Opening Speech

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"Towards a Sustainable Future: The Role of Long Term Investment"[1]

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Ladies and gentlemen,

We are going to have two very dense and interesting days of discussion.

We move from a very firm conviction: that the issue of long-term investments is crucial for the future of the world economy and for the future of the human wealth and civilization. A long-term vision necessarily involves a policy of strategic public, private and private/public investments in infrastructure, energy, science, technology, human and social capital. This is true, in particular, for those projects which have strong "positive externalities" for a balanced and sustainable growth and for the prosperity of the human society as a whole. They may play a positive role in bringing stability to the financial markets.

The financial crisis is having a significant impact on the public finance of most countries throughout the world. C0nsidering the 33 advanced economies as defined by the *World Economic Outlook*, in 2009 the budget deficit averaged about 9 per cent, up from only 1 per cent in 2oo7. The level of public debt/GDP ratio of G-7 countries soared to post-war levels. For the "advanced economies" within the G-20, this ratio peaked to 102% in 2009 and is expected to reach 122% in 2014, while the public debt of the emerging countries should remain broadly stable at much lower levels.

This means that in the coming decades there will be not only profound structural transformations in the flow of savings and goods as part of market globalisation, but also, there will be a revision - a substantive shift in the paradigm - of the theory and practice of global

[1] Edoardo Reviglio, Head of CDP R&S Department, remarkably contributed to the drafting of this speech.

[2] Conference organized by Cassa Depositi e Prestiti, on behalf of Long Term Investors' Club, OECD and the Italian Ministry for Economy end Finance

monetary economy as we have known it until now. The contrast between the old and new worlds will be starker. The old world, rich and powerful, is aging and falling further into debt. The new world, still weak and poor, is young, with little debt, and is expanding rapidly: therefore the new world has greater potential to accumulate savings. Where will those flows of savings go over the next 20 or 30 years? What reserve currency will the central banks of the world's countries choose? What government securities will the new Chinese, Indian, Brazilian and Russian middle classes select for their portfolios? At the moment, about 80% of financial savings are held by Western countries. But the financial assets of the emerging countries are expanding at a very rapid rate (2 or 3 times the GDP growth). Over the long term, enormous structural changes – global imbalances - are to be expected.

The scenario just outlined poses many difficult questions. Should a "massive" rebalancing of the monetary flows from the old world to the new world be expected? Will the old world accept slow inexorable decline without reacting or, as it has always done in the past, will it decide to take action once again (I hope not militarily)? Could the mighty giants of world capitalism decide to administer a massive dose of inflation to reduce the burden of debt, bringing on serious risk of triggering "new ideological insanities" – thereby wreaking grave social harm and havoc? Will the ECB and the Federal Reserve simply sit back and let this ill-omened scenario happen? Can conflicting interests be reconciled through a system of "world economic governance," capable of implementing major, long-term policies for environmental, social, demographic, commercial and monetary sustainability?

First of all, we must consider the possible ways of extricating ourselves from the "new fiscal crisis of the governments" at least of the leading G-20 advanced economies government. The sudden increase in public debt, now induced, is without precedent, in Western history, excepting periods of war.

Most advanced economies need to lower their deficits and their debt substantially. Some are already experiencing strong financial market pressure to do so. According to IMF, 10 to 15 years of fiscal adjustment are needed to return to pre-crisis levels of public debt. What risks might this difficult adjustment engender? Moreover, in the coming years the advanced economies will have to face the negative effects of low growth rates and the increasing costs of the welfare state, in a society which supports a growing population of ageing citizens.

The problem therefore is "structural" not just cyclical. Restoring sustainable debt over the medium term will be indeed a very challenging task.

Strong inflation could reduce public debt. But it is known that high inflation seriously distorts the allocation of resources, reduces the growth rate, hits the poorest citizens, creates social and political instability. Moreover, once unleashed, inflation is hard to contain. Then, price stability must be maintained and Central Banks should work to ensure it.

Major cuts in public spending are necessary, but politically difficult. In the long term they may seriously jeopardize the Governments' political consensus. The recent events in France and the UK are just a first worrisome sign of the potential social tensions that fiscal adjustment may provoke in the future.

Together with relevant but sustainable cuts in public spending, increasing the average rate of GDP growth is then the most desirable solution to reduce public debt to GDP ratios.

It is not easy to achieve. Reforms to liberalize markets, boost competition and cut regulatory burdens are always necessary, but, alone, have shown not to be able to achieve the desired results as yet.

A further demand-side boost for the economy, like to the one recently enacted by the United States and Chinese governments, could represent an important part of the solution. Increasing investment is always crucial to foster economic growth. During the so called "Golden Age" (1950-1973) annual growth rates in Europe exceeded 5%. Public debts levels - stationary under 50% of GDP - were highly sustainable. Such strong rates of growth were possible thanks to very high level of investments in infrastructure. Investments in green economy may play the same role in the next decades.

Moreover, investment in strategic sectors – like infrastructures, research and technological innovation, environment, alternative energy sourcing, biotechnologies – could enhance competitiveness and productivity. These are all sectors which themselves may yield high investment returns, stimulate follow-on investment and, as a result, create growth and jobs. Furthermore, these kinds of investments should play a central role in shifting world growth, increasing the quota based on "public and common goods" (which generally reduce CO_2 emissions) and decreasing the quota produced by "consumer goods" (which generally increase CO_2 emissions).

Therefore: the most desirable solution to reduce public debt to GDP ratios and restore fiscal stability is to increase the average growth rate; a feasible way to stimulate growth is to channel major flows of long-term capital in regional and cross-border initiatives, with strong positive externalities for the economic system and social cohesion.

