

primary current expenditure has risen by an average of one percentage point more per year than GDP. Its ratio to GDP has reached 40 per cent, comparable to the highest post-war levels.

The expenditure mechanisms need to be changed. In 2006 primary current expenditure still grew by 3.6 per cent, compared with the Government's budget forecast of 1.1 per cent. There is scope for saving in all the major items of the budget; the revision of expenditure programmes that the Government has commenced goes in the right direction. Redistributive policies also need to be subject to a cost-benefit analysis.

A lasting adjustment requires action on the **pension system.** Life expectancy continues to rise and the number of Italians of working age to diminish; meanwhile, the employment rate is the lowest in the euro area. It is necessary to raise the average effective retirement age over time, not least in order to maintain an adequate level of benefit. The architecture of the system introduced in 1995 must be applied. Close correlation between an individual's pension contributions and benefits reduces the distortions in levies and disparities of treatment between different categories of worker, and permits flexibility in the choice of retirement age. Rigorous and prompt application of the adjustment mechanisms envisaged by the current legislation is essential.

But it will not be possible to return the system to a sustainable path and at the same time guarantee workers adequate pensions without a rapid and resolute launch of supplementary pension provision, which is still underdeveloped. The returns on investments in supplementary pension plans are likely to be better than those on severance pay funds, and further advantages derive from the additional contributions from employers and favourable tax treatment. The decision to bring forward the introduction of implied consent for the assignment of accruing severance pay to supplementary pension funds to 2007 and the new forms of flexibility in the use of accumulated savings move in the right direction. However, in many cases enrolment in supplementary funds is being discouraged by the excessive fees charged to savers; little of the benefit of the economies of scale generated by the growth of pension fund assets has materialized so far. Competition must increase; fees are insufficiently transparent and the restrictions on portability are excessive. The limits on the transferability of employers' contributions need to be reconsidered. Information must be improved: if workers are not fully acquainted with the facts of the public pension that they will receive in the future, they are not in a position to make informed decisions. Supplementary pension plans need to be extended to public employees as soon as possible.

Without prejudice to the stability of the public finances, and given that overall contributions to the public pension system equal 33 per cent of wages, by far the highest rate among the major European countries, thought should also be given to permitting individual employees to make voluntary allocations of a limited portion of their public pension contributions to supplementary pension schemes.

### *The financial industry and the capital markets*

Italian open-end investment funds, which had 17 per cent of Italian households' savings under management in 1999, now have barely 7 per cent. The outflow of resources, which is still influenced by tax disparities, has gathered pace lately, and in the last three years amounted to almost €100 billion. The presence of foreign funds has grown as a result of distribution agreements with Italian banks, while Italian banking groups have moved part of their operations abroad.

Asset management strategies are still subordinated in large part to those of the controlling companies. Reducing the conflict of interest inherent in the cross-shareholdings with banks and insurance companies and the consolidation of asset management companies are vital for the growth of the industry. As I have already had occasion to remark, an open architecture and a clear separation between companies and between owners benefit bank shareholders and fund clients alike.

The presence of private equity in Italy is growing, although the volume of transactions remains far below that of the other main European countries. Between 2003 and 2006 the number of Italian management companies rose from 26 to 49 and funds' financial resources from €3 billion to €6 billion. Above all, the growth is among companies not belonging to banking or insurance groups; in 2006 they accounted for more than half the total resources invested.

Intermediaries specializing in the provision of equity capital can foster the growth of small and medium-sized enterprises, contribute to strengthening management, facilitate listing on the stock exchange and accompany generational changeover. Family ownership is a pillar of Italian capitalism; the entrepreneur's sense of identification with his enterprise is a driving force of growth. Precisely for this reason it is important to have the means of facilitating a changeover when this is necessary. When family owners lose their taste for creative risk, when the wealth invested in the business begins to be seen only