Ufficio Stampa della Provincia autonoma di Trento
Piazza Dante 15, 38122 Trento
Tel. 0461 494614 - Fax 0461 494615
uff.stampa@provincia.tn.it

COMUNICATO n. 1328 del 01/06/2014

PADOAN: THE MINISTER'S RECIPE FOR GROWTH

What to do to encourage growth: the Minister for Economic Affairs in Renzi's government, Pier Carlo Padoan, was called to Trento in order to answer this question. Formerly Deputy Secretary General and Chief Economist at the OECD, Italian Executive Director at the International Monetary Fund and economic advisor to the D'Alema and Amato governments, Padoan was the protagonist at one of the most eagerly awaited meetings at this ninth edition of the Festival of Economics. Introduced by Tonia Mastrobuoni, Padoan conversed with Tito Boeri, Scientific Director of the Festival, reiterating the need for structural reforms, even if they will only have an effect in the medium to long-term. This is also valid with reference to budget cover: reforms have a knock-on effect, which is even more extensive and powerful when they are accompanied by economic recovery. "I have no magic formula for employment", underlined the Minister "you can ask Renzi about this tomorrow. However, I can say one thing: in this phase it is important that there are measures giving new impetus to the economy in the short term, but also measures that profoundly change the rules of the labour market. In this way the benefits should be increasing and visible. As regards generational interchange: I have never believed that older people steal jobs away from young people. I am not in favour of reducing the retirement age ". Coming to Europe and the six month Italian presidency, Padoan said that "it seems normal to me that with this new European Parliament, and a new Commission on the way, one should raise the question of growth and employment". He went on to say that the Domestic Stability Pact should be reviewed, both for regions with special statutes and for those with standard statues, while respecting the commitments made by the country. Finally, he spoke out in favour of the state general accounts department and the civil service in general: "It is often of the highest quality, and it is not true that it is reticent. Sometimes it is politics that does not ask the right questions".-

The question asked by Boeri at the beginning was very simple and direct: "Where will the cover for the 80 euro bonus established by Renzi's government come from? The Bank of Italy has estimated that around 14 billion euro are required. This is in addition to other needs and requests: for example some people have talked about extending the bonus to pensioners. Where will this money come from?".
"The money will come from the 2015 budget" said the Minister. Exactly how much is required cannot yet be established. However, we can say that in order to be credible, permanent cuts in taxes must be covered by permanent cuts in expenditure. So the question cannot be solved in a week. Furthermore, it is implicit that there will be a dialogue with local authorities and effective use of public administration reforms. For example, payment of public administration debts is linked to the introduction of electronic invoicing. There will be no excuses: if a company issues an invoice, this must be processed within an established timescale. In our opinion this will lead to a fall in costs. What is more public administration reforms support one another".

On 2 June the European Commission will issue its recommendations for Italy. What can we expect and what impact will they have on the government programme? "The recommendations of the Commission", said Padoan "regard macroeconomic imbalance and the structural reforms that all European governments need to face. I expect them to recognise that this government is making an effort to carry out structural reform of the system. As far as public finance is concerned, it is normal for there to be different opinions. Italy wishes to begin its six-month presidency by asking a question: what did Europe do at the beginning of the crisis? First of all fiscal consolidation. This was decided in 2009 during the G20 in Canada: but at the time it was thought that the crisis was by then over. We made an error of judgement, all of us. We did not realise that as this was a financial crisis, it would not end until everybody's budgets, from banks to families, had been sorted out. Indeed the USA chose a different route.

Subsequently, it was finally understood that it was necessary to deal with the financial crisis. So what is missing now? Growth and employment. Unemployment in Europe today concerns millions of people. So it seems normal to me that with this new European Parliament, and a new Commission on the way, the presidency of the Union should raise the question of growth and unemployment, after which, the question of structural reforms will remain fundamental. The future Stability Pact will need to have an overall vision bearing in mind all these factors".

Pressed by Boeri on the subject of growth, the Minister said that "first of all, the evidence shows that structural reforms generate benefits with the passing of time. The benefits begin to be seen in terms of GDP and employment after 2 or 3 years. At all events, reform of the public administration remains fundamental, because one can carry out a splendid reform of the labour market, for example, but if the administration cannot succeed in translating it into applicable procedures, it does not work. Finally, the impact of reforms is better when the economy is expanding. "This leads me to say", the Minister pointed out "that we are in the right phase, because the economy is showing some signs of recovery, but if the reforms in their turn do not accelerate this recovery then we will not achieve the results hoped for. However, the need for reform regards us all, even Germany. And take note: if a country carries out reforms and the reforms are successful, then there will also be positive effects outside its frontiers. However, it is necessary to have faith within Europe. Faith in a common idea of growth in Europe".

In the meantime a Eurosceptical party has sprung up in Germany to the right of Merkel. Furthermore, the question of debt continues to affect the debate. Today Italy is very rigorous, but debt continues to increase.

"Italy and Germany", continued the Minister "have in common the fact that in both countries the parties in government won the elections. Elsewhere this was not the case, and this is understandable, given the level of unemployment recorded in the continent for example. I believe that in Germany today it is also believed that development must be set in motion and that this can only be done with structural reforms. There is on the one hand the internal market and on the other private resources, which can be mobilised. There is more willingness in Germany to listen as regards these matters than one might think. However, there is a problem of confidence. Italy must be credible and it must demonstrate that it is not making certain proposals in order to ‘free itself'. One route could also be to allow inflation and the real economy to increase, in a controlled manner. If this happens then debt goes down in a spontaneous manner. If there is no growth, then in the best case scenario the fiscal surplus is maintained at a constant level".

So long as unemployment remains high, however, it is difficult to kick start growth with the internal market. To recover competitiveness, could one consider adopting a fiscal lever, for example by further cutting labour taxes?

"Reducing the tax wedge is an important factor in competitiveness. Another could also be a well-developed system of negotiation at local level. However, this is not enough. The real drama of Italian competitiveness is the falling dynamics in terms of productivity. This does not mean the measures of a fiscal nature would not be useful, but they will even more useful when associated with an increase in productivity".

What about cuts in public spending? Here the monopoly on data belongs to the state accounts department.

"Carlo Cottarelli is alive and kicking", commented the Minister light-heartedly "and the spending review for which he is Commissioner is proceeding. In this process the general accounts department can be incriminated, although I believe that what they are saying about the department is not correct. In general, my impression is that the staff of the administration are of the highest quality. The reason why the bureaucratic apparatus is so reticent often depends on the fact that political requests are confused or mistaken. If the requests are made in an energetic and straightforward manner – and you all know that my boss is energetic – then the answers arrive.

Certainly, the responsibility of the bureaucratic apparatus is to support change, but sometimes politicians have to ask the right questions". -

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