Address given by Romano Prodi in the Italian Senate on the economic situation in Italy (Rome, 8 October 1997)

Caption: On 8 October 1997, Romano Prodi, President of the Italian Council of Ministers, presents to the Italian Senate an initial assessment of his policy of bringing public finances back on a stable footing and outlines Italy's efforts to meet the convergence criteria so that it may participate in the third stage of Economic and Monetary Union (EMU).

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Mr President, ladies and gentlemen, when, on behalf of the Government, I stood before you and asked you to put your trust in me, at the heart of my programme lay a deep-seated awareness of the gravity of Italy's economic and financial crisis. This Government was therefore fundamentally pledged to averting the real and imminent risk of Italy being left outside Europe, and absolutely determined to ensure that this opportunity was not lost. That commitment has profoundly — I repeat, profoundly — influenced the whole of our strategy since that time.

The other significant element here is the firm belief that Italy needed a period of thorough-going reform: we made it plain from the outset that economic recovery would have to go hand in hand with a major process of modernisation; Italy's system had finally to reach the stage where we were able to make our contribution to the construction of Europe.

The third main element of the programme involved understanding that neither economic recovery, nor major reforms and not even our appointment with Europe could be ends in themselves, accounting on their own for the whole of the Government's efforts. We clearly stated that we wanted to adopt a broad strategy to tackle Italy's urgent needs, linking the reorganisation of public finances to a programme of economic development.

I said then that the whole strategy on which the Government had based its objectives, and for which it asked for the trust of both Houses, was part of a programme for the whole parliamentary term. I stressed that Italy's long and arduous transition could not be finally achieved without a sustained commitment over time, with firm proposals and definite objectives, It needed a Government able to legislate, in fact, one that could operate at the pace and with the authority needed if Italy was to overcome the anomalies and difficulties that had so burdened its recent history.

Now, 500 days from the time when this Government took office, an initial balance-sheet of the work we have done can be drawn up. It has been hard and demanding, but it has been made possible by the commitment of members from all sides forming the parliamentary majority. I must thank them and express my appreciation, but also thank the opposition for having played its part responsibly and assiduously.

But we should not forget that the most important results that Italy has achieved during these past months have been built on the sacrifices made by our citizens. That contribution has been far from negligible. These are the economic statistics 500 days on: the rate of inflation stood at 4.5 % in April 1996, but by September of this year it had fallen to 1.4 %. Long-term interest rates (in excess of 10 % at the time of the election) are now 6 %; mortgage interest rates were in the region of 12–13 % and have now fallen to between 8.5 % and 9 %.

The interest rate differential (4 percentage points) is now between 0.5 % and 1 %. Over the past few months, the stock market has risen by 50 % and the lira has returned to the EMS. The net public sector debt — and this is the real change — that stood at 7 % in 1995, fell to 6.7 % in 1996 and is only 3 % this year. The conviction that this reduction would be achieved is evident from trends in the public sector requirement. Confirming what I have said, in the first eight months of 1997, it fell to less than half of that last year. And all of this has happened with signs of recovery over the last 200 of those 500 days.

Let me give you just one statistic that sums up the overall improvement in the economy: during the second quarter of 1997, the gross domestic product increased by 1.9 % as compared with the same period in 1996, and as a result we are reckoning that over the year as a whole it will be in excess of 1.2 % (something that was considered an optimistic target).

The sacrifices Italians have made show that they are fully aware of what is at stake. Whereas some countries have had to hold a hard-fought referendum to gain approval for Europe's future development, in Italy millions and millions of citizens unhesitatingly made their contribution in the form of sacrifices for entry into Europe. And all of the social structures, starting with the major trade union organisations, worked with the political authorities to establish in Italy the belief that the sacrifices demanded were necessary if we were not to fail to meet this vital appointment with Europe.

The sense of history we have shown in recent months and our commitment to national recovery have astounded everyone, both in Italy and abroad. It is a worth my spending a moment on these issues.

For many years Italy lived beyond its means, leading to an exponential increase in public debt even in favourable economic periods.