But, where do we get the resources to finance such ambitious program of long term strategic investments? Increased public debts and deficits imply that – in most advanced countries - government spending cannot, under actual macroeconomic conditions, provide the desired level of investment. It is clear, for instance, that the European countries will not be able to finance such investments mainly with their own budget resources as high growth and low public debt countries (such as China, Korea, Russia, Australia) can do (and decided to do). Therefore, Europe, should enact policies to raise (to attract) capital from the private sector and from extra European public and private sectors for financing European strategic investments.

Historically Europe has high household savings rates. The European household savings may be a very important asset. Moving forward, the world's financial markets will likely show an extraordinary growth in the quantity of savings of emerging economies. During the recent crisis, there has been a marked intensification of competition for funds by governments of economically-advanced countries seeking to finance swelling public debt. In this competition, sound, socially-cohesive economies boasting achievements in technology and environmental stewardship will have the advantage, inspiring global investors' confidence and so attracting resources. In this context, the broad support for a sound and stable euro will play to the EU's favor, in addition to its solid reputation as a reliable economic area, partly a result of the Stability and Growth Pact and the ECB's rigorous anti-inflation policy.

However the demand for infrastructure, energy, climate change, strategic and urban infrastructure is very large all over the world, and we expect that it will grow rapidly in the next years. For instance, the overall cost of the Trans-European Transport Network (TEN-T) still to be financed has been assessed at around 500 billion euro by 2020. The overall cost of the European investments in Energy and Climate Change is estimated in over 2,500 billion by 2020. To finance such an ambitious program the EU needs to increase its capability to attract long-term private and public-private capital from global markets. The EU should bolster the euro's leverage, using a better combination of long-term capital and debt instruments (such as EU equity funds, project bonds and common guarantee schemes) issued by large European funds and other similar long-term public and private financial institutions and investors. The implementation of the strategic projects foreseen by the Lisbon Agenda will require the establishment of European Joint Undertakings, raising capital in industrial and financial environments. These actions, eventually together with the issuance of European Sovereign Debt securities, will also strengthen the alliance of European peoples and secure the political cohesion of the Union.

Yet, the real crucial issue is not how to attract foreign capital to Europe, but, in a larger vision, how to attract capital for financing strategic long-term investment all over the world, rebalancing the drift towards financial short-term investment. A new regulatory framework - more friendly with long term investment or, at least, not discriminatory against it - is also needed. It should involve accounting standards, prudential principles, corporate governance' rules, as well as new rules and incentives for PPPs and PFIs, and "ad hoc" systems of fiscal incentives, as proposed by the de Larosière Group Report on Financial Regulation and Supervision and, very recently, by the Eurofi Conference held in Brussels in September and by four European Long Term Investors (EIB, KfW, CDC and CDP) with a paper presented to the EU Commissioner Michel Barnier on September 30th.

In the very recent New York Conference on SWFs and other Long-term Investors, Augustin de Romanet announced that these proposals will be supported by the French Government and will be included in the G20 Agenda of the next French Presidency. The Italian Government shares the same opinion: in fact, without substantial changes in prudential, accounting and tax regulations, the objectives set in the EU 2020 Strategy and in the Mario Monti report on the Internal Market strategy could not be reached.

Some of these rules are in the hands of politics. Others are only partly in the hands of politics, since a complex system of contrasting interests and organizations is at work, as for Basel III and the International Accounting Standard. Of course, the technical rules must be developed by specialized independent organizations. But the general framework of rules and objectives to guarantee common goods and public interest is a task of political authorities .

After a long phase were finance and economy were setting the rules of the game now politics needs to came back at the center of the stage in this complex system of multi-level governance. I believe that politics, the public power, should gain back the primacy of the decision making process, at least for the time needed to change the rules of the game. For too long now we have let the market alone decide; now the time is ripe to let politics come back to re-design the rules for a better future for this and for next generations.

Ladies and Gentlemen,

We have here representatives of over 30 international think tanks coming from all continents, Europe, America, Africa and Asia; many others think tanks have been contacted and have shown great interest in the issue and in participating in a future network of long term investors – you can find the list and information of all these think tanks in the booklet which has been distributed with the Conference material.

I would like to welcome all of you and thank you for being here. I hope that this Forum will help to spread the gospel of the long-term around the world.

We have also many speakers from the US. We recently participated in a major Conference at Columbia University on SWFs and other long-term investors, organised by the Committee on Global Thought, chaired by Joseph Stiglitz and by Saskia Sassen who is here with us today, This is a sign that the topic is being recognized as central on both sides of the Atlantic.

Let me conclude then with some thoughts on the relationship between Europe and the US and its role in a long-term view of the future of capitalism.

The momentum is favourable. The new policies launched by the American administration on renewable energy, infrastructure and, last but not least, the creation of an American public health system are very familiar to European countries. Since the time of the New Deal, the US and Europe have never shared such a similar social and economic long-term vision. Cooperation and fair competition between the EU and the USA on these new large policy agendas open a extraordinary "window of opportunity" for these two great continents to work together to build a new sustainable model of development. Such a model, based on the Welfare State and long-term political and economic vision, should become an example for the rest of the world.

Globalization has shown us that we all live on the same planet and we are inextricably interconnected. There is no escaping from this world. We need, therefore, to set common general principles for a long future of peaceful co-existence. The idea of a long-term policy horizon and long-term investment to promote a sustainable world economy may be one of a larger set of new general global principles to be shared by all nations of the world, or at least by as many as possible.

Thank you.