changes. Finally, it looks ahead over the next few years, assessing the state of the country in light of the *Europe 2020 Strategy* and the path traced out by the National reform programme.

The importance of official statistics has grown specifically as a result of agreements concerning the new European Union system of economic *governance* and the implementation of the *Europe 2020 Strategy*. In order to guarantee the reliability of data and the independence of those that produce it, a substantial reinforcement of national statistical institutes has been imposed to protect them from political interference. This is the direction taken by the recent Communication of the European Commission entitled *Towards robust quality management for European statistics* of 15th April 2011, which anticipates changes to the EU regulation in the field of statistics and to national legislations, as well as the allocation of adequate resources to the National Statistical System in order to deal with the growing demand for information. Unfortunately the restrictions placed on the operation of Italian research bodies, including Istat, are not moving in this direction and should, therefore, be reviewed.

The macroeconomic picture

The international economic cycle

*Marked
recovery
for the global
economy*

Over the course of 2010 the global economy recorded a marked recovery, with an expansion of five per cent in GDP measured at purchasing power parity. Already by the end of 2010 global industrial production had recovered to pre-crisis levels and international trade of goods and services in volume terms had more than made up for the previous year's sharp fall.

In the European Union (EU) the recovery phase has been discontinuous and uneven: in 2010 the average growth was 1.8% for the area as a whole, a result heavily influenced by Germany's strong expansion (3.6 per cent), while France and Italy chalked up decidedly smaller increases (1.6 and 1.3 per cent) and Spain even achieved a slightly negative result.

The European recovery has broadly benefited from the stimulus deriving from net exports, but has also been driven by the recovery in investments and the replenishment of inventories, while difficulties for the labour market curbed private consumption. The trend in economic activity strengthened in the first half of 2010 before decelerating in the second. In the first quarter of this year the expansion of GDP returned to more elevated levels (+0.8 per cent compared with the previous quarter), thanks above all to France and Germany's positive results.

The extremely gradual improvement in the labour market, policies geared towards reducing public deficits and debts, and rising inflation are factors which could potentially constitute a slowdown in the expansion of private consumption over the course of the year, so that the forecasts drawn up jointly by IFO, INSEE and Istat indicate a quarter-on-quarter growth of 0.4 per cent in GDP for the Eurozone over the middle two quarters of the current year, a trend which is in line with the 1.6 per cent increase forecast for 2011 by the International Monetary Fund and, a few days ago, by the European Commission itself.

Crisis and recovery of the Italian economy

*Italy: the slowest
growth in
the EU*

In the decade from 2001-2010 Italy recorded the worst production performance of all EU countries, with an average annual GDP growth rate of a mere 0.2 per cent, compared with 1.1 per cent for the Euro area (EMU). During the crisis of

2009 Italy and Germany suffered the largest fall in GDP among the major economies, yet while the German economy has already clawed back most of its lost income, Italy still lags significantly behind pre-crisis levels.

Comparison with preceding cyclical phases confirms that the recession ended in April 2009 (according to the chronology defined in technical terms in the *Report*) is by far the most serious of the post-war period. The expansion phase under way however is less intense than those observed in the past. The quarter-on-quarter rate of growth in Italian GDP has weakened significantly since autumn 2010 (+0.1 per cent per quarter). In the first four months of 2011 manufacturing firms' confidence was stable, with greater optimism among producers of consumer goods and intermediate goods than of capital goods. In the construction sector, after the improvement which emerged in the second part of 2010, a deterioration in assessments concerning orders and activity was recorded. In retail, firms' assessments are prudent with regard to both current business performance and short-term prospects. Finally, the indicator of the climate of confidence in services shows a lack of dynamism.

On the other hand, indicators concerning exports, orders and industrial turnover provide strongly positive signals, due above all to increased demand from non-EU countries.

The cyclical profile of the Italian economy is dominated by the performance of the manufacturing sector, which has seen a sharp fall in activity during the crisis, followed by a comparatively less swift recovery than in the rest of the Euro area. In 2010 industrial production rose by 6.4 per cent, only partly recovering from the fall recorded in 2009 (-18.9 per cent). Net of seasonal factors, productive activity has gained around 11 per cent on the minimum reached in March 2009, but remains significantly below pre-crisis levels.

The construction sector once again shows – in Italy as in the Euro area as a whole – a negative trend: the production index, which had fallen by 11.6 per cent in 2009, decreased by 3.5 per cent on average in 2010. In non-financial market services, too, where growth had already been extremely modest during the years preceding the recession, value added decreased to a larger extent than in other economies: after an initial upturn, the recovery came to a standstill in the second half of 2010. Finally, in 2010 the contribution of public administration, the only sector to maintain a moderately positive trend during the recessionary phase, was slightly negative.

Construction sector still sluggish

The unsatisfactory trend in GDP is the result of the weakness of both domestic demand and net export demand. In 2010 private consumption contributed 0.6 per cent of the growth in GDP, while an initial recovery in investments and a substantial replenishment of inventories were observed. The contribution of net foreign demand was still negative, by around half a percentage point.

The trend in household consumption was influenced by the fall in purchasing power, by 3.1 per cent in 2009 and then a further 0.6 per cent in 2010. In order to maintain spending levels, Italian households have brought about a progressive erosion of the savings ratio, which fell to the lowest level among all of the other major economies of the Euro area. Nevertheless, in 2010 private consumption in volume terms was 1.7 per cent lower than the level in 2007. Over the three-year period, the most marked contraction regarded durable goods, while the purchase of services, which accounts for half of overall spending, showed extremely small fluctuations and an expansionary trend recently.

Household savings rate decreases

Investments, after the fall recorded during the recession, saw a broad, albeit partial, recovery led by the machinery and equipment component, which increased by 14.8 per cent compared with the third quarter of 2009; the contraction in investment in construction continued, falling by over five per cent in the last six quarters.

The trend in foreign trade also had a negative impact on growth in 2010:

specifically, imports took increasing shares of domestic demand from Italian supply, without this being offset by a comparable capacity for Italian goods and services sold overseas to increase their market shares. With regard to trade of goods, the upturn in exports, which began in the second half of 2009, showed a rapid acceleration during the first two quarters of 2010, subsequently decreasing in intensity in the second half of the year, reflecting the slowdown in international trade. Despite the 15.8 per cent average increase recorded over the year, the total value of Italy's exports was still lower in 2010 than two years earlier.

Sharp rise in imports of intermediate products

The growth in overall imports was driven by the upturn in the inventory cycle and industrial activity, phenomena which however explain only a part of the sharp rise in the purchase of intermediate products from abroad. The trend in this component, in fact, was led by the exceptional expansion of specific productions of electronics, mainly from China.

Italy benefited to a relatively lesser extent from the recovery in international trade: according to still-provisional estimates, in 2010 Italy's share of manufacturing imports of a group of 49 broadly representative countries in terms of international trade was 4.1 per cent, a fall of 0.7 percentage points compared with 2007, higher than Germany's and similar to France's. Data for the early months of 2011 show positive signs: in the first quarter the value of exports was up by 18.4 per cent year on year, close to maximum pre-crisis values.