The negative legacy handed down to us was reflected in a public sector debt far in excess of the wealth produced annually. After these periods of waste and irresponsibility, it fell to us to steer the country along the narrow and difficult path to recovery. That recovery was imposed by the Maastricht criteria, but we would, in any event, have had to work towards it out of a sense of responsibility to ourselves and, above all, to future generations.

The debt burden is a charge on the future and prevents resources being channelled into promoting development.

In 500 days, we have put forward a budget policy, which we have pursued with absolute determination.

Between June 1996 and March 1997, we adopted corrective measures totalling LIT 100 000 billion. These were stringent measures but they were based on a sense of fairness and social justice, and that is something that influenced and continues to influence the commitment and system of values driving drives the political forces that have made up the majority in the Government.

When this Government took office, Italy was a long way from meeting the five Maastricht criteria and seemed to be excluded from the monetary union: today, we can say that four of the five criteria have been achieved, while the fifth, that is to say the relationship between debt and GDP, has finally shown a change in direction.

As the Minister, Carlo Ciampi, rightly said in the report to the Council of Ministers that approved the draft Finance Act, the results have been truly exceptional: inflation has fallen to historically low levels and interest rates have returned to the levels of the 1960s.

All of this has given Italy new international credibility. That is the other effect of the past months: not only have we substantially reorganised our economy, we have also regained an international profile and a justified sense of national pride in every forum.

The role we were assigned in Albania is in itself a sign of this restored credibility, and the way in which we have helped perform that task (for which I would again, on all our behalf, thank the armed forces) is proof of our standing. Italy is again starting to play an important role on the world stage — and is committed to pursuing that in the months ahead.

During these months, not only have we achieved these results but we have also embarked on the challenge of modernising Italy by implementing essential reforms in the strategic sectors of our State organisation.

I should mention not only the very important work of the Bicameral Commission — which the Government is observing with keen interest and which we hope will continue until the reform is complete, although it is entirely a parliamentary responsibility — but also the innovations that impact on legislation and administrative structures of both State and autonomous bodies.

We have, in fact, made reform of Italy’s public administration central to everything. We have adopted the philosophy that the route to be taken is a far-reaching transfer of administrative responsibilities from the State to the regions and independent local bodies, leaving central government with a strictly steering and coordinating role.

A little more than a year ago, two laws were approved, Laws 127 and 59, which are changing the Italian administration in ways that this House has endorsed; we are relying on those reforms to determine much of our future and the future of Italy's administration.

National unity cannot in any way be called into question, and it is the duty of all of us to reject any tendency towards secession and the division of the country. But there can be no doubt that the best response to any secessionist tendency is to be able finally to give Italy a joined-up and flexible administrative structure, one that can make the most of the differences and special features of Italy's individual regions.

That is why the Government would today regard as extremely damaging any event making it necessary to interrupt the process that has just been launched, causing Italy to forfeit a historically important opportunity.

Even if the Constitution remains unchanged, economic reform and the development of genuine federalism are not the only tasks the Government must achieve — all of that in fact goes hand in hand with the great undertaking involved in preparing for the reform of the national budget, the system of public accounting and the amalgamation of the ministries of finance and the budget. All these are measures contributing towards providing the Italian State with more certain rules and a more modern system of regulating public spending.

Reform of the tax system is therefore essential.

We have said that we are committed to promoting a form of fiscal federalism based on cooperation. Today, as a result of the delegated powers contained in last year's Finance Act, we have begun to implement those commitments. The whole of Italy's fiscal system is in fact being redesigned.

But the commitment to reform promoted by the Government in recent months is not confined to those very important sectors. The reform of education, scientific research and the judicial sphere are of equal strategic value, while the Government has approved, or is in the process of approving, innovative and important measures in relation to health, transport, the environment, family policy, the organisation of the labour market and the rules governing industrial activity.

Of no lesser significance are the other reform measures that have already been set in motion or tabled in parliament by all ministers, and I wish to thank them here for the work they are doing and the spirit of cooperation they are showing, starting with the Deputy Prime Minister, Walter Veltroni — in that role, he has always been particularly close to me.

