Investing for Welfare

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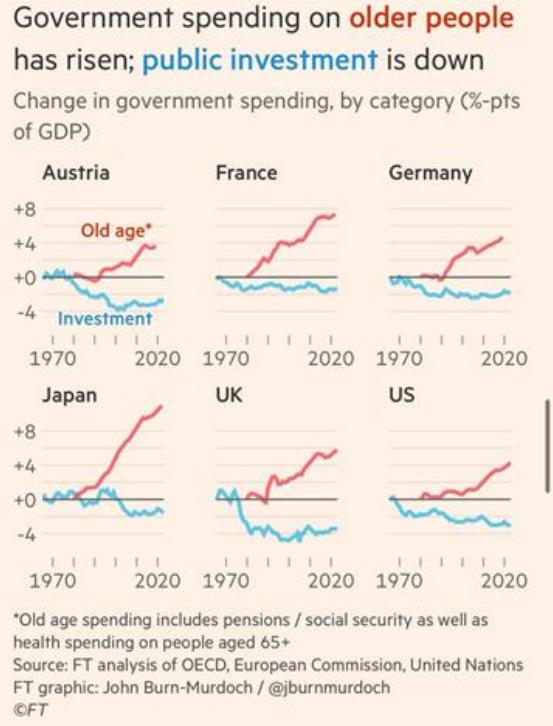
These days the agenda has changed, and talking about pensions and aging is starting to sound a bit "twentieth-century," while the future is digital and AI! But it's still useful, at least to remind ourselves that we also expect digital and AI to provide more solutions, both direct and indirect, to the problems of aging and its consequences on growth which isn't keeping pace with the promises of welfare. We've replicated here, for Italy, an exercise that appeared in the Financial Times on January 23rd. The topic may be "twentieth-century," but the problem remains.

On January 23, 2026, the Financial Times published an article by John Burn-Murdoch, "*Is Liberal Democracy in Terminal Decline?*". Behind the somewhat emphatic title, the thesis revolves around evidence common to Western countries: from the '70s to today, the share of GDP dedicated to investments has been declining, while the share dedicated to pensions, healthcare, and long-term care (LTC), primarily for those over 65, has risen significantly. The FT article features the following panel of charts for Austria, France, Germany, Japan, the UK, and the US:



In Austria, France, Germany, and Japan, public capital spending has lost more than 2 percentage points of GDP since 1970; the United Kingdom and the United States recorded a steeper decline, equal to approximately 4 percentage points. Conversely, pension spending and the share of healthcare and LTC spending attributable to those aged 65 and over have absorbed increasing shares of GDP: since 1980 (the start of the series), Japan has increased by over 10 percentage points, France by 8 percentage points, the United Kingdom by 6 percentage points, and France, Germany, and the United States by approximately 4 percentage points. In all six countries, a gap has opened up between the two macro-expenditure categories, which the data show still divergent.

How would Italy fit into the picture outlined by the FT? Charts 1-2-3 (in the Appendix) replicate the same findings for Italy. The longest series on gross fixed investments is the result of a reconstruction by the Bank of Italy, available in the historical series section of the ISTAT website ("Supply and Uses" table). For the most recent years, the data are directly from ISTAT ("Gross fixed investment by type of investment and ownership branch").

Pensions, healthcare, and LTC expenditures are available according to two definitions: the OECD one and the ECOFIN-AWG one. In the OECD definition, pensions include old-age, seniority, and survivors' benefits, in addition to severance pay (TFR, TFS, IFR) limited to the portion paid by the public budget. In the AWG-ECOFIN definition, the pensions section includes old-age, seniority, and survivors' benefits (so called IVS), in addition to social pensions. Regarding healthcare and LTC, the two definitions differ because the OECD one includes only LTC expenditure accrued within the Italian National Health Service, while the AWG-ECOFIN one also includes non-NHS expenditure items that can be classified or reclassified as long-term care (for example, benefits for disabled civilians and pensions for the blind, deaf, and hard-of-hearing).

Compared to the FT calculations, in these calculations for Italy investments consider total public and private resources, which together go to renew the capital stock available in the economic system for generating GDP, while welfare expenditure focuses on public resources. If private resources were also considered, the impact on GDP would be slightly higher in both levels and trends.