Labour demand and productivity

During the recent phase of recovery in productive activity, the labour input has continued to decrease, although at a progressively slower rate, before showing the first sign of reversing the trend at the beginning of 2011. A 1.3 per cent increase in gross domestic product was accompanied in 2010 by a 0.7 per cent reduction in employment, in terms of full-time units of labour, after the 2.9 per cent fall in 2009.

Declining use of temporary state layoff funds

In the recessionary phase the reduction in employment was kept in check by an unprecedented recourse to temporary state layoff funds (Cassa Integrazione Guadagni - Cig). In the first part of 2010 the use of Cig began to decrease, albeit with an uncertain trend, so that its share of the number of hours worked fell to three per cent by the end of the year.

After the sharp fall during the two-year period 2008-2009 these trends brought about a cyclical recovery in productivity, yet the level of value added per labour unit only returned to 2000 levels. The stagnant performance in productivity which has characterised the last decade has constituted a natural limit on the expansion of purchasing power and therefore consumption. On the other hand, it has caused a comparatively stronger increase in the cost of labour per unit of GDP compared with other countries, worsening the competitiveness of Italian products.

Income and inflation

In a situation of persistent weakness in labour market conditions, growth in wages has remained extremely modest: in 2010 actual gross wages per labour unit for the whole economy grew 2.1 per cent, a slightly higher value than the previous year. Averaged over the year, real wages increased, but this trend was reversed in more recent months as a result of the progressive acceleration of consumer prices, which took the inflation rate to 1.9 per cent in December 2010 and 2.6 per cent last month.

Energy and food products push up inflation

The characteristics of the current inflationary episode, with increases concentrated in energy and food products, have accentuated price increases for products frequently purchased by households: starting from autumn 2010 the upward trend in prices for frequently purchased products has progressively intensified, rising to 3.3 per cent in April.

Energy products accounted for one third of the overall rise in inflation in the first four months of 2011, although, as happened in the past in comparable situations, the speed of growth in prices was relatively limited compared with the rest of the Euro area. The effect of the increase in costs of imported basic input goods emerged clearly in the first stage of formation of industrial prices, but softened in the transition to more advanced manufacturing stages: “core” inflation has thus recorded an extremely small rise, from 1.4 per cent of December 2010 to 1.8 per cent in April 2011.

Over the last few weeks the prices of raw materials have shown falling signs compared with the levels reached at the beginning of the year, although presumably the growth of developing countries will continue to exercise strong pressure on demand for energy and food products in the future, pushing their prices upwards.

Public finances

For Europe’s economies as a whole the most serious legacy of the crisis is represented by the deterioration of public accounts. Growth in public debt also continued in 2010, although macroeconomic conditions improved and net government debt fell by three tenths of a percentage point in the Euro area. Despite the combined impact of a larger fall in GDP and higher costs of servicing the stock of national debt, Italy has been able to limit the increase in the debt-to-GDP ratio to just over 15 percentage points, as opposed to a growth of around 18 points in France and Germany, 24 in Spain and over 35 in the United Kingdom. In Italy budget policy has not had to intervene to safeguard the financial system, which was relatively little exposed to the 2008 crisis, and – considering the limited margins for manoeuvre – has made extremely sparing use of available resources, focusing its counter-crisis measures on protecting workers with standard employment contracts.

Over the course of 2010, the improvement in macroeconomic conditions and the implementation of public debt and deficit reduction policies led to a fall in the net debt-to-GDP ratio in all major economies with the exception of Germany. In Italy, the debt-to-GDP ratio went (excluding the effect of *swaps*) from 5.3 to 4.5 per cent. The improvement was due to spending containment measures, with spending as a percentage of GDP falling by over one percentage point, as against a more modest contraction in the percentage of revenues. The tax burden thus fell to 42.6 per cent, 0.5 per cent less than the value observed for the previous year, which had been significantly affected by the repatriation of capitals from abroad (the so-called “tax shield”).

*Public
accounts
improve*

The production system

Trends by sector

The cyclical recovery recorded in 2010 was generalised, with the sole exception of the construction sector. Foreign demand was the main factor leading the recovery in manufacturing: of the main groupings of industries the largest recovery in relation to the minimum point of the cycle was recorded in intermediate products and capital goods (+17.6 and +13.7 per cent respectively), while the increases for consumer goods (+6.7 per cent) and energy products (+2.4 per cent) were less marked.

Sectors characterised by an absence or near absence of recovery include the manufacture of rubber products and plastic materials and other non-metallic mineral products (with a fall of 29.6 per cent during the recession and a subsequent increase of just 2.6 per cent), the manufacture of means of transport (which fell by 25.0 per cent and then rose by less than 8 per cent) and, above all, the sectors of electronics, oil refining, wood and wood products, and paper, printing and publishing products, where production has remained close to the minimum levels of 2009.

*Foreign demand
leads recovery in
manufacturing...*

*... but some
sectors are still
stagnant*

During last year the added value of market services (retail, repairs, hotels and restaurants, transport and communications) grew by 2.7 per cent at constant prices, making up for less than half of the contraction of 2009. The recovery was larger in those sectors more heavily affected by the crisis: the wholesale and retail sectors recorded increases of 5.6 and 3.9 per cent respectively. The upward trend in transport, warehousing, communications, hotels and restaurants was extremely small, while the growth in financial and real estate services was even more modest.

The indicators for revenues from the air transport and wholesale sectors have maintained a clearly positive trend, recording overall increases of nearly 12 per cent and 10 per cent respectively between the second quarter of 2009 and the last quarter of 2010; nevertheless, for both sectors revenues remained well below recent cyclical maximums.

The Italian tourism and accommodation sector, which had been affected to a lesser extent by the international economic crisis, recorded a trend which was still slightly negative (-0.7 per cent in terms of overnight stays) as a result of the reduction in the Italian component (-3.1 per cent), not entirely compensated for by the increase in the foreign component (+2.4 per cent), which has almost completely reversed the decline recorded over the previous two years.

The change in the structure of production in the aftermath of the crisis

Restructuring the production system

As in the past, one of the effects of the crisis has been to intensify processes of restructuring, in terms of sectoral recomposition and reallocation of workers. The recession has influenced the death rate of enterprises more than the birth rate: in 2009 the negative net balance between births and deaths of enterprises doubled and the number of deaths increased by 6.6 per cent compared to 2008, the growth in deaths reaching 21.9 per cent compared to 2007.

Considering the number of enterprises which were always active during the five-year period 2004-2009, one quarter increased employment, while one fifth – particularly large enterprises – reduced it: the overall result was a shift towards smaller size classes of enterprises. On the other hand, the structural contraction of the industrial sector compared with the tertiary sector recorded acceleration: between 2007 and 2009 the number of manufacturing enterprises fell at an annual rate of 3.8 per cent (-3.3 in terms of employees), compared with the increase of 0.9 per cent during the preceding three-year period (-0.5 in terms of employees).

Employment holds in enterprises

Surviving enterprises, aided by the use of the Cig, have favoured preserving available human capital. Indeed, the fall in employment was caused more by the fall in the worker entry rate (which halved from 16.3 per cent during the 2004-2007 period to 8.8 per cent during 2007-2009) than by an increase in the exit rate: during the most acute phase of recession these enterprises absorbed approximately 886,000 fewer workers than the 2004-2007 period, losing almost more than 191,000.

