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Italy’s prime minister takes the knife to public spending

By Guy Dinmore in Rome

Not exactly the sale of the century, but the first of 151 official cars used by Italian ministries, including top-line Maseratis and ageing Alfa Romeos, are going under the hammer on eBay as Matteo Renzi’s new government embarks on ambitious spending cuts.

The online auctions are the first concrete steps of the reformist prime minister’s plan to fund tax cuts aimed at giving low-income workers an extra €80 a month in their wage packets from May – and an incentive to vote for his centre-left Democratic party in European parliamentary elections that month.

Trade union leaders have welcomed pledges of lower taxes, and economists generally agree they will add a little stimulus to the eurozone’s third-largest economy, just starting to limp out of a crippling double-dip recession. But broader plans to cut public spending by possibly up to €34bn over three years, including cuts in salaries of top civil servants and large-scale job losses, have stirred howls of protest.

“It is important to give a signal that for the first time in history a government is willing to cut spending,” comments Roberto Perotti, a Bocconi university economics professor who has been advising the 39-year-old prime minister. “The problem is whether these cuts are politically feasible,” he told the Financial Times.

Those political sensitivities were underlined on Wednesday when Giorgio Napolitano, 88-year-old head of state, spoke out against “unjustified” spending cuts. Mr Renzi’s critics seized on his comments as a warning to the prime minister, while others saw his remarks as a plea for a considered plan.

How far Mr Renzi will go should become clear when the government releases its annual financial plan by mid-April. Carlo Cottarelli, appointed by Enrico Letta’s previous government to lead the spending review, has spoken of possible cuts of up to €5bn this year and €34bn by 2016 with 85,000 jobs to go, mostly it appears through a hiring freeze.

Others are expressing caution, however. In an interview to the daily La Repubblica, Pier Carlo Padoan, economy minister, said the government plans to be “conservative” in its cuts. Filippo Taddei, the party’s economics spokesman, suggested that €20bn over three years was “more realistic”. Nonetheless, Mr Taddei told the Financial Times that Mr Renzi would “gamble his future” on cutting expenditure and waging war on bureaucracy.

Mr Renzi, former mayor of Florence who shunted aside Mr Letta in a party coup last month, won an important vote for his left-right coalition in the Senate on Wednesday night in a bill that would reduce the powers of local administrations at the provincial level. However, the government was forced to rely on a confidence vote to win over the hostility of some MPs.

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> - Matteo Renzi, Italy prime minister

The 110 provincial councils are widely seen as a wasteful layer of administration between regional and municipal authorities and Mr Renzi needs the legislation, which now passes to the lower house, to cancel provincial elections due to be held on May 25. Mr Renzi says the measure will save €800m, a figure disputed by his critics.

While Mr Renzi sharpens his knife – “like it or not the government intends to get to the end of this” he tweeted – debate is raging over the cost and perceived waste in the public administration, even after a 25 per cent cut in salaries of some top civil servants already imposed by Mr Letta’s government, and curbs on hiring in place since 2011.

Professor Perotti says director-generals in Italian ministries earn up to double their UK equivalents, while ambassadors get 2.2 times more than their German peers and judges of the constitutional court earn 2.5 times more than US judges.

Some government entities should simply be liquidated, he said.

One of many government agencies in the line of fire is the Mediterranean Highways Network, an entity unknown to most Italians that promotes moving freight from roads to ships. Tommaso Affinita, head of the agency, reacted angrily to a report in Corriere della Sera that he earned €246,000 and had only two employees governed by a five-member board.

Mr Affinita told the Financial Times that he employed 13 people and earned €210,000 gross, and that over six years he had secured for the state €8m in European structural funds.

Newspapers are also asking why, for example, the head of the state mint earned more than €600,000 in 2012, almost three times his UK equivalent. Mauro Moretti, head of state railways who was paid €873,666 in 2012, kicked up a storm suggesting he would quit if his salary was slashed, but later offered to work for free.

Eurispes, a think-tank, and UIL, a trade union, have come to the defence of the public sector, saying Italy was alone in Europe to have cut its headcount over the past 10 years, with a 4.7 per cent reduction, while numbers had risen in the UK by 9.5 per cent. Italy’s 58 civil servants per every 1,000 citizens was only four more than in Germany and 50 less than in France, according to the report.

Pietro Reichlin, professor of economics at Rome’s Luiss university, notes however that government spending in Italy still accounts for 50.6 per cent of its gross domestic product, compared with 44.7 per cent in Germany. Stripping out debt interest payments, Italy’s ratio falls to 46 per cent and Germany’s to 42 per cent.

“There is a sizeable margin for savings. A lot can be derived from increased productivity as there is too much labour inflexibility,” the professor commented.

In the end, Professor Reichlin believes domestic political considerations will prevail when it comes to tackling the public sector. “What Cottarelli says and what Renzi will do will not be the same. Renzi will be very careful not to do things that endanger elections,” he concluded.

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