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EXECUTIVE SUMMARY of the XXIV REPORT ON THE GLOBAL ECONOMY AND ITALY

"A TIME OF GREAT UNCERTAINTY"

This *Twenty-fourth Report on the Global Economy and Italy* follows the outline based on the idea that the traditional methods of analysis of economic systems, focused on the GDP and its variations, do not provide an accurate picture of the current situation, product of globalization and the crisis afflicting it. We need to expand our horizon to include the immense global market, global finance, the multinational corporations with their global scope of action. After the attack of the Twin Towers in 2001, it became vital to take political and strategic variables into consideration as well. Any valid study of the Italian economic system and its possible evolution must therefore be preceded by a study not only of the European system but of the entire global overview in order to be reliable.

In view of all these considerations, the *Report* is traditionally divided into four sections. The *first* concerns the performance of the global economic and its main components, focusing more in depth, generally, on the United States and Europe but with possible detours into other economic areas as well; the *second* section deals on specific main topics that vary from year to year: labor, capital, multinationals, innovation, and so on, always in a global perspective. The political and strategic developments are the subject of the *third* section and it is only in the *fourth* that the focus turns to Italy; in this way, however, it can be discussed in a manner that is effectively connected to the international situation in which this country is immersed.

SECTION ONE

Climate and economy: stormy weather

National disasters with recognizable ties to climate have increased with great rapidity in the last two or three years. This might be a good place to start, from news reports that can no longer be defined as anecdotal, to have an idea of the speed and dimensions of the various «crises» that are buffeting the world: starting from the *climate disorder,* that for a very long time we neglected and never even tried to measure, acting «as if the problem didn't exist». Of course, now we have to ask ourselves how many other dimensions of our planet and our society we are neglecting at this time of general uncertainty, with risks not only to ourselves but also, and above all, to our children and grandchildren in all the generations to come. The answer must necessarily be complex, and thus contrasts with one of the illusions of our epoch, that there is a solution for everything and any problem can be reduced to a simple explanation, possibly contained in the 280 characters of a tweet transmissible via Internet, instantly and at no charge by millions of people linked to the information network. It is a widespread illusion in the world of politics and in the media, not just in Italy.

As we come up against these facile «certainties», is it good to remind ourselves of the general uncertainty in awareness of the causes of a phenomenon, whether it be natural or economic and social. Based on the little we know, the climate issue must be considered one of the most important conditions to explain the economic disorder, which burst on the scene as the Great Recession of 2008, the causes of which are still unclear to a considerable extent. We are feeling our way in the dark, or at least in a sort of twilight, and all we know is that, based on the only indicator we really have - that is the GDP or gross domestic product - economic growth has undergone a structural slowdown of which we are still unable to see the end, although we have at least succeeded to avoid disastrous relapses like those of the Thirties.

It is important to stress that the slowdown does not affect Italy alone, as too often we tend to think, with our limited tendency to consider European and global problems, although certainly the Italian disorder is one of the most obvious in the world. What is interesting, however, to a varying degree, to the entire planet or, if one prefers, to the entire global economy, although it becomes increasingly difficult to apply the adjective «global» to a world in which the restrictions on international exchanges continue to increase, is the flow of transactions that are the real backbone of this globalization. And the result of the increased restrictions is that we view them with greater clarity. The conclusions that can be drawn from the data of the Economic Outlook of the OECD published in November 2019 can, indeed, be summarized as follows: if we take account of the increase in population and the investments necessary to prevent the deterioration of the infrastructures, global growth in the period 2019-2021 will be practically null. This general conclusion spares very few countries, among which the main one is India, followed by China, which is, however, clearly slowing its progress. The slowdown of the European economy is particularly accentuated, with Italy barely able to reach 0.5 expansion in 2021 and Germany that, in the same year, would not reach 1 percent.

For the way in which its economy is structured, India will not be able to replace China as the main «engine» of economic expansion on the globe, a role that Beijing has held for well over twenty years now. The Indian economy, however, interacts with the global economy much less than the Chinese one does. Consequently, the additional stimulus, in terms of increased Indian imports, which will derive from the greater growth of the country, will not be able to offset the reduction of stimulus, in terms of the reduction of Chinese imports original forecast, resulting from the decreased Chinese growth.

In any case, China is reacting to the weakening of foreign demand, which decreased both directly and indirectly following the application of tariffs by the Americans, redirecting its production, where possible, toward domestic demand. For several years now we have watched the effect of the growth of foreign trade on the gross global product first weaken, then pick up the pace a little: the global economy seems to be undergoing something of a process of "dis-integration" –though probably not extreme.