Pension expenditure concerns almost entirely those over 65, and approximately the same can be said for LTC. It can be estimated, based on the per capita spending profiles by age group updated by the State General Accounting Office, that approximately 75 percent of healthcare expenditure concerns those 65+. Despite the broad reference to the over-65 age group, the three charts in Appendix consider spending as a whole to highlight the common source of pay-as-you-go financing. Pay-as-you-go financing uses the resources generated year after year by the economic system and paid by citizens in the form of taxes or social contributions. Without investments (in tools, structures, technologies, R&D, etc.) and economic growth, the ability to continue Paygo financing welfare is weakened and ultimately compromised. In Italy, too, the two dimensions—investment and welfare spending—have opposite and divergent trends, highlighting not only the age divide at the heart of the FT's analysis but also the growing pressure on Paygo.

As Charts 1 and 2 show, in the '70s investments accounted for approximately 17 GDP percentage points more than pensions; since then, this difference has steadily decreased to between 6 and 8 percentage points in the period from 1990 to 2008, and then tended to zero in subsequent years, partly due to the 2008-2012 and 2020 (COVID-19) crises. Only one-off measures under the National Recovery and Resilience Plan (NRRP) are now allowing for a recovery which, however, remains temporary and very

limited compared to the historical trend. To a lesser extent, the recovery is also being supported by the containment of pension expenditure pursued by the latest budget laws. To make this comparison over a longer time horizon, we must refer only to the OECD pension expenditure series, but the same evidence would emerge if we considered the shorter AWG-ECOFIN series.

Over a shorter time horizon, a comparison between investments and overall public spending on pensions, healthcare, and LTC becomes possible. Using the OECD definition, we can start from 1988. At the end of the '80s, investments accounted for approximately 6 GDP percentage points more than pensions, healthcare, and LTC. Since then, this gap has narrowed, initially reaching zero in the mid-'90s and then, after a limited recovery, falling into negative during the crises. In 2014, pensions, healthcare, and LTC accounted for 6 GDP percentage points more than investments, rising to 6.6 percentage points in 2020. The subsequent recovery, thanks primarily to the NRRP, tends to temporarily close this gap.