On the other hand, an analysis of 2.5 million enterprises that were always active between 2007 and 2009 shows that they have experienced sharp decreases in revenue, in added value and, above all, in gross operating profits. From this has stemmed a decrease in profitability of 1.1 per cent, with a bigger gap for larger enterprises (-1.8 per cent), for specialised manufacturing goods (-3.0 per cent), in particular mechanical, and for traditional manufactured goods (-2.5 per cent). The deterioration in labour productivity (approximated by the ratio between added value and average number of workers) was sharper for larger enterprises and manufacturing enterprises, a phenomenon which can be attributed among other things to the extensive use of Cig, while smaller enterprises recorded a more marked decline in cost competitiveness (given by the ratio between added value per worker and labour cost per employee).

Italy's international position

In 2010 foreign trade picked up rapidly (+15.8 per cent for exports and +23.4 per cent for imports), yet not enough to recover to 2008 levels, with a smaller gap for imports (-3.9 per cent) with respect to exports (-8.5 per cent). This caused a significant increase in the trade deficit, which in 2010 exceeded 29 billion euros (in comparison to 13 billion in 2008). Specifically, the energy trade deficit fell slightly compared with the pre-crisis period, from 59 billion in 2008 to 53 billion in 2010, while the deficit for intermediate products increased by 9.5 billion. On the other hand, the surplus in capital goods decreased by 5.1 billion, in consumer durables by 4.4 billion, while the surplus in consumer non-durables turned into a deficit equal to 1.9 billion, with a contraction of 3.9 billion in absolute terms.

*Growth
in exports,
greater growth
in imports*

Despite a significant recovery, the trend in foreign trade in 2010, highlights an alarming increase in the degree of penetration of imports of processed and manufactured products on the domestic market: having fallen during the crisis it increased markedly in 2010 reaching 33.3 per cent, the highest value of the decade. The sectors which recorded the greatest increases in *import penetration* were electrical and electronic machinery, leather and leather products, means of transport, rubber and plastic materials, chemical products and synthetic fibres, wood and wood products, and paper – that is, many of the sectors in which domestic production is struggling to recover to pre-crisis levels. For some of these sectors (means of transport, electrical machinery, chemicals) the increase is associated with a structurally high level of satisfaction of domestic demand by foreign products (over 50 per cent) which has grown strongly during the decade; for other sectors, such as leather or rubber, despite taking off from a markedly lower level, this indicator shows a continuous growth.

*Worrying
signals of
import
penetration*

In addition, the export capacity of enterprises declined, especially in leading sectors of Italy's production specialisation: indeed, for sales to countries within the EU area (which in 2010 accounted for 57.3 per cent of total foreign sales) the recovery is taking place slowly, while sales to countries outside the EU rapidly reached their pre-crisis levels, overtaking them from the second half of 2010.

An analysis of the individual performances of exporting enterprises shows that during the second half of the previous year the recovery in exports was more intense in smaller enterprises, compared with levels in the first half of 2008. Micro-enterprises (with 1-9 workers, which nevertheless account for an extremely small percentage of manufacturing exports) showed a complete recovery, with small-sized enterprises (with 10-49 workers) having an export level equalling 94 per cent of the pre-crisis level, medium-sized enterprises (50-249 workers) 91 per cent and large enterprises (250 workers or more) 87 per cent.

*Complete
recovery in
exports for
small-sized
enterprises*

Despite the recovery, in the second half of last year more than half of the exporting manufacturing enterprises had not yet recovered to the levels of sales they had recorded on the eve of the recession. For small and medium-sized enterprises the recovery was mainly in exports to European countries, while those of large size appear to be lagging behind; for sales to non-EU countries all size classes show a convergence towards a complete recovery.

Finally, adopting innovation strategies confirms to be of fundamental importance in determining the performance of enterprises on foreign markets. However, it is above all enterprises that are committed to improve and adapt processes, to organisational changes and to marketing innovations which show greater signs of recovery, in particular in exports outside the EU. Greater difficulties are encountered by enterprises which innovate primarily through Research and Development (R&D), manufacturing new products for export to European countries.

*Innovation is
a factor of
success*

If we then turn to foreign activity of Italian multinationals a moderately dynamic trend emerges: around a third of the main groups report that they had completed or planned a new controlling investment abroad during the two years from 2009-2010, a percentage which falls to 20 per cent for medium-sized to large multinationals and to 10 per cent for small multinationals. It is particularly significant that the choices planned by Italian multinationals for the 2010-2011 period in over 60 per cent of cases envisage an expansion of production both in Italy and abroad. In contrast, over a quarter of multinational groups plan to reduce their level of activity.

The labour market

The toll of the crisis and the recovery under way

Between 2008 and 2010 the number of people employed fell by 532,000 units: over half of them were individuals resident in the South, meaning that in this area employment returned to the levels of the start of the decade. The contraction also regarded the North (-1.9 per cent, 228,000 fewer units), while the central regions came through the crisis essentially unscathed.

With the recession approximately half of the growth in male employment observed between 2000 and 2008 was lost, while the downturn in female employment interrupted the upward trend of female participation in the labour market. Despite widespread recourse to Cig, the loss of industrial workforce (-404,000 units between 2008 and 2010) accounted for three quarters of the overall decline in employment. The phenomenon is extremely serious in the South, with a double decline rate (-13.8 per cent) compared with the Centre-North (-6.9 per cent). The fall in industrial processing was accompanied by a smaller decline in the services sector (-84,000 units) concentrated in 2009 and among the self-employed. Overall, the employment rate fell from 58.7 per cent in 2008 to 56.9 per cent in 2010.

*Young people
in employment,
victims of the
crisis*

Young people (aged 18-29) have been the worst hit by the recession, with a loss of 482,000 units during the two year period 2009-2010. The specific employment rate, which had already fallen between 2004 and 2008 from 49.7 to 47.7 per cent, has decreased in the last two years by around six percentage points. In 2010 around one young person in two was employed in the North, and less than three in ten in the South.

The fact that adult labour has held firm has offset – at least partially – the loss of employment among young people. This is in part due to the progressive raising requirements in terms of age and contributions to gain access to pensions, which has led the labour force aged at least 50 to stay longer in employment.

*An upturn
in flexible
employment*

At the economic level, employment continued to fall until autumn 2010, and then showed an initial recovery in February and March. During last year a substantial decline in standard employment (-297,000 units averaged over the year), previously less affected by the crisis, was recorded. On the other hand, starting from autumn, a recovery has been observed in part-time work, and in recent months in fixed-term employment. The increase in part-time employment, concentrated exclusively in the involuntary component (i.e. due to a lack of full-time jobs) regards above all retail, restaurants and domestic services to households and individuals. The growth in fixed-term employment concerned industry in the narrow sense, retails and restaurants. In the face of a still uncertain recovery in economic activity, reactivation of labour demand has been channelled above all towards hiring with flexible contracts.

In the last two years unemployment and inactivity have increased: between 2008 and 2010 the unemployment rate rose from 6.7 to 8.4 per cent, remaining

significantly below the European rate, thanks to recourse to the Cig among other things. On the other hand, the increase in the number of unemployed has been curbed by the expansion of the area of inactivity, which has risen to 37.8 per cent of the population in the active age group, one of the highest values in Europe.