Another "storm" has blown Into this disturbing situation, with much more lasting effects: *digitalization,* that is, a process of data translation - practically every type of information - into the «binary system», which uses only the symbols 0 and 1 rather than the ten figures of the decimal system. Digitalization, initially received with enthusiasm, is now starting to reveal frightening aspects. It seems something we are no longer able to control and that risks controlling us; it crushes us into the present, making it difficult to achieve the passages of experience and values from one generation to the next; it forces us inexorably toward conditions that we are not certain we want to be in.

We can indicate some of these changes, which all of us are called upon to reflect because, in one way or another, they involve everyone: the crisis of religions, the resentment of minorities, episodes of petty meanness, like bullying, the conflicts between the teachers and the parents of their students, road rage, and the lik

The United States: a glider rather than a locomotive

Unemployment in the U.S. stands at 3.6 percent, the lowest in history; the number of workers seeking jobs is lower than the number of jobs available (5.9 million against 7.02 million). Individual salaries also increased in 2019 (by 3 percent with respect to 2018), one point higher than the Federal Reserve's goal, which hasn't happened since 2009. It is really full employment? The conditions of the real economy are not entirely convincing. And the first not to be convinced is the Fed, to the extent that it was, in fact, in 2019 that the Fed went back on its plan to normalize monetary policy by reselling the bonds it had purchased during the crisis. It was hoped that when it started selling the prices of the 10-year bonds would go down and the yields would go up. But as it turned out, long-term yields actually dropped below the short-term yields. It is a known fact that inversion of the term premium is a warning sign of imminent recession. That is what made the Fed go back on its plans. Not to do so would have authorized recessive expectations.

2019 is confirmed as a boom year for prices and capitalization on the American stock exchange (+31 percent), but profits, which should be behind the rise in the indices, actually went down rather than up. Added to this is the fact that what profits there were, were not widespread, but concentrated. With respect to the 4,819 companies quoted on Wall Street in 1975, the stock exchange today, after a flurry of *delistings*, has only 3,766 left. Moreover, the top 30 companies quoted earned 50 percent of all the profits of the companies quoted on the market (in 1975 there were 109) and the top 100 earned 80 percent. All the other 3,666 divide the remaining 20 percent.

The new economy requires a new way of looking at the economic situation. Employment is more precarious, for example. With a rate of general unemployment at 3.6 percent, the rate of unemployment adjusted for part-time employment (one every 5 full-time jobs) and occasional employment, which also takes account of discourage workers and workers who hold two jobs, rises to 7 percent. 37 million Americans (out of 330 million) still live in poverty, 35 million shop with food stamps, 27 million have no healthcare and as many as 77 million are registered under the federal *Medicaid* program, which pays medical expenses for those whose income is inferior to 133 percent of the federal poverty line (which varies from state to state and which, in 2019, for a family of four, brought the threshold of inclusion to about 34,000 dollars). Before the crisis, only 43 million people were registered under *Medicaid*.

Considering the situation as a whole, neither the average family, nor the average worker, nor the representative enterprises saw an increase in their income in proportion to the GDP. Only the rich and the super-rich have benefited from the post -2009 growth, along with a handful of managers and professionals of the new technologies. According to Nobel prize-winner Joseph Stieglitz, 90 percent of the Americans are worse off than they were in 1975. On the other side, 1 percent of the American population with a higher income in 1980 had an annual income of 189,000 dollars; now they earn 843,000.

Trade policy is one of the mainstays of *Trumpnomics.* The way it works is simple: he tears up all the multilateral agreements to negotiate new bilateral trade agreements that give the U.S. a bigger say. There are three goals in this policy: to bring American investments back from abroad, to hinder China in its project of becoming an economic hegemony; to make the average American feel like his country is still calling the shots. Unfortunately, the results, after three years of this policy, are controversial. Rather than stimulating internal production, the tariffs depressed consumption and production everywhere in the world and are the main cause of a slowing economy worldwide (The GDP worldwide increased by only 3 percent in 2019, the lowest growth since the crisis of 2008-2009).

Even the economic policy of Trump has failed to produce the expected result. This is reflected in his loss of popularity. The Gallup poll on approval of how the President is doing in his job (46 percent right after the election) has generally trended downward and, in October 2019, it was at 41 percent. At the end of 2019, sustained by the rise of Wall Street, it went up to 45, but the average of previous presidents for the same period of their mandate (the 12th quarter) has been 52.

As regards communications from the Oval Office of the White House, tending to attribute to *Trumpnomics* the successes in employment, increased GDP, *reshoring,* and stronger Stock Exchange, these successes are rather limited, all things considered. It is not just, as we have said, that the growth of the GDP has returned to the previous average, but that the fiscal reform has actually made the future public balance more vulnerable, bringing the quotient between federal debt and GDP up to 106.7 percent (120.7 percent, almost as high as Italy, is the quotient between state and local debt).

In the collective imagination of the past century, the engine of the economy used to be compared to a locomotive. Powerful, the locomotive pulled straight ahead, drawing behind it as many cars as it could. The American economy in the 21st century no longer resembles a locomotive as much as a glider. The glider is a complex structure of lightweight materials, sophisticated and fragile. It maintains neither height nor direction, but requires the ability to exploit the winds skillfully. It no longer pulls anything behind it.

