

ECONOMIA E POL. INTERNA

FINANCIALTIMES	17/12/2007	Padoa-Schioppa predicts Europe will bear brunt of US correction	2
FINANCIALTIMES	17/12/2007	Prescription of excellence for Italian problems (Interv. a T. Padoa-Schioppa)	3

Padoa-Schioppa predicts Europe will bear brunt of US correction

Asia's economic weight deemed not big enough

By Quentin Peel and Martin Wolf in London

A slowdown in Europe is the most likely result of a big correction in the US balance of payments deficit, according to Tommaso Padoa-Schioppa, Italy's finance minister, and the chairman of the international monetary and financial committee of the International Monetary Fund.

Asia's economic weight is not yet big enough to offset a US correction, he said, but recession is not inevitable because the world economy is starting from a strong position, having enjoyed four years of stellar growth.

"I have never seen the correction of an external imbalance, such as the US imbalance, occur without a slowing down of economic activity," he said in an interview with the Financial Times. "For demographic and other reasons, I do not think Europe can grow fast enough to compensate completely for the slowing down in the US."

"The East Asian bloc is huge in terms of the number of people, but not huge in terms of gross domestic product, so I see a period in which the sum of all debt leads to a likely slowdown in the growth of the world economy."

He warned any downturn could lead to a growth in protectionism. "Clearly one of the victims of this kind of scenario is on the trade side," he said.

For Europe, he said the danger was of moving from a broad trade balance with the rest of the world to a deficit, compounded by the lack of currency flexibility in China and the rest of Asia.

Mr Padoa-Schioppa, who was a member of the European Central Bank board before becoming finance minister, said the problem was that "Asia has remained on a kind of dollar standard".

Asia was in a similar position to Europe in the 1970s with "a constellation of currencies" in an interdependent region. "But it has not made the split between external floating and internal pegging that Europe did."

But on one international financial issue he was optimistic - on the chances of reaching agreement on the voting power for IMF members, governed by the quota each country holds.

"The agreement on quotas and votes requires an acceptance by Europe to make room for an increase in the overall quota of emerging and low-income coun-

tries," he said. "I think it will be accepted. Europe must accept a reduction in its share if we want to be consistent with the idea that percentages should add up to 100 and not 110. I am hopeful that the April committee meeting will reach agreement."

Prescription of excellence for Italian problems

FT INTERVIEW

Finance minister Tommaso Padoa-Schioppa tells Quentin Peel how he plans to tackle a range of challenges

Tommaso Padoa-Schioppa, Italy's central banker-turned-finance minister, spent his first 18 months in office wrestling to cut the nation's budget deficit and hangover of external debt.

This meant "disintoxicating the Italian economy from the two stimulants that had been abused from the mid-1970s onwards: periodic devaluation and deficit spending," he says. "Abuse of these two stimulants had weakened the structure of the economy."

That was the easy part of his job, he reckons. Now he faces the more challenging task of improving the quality of state spending, and tackling overmanning in a bureaucracy often strangled by its own red tape, while negotiating with powerful trade unions – an essential part of his centre-left government's supporters.

"Improving the quality of public expenditure is an issue even more relevant to stimulating growth than just financial equilibrium," he told the Financial Times in an interview.

The problem ranges across the spectrum of public spending, from chronic congestion on northern Italy's roads, to big class sizes in secondary schools, and a shortage of good scientists and engineers coming out of university.

He singles out lack of adequate road and rail spending as a good example. "The average speed of traffic from Turin to Verona may