The weak areas of the labour market

The increase in unemployment has affected all age classes and geographical areas. Furthermore, the short-term unemployment observed in the two years from 2008 to 2009 turned into long-term unemployment in 2010. On the other hand, the main channel fuelling inactivity has been the increase in potential labour, i.e. those who are not actively seeking employment but who are willing to work. The phenomena of discouragement and waiting for the outcome of previous job searches have been the fundamental reasons for not actively seeking work, taking to over two million the number of people who form part of this “grey area”, the size of which is now similar to that of the unemployed. The percentage of discouragement is more than double that recorded in the European Union.

Despite the absolute increase in employment among foreigners, the relevant employment rate has fallen by more than twice as much as the rate for Italians, reaching 63.1 per cent. The gap between them increases where there is a greater presence of foreigners: in the North, where around 61 per cent of the foreign labour force live, the sharper fall in the employment rate for foreigners and the more marked increase in the specific unemployment rate have reinforced the trend towards less participation in the labour market. The Albanian and Moroccan communities, mainly men employed in industry, recorded a higher-than-average decrease in employment rate and increase in unemployment rate. The Filipino, Polish and Ukrainian communities, mainly women employed in domestic services, have been less affected by the crisis.

A significant proportion of the decrease in employment for Italians has regarded skilled, technical professions, both for men (managers of small-sized enterprises, surveyors, heads of administrative services) and for women (head secretaries, primary school teachers, secondary school teachers). Consolidating the specialisation model of recent years, in over half of cases growth in foreign employment has concerned unskilled professions: from building labourers to cleaning company staff, household assistants to agricultural labourers, from family assistants to hospital porters. If to these jobs we add those of manual workers (carpenters, truck drivers, machine and plant operators) the increase in foreign employment is almost completely accounted for.

As has already been highlighted, the fall in employment has been particularly significant among young people and in almost all cases, concerns those who live at home with their parents. Not even a higher level of education has protected young people from the effects of recession: indeed, the employment rate has fallen for those with a low level of education (from 38.8 to 36.0 per cent in 2010) as well as for high school graduates (from 45.6 to 43.9 per cent) and university graduates (from 50.6 to 48.5 per cent). On the basis of longitudinal data from the labour force survey, for every 100 young people in standard employment in the first quarter of 2009 and no longer in work one year later, about 50 transitioned into unemployment (the value being 40 in 2008) and 34 into the “grey area” (30 in 2008); the remainder became inactive, that is not seeking work and not willing to work. The youth unemployment rate reached 28.6 per cent in March 2011.

For young people the probability of moving from a non-standard to a standard job has diminished: out of 100 young people with a non-standard contract in the first quarter of 2009, only 16 were in stable employment one year later (10 less than the previous year), while the percentage of young people who still had a fixed-term

*Length of time
out of work
increases*

*Unemployment
rises among
foreigners*

*Less chance of a
permanent
job for young
people*

employment contract or with a temporary or per-project employment arrangement rose (from 51 in 2008-2009 to 60 in 2009-2010). As a result, the proportion of young people in employment with fixed-term contracts is 30.8 per cent, or over a million units.

Young “NEETs”

In 2010 the number of people aged 15-29 outside the education and employment circuits, or NEETs (Not in Education, Employment or Training) increased. They numbered 2.1 million units, 134,000 more than the previous year or 22.1 per cent of the population in this age class, a significantly higher proportion than the typical one in other European countries. Most NEETs observed in 2010 had the same status in at least two of the three years prior to the moment of the interview, a value that points to a worryingly persistent status of exclusion.

One third of NEETs are unemployed, one third are not willing to work and one third form part of the “grey area”: therefore the great majority of these young people (peaking at 80 per cent among males in the South) shows interest in participating in the labour market, as they are unemployed or inactive but willing to work. Almost one quarter of young females are NEETs, against one fifth of young men. In 87.5 per cent of cases young male NEETs live at home with their family of origin, while for young females this is true in only 56 per cent of cases: 450,000 women who belong to this category are partners or mothers and many of them define themselves as “housewives”. Just over half of NEETs who live with their parents come from the working class, compared with 30 per cent of students and 42 per cent of people employed.

Women

Involuntary part-time work for women grows

During 2010, while female employment figures remained stable, the quality of work for women worsened: skilled, technical and factory employment decreased while employment with low levels of specialisation increased, from household assistants to call centre staff. Furthermore, the growth in part-time female employment in 2010 was characterised by the spread of the phenomenon of involuntary part-time work, while the gender gap in the under-utilisation of human capital widened: 40 per cent of female graduates have a job requiring a lower qualification than the one they possess.

The crisis has widened the gap between Italy and the European Union in terms of female participation in the labour market. The employment rate for Italian women, which is already lower than the European average for those without children, is even lower for mothers, a sign that women’s working careers, especially for the younger generations, are fraught with difficulties in reconciling work with family commitments. It is no coincidence that over one fifth of women under 65 who are currently - or have been - in employment report that they interrupted their working careers over the course of their life following marriage, pregnancy or other family reasons, as against just 2.9 per cent for men. For women who have had children the share rises to 30 per cent; in half of these cases the reason for giving up work is in fact the birth of a child.

An either-or choice between motherhood and work for many women

Although over time the percentage of mothers who gave up work because of marriage has decreased significantly (from 15.2 per cent of mothers born between 1944 and 1953 to 7.1 per cent of those born after 1973), the percentage doing so as the result of the birth of a child remains at levels close to 15 per cent for both generations. Furthermore, in over half of cases, the interruption to their working career was not the result of a free choice: around 800,000 women (almost nine per cent of mothers who work or have worked in the past) during their lives have been

dismissed or forced to leave their job because they were pregnant, and only four out of ten subsequently returned to work. It is especially the younger generations who experience forced interruptions of employment (13.1 per cent of mothers born after 1973) as well as women who are resident in the South. For them such interruptions more frequently turn into prolonged absences from the labour market whereas almost all cases connected to the birth of a child are related to forced resignations.

In a Country where policies for reconciling work and family commitments have not yet achieved the same organisational flexibility that characterises other European countries, the difficulties encountered by women in the labour market are linked up with an imbalance in the distribution of overall workloads. The division of roles in couples and the organisation of people's time, in fact, are characterised by a stark gender asymmetry which concerns all geographical areas and all social classes. A woman, having a job and children has to manage an overload of care work, while men's involvement in family duties has shown a moderate progression over the last twenty years, especially those geared towards caring for their children.

In order to cope with the difficulty of reconciling work and family (around three quarters of household work is the prerogative of women), female workers are reducing the time dedicated to household work, effecting an internal redistribution and devoting more time to their children. Such a trend has been documented since the end of the nineteen-eighties. Gender differences regarding domestic workloads become more acute with age. Even in old age, when the prerequisites might be created for greater sharing of domestic duties as a result of both partners exiting the labour market, gender differences remain strong and essentially stable over time: in other terms, when paid work duties end, men retire, dedicating themselves practically full-time to their own interests, while women continue to take care of their partner, the household and other members of the family.