We have always paid particular attention to the work of the judiciary in defending the law.

We can now say that the process of modernising Italy's system is finally under way and the country cannot afford to miss this opportunity at this stage in its history.

The coming months will be of particular importance in that connection. During that period, the major reforms essential to Italy, if it is to take full advantage of the prospects offered by joining the euro-zone, will have to be completed.

That is the major contribution that this Government has made and intends to continue. We have moved and intend to keep moving down the route mapped by the spirit of major reform in Europe and the Western world.

Our objective is Italy's development; our aim is to ensure that Italy can play a full and equal part, alongside the other nations of the world, and do so fairly while jealously defending our democratic and social traditions.

When the reform of the second part of the Constitution is finally approved, we shall have a country that is already well on the path to reform and ready to support, with advantage, the new institutional framework.

Ladies and gentlemen, I have so far described the main lines of the work this Government is doing with your cooperation and your support. Financial recovery is not an end in itself, just as reform of the administration is not an end in itself. They are simply steps on the way to securing what must remain the real objective that we should all keep in mind: relaunching the economy and building a system able to provide genuine employment, real wealth and true solidarity.

For that reason, the development effort, particularly in regions like Southern Italy where there are currently high levels of unemployment, has been for us the third main pillar of Government action. We have placed the problems of Southern Italy clearly among our absolute priorities, bringing an end to the days of awkwardness and silence, and have specifically stated that we intend to support in every way the best elements of leadership in Southern Italy in the efforts they have to make to ensure that, at last, these regions too take a real step forward in terms of innovation and modernisation.

We have thus defined a new strategy concentrating on development from the bottom up and proactive employment policies. We wish to focus on the responsibility of local players in the development process, backing that effort by quality infrastructure — both tangible and intangible-physical — drawing on local resources, impacting on labour costs, using fiscal incentives to attract investors and make Southern Italy a region in which it will be beneficial to invest, even against competition from other regions of Europe.

New instruments have been adopted to put that strategy into effect: the instruments provided by what is called the Treu package, special loans, employment grants, local pacts and area agreements.

It is primarily in Southern Italy that a more modern competitive environment is being created, based on production factors, starting with human resources, so as to encourage the development of new communities.

That is why we have consistently attached central importance to technical schools, which are by definition linked to the productive capacity of the place in which they are set up.

Turning to specific measures, let me briefly mention the local area pacts, to which LIT 1.7 billion has been allocated, over LIT 900 billion of which has already been used, and the special loans, for which 33 000 applications have been made and 60 vocational training courses put in place.

Above all, in just one year, the spending of Community funds has more than tripled in Objective 1 areas: that is the great challenge, and we should not forget it. If these trends are confirmed, we could achieve between 35 % and 38 % disbursement of total Community funding by 1997, which would make it possible to commit all of the funding available in the depressed areas by 1999 and disburse them by 2001.

The Government has also confirmed the total social insurance relief for taking on new workers in the South, and LIT 2 250 billion has been earmarked for this. We have also confirmed the incentives for businesses, and additional funding to back the laws promoting technological innovation, as well as the Ossola Law designed to help exporters. Negotiations have been initiated with the European Union with a view to introducing an employment incentive for the regions covered by Objective 1.

A country with a high level of public debt cannot cut tax before it has brought total public spending under control. Similarly, it cannot relaunch public investment until it has corrected current spending trends. That is the criterion that has guided budgetary policy over the past 18 months.

To regulate public spending, it has been necessary to put in place instruments making it possible to intervene in relation to the public authorities, as well as a long-term programme of reform of social spending. All this has taken time and, in an initial phase, it has been necessary to call on Italians to make an additional fiscal effort.

Looking to the near future, to achieve a fairer redistribution of taxes and extend the taxable base, we have had to introduce fiscal reform covering all kinds of taxes and the procedures for the handling and settlement of tax disputes.

And so we have not been wasting our time. The reform of the public administration and the State budget — already approved — as well as the reform of social spending are instruments used by the Government in drafting the 1998 Finance Act, to make the results achieved in 1997 permanent.