The European Union between internal tensions and geopolitical challenges

On November 28, 2019, the European parliament elected on May 26 met in Strasbourg and, with a vote of confidence, confirmed the new Commission presided over by Ursula von der Leyen, 61, a German physician born in Belgium. German and French are her two “native languages”, and she has held the office of Minister in the German national government for a total of 14 years: first Minister of the Family (2005-2009), then of Labor (2009-2013) and most recently of Defense (2013-2019).

What is the Europe that Dr. von der Leyen and her 28 commissioners are dealing with at this time? In the first place, the “center-left” - as we can call the now historical alliance between the Christian Democrats and the Social Democrats - no longer holds the absolute majority, having lost 65 seats, 8.6 percent of the total, though it continues to be the largest concentration of political power in the European parliament. The second indication is that populism, especially the right-wing variety, which is sovereignism, though it gained a few seats, did not “break through”. Finally, between "center-left" and populists, there is now a “Third Power”, consisting of Liberals and, potentially, Greens, who are changing the rules of the game, giving priority to new issues - in the sense that they support many of the demands of the populists - while remaining on the whole relatively open-minded about how to approach them. It is no coincidence that, in her inaugural speech, the new president put environmental problems at the top of the list of priorities, and have herself one hundred days to put together a plan for dealing with them, claiming the need of European coordination and internationalism on the subject. Second on her list of priorities is a “tough” position on the web and the web tax, which could distinguish the European Union from the rest of the OECD. In third place is immigration policy, on which the new Commission - still referring to the president's inaugural speech - will undertake to present an “EU Pact for Immigration” early in 2020, radically reforming the Dublin Treaty and recognizing immigration as a European problem. This pact should also include sanctions on those countries that refuse to accept migrants. There are, in short, good auspices for an evolution of the rules and a change in the policies. It is no coincidence that a week before the appointment of a German woman to the presidency of the EU Commission - to be exact, on October 20, 2019 - a French woman, Christine Lagarde, former general director of the IMF, was designated to succeed Mario Draghi as president of the ECB. It appears clear from her first speech before the European Parliament on December 2, that Lagarde plans to proceed along a line of substantial continuity with the moderately expansionist policy of Draghi: very briefly, the new president attributes the current weakness of the European market to “global factors” and declares herself in favor of significant “green” investments. She declares herself ready to use all the tools at her disposal to recover growth and a slight, but vital, inflationary trend.

SECTION TWO

Labor

A general view of data on labor at the global level indicates a relatively stable economic trend. Between 2017 and 2018, the employment rates in the OECD countries increased slightly (from 67.7 to 68.4 percent), as well as in the Euro Zone (from 66.3 to 67.3 percent), in the United States (from 70.1 to 70.7 percent) and also in Italy (from 58 to 58.5 percent), according to a trend that is once again coherent with the long-term tendency.

Why, then, does employment continue to be at the head of the list of general worries? One answer comes from a more in-depth look at statistics like the rate of under-employment, a new indicator that, in addition to the unemployed, also considers inactive people who are willing to work and people employed in part-time or involuntary reduced-time jobs. At the beginning of 2018 the rate of under-employment was twice as high as unemployment in the U.S. (8.1 percent vs. 4.2 percent) and in the Euro Zone (16.6 percent vs. 8.1 percent) and more than twice as high in Italy (25.3 percent vs. 11.2 percent), values which indicate a critical situation regarding the quality of employment that has been generated since the Great Recession.

Another reason why more detailed study appears advisable concerns the distribution of the new employment, which is very different from what it was in the past. In its latest edition, the *Report on the Global Economy* devotes considerable attention to the processes of diversity and of concentration that characterize the contemporary economic model, highlighting the reduction of the portion of income attributed to labor and the "polarization of employment", which favors specialized trades requiring highly qualified personnel over the more intermediate levels.

Similar processes are observable also at the geographical level. A large proportion of the new jobs generated in the last decades have been concentrated in the "capital regions", i.e. sectors that gravitate around the main urban centers. In Italy, for example, over 70% of additional employment generated at the regional level between 2011 and 2016 is concentrated in Lazio and Lombardy, i.e. around Milan and Rome.

Another question derives from the statistics on productivity, the progress of which has been halved since 2007, compared with the preceding decade (in the OECD countries from 2.3 to 1.2 percent annually), with inevitable repercussions on wages, which have also grown much less (from 2.2 to 1.2 percent annually), a negative trend mitigated only by an equally limited increase of inflation.

On the whole, the picture appears - to use the adjective that characterizes the 2020 Report - "uncertain". The interpretation provided by the most authoritative observers, however, is that these data do not denote a transitory stage, but rather a new configuration of the labor market to which the different economic, institutional and intellectual stakeholders have trouble adapting.