More time for children, less for housework

The socio-economic conditions of households

Purchasing power, consumption and material deprivation

The slight upturn in household disposable income observed in 2010 (+1.0 per cent) was not enough to offset either the reduction in 2009 (-3.1 per cent), or the simultaneous change in prices, leading to a contraction in household purchasing power of 0.5 per cent. As a result, the stationary material deprivation indicators and the slight upturn in consumption are associated with a decrease in the propensity to save, which for consumer households alone stood at 9.1 per cent, its lowest value since 1990.

Household purchasing power falls

The increase in nominal disposable income has been led essentially by income from employment and from other profits distributed by companies and quasi companies; the trend in income from self-employment, from capital and from management of small-sized enterprises is still negative. In addition, household income has been sustained by redistribution by the public sector: specifically, social security benefits in cash, above all payments upon termination of employment paid by public administrations, unemployment benefits and benefits to supplement wages. During the year the regularisation or repatriation of financial and property assets held by households overseas continued and the amount of net social contributions which they paid in to social security institutions and pension funds increased.

In 2010, 15.7 per cent of households has shown three or more symptoms of deprivation: a total of over nine million people. The family and geographical profiles that characterise deprived households are extremely similar to those observed in previous years: large families, with three or more children, rented accommodation, residence in the South. The deprivation indicators have remained substantially stable

Stable conditions of deprivation

compared with the previous year, both because they affect above all households that were already considered deprived in 2009 and because loss of employment mostly affected young people who still live with their parents. The condition of material deprivation, including severe deprivation, has nevertheless increased among households in which the loss of employment regarded the reference person or partner, affecting most frequently individuals who had a stable, skilled job and who made a significant contribution to the household's financial resources. In addition, the percentage of households forced to take on debts or fall back on their own wealth resources has grown (to 16.2 per cent from 15.1 per cent in 2009).

Informal help networks

Cig and households provide a social safety net

This year too, like the previous year, two social safety nets have allowed the level of household deprivation not to increase: temporary state layoff funds, which have protected adult heads of households (who continue to be the majority of those receiving these funds), and the family themselves, who have protected children who have lost their job. In this context, women continue to be a fundamental pillar of the Italian *welfare* system, often taking on tasks which elsewhere are provided by public institutions, with significant effects on their total work burden, especially if they are in work, on the female participation rate and on the functioning of society in general: in fact, women provide two thirds of the over three billion hours a year which the informal network dedicates to helping members of other households.

In addition to the difficulties that have arisen during the period of recession, the informal help network is showing signs of strain of a structural nature: in the last twenty-five years, against an increase in the percentage of the population that provides help for other households (from 20.8 per cent in 1983 to 26.8 per cent in 2009), a decrease in the number of households receiving help has been witnessed (from 23.3 to 16.9 per cent), in particular those made up of elderly people (from 28.9 to 16.7 per cent). In this period the average age of those providing help has risen (it is currently 50), while the average number of hours dedicated to this activity has fallen, although the support offered is becoming more highly structured, with a growing number of types of help provided by each *care giver*.

Children absorb a large proportion of help

The directions of help flows have changed radically too: those for households with at least one minor under the age of 14 and mother employed have grown from the fifth place in the rankings of households helped in 1983 to first position today (37.5 per cent); in contrast, informal help for the over-eighties has decreased. At the same time, the number of hours dedicated by the informal network to assistance for adults and healthcare services has fallen, while the number dedicated to child care has risen and is now over 40 per cent of the total.

After the sharp fall recorded between 1983 and 1998, the proportion of households receiving support from informal networks is essentially stable. Nevertheless the number of households turning to services of assistance or financial help provided by public bodies (from 2.8 per cent in 1998 to 6.9 per cent) and paid services (from 8.9 to 9.6 per cent) increases. While the North-East stands out for its more extensive, active informal help network, the South is particularly penalised by a more limited network – with fewer care givers and fewer households helped – even while facing needs driving from more widespread material poverty and worse health conditions among the elderly population.

In addition, over time the proportion of the elderly population has risen considerably, thanks - among other things - to better living conditions; this has increased the percentage of people who, though elderly, are active within informal help networks. At the same time, the number of over-eighties (the so-called “old elderly”) with new assistance requirements, has increased. Moreover, the number of

household members has fallen as a result of the decline in births, the increase in life expectancy in old age and marital instability. If we thus take into account women's greater participation in the labour market and increased life expectancy, it is clear that family networks have become increasingly "tighter and longer": therefore, each potential *care giver* has fewer people with whom to share help within the family network, less time to dedicate to others and a larger number of people needing help for a longer period of her/his existence.

Within this context, a particularly important role is played by grandmothers who in any case, given the raising of pension age, will find it increasingly difficult to perform the duties assigned to them, crushed between caring for grandchildren, for elderly parents, often not self-sufficient, and, sometimes, grown-up children still at home. The desired growth in female employment and the presumable prolongation of working life will mean that new grandmothers will have less time to dedicate to assisting and caring for other family members, making mutual support between generations of mothers and daughters increasingly problematic.

*Grandmothers
overburdened
with duties*

Help provided for children and the elderly

In 2009 public, private and informal help provided exclusively for care and assistance reached 36.7 per cent of households with at least one minor under the age of 14, a markedly higher proportion than in 1998 (30.5 per cent). Specifically, 26.6 per cent of these households receive help from the informal network, with an increase of almost six percentage points in the last ten years. The increase was larger in households with working mothers and for single working mothers. Furthermore, with regard to the potential user base for nursery schools, the proportion of demand which is satisfied is still very low: in 2009, just 11.3 per cent of children aged 0-2 were enrolled at state-run nursery schools, while 40 per cent of children who went to nursery schools attended a private one.

The number of households with children who make use of public services also rose (from 3.4 to 6.3 per cent), while the percentage of those who made use of paid services, such as *baby sitters* or private day care centers, remains essentially stable (11.5 per cent), although with strong geographical differences. For example, the few working mothers in the South find themselves turning to paid help more than women in the North because of the limited availability of public services, less help from the informal network and the need to help elderly people in worse health conditions compared with the rest of the Country.

*Working mums
in the South
receive less
help*

In addition to help for care and assistance, 12 per cent of households with children receive financial support, a significant increase compared to 1998 (when the figure was 5.5 per cent). Households that can count on economic support are more numerous in the North-East (14.4 per cent), while in the South the value reaches 10.2 per cent, the lowest in the Country, even though this area has the greatest number of children in poverty conditions. Money transfers are provided by the informal network for 5.8 per cent of households, a higher proportion than in 1998 (4.4 per cent), while 6.8 per cent of households receive money transfers from public institutions: this percentage has sharply increased compared with ten years ago (when it was 1.4 per cent), especially as a result of one-time transfers such as maternity benefits.

Among those in need of assistance, besides children, there is a high number of people who are severely or partially limited in their personal independence who are not reached by any kind of help and not supported adequately at home: these individuals total around two million and are above all elderly, who do not find adequate protection within the family as they live alone or with other people with health problems. This segment of the population is also characterised by more disadvantaged economic conditions, especially in the South.