The aims of this programme of work have been clearly perceived by the economic players and by families who have, over recent months, demonstrated increasing confidence in the success of the Government's programme.

In September last year, we promised that the 1997 Finance Act would be the last to impose heavy burdens, and that has been the case. The corrections to the budget that the Government is planning to introduce in the new Finance Act are barely in excess of one percentage point of GDP: one quarter of the total of measures taken between June 1996 and March 1997.

More particularly, in terms of revenue, we are proposing a shift from direct to indirect taxation, boosting the effort to combat tax evasion, simplifying the relationship between citizens and the tax authorities by specifically abolishing various tax adjustments and, in any event, guaranteeing a reduction in fiscal pressure over the next year, albeit for the time being at a limited level.

That does not prevent us from granting significant tax relief to companies located in areas of low employment that take on new workers (ten million for the first employee hired and eight million for subsequent employees), from making provision for tax relief for companies investing in production in the areas of local agreements and, finally, from introducing measures to help the building sector based on the system of deducting tax equivalent to 41 % of actual spending, up to a ceiling of LIT 150 million, to be distributed over a five-year period.

In terms of spending, the bill associated with the draft Finance Act sets up a detailed programme for reconstructing the mechanisms whereby the public authorities operate, centred on the principle of responsibility of leaders and budget unity. By adopting that approach, the financial requirements of the different bodies within the public administration, including regional and local bodies, can be maintained at last year's level. It will also make it possible to encourage efficiency, using staff bonuses. The savings thus obtained will be used to back the policies for the support of public investment, so that those policies will be able to expand in real terms.

For the three-year period 1998-2001, additional investment will amount to some LIT 38 500 billion. For the next five-year period — in addition to the LIT 47 000 billion already allocated by 2001 — we are also earmarking LIT 11 000 billion for the South and depressed regions.

Particular attention has been paid to the public utilities, that is to say the railways and the postal services.

Finally, the Government is conducting a wide-ranging consultation with the social partners with a view to redesigning the whole of social spending using a multi-annual approach. Many areas of agreement have already been identified and they link up with what the Government has already done by way of promoting the rights of children and teenagers. I would point out that a million and a half children and adolescents are living in poverty, 80 % of them in Southern Italy.

The agreement provides for more general welfare reform designed to boost family support policies by increasing family allowances, laying down rules on parental and family leave and providing help for young people wanting to start a family to buy or rent a home.

In that context, I should draw attention to the establishment of the fund for social policies and combating poverty, resourced with funding of LIT 550 billion and the allocation of LIT 300 billion for the disabled.

The Government and social partners are in full agreement on the use of selective instruments for the granting of social insurance and health benefits, albeit taking due account of the universalistic approaches that underpin all of the Government's action in this area. Those decisions will take legislative form in the bills associated with budget measures.

In relation to employment incentives, first of all we have proposed using the IRI's resources and technological capabilities, so that a new IRI may rise from the ashes of the old that can make better use of expertise in the programming and the creation and organisation of work, in line with developments in Southern Italy.

More specifically, we have proposed the creation of a single large Agency able to bring together, in the form of a limited liability company, all the different activities that are currently dispersed among the many bodies for the promotion of industry operating in the region. The Agency is likely to steer its activity in three directions. First of all, working through the existing planning agencies, it will implement major projects, such as the organisation of the water system in Southern Italy, as well as planning work specifically related to regional services and local government. The after-effects of that activity, including as regards the use of European structural funds, are clear.

The second measure concerns unifying and rationalising job creation and the promotion of industry. The Agency's efforts should be directed towards the encouragement of new investment in production in the most disadvantaged areas. A variety of activities will be launched, ranging from company analysis to the provision of venture capital and the definition of forms, such as the updating of databases to optimise local localising opportunities.

The third branch of that Agency's activity should be organising work of social benefit in the South on a more functional and result-oriented basis. According to the Government's proposal, which calls for substantial capital endowment to deal with the responsibilities assigned to the Agency, it will be able to use some thousands of billions that IRI will acquire from the adjustment consequent on the sale of Telecom Italia; that adjustment is based on the difference between the current stock market value and the value at the time of the State's acquisition of STET.