A number of factors of change are outgrowths of this complex situation, and they will represent the unavoidable challenges of the future.

The most significant of these is the *inexorable march of robotics.* According to the International Robotics Federation, in 2017, 381,000 industrial robots were products, almost five times as many as in 2009, while the OECD estimates that the intensity of capital in the form of digital technologies per hour worked in the last twenty years has tripled in France and Italy, quadrupled in Spain, quintupled in Germany and the UK and has almost sextupled in the U.S.

What the effects of the *digital transformation* could be on employment is still a matter of conjecture, although most of the changes already described seem to be connected to this circumstance in various ways. A pertinent response comes from the Eurofund of Dublin, where a first specifically economic model of the occupational impact of mass robotization has been published. The results theorize a net occupational balance of -10 percent in the EU and -9 percent in the U.S., values that could be mitigated by actions of remodulation of job hours. It remains to be seen whether these "prophecies" will come to be. As in the past, it could happen that economic growth becomes sufficiently intense to reduce the unemployment and under-employment created by the new technologies.

The growth prospects remain uncertain, however, in light of two other imponderable transformative factors: climate change - the economic and employment costs of which, both in terms of adaptation and of containment, appear difficult to predict due to the lack of shared and structural strategies; and the trade war, undertaken by Donald Trump.

Capital

In the field of financial economics, there are three aspects that have to be considered. The first is the dynamics of globalization: whether it is running out of steam, slowing down or changing character. The second is the absolute and relative growth of profits on the part of companies quoted on the stock exchanges, primarily in the U.S., the stock market of reference. The third is the dynamics of rates and yields.

The process of globalization is slowing. One explanation for this is that the role of the manufacturing industry, predominant in the early stages of development, has decreased in importance with time in favor of services which are, by their nature, generally less international. A second explanation is the spread of automation, that makes the cost of labor less of a factor in the total cost of a product. This decreases the competitiveness of countries with low salaries, as well as the investment flows that move in their direction.

Regarding business profits - in particular the profits of quoted companies, especially in the U.S. - these are concentrating in a few sector and a few businesses.

Finally, the cost of money should remain - based on the declarations of the central banks - low in the future. The advantage of low rates and yields is the lower cost of financing both the public debt and that of the families. The disadvantage is the survival of inefficient businesses, those that are unable to pay "normal" interest rates, and the enormous growth of debt of lesser or low quality which, one day, with the return of interest rates to "normal" levels, would become very risky.

The picture worldwide with regard to the banks is highly variegated, at a time characterized by often widely different economic performance, significant technological evolution and an innovation of relations with the clientele that is affecting every sector and certainly cannot fail to involve the world of finance.

This, while in Europe the banks find it difficult to generate income, in the U.S. the first half of 2019 for the giant American banks brought rich profits. With the complicity of higher interest rates and more conspicuous commission margins, in the last year the American banks were able to earn profits that can be considered in line with the capital gains that the investors demand.

And while the American banks were the most profitable, we should note that the Chinese banks are the largest and those of several Asian countries like Singapore are the most innovative.

What about the European banks?

As the ECB pointed out in identifying its priorities for 2020, there are at least two key issues: to continue the process of repair and restoration of assets and to reinforce the sustainability of the business models, so as to guarantee their ability to generate income also in the future.

The new faces of the capitalist system

As a counterpoint to the troubled international situation of capital and labor, described in the two preceding paragraphs, there is the uncertainty and instability of capitalism as a productive system, which has become greatly accentuated in recent times. The traditional divisions into sectors are showing cracks and not only the "network economy" is insinuating itself into practically every production sector, but the "digital giants" have escaped from their "sectorial cage" and are invading the widest range of activities, from industry to distribution and finance. The novel aspects of the productive system are having repercussions, at a speed that is perhaps unprecedented in history, on the lifestyles - and in particular on consumption - of more than half the world's population. In their extraordinary expansion, the "digital giants" are inevitably clashing with public power and society as a whole, both in the advanced countries and in the developing world, where there are still vast areas of extreme poverty.

A new world is taking shape, perhaps the preview of a radically new future. The first clear example is the distribution over vast areas of the users of Internet. The table shows clearly that, due to the combined effect of the demographic dynamics and the dynamics of income, about half the users of Internet are located in Asia, while North America, Europe and Australia do not arrive together at 25 percent of the world total. These two percentages are likely to change, however, the first to rise and the second to fall.

The statistics of the very rapid evolution of Africa in this respect are still not as clear. Internet connections are still particularly important due to the lack of roads, railways and landline telephone systems. It is clear why the "center" of Internet, if we can speak of a center, tends to move toward Asia and why Asian operators are competing with those of the western world.