*The elderly
with severe
limitations are
increasingly
alone...*

In 2009, 29.2 per cent of households with elderly people received help of some kind (free of charge, paid or public) towards care and assistance to people. This percentage increases with age and above all with the worsening of health conditions, reaching 46.9 per cent for households with elderly people having severe limitations and 61 per cent for those with over-eighties in this condition. The North-East is the area in which elderly households are helped the most, above all those with people with serious health conditions (55.8 per cent), while the South is the area in which elderly households with serious health conditions are helped the least (46.9 per cent), despite the fact that the health conditions of the elderly there are comparatively worse.

*...especially in
the South*

The presence of mixed forms of help in care and assistance (public, private, informal) is higher in the North-East where help for the elderly is greater, while in the South the burden of difficult situations is more frequently the exclusive prerogative of the informal network. In the areas, where public services are growing and the economic conditions of the population make recourse to private services possible, as in the North-East, the informal network (in particular women) is able to better absorb the burden of caregiving, drawing back from the heaviest tasks, yet ensuring emotional closeness by providing company and assistance. In contrast, in the areas in which public help is less widespread, as happens in the South, the informal network is crushed beneath the weight of the needs of the elderly and takes on the burden of health care and assistance to a greater extent, which nevertheless reaches a smaller proportion of households in difficulty. Moreover, in this geographical area the elderly individual who requires care and cannot be helped by the network or by public help also has less chance of being admitted in a rest home, given the more limited presence of such facilities.

In this context a potential reduction in social expenditure would seriously jeopardise the situation of elderly households reached only by public help or by a mix of public and other types of support: the number of households concerned is 700,000. If we add to these situations the approximately 2 million individuals, especially the elderly, who are characterised by limited personal independence and who, despite living alone or with other people with health problems, are not reached by any kind of help, it is clear that the elderly could become one of the most socially vulnerable groups in the future.

Social welfare interventions by Municipalities

*Geographical
divide in
provision of
social services*

In the context just outlined the severe regional inequality in the provision of social interventions and services by municipalities is particularly critical. Citizens who live in the South receive from municipalities approximately one third of the resources provided in the North-East in the form of social welfare interventions and services (the figure ranges from a minimum of 30 euros in Calabria to a maximum of 280 euros in the Autonomous Province of Trento). The Southern regions record not only lower per capita values but also less sharing of expenditure on the part of users and the National healthcare system.

In 2008 for a disabled person living in Italy the average expenditure on assistance was 2,500 euros, ranging between 658 euros in the South to 5,075 euros in the North-East; for elderly people, the average expenditure on assistance per capita went from 59 euros in the South to 165 in the North-East and to households with children Municipalities allocated from 47 euros per capita in the South to 165 euros in the North-East. In 2009, 13.6 per cent of children used a public socio-educational service, yet while in some regions (Emilia-Romagna, Umbria and the Aosta Valley) the value increases to almost 30 per cent for children aged between 0 and 2, almost all regions in the South record values under 10 per cent.

During 2009, when the overall expenditure fell by 2.4 per cent, Municipalities partially rebalanced their budgets as they reduced general expenditure on administration, while raising the share allocated to social welfare activities. The financial difficulties of many Municipalities will become more evident starting from 2011, when the reduction in revenues from state transfers and the restrictions provided by the internal Stability pact will force them to rein in expenditure even more significantly. In addition, the first phase of municipal federalism scheduled from 2012-2013 is likely to proceed with the abolition of a number of transfers to Municipalities due to the devolution of a number of taxes. In the South, where local welfare services are more heavily funded by state transfers, the changes foreshadowed – in the absence of rebalancing measures – may lead to cuts in the resources used for social care. The strain on informal help networks, therefore, risks being compounded by a strain on social policies, with a potential increase – against a background of major geographical divides – in unmet needs among the most vulnerable segments of the population.

Italy and the Europe 2020 strategy

The *Europe 2020 Strategy* replaces the Lisbon strategy in setting out the major policy directions for fostering sustainable growth and employment in the European Union. The new *Strategy* differs from its predecessor in two important aspects: the first one concerns the *governance* of the process, based on the planning cycle of the European semester and on the alignment – including deadlines – of the stages of development, submission and discussion of the Stability Programmes (SP) and National Reform Programmes (NRP). The second one concerns the role of the European Commission, which has not only to monitor the progress of individual countries, but is also entitled to make recommendations and make political criticisms whenever improvements are not satisfactory.

*The five goals
of Europe
2020*

The *Strategy* sets out goals to be reached by 2020 in five areas: increasing spending on Research and Development (R&D) in order to reach three per cent of GDP; improving human capital, defined as reducing school drop-out rates to below 10 per cent and raising to 40 per cent the share of the population aged 30-34 with a university degree or equivalent education; increasing the employment rate to 75 per cent for the population aged 20-64; reducing poverty and social exclusion, with the aim of lifting 20 million people out of this condition; improving energy efficiency and environmental conditions, defined as reducing greenhouse gas emissions by 20 per cent compared with 1990, increasing renewable energy sources to 20 per cent of internal gross final energy consumption and increasing energy efficiency by 20 per cent.

Research and dynamism of enterprises

The average European R&D-to-GDP ratio lies currently just below two per cent: for Italy it is 1.23 per cent, placing it in a middle position in the EU *ranking*. However, the increase in the ratio between 2005 and 2008 shows a positive trend that is slightly lower than Germany's and higher than in France and the UK. Considering that the private component of R&D spending must account for two thirds of the total, the European average is not far off the target and the gap for Italy is also small, due to an average annual increase (in nominal terms) of 7.9 per cent in spending borne by Italian enterprises between 2000 and 2008.

*Signs of
improvement
but the target
is still far off*

In this field too, Italy displays marked geographical differences: Piedmont and Lazio are the best-placed regions in terms of overall spending, while Calabria, Molise and the Province of Bolzano/Bozen exhibit the worst situation; if only private spending is considered, the geographical divide grows at the South's expense.

*The obstacle
is the
fragmentation of
the production
system*

With regard to overall R&D spending, the gap between actual spending and the European target is about 60 per cent and appears difficult to close, in the light of historically observed trends, barring radical changes in the behaviour of enterprises. Indeed, Italy's unsatisfactory result is largely due to the fragmentation of its production system and unfavourable sectoral specialisation: if Italy had a specialisation model and size characteristics along German lines, spending by Italian enterprises in relation to GDP would be over two and a half times its actual level, which would make the European target not impossible to achieve.

Integrating the analysis based on this indicator with the one which uses the concept of *high-growth* enterprises (i.e. those with over 20 per cent growth in employment for three consecutive years), it can be noted that in 2008 Italy's share of these units was 3.7 per cent, including, however, almost 50 per cent of the growth recorded by active enterprises with at least ten employees from 2005-2008. In this case, it is Calabria, Lazio and Campania which show the highest proportion – close to six per cent – of *high-growth* enterprises, which is a sign of the vitality of geographical areas often considered less suitable for the development of entrepreneurship.

Finally, we should acknowledge the excellent results reached by e-Government initiatives, which in 2010 took Italy to the top of the European rankings, with the totality of the services under consideration being provided online and a high degree of interactivity in services offered to enterprises and to citizens, including those offered by local governments.

Human capital

*Still a low
number of
graduates*

In 2009 over one third of countries in the European Union had already reached 40 per cent of the 30-to-34 age group in possession of a tertiary level of education: in contrast, the value for Italy, was very low (19.8 per cent in 2010), lying fourth from bottom in European rankings. The current level is over 12 percentage points below the EU average.