Alongside that proposal, the Government is looking closely at measures to promote investment in the South by companies from Central and Northern Italy. This involves promoting a major effort by the South to attract the North and by the North to respond in a dynamic and economically productive manner. The aim is to streamline processes and make administrative deadlines clear, assist companies in their administrative procedures, secure the basic infrastructure, encourage the full use of consensual instruments for greater job flexibility and develop an intensive system of vocational training, as well as, finally, to guarantee the security of the local area.

The Government envisages experimenting (and this is an experiment that is being warmly welcomed by business groups and local communities) with a kind of twinning between regions and companies in Northern Italy and regions and companies in Southern Italy, with the main focus on industrial zones.

Finally, as regards social insurance, agreement with the social partners has yet to be reached. The principles on which agreement is emerging relate to: equality of treatment in terms of pension for private- and public-sector employees and their respective terms of access to old-age pensions; measures to review the preferential conditions that persist in the rules of some special pension funds; a moderate acceleration of the terms of access to old-age pensions laid down by the Dini Law, which safeguards blue collar workers; and the possibility of permitting more flexible arrangements for combining work and retirement in the difficult phase for people already over the age of 50 coming to the end of their jobs — all of this while observing the condition that spending on pensions must not be increased. Finally, the self-employed will also have to make their contribution to stabilising spending on pensions in the coming years.

Those are the Government's additional financial proposals, and we hope they will meet the expectations of the majority in the House.

The Government is aware that, on 21 April 1996, it received a mandate from the electorate, the main element of which was economic recovery while maintaining social solidarity. The Government is also aware that a social State gains legitimacy in the eyes of its citizens if the redistribution processes it sets up are effective and fair. The Government intends to continue press on with this action. Italy would not understand were we to abandon it now that the process of recovery is on the way to completion and the resumption of growth is holding out new hope to households of an improvement in their standard of living.

Italy does not want to slip back into new periods of financial and monetary instability, increased interest rates, higher inflation and the prospect of new fiscal constraints with no end in sight.

Ladies and gentlemen, please forgive me for taking what may be an overly analytical approach. But it is very important that everyone should understand what we are talking about and be fully aware, not only of the great principles that are at stake but also of the details of what the Government is proposing. This year, in fact, we are presenting for the first time in many years a Finance Act distinctive not only in terms of what is being 'cut' but also in terms of what is being invested and promoted. And we see this as an important sign of a turning-point for Italy. The message it sends out is that we in Italy can start making positive plans for our future.

The reform of the welfare state also has a significant role in this overall strategy.

I have said more than once, and in particular in a speech here in this House, that 'in order to give our young people, who have a full and irrevocable right to it, the guarantee that they will be protected in the future, we must now review rules and forms of social protection that were devised and set in place in a different historical context'. And I also said: 'With that in mind, the Government will enter into a dialogue with the social partners to determine the approaches to reform of social spending … the conclusions we reach will take legislative form in connection with the 1998 Finance Act.' In response to a question, again here in this House, I then said even more plainly: 'and it must be equally clear that those who are today placing their trust in us must support the wide-ranging programme that we have drawn up and want to bring to completion'.

It is certainly the case that our problem is one of 'moving into Europe while safeguarding the basic elements of social protection and introducing an economic policy that offers a constructive response to hardship among the working classes.'

But it is true that redefining the welfare state and the system of social insurance and assistance is the final, indispensable condition for our progress towards Europe.

That is why the Government cannot give way on this point. Moreover, the Government has good reason to expect the support of the majority in this endeavour, given that, just a few months ago, we were again given the backing we needed on this point.

We want to set about redefining the welfare state based on the broadest possible consensus. We have therefore entered into a close dialogue with the organisations representing both employers and the work force. In this area, we are, therefore, committed to using all possible methods of consultation and agreement with the social partners. And so we are ready to discuss with both the political parties that have backed us during these months and with Parliament as a whole, any amendment to our proposal that does not jeopardise our basic goal, that of rebalancing the budget so that we can enter Europe and retain a stable position there.