The interaction between the large technological enterprises and the economic policies leads governments to actions that are already not isolated and extemporaneous but rather concerted, the only ones that can really alter the policy of the income tax declarations of the multinationals (not only in the internet sector, but also of many large companies in "normal" sectors). The world appears to be swept by waves of fundamental innovation one after another (first the giant computers that seem almost "prehistorical" to us, then the "personal computer", followed by the "tablet", all the way to the "internet of things" and the "lateral" flurries that spread the new technologies in the various sectors with the sharing of property that was once personal (cars, homes), new payment systems, distribution via internet and so on. All this creates social pressures and it is unlikely that mankind will be able to adapt so quickly.

SECTION THREE - Continents undergoing restructuring

T*rump-Putin, an unfathomable relationship*

The international crisis driven by the United States continues (and in many ways grows more serious) with a gradual withdrawal of that country behind the great "American fortress", from which it emerges periodically in defense of its perimeter, with uncertain geopolitical logic and dubious success. That there is growing uncertainty about the current American political strategy - that often bursts into open dissent within the administration itself - , is apparent from the continuous change of the top leaders: in less than three years over 50 highly placed officials have been fired or have resigned, including general, defense ministers, UN representatives, special counselors and the leaders of the secret services.

The state of public opinion in American also makes it clear that the upcoming presidential elections will be more complicated than usual. Donald Trump has consolidated his consent at about 40 percent - but it is over 90 percent among the Republican electors - around the narrative of a man alone against the "swamp" of Washington and the intrigues of the elites, who are trying to defraud the people of their electoral choice. In order to be re-elected, however, he needs to expand his base of consent.

One of the tools he is using for this purpose - the one for which he risks *impeachment* - is a sort of "counter-investigation" on Russian interference: i.e. an attempt to prove a conspiracy against him, determined to "make up" evidence of Russian interference which he claims was organized during the electoral campaign of 2016 by the Obama administration, with the cooperation of the allied countries, the first of these being Ukraine. This counter-investigation has involved Italy and the UK in addition to Ukraine, and Prime Minister Boris Johnson decided to take a strong position on Trump's side before and after the British political elections of December 2019: understandably, considering that the exit of Great Britain from the EU on positions of sharp disagreement would be much more manageable in the eyes of the American government, whose willingness to stipulate a trade agreement with him in the shortest possible time was dramatically essential.

Still on the subject of foreign policy, there is another possible tool, even more dangerous, to recover consent: the well-known method used more than once by authoritarian regimes: starting a war to unite the population against the foreign enemy. This could possibly have been the motive behind another event that took place this past fall 2019: the military operation decided by the Turkish leader Recep Tayyip Erdogan (agreed, it seems, after a telephone call with Donald Trump) in attempting to create a "buffer zone" on the northeastern frontier between Syria and Turkey, "liberated" by the militia and by the Kurdish population.

Washington leaves and China steps in

The Trump administration appears increasingly capricious when it comes to the important choices of international policy, so that one tends to doubt there is any real strategic thinking behind its moves. In this situation of general uncertainty, two main objectives seem to guide the actions of the U.S. president.

The first, to hold back the possible rise of the new global power, China, creating every possible difficulty in the most politically sensitive regions that aspire to independence (Taiwan, Hong Kong, Xinjiang, Tibet), slowing its economic growth by means of trade “wars” and prohibiting the export of American technology and increasing the pressure for an in-depth revision of its political and economic system, almost a partial regime change, insofar as it is illiberal and creator of distortions in international exchanges.

His second priority is to reduce Russia to a second-class power, though one that possesses a considerable strategic arsenal (atomic warheads and intercontinental ballistic missiles). This he achieved by breaking strategic arms and missile treaties relative to the European theater in order to trigger a rearmament race that Moscow would have enormous difficulty sustaining on the economic plane (and probably on the political and social plane as well), causing a collapse similar to what the Reagan administration achieved with the USSR in the Eighties, thanks to its so-called “Star Wars”. But it is not at all clear that a new collapse of Russia would not benefit Beijing even more than Washington.

A collateral goal of dismantling the arms agreements would be the involvement of China in any future negotiations. Beijing has no intention (nor any advantage, at least for now) of participating.

Europe, in this international context, continues to be effectively absent. The most obvious evidence of this is its failed attempt to separate itself from the U.S. during the Iran crisis, which would have required it to acknowledge its own political and economic responsibilities. But Brussels showed that it did not have the political power necessary to safeguard its independent relationship with Teheran, by preserving the treaty for the control of Iranian nuclear policy (JCPOA) denounced by the Americans. Another element of weakness is the inability to find a basis of common interests in the Libyan crisis, where two external stakeholders (Russia and Turkey) seem to be able to decide the fate of the country, and have pushed the EU out. Last but not least, the abandonment of the EU by Great Britain, while it finally settles a situation verging on the grotesque, after over three years of failed negotiations over the mode of detachment, leaves everyone weaker, both those who left and those who remain, especially from a political standpoint.