Thanks to the introduction of the new university degree cycles, over the last few years the percentage of degrees has grown slightly (less than five per cent in six years). However, this has not closed either the large geographical divide that exists, to the disadvantage of the South, nor the gender gap, this time in favour of women, for whom the indicator was around nine percentage points higher than the one calculated for men (24.2 per cent against 15.5 per cent in 2010). Moreover, the most recent trends point to a weakening both in potential demand for tertiary education, with a fall in the number of 19-year-old high school graduates, and in actual demand, with a continuous decrease –after the peak in 2002/2003 – of university enrolments in relation to the population of high school graduates.

The phenomenon of school students dropping out prematurely (which should be kept below 10 per cent) regards all countries in the European Union and affects the male population more than the female (16.3 per cent for the former and 12.5 per cent for the latter): eight countries however are already below the target set for 2020 and for another thirteen the figure is below 15 per cent.

In this field Italy shows a gradual improvement, with a reduction of over 3.5 percentage points in the last five years, taking the indicator in 2009 to 19.2 per cent, twice as much the target level. This means 800,000 people aged between 18 and 24, 60 per cent of them being male. For young foreigners the drop-out rate is 43.8 per cent, compared with 16.4 per cent for their Italian peers. The phenomenon has negative effects on employment (fewer than half of young European early school leavers have a job) and on social mobility, as a lower level of education of parents has a bearing on premature abandonment, and is thus perpetuated generation after generation. This phenomenon, too, has a major impact in the South, where however in the last five years it has been reduced more rapidly than elsewhere.

It should then be pointed out that from the analysis of labour demand expressed by enterprises, a clear interest emerges in potential workers who have obtained technical education, while the number of students who leave Italian technical colleges every year shows a declining trend: in the period between the 2004/2005 and 2007/2008 school years, the number of graduates from Italian technical institutes fell from 181,000 to 164,000, with an estimated shortfall in relation to potential demand that fluctuated between a minimum of around 24,000 in 2005 to a maximum of over 127,000 technical graduates in 2007, before the crisis.

*Enterprises
unable to find
technical
college leavers*

The employment rate

While the *Europe 2020* target for the employment rate among 20 to 64-year-olds has been set at 75 per cent, the current average is 68.6 per cent, with large differences between men and women (75.1 and 62.1 percent respectively). Italy ranks among the bottom-placed countries (61.1 per cent) and is also one of the countries with the largest gender gaps: indeed, while for men the employment rate in 2010 was 72.8 per cent (a figure close to the target), for women it was 49.5 per cent, over 25 points from the European target.

*Gender gap
keeps
employment
rate far from
target*

Significant gaps are also observed at the geographical level: while in the South the employment rate is 47.8 per cent, in the North and in the Centre it is close to the average European level (69.2 and 65.7 per cent respectively), with larger gaps for the female component: in several southern regions the percentage of women in work is around half that recorded in the best-performing northern regions.

Unfortunately, the two years from 2009-2010 have completely cancelled out the 1.4 per cent increase in the employment rate during the previous three years. Of the major European countries, worse results were obtained by Spain and the United Kingdom, while in Germany, in part thanks to the introduction of systems of *flexicurity*, the employment rate continued to grow, albeit at a slower rate than in the past.

Poverty and social exclusion

With regard to the target of lifting 20 million people out of the risk of poverty or exclusion, currently the number of Europeans living in households in such a condition is 114 million, 15 million in Italy alone. The South is the area of the Country with the highest rates of poverty or exclusion (around 60 per cent of the individuals concerned live there), while the North-East is the least exposed area. The elderly living alone and large families with three or four minors are exposed to the highest risk levels.

*North-East:
the least
exposed area*

The Italian National Reform Programme sets out the ambitious target of lifting 2.2 million people out of poverty or social exclusion in nine years, the highest value in absolute terms among European countries.

Three indicators are used by the *Strategy* to monitor these situations: the percentage of people at risk of poverty, that of people in situations of severe deprivation and that of those who live in households with very low work intensity. Italy has almost one fifth of households at risk of poverty, a level that is two percentage points higher than the European Union average. Between 2005 and 2009, despite the economic crisis, the proportion of households in such a condition remained stable, a situation which is also confirmed by the other (absolute and relative) poverty indicators available for Italy.

The proportion of households with severe deprivation, on the other hand, is lower than the European average (7.0 and 8.1 per cent respectively), although it increased by 0.6 percentage points between 2005 and 2009, reversing the trend in the rest of Europe, where it fell from 11 to 8.1 per cent.

Finally, approximately nine per cent of Italian households are characterised by very low work intensity, a value similar to the one recorded at the European level. In dynamic terms, too, Italy exhibits a downward trend that is comparable with that of the European Union.

Environmental sustainability

In order to increase the environmental sustainability of the socio-economic system three targets have been set for as many areas of interest: greenhouse gas emissions, energy from renewable sources, and energy intensity.

*Less
greenhouse gas
in the
environment*

In the last decade the trend in emissions by European countries has been generally downwards, so that in 2009 the level of emissions was 17.6 per cent lower than in 1990. Although significantly affected by the economic crisis, this result is close to the target set by the *Strategy*. Italy has improved its performance in the last five years: this result is undoubtedly affected by the recessionary phase - however, the improvement observed has also depended on changes in the composition of the production structure, in the intensity of emissions from energy uses and in the energy intensity of production. In particular, over the last twenty years the increasing volume of economic activity should have led – other conditions being equal – to a 33 per cent increase in greenhouse gas emissions from productive activities, while actually the increase was almost zero (+0.3 per cent) due to the positive effect of other components, in particular the reduction in the intensity of energy inputs per unit of output.

With regard to the consumption of energy from renewable sources, Italy is one of the countries in the European Union which sets off from an extremely low level (6.8 per cent, 3.5 percentage points lower than the average EU figure) and has set itself an ambitious target: that is, reaching 17 per cent by 2020. Bearing in mind that the seven countries with the best performance in the period from 2006-2008 were able to increase this percentage by two points, and that France, Germany and the United Kingdom have also planned to double the share of renewable energy, there is a clear need for policies geared towards proceeding along this path at a fast pace.

*The South
makes up
ground on the
North*

Looking at the production of electricity alone, in 2009 the share of energy from renewable sources was just below one quarter: the largest weight was attributable to hydroelectricity (16.8 per cent); however, biomass and wind power grew rapidly (between 2005 and 2009, production increased by 24 per cent for the former while it tripled for the latter) with further substantial increases forecasted until 2020. In this field, too, there are large gaps between the various areas of the Country, in favour of the North. However, the South is growing at the same pace as the northern regions.

For the third and final target regarding the environmental area (+20 per cent for energy efficiency), in 2008 Italy recorded an improvement in performance of 5.4 per cent compared with 1990. With regard to final energy consumption intensity per unit of value added, Italy recorded a positive result (-15.6 per cent), next to an increase in gross domestic energy consumption of 18.2 percent. Specifically, from 1996 onwards the reduction is connected with the shift in production towards sectors characterised by lower energy intensity. During the first half of the 1990s a negative contribution to the overall efficiency of the system came from the rapid growth in households' share of consumption, which constitutes non-productive uses: in fact, while in 1990 this accounted for 25 per cent of final energy consumption, the share has now risen to 30 per cent.