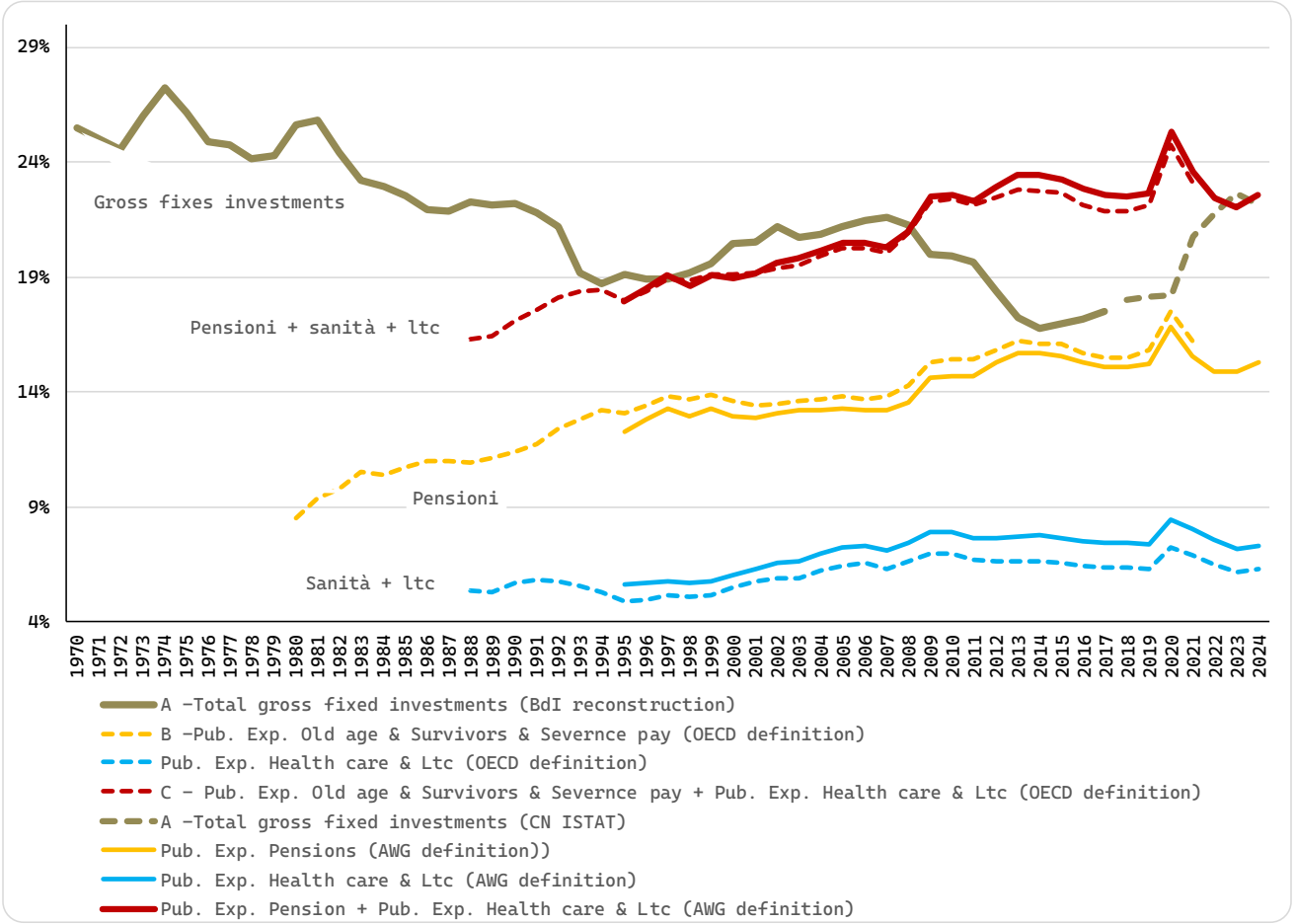
Finally, Chart 3 expresses investments and welfare spending as differences with respect to the values of the respective first year of the historical series, exactly as the FT does. The result is a visualization entirely similar to that of the FT panel. Between 1970 and 2020, fixed investments continued to decline in terms of GDP, losing approximately 8 percentage points, after peaking at almost -9 percentage points. Then, thanks to the NRRP, a temporary recovery of approximately 5 percentage points was recorded starting in 2021. Welfare expenditures exhibited the opposite trend, recording a growth in their share of GDP of 6.8 percentage points between 1988 (the first year of the OECD series including pensions, healthcare, and LTC) and 2022, after peaking at over 8 percentage points. If, instead of the OECD data, we were to refer to the AWG-ECOFIN data, which starts in 1995 and extends to 2024, the evidence would remain essentially the same.

In seeking policy insights, the long-term gap between investments and spending certainly doesn't resolve the search for the prevailing causal link, on which opinions, even among experts, have always been conflicting and even fierce: *Are growing age-related spending commitments squeezing investments, or is it the prolonged lack of attention to investments, capital deepening and productivity that is making it difficult to sustain the necessary expenditures of mature economies mined by increasingly aging populations?* However, such glaring and long-term evidence, involving countries with similar aging but diverse in economic and institutional characteristics, industrial specificities, vulnerability to shocks, and the structure and financing of their welfare systems, clearly demonstrates the urgency of acting and not simply surviving by managing a slow "terminal decline" as best as we can. The recent partial reversal of trend was made possible thanks to the NRRP, an extraordinary and temporary investment program, but … *what next?*

Chart 1

GROSS FIXED INVESTMENTS AND WELFARE EXP.