A final block to the European dream of increasing its political independence from the U.S. derives from its inability to achieve military integration: it seems fine with staying under the protective umbrella of NATO (also for fear of Russian aggression), even though this has been shown year after year to be a predominantly American political and economic tool, rather than an alliance among equals.

The Middle East remains mired in conflict

The precarious power balances we have described can collapse, starting from the Middle East where the American pressure to destroy the Iranian regime has reached its peak. But Teheran does not appear ready to surrender, and continues to react to the increasing economic sanctions, going toe to toe with its attacker (shooting down an American drone; resumption of uranium enrichment; probable attacks on several oil tankers in the Persian Gulf; spectacular attack by air - formally carried out by pro-Iranian Yemenite rebels - on several of the largest oil extraction facilities in Saudi Arabia, the main ally of the U.S. and arch-enemy of Iran).

The Syrian conflict continues to rage, while Russian and the Assad regime slowly erode the last-ditch resistance of the anti-government rebels. No political solution seems to be in sight: will the country be divided? Increasing Iranian influence (which Israel would combat by any means)? Or a larger Russian role (acceptable to Israel and, in part by Ankara, but probably not by Washington)? Above all, the strength of the Turkish-Russian agreement has to be assessed with regard to its anti-Kurdish function and the role that the residual American troops (6-800 men), repeatedly withdrawn and then returned to the field, intend to play in favor of the Syrian Kurds. While ISIS, despite having lost its caliph al Baghdadi and officially defeated, is still capable of carrying out isolated strikes in Syria and Iraq.

Equally unresolved are the Yemenite and Libyan crises. In the former case, the pressure of pro-Iranian Houthi rebels has led to a substantial halt of the military operations of the coalition between Saudi Arabia and the United Emirates; in the latter case, the strong threat of military intervention in the conflict by Turkey has reopened the game.
The prospect of a Russo-Turkish pact for an effective division of Libya is one which Europe, out of weakness and lack of vision, will probably have to resign itself to.
The American plan for redrawing the regional balances of the entire Middle East is finally becoming clear, starting from the economics of it. But the enormous amount of money mobilized (50 billion dollars for 179 main projects) does not seem able to make the Palestinians surrender on the political plane. They will pay a higher price, however, on finding their right to their own country officially denied.
In Afghanistan, the pro-American government appears on the verge of collapsing: the repeated meetings at Doha between the Taliban and the U.S. have made it clear that the guerrilla forces are now ready to seize power. It remains to be seen how the U.S. will react to the debacle: it is the clear failure of 18 years of military intervention, which has cost more than a thousand billion dollars, and it is possible that the Afghan territory will become the new rearguard of the defeated Caliphate (while preventing al Qaida from having its own "sanctuary state" had been the official reason for the American invasion).
The American challenge to China is inevitably accentuating the instability of the entire Asian continent. While a sort of "restraining belt", created by Washington holds Japan, South Korea, Australia, Vietnam, Indonesia and India in its grip, a significant group of countries, all attracted by the enormous economic resources displayed in China's *Belt and Road Initiative* are ready to align their interests with those of Beijing (including Pakistan, several of the members of the ASEAN, Sri Lanka and various island states of the Pacific).

SECTION FOUR

Italy, between politics and economy

The U.S. stands out on the 10-year balance sheet of the recovery, as the most dynamic of the large, developed countries. Its GDP has increased by 25 percent, which is equivalent to a little more than 2 percent on average per year. In Europe, the champion of growth is Germany, whose GDP has grown by 21 percentage points since 2009, for an average annual expansion of around 1.9 percent. France's growth was not as strong as that of Germany: 14 percent in ten years, equivalent to a positive annual average of just 1.3 percent, or almost zero per inhabitant. Italy, following the great recession, has grown by only 2 percent in the decade (less than 0.2 percent per year), due to at least two factors: the relapse into recession in 2013 (the same thing happened in Spain) and the persistent tendency, even in good times, never to exceed low rates of growth of its GDP, forced to march in slow, almost imperceptible, motion.
2017 and 2018 were characterized by a current foreign trade balance that was unusually positive (at 2.8 and 2.5 percent of GDP, respectively). Before the crisis, in 2008, the current balance of payment was negative on levels around -3 percent: the Italian economy persisted in consuming beyond its means and producing less than it needed to balance its accounts abroad. Ten years later, the current balance of payments has become strongly positive: the Italian economy sells abroad over 5 percentage points of the GDP more than before, what's more with a better exchange rate thanks to the contribution of a qualitative improvement. The five points of improvement of the current balance of foreign trade are responsible for an increase of the GDP that jumped toward 2 percent at the beginning of 2018. The sector to which this progress is mainly attributable is manufacturing.
When we come to the beginning of 2018, however, the parabola of growth of the GDP touches it apex precociously and yields slightly before breaking the 2 percent barrier again. The fall is sudden and dashes hopes for the definitive turn toward a growth trend. On March 8, 2018, Donald J. Trump signed the decree that raised tariffs on steel and

aluminum at 25 and 10 percent, accelerating the neo-protectionist strategy that would cast a chill over the entire world economy. The contagion reaches countries that are fundamental for Italian exports, like Germany. For Italy, this is reflected immediately in the reduction of industrial production, and as the GDP engine grinds to a halt, growth returning once again to hover just above zero.