Conclusions

This year's *Report* shows that Italy has paid a high price as a result of the recession in terms of production and employment, yet has also limited social impact and avoided systemic crises like those observed in other countries. The wealth at the disposal of households, a robust, flexible production system, widespread recourse to temporary state layoff funds, rigour in the management of public finances and informal help networks explain why the fall in income, one of the largest among the major industrialised countries, has not transformed itself into a large-scale social crisis.

Nevertheless, the Italian system looks vulnerable, and more vulnerable than some years ago. By no coincidence the topic of vulnerability also characterised the 2005 *Report*, written after the 2002-2003 crisis and before the economic acceleration that marked the two subsequent years. However, although some aspects of the current situation appear similar to that period, it is also clear that in order to cope with recent difficulties the Italian economy and society have eroded a good deal of available reserves. For example, households have reduced their savings rate drastically in order to be able to maintain their standard of living, while budgetary constraints reduce room for manoeuvre in fiscal policy to a minimum.

The national economy shows clear signs of difficulty during the recovery stage, which is less robust than in other neighboring countries such as France and Germany. This performance is accounted for by an extremely slack trend in domestic demand, curbed by the reduction in household incomes and by the large amount of unused production capacity, as well as the difficulties of Italian enterprises in competing on European markets and the domestic market itself, meaning that the increase in exports is more than offset by the one in imports.

During recession enterprises have sought to renew themselves at the technological and organisational level, preserving most of their available human capital, perhaps in anticipation of better times. Half of exporting enterprises have already returned to pre-crisis levels of sales on foreign markets. A significant proportion of Italian multinationals have continued to set out strategies for development. On the other hand, clear signs of the internal recomposition of the system of enterprises emerge, with winning segments recovering strongly while others struggling to make progress, especially large enterprises and those which operate in sectors in which foreign supply is gaining shares of the domestic market. Inflation is rising again and labour productivity is stuck at 2000 levels.

The regained dynamism of significant segments of manufacturing, the vulnerability of various sectors of industry, the excessively slow growth in market services and the erosion of household savings lead to a first conclusion: the growth rate of the Italian economy is totally unsatisfactory and even the short term recovering signs in the levels of activity and labour demand are not sufficiently strong and widespread to reabsorb unemployment and inactivity, thereby not giving the required impetus to incomes and consumption.

The second conclusion concerns the greater vulnerability of people and households. Although growth in unemployment has been comparatively lower than in other countries, almost 900,000 full-time jobs have been lost with recession, and the area of inactivity has grown larger. Employment is now growing mainly in services with low skills content, in parallel with a reduction in the number of more highly skilled positions. Other conditions being equal, this implies an under-utilisation of human capital, lower earnings, and fewer prospects for development.

Young people and women have paid a higher price for the crisis, with ever more uncertain prospects of re-entering the labour market, widening the gap between their aspirations, as testified by a higher level of education, and opportunities. An increasing proportion of young people, not just in the South, are slipping into prolonged periods of inactivity, which they mostly experience in their family of origin, and towards lower levels of social integration, especially for those belonging to the less well-off social classes. Over 40 per cent of young foreigners have dropped out of school prematurely, fuelling an area of marginalisation, the costs of which will shortly become clear.

Women experience an unacceptable degree of exclusion from the labour market. In addition, the burden of domestic work and caregiving they bear renders even more vulnerable an already weak “family welfare” system in which they have sought to make up for the inadequacies of the public system. Moreover, women are still too often forced to leave the labour market when their children are born.

Together with young people and women, the elderly are also impacted by growing vulnerability. Poverty and deprivation often affect households aged over 65. In addition, many elderly people with severe limitations are not helped, either by informal networks, or by paid services, or by public facilities. The lack of the latter thus produces not only an additional cost for families but also risks, placing childcare in competition with the care for the elderly, whose needs grow with age.

The necessary measures aimed at controlling public finances must not hinder the capacity of Municipalities to provide social welfare measures. If this were to be added to the trends mentioned just now for informal help networks, it would reduce the capacity to deal with new social vulnerabilities. The risk is higher in the South, where levels of assistance are already lower than in the North, despite the existence of greater needs.

The third conclusion specifically concerns the South, which, instead of being an extraordinary opportunity for raising the growth rate of the Italian economy, displays increasing signs of economic and social vulnerability. This requires particular attention by politicians, businesses and the society as a whole, in order to recover and relaunch the positive signs that were emerging prior to recession, for instance at the entrepreneurial level, and to keep under control migration phenomena and the ensuing impoverishment of available human capital.

Finally, in the light of the *Europe 2020 Strategy* it emerges that the vulnerabilities mentioned, together with a number of areas in which Italy historically lags behind, are holding back its drive to attain the targets agreed at the European level. The progress achieved in various fields, from the reduction in the school drop-out rate to the vitality of *high-growth* enterprises before the recession, from improved energy efficiency to keeping material deprivation under control, is definitely slow for a major Country such as Italy, especially compared with what is happening in other parts of Europe.

Italy needs to become aware of its own problems and strengths in order to mobilise the many resources it has at its disposal and quicken its pace in all fields. It also needs to use existing information better in order to guide collective and individual decisions. For example, the contrast between the demand for specific professional profiles on the part of enterprises and study choices that move in the opposite direction can only be overcome through the dissemination of the necessary information. The same point holds when supporting enterprises to identifying the most dynamic international markets and entering them in the best way.

At times, when comparing the Italian style in dealing with its own problems with that of other cultures, one has the impression that Italy is not fully aware of

the importance of the “time” factor, especially in a globalised world populated by new players, who are ever faster at taking up spaces occupied by others. For enterprises, entering a market at a certain moment or not, bringing a certain innovation to the market rapidly or not, can make the difference between expanding and closing. The same sense of urgency does not seem to guide other decisions, at either the collective or individual levels.

The preference for decisions from which immediate results are expected, compared with those with positive effects spread out over years, is well known. Yet, as experienced in the past when the “race to join the euro” constituted a goal that was shared by the whole Country, for which Italians were prepared to pay a price with a view to future benefits, today the *Europe 2020 Strategy* may be the chance to adequately frame public debate regarding how to make the Country less vulnerable and more prosperous. The modernisation of the Country must also come through a new way of discussing objectives, strategies and solutions. Especially in an economic and social system such as Italy’s, which is characterised by a large number of operators (such as enterprises, central and local government bodies, private institutions), the necessary – albeit not sufficient – conditions for dealing with existing issues and multiplying the beneficial effects of coordinated decisions have to be the cohesion of intentions, the clear definition of objectives and the mobilisation of the public opinion and the civil society. This change of pace would be the best way to celebrate Italian unification.

Sketching out new maps, pinpointing opportunities and risks, assessing progress and regression, sustaining democratic debate with reliable information: this is the service we provide, with pride and intellectual honesty, for the citizens and institutions of this Country, having the belief that its future depends, now more than ever before, on difficult yet far-sighted decisions, to be taken as soon as possible, at all levels of responsibility, on the basis of a broad and shared information framework.