But, in any event, we feel that we all have, as the Government and as the political majority, the duty to move forward positively along this path.

In moving along this path we take must take due account of the principles of fairness and protection of the more vulnerable among us, but we must also consider our young people, who have the right to live in a country that uses its resources not only to help the elderly but also to build for future generations, by promoting research, business and employment.

The 1998 Finance Act is consistent with those approaches to economic and institutional policy.

Ladies and gentlemen, all I can say is this: we are just a step away from the stable and definitive achievement of a goal that is historically crucial for Italy.

As I have already said, when this Government began work that goal was a very long way off.

All of us here today in this House and all the Italians living in our country have been and are players in an historic period that may pave the way, for us, our children and future generations to development, progress, dignity and just and legitimate pride in belonging to a country that is truly great, truly modern and truly capable of competing on the world stage on equal terms.

And we have been able to do this with a large measure of national agreement, careful to protect the most vulnerable among us, to safeguard the essential content of a welfare state able to protect all from life's major risks and the most vulnerable from the daily needs that poverty and life's real problems may bring.

The main characteristic of the 1998 Finance Act, tabled in parliament last week, is that it makes provision for cuts in social spending equivalent to half of those envisaged in the Economic and Financial Programming Document that the House nonetheless approved in July of last year.

From that perspective, it is — objectively speaking — a 'lightweight' package, which is very careful to limit the spending cuts as far as possible, in order to avoid having too great an impact on the most vulnerable sectors of the population.

As regards working time, an important issue with which many other countries are having to deal — as is apparent from the recent Franco-Italian summit in Chambéry — we have proposed to present a bill to Parliament that takes the form of steering legislation. In harmony with the Delors 'White Paper' and the Rocard resolution, that bill is designed to commit the Government to seeking all forms of useful cooperation and agreement at European level, as well as to work to obtain incentives, also at Community level, so that in practice we can embark on a process with the other European partners on a reduction of working hours. The bill will establish a standing triennial conference on the issue of working time, bringing in workers, employers and the ministers most directly involved, along lines similar to the suggested French model. The Conference would be responsible for monitoring the process of reducing working hours, checking on the duration of work, the implementation of procedures and any possible problems. Every single change to working time would have to be evaluated and approved by the social partners. The bill should also confirm the 'raft' of incentives provided under the Treu package, possibly boosting it by comparison with the allocations set aside in the 1998 Finance Act. The Government is persuaded that if the incentives are effective and visibly fit for the purpose, tangible results could be obtained in terms of taking on new workers, particularly in the case of new companies and companies setting up in Southern Italy.

Finally, we could envisage introducing direct relief for national employment agreements that provide for reductions in working time directly linked to growth in employment. We could even consider making that incentivising instrument somehow progressive in the course of national collective bargaining: the more jobs created, the greater the extent of the relief, for instance.

As you see, this is a structured package of proposals that are consistent with the procedures and substance of the debate on working time that is under way in other countries as well.

When we talk of Europe, we mean development, employment, the modernisation of our country and the ability to cope with international competition, that is to say the possibility of genuinely starting to plan for our future again. We are convinced that we have the right cards in our hand, as far as the country is concerned. Only with everyone's help and a shared sense of responsibility have we been able to develop, over the past months, a policy that is tough but wise and has finally brought us back onto the right path. Our ambition now is to do a great deal more: we want to help Italy become a modern and just country in every respect. The Government and I are therefore hoping, moving beyond the current tensions, that our action will win the consensus of the majority and of Parliament.

Looking at all of you, I see not only you but the whole of the Italian people who have followed us and are regaining a voice, hope and pride. We cannot betray those hopes, nor can we turn back. We cannot — nor do we have the right to — abandon now the attainment of those objectives that we set ourselves and that this Parliament solemnly endorsed when, last July, it approved the 1997 Economic and Financial Programming Document.

What this Government cannot do, what I cannot do and what none of those who, 18 months ago, put to the electorate the platform that then led to this Government can now do, is to abandon the process of moving further along the virtuous route to economic recovery, modernisation of the country and reform of a welfare state that is fairer and more just not only for Italians today but also for their children and their children's children.