It is not a situation in which the Italian economy can continue for long periods without risk. No growth over a prolonged period complicates Italy's ability to sustain the public debt, as the costs for the *welfare state* necessary and consequent to the demographic changes, i.e. the aging of the population.

A certain change of pace, almost a skid, came about the following year, as can be seen from an observation of the rates of variation of the value added (a measurement that affected the GDP) in the main sectors of the economy. The previous year, in fact, all the sectors except finance had shown an increase in the value added in real terms. Only finance had a negative variation, mainly due to the paradigmatic change in progress, particularly the digital revolution of the distribution sector of financial services and payments.

In 2019 that situation changed. One sector out of two showed a decrease in the relative value added. The manufacturing industry (-1.1 percent) reported what was perhaps the notable negative variation, since the production of manufactured goods for export had been responsible for the previous recovery. Still in 2019, the increase of value added in trade dropped to practically nothing, while until 2018 it had been the sector in which two thirds of new jobs were created. In this sector there was an acceleration of e-commerce, which brought about a replacement between labor and capital and revolutionized the income from work and employment in the sector.

The third sector that contributed with its negative variation (-2.3 percent) to lower the Italian GDP in 2019 was that of services (other than public and commercial services). This is an extremely diversified sector, which includes professionals, research and development, with rates that range from medium to high, as well as services with lesser value added, like cleaning and maintenance. The downward trend of this sector followed the stagnation of 2018 and this seems due to something more fundamental than the mere variation of the economic situation. Digitalization was, in fact, arriving in that sector as well: one thinks of the dematerialization of administrative documentation in the companies, the optimization of service flows thanks to the forecast of peaks of demand and the robotization of middle- and back-office processes of enterprises in this sector.

The most significant cause of the lack of long-term growth is the "downturn of net investments". What caused that? Considering a sufficiently long period of time to appreciate structural variations, from the beginning of 2000 to the present, total net savings (that is, the sum of the savings of families, businesses and the public sector) dropped from 6 percent to 3.3 percent of the GDP, which means that *the total space for new investments, the kind that increase the potential GDP, was halved.* At least, if that 3.3 percent was entirely invested. But that is not what happened. The six points of net savings in 2000 went almost entirely into investments and, in most cases, these were productive investments. The subsequent crisis changed the behavior of the investors, inducing many to become more wary. Indeed, at the end of the period considered, the difference between net savings (3.3 percent of GDP) and net investments (0.3 percent of GDP) was shocking, and forces us to conclude that not only the system generated fewer investment-worthy resources, but it did not even invest in those it generated. Annually, with respect to 2000, about 54 billion of potential investments are no longer being made. The Italians keep their money in their pockets, possibly in cash, awaiting better times. The performance of financial stocks confirms this. Since 2013 there has been a growth of deposits on the order of 4 percent per year, *but zero-growth of loans to the clientele of non-financial enterprises.* This is the financial expression of an "investors' strike", i.e. the inability of the Italian system to invest what it saves, even if less than before.

The causes of the investors' strike are not all negative. The problem does not seem to be simply a diminished appetite for domestic investment, possibly offset by more foreign investment. In part, the new economy 4.0 involves a shift of interest of the investors toward intangible investments. In the effervescent digital economy, traditional investments in capital goods are replaced by intangible investments, whose value is not calculable a priori. The program instruction for the realization of artificial intelligence are only valid depending on the use, and their real value can be known only using it, and much later than when the investment was programmed.

The "liquid" condition of intangible investments caused them to be undervalued, almost certainly, and accounted for in the financial statements of the companies, for which the real value could possibly be better than its statistical representation, but also worse, depending on which or not the right intangible investments are made. However, we will be able to perform better calculations only when we are able to see how these largely digital investments performed in the first years .

A second consideration on the “investors’ strike”, in this case related to the increasing dematerialization of investments, is that the decision on new investments is geographically fluid. The intangible intensity of new investments causes a sort of "ultramobility" of capital at the geographic level. In the first fifty years of globalization, investing abroad was not easy, because it required the physical delocalization of plants and establishments that amortized over a period of decades. Those who make intangible investments choose their location, however, without having to move tons of steel and concrete, but just “traveling” across the nodes of internet, and having a goal of return much shorter than in the past. There are many factors that indicate the best direction in which to channel digital investments, but one variable summarizes them all: the growth of the total factor productivity (TFP). Total factor productivity is that little extra that a productive system realizes, given a certain input of productive factors, beyond what the current technology permits. It is the unforeseeable but concrete result of complete and modern infrastructures, a rapid, efficient bureaucracy, correct public decisions and stability of the rules and policies.