(% GDP)



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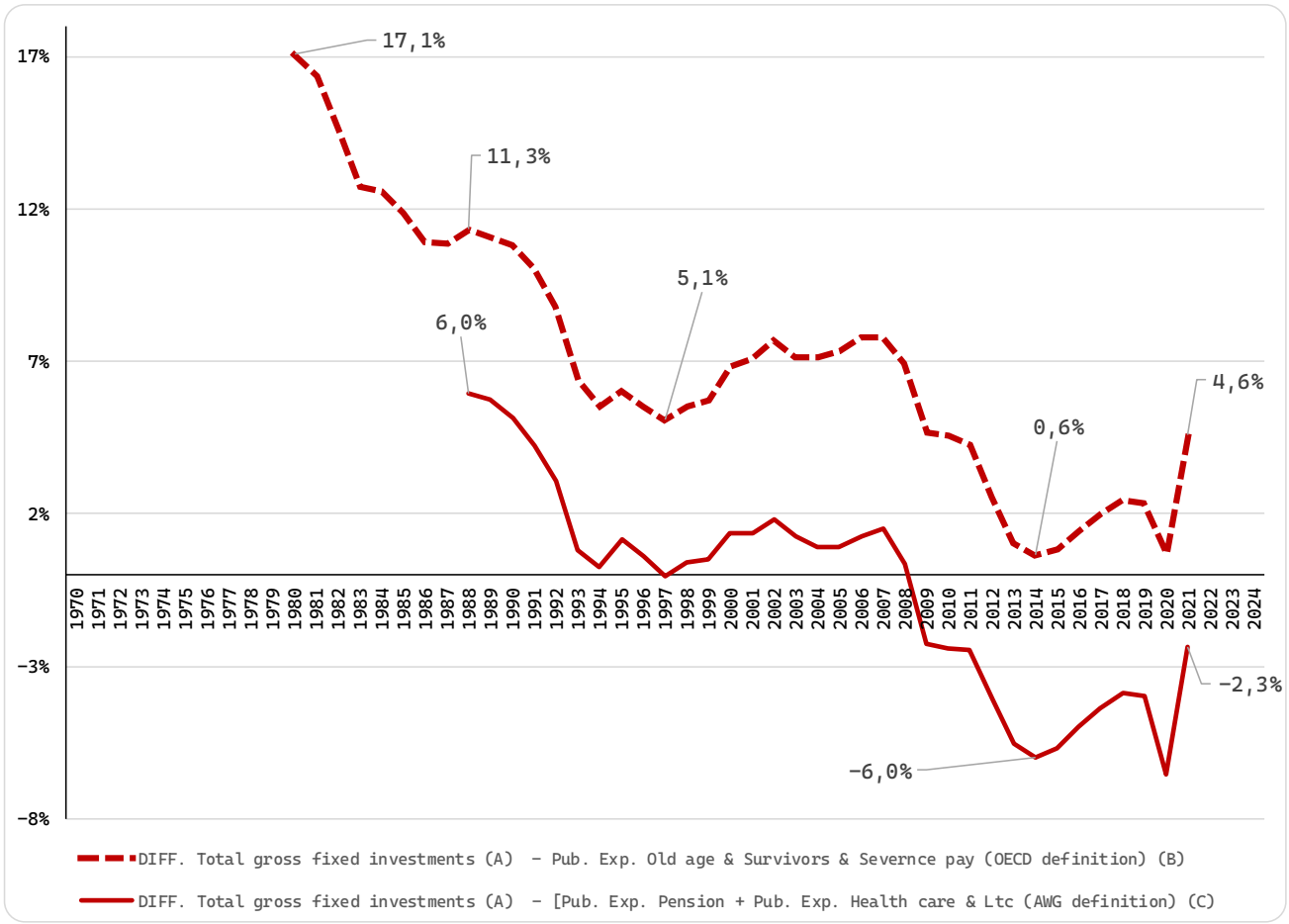
Note: Here, welfare spending refers to public spending financed on a pay-as-you-go basis. The solid red/yellow/light blue lines represent budget items according to the respective AWG-ECOFIN definitions, while the dotted lines represent the respective OECD definitions.

Chart 2

GROSS FIXED INVESTMENTS AND WELFARE EXP.