According to the data, the correlation between the rate of growth of the TFP and the rate of investments is stable and robust, to the point that the ratio between the two is worth 3, in other words the investments, *ceteris paribus,* grow three times the increase of the TFP.

In Italy the dynamic of the total productivity factors was actually negative between 2000 and 2009 has been neutral or moderately positive only since 2010, which has strengthened the investors’ strike tendency at both the local and foreign level in Italy, in a context characterized by the ultramobility of capital.

During 2019 the improvement of the quality of the banks’ assets continued, a process that began in 2015. The impaired exposures in the financial statements of the banks decreased from 341 billion Euro in 2015 to 180 billion Euro at the end of 2018, and down to 165 billion Euro in the first half of 2019 (in gross terms). In spite of this, non-performing loans are still an important issue for the banking system, and another issue that is acquiring particular gravity is that of so-called "Unlikely to Pay" (Utp) loans.

The markets, however, do not only fear the risks still present in the banks’ financial statements, but also the reduced profitability that has marked recent years, in which the operators have been unable to earn profits sufficient to repay the cost of the capital invested. The average ROE (Return on Equity, or yield of capital) at the European level is 6.8%, below the yield expected by the investors; in Italy it is 7.9% and only exceeds 10% in nine countries. Profitability can be sustained, at a time of changing business models, through efficient operation, which applies considerable leverage on new technologies and the opportunities of digitalization.

In short, the "tilt of the GDP" is not a product of the crisis, but was generated well before, with the fall of the total factor productivity. With the crisis, however, many things changed. Net savings have gone down by half, and they are the pool from which net investments are drawn. In addition, after restructuring the economy, the net investment potential of about 50 billion is not realized, but allocated.

Recovering from the crisis is not impossible, but we should no longer count only on the force of the foreign markets to drive the economy, because factors independent of Italy can arrest its growth, or at least slow it. What is necessary, instead, is to count more on the endogenous ability to convince Italian investors and attract foreign investors, improving the total factor productivity, which is also, in turn, dependent of the physical infrastructural capital, on technical progress, on human capital and on social capital.

In each of these sectors, Italy continue to travel with the brakes on. *Public expenditure in the capital account has been decreasing since 2000* because most of the cuts in total public spending went in that direction, taking it from 5 to 3 percent of the GDP, continuing to a situation of visible deterioration of the infrastructures. In the field of human capital, Italy produces only 113,000 graduates in scientific and technological subject annually (2012), fewer than the STEM graduates in Poland and Mexico (156mila) and South Korea (144mila) and only a few more than the 90,000 in Spain. The benefits of technical progress derive from the expenditure for research and development, but in Italy it amounts to 1.36 percent of the GDP, against an average of almost twice as much (2.4 percent) of the OECD member countries.

At the heart of Italy's difficulties, in addition to the contextual element, there is also, and perhaps above all a problem of confidence. If acting on the context is beyond the capacity of a single country, recreating confidence is a domestic problem, however, and one that can and must be faced. Identifying causes without suggesting remedies only serves to increase frustration and feelings of powerlessness. What we need is to gain awareness of the most urgent action, and proceed in consequence. Stimulating public investments should be the priority of any government, more than struggling to find resources so as to fill the budget proposals with more promises destined not to be fulfilled or achieved too slowly.

Something similar applies to the business system: our legislators need to identify and implement tools that, on the one hand, encourage them to grow in size, rather than penalizing them and, on the other, support the passage toward businesses with higher value added. The vitality of Italy’s exports and the resilience of the manufacturing sector are strong points on which to apply leverage, also in a framework of opportunities offered for the transition to “green”, starting from the automobile industry. Support technological transition with adequate public tools we can and we must - and the European funds, if properly used, would serve very well for that purpose.

A separate but similar reasoning can be made as regards the difficulties of Italian families and individuals. There is solidity - and solidarity - in many if not all of the Italian regions. There is a social fabric capable not only of asking questions but also of trying to give answer, often effectively, to the new social needs emerging from the demographic and productive transformations of our time. Almost always, these answers are framed in terms of models of “virtuous” cooperation between local public organizations, business, subjects of the third sector and volunteers. A government that sets itself the goal of learning from what has worked could do much to improve the quality of social spending, ensuring that the resources reach those who need them.

In other words, it is time to accept the inevitability of change without simply experiencing it passively, in fear and anger. If the world of politics will undertake seriously to speak the language of realism and knowledge of the fact, and will apply leverage to the skills and desire to do good that exists in so many companies and so many people, the outlook could improve sooner than we think, and the clouds turn from gray to rosy again.