(% GDP)



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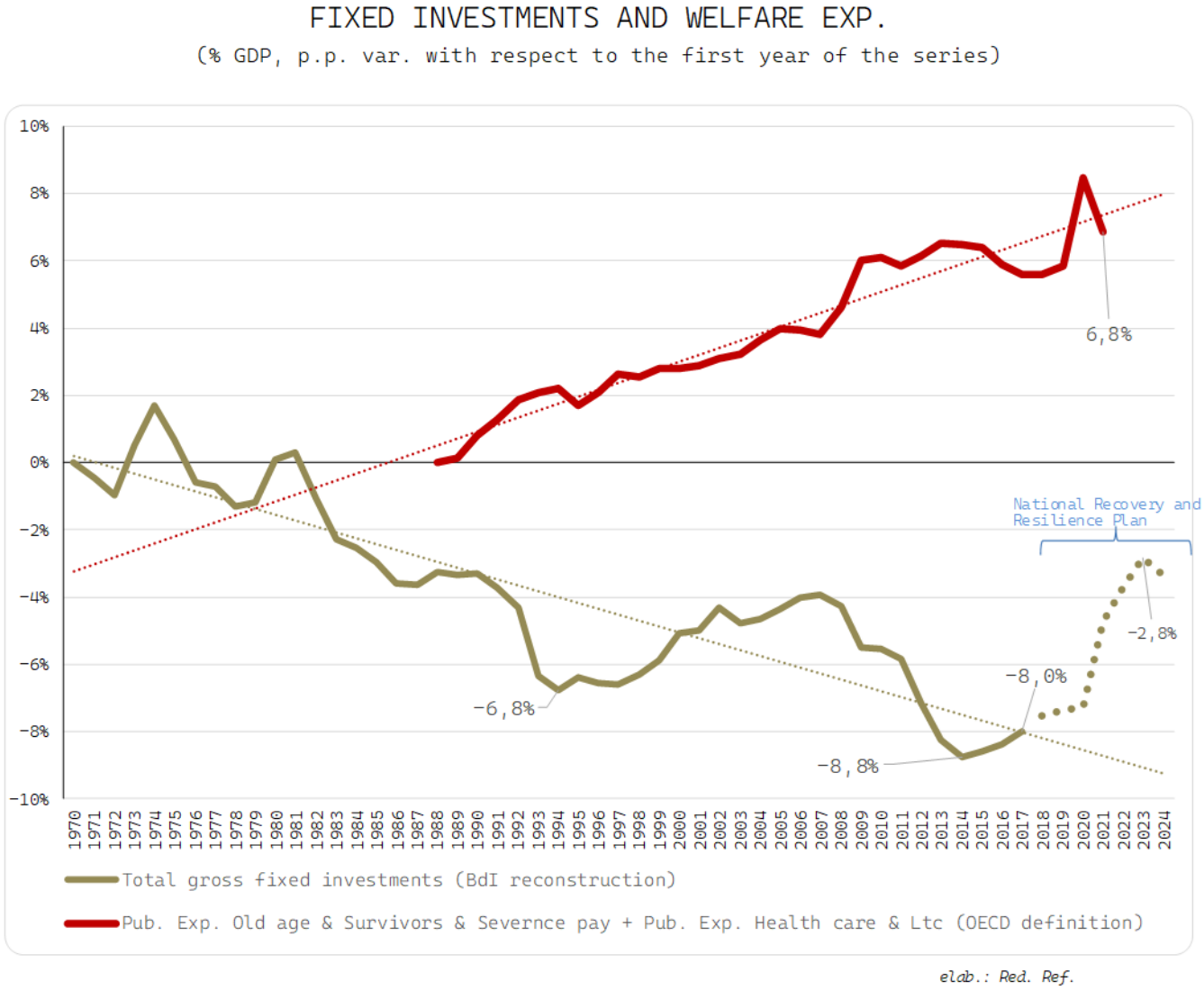
Note: The chart represents the differences between the curves described in the previous Chart 1. In particular, the dashed line represents the difference between **(A)** and **(B)** (see the legend to Chart 1), while the solid line represents the difference between **(A)** and **(C)**. **(A) - (B)** is the difference, expressed in percentage points of GDP, between total gross fixed investments and public pension expenditure according to the OECD definition. **(A) - (C)** is the difference, in percentage points of GDP, between total gross fixed investments and total public expenditure on pensions, healthcare and LTC according to the OECD definition.

Chart 3



elab.: Red. Ref.

Note: The longest series on total gross fixed investments is the result of a reconstruction by the Bank of Italy, available in the historical series section of the ISTAT website ("Supply and Uses" table). For more recent years, the data are directly from ISTAT (Gross fixed investment by type of investment and ownership branch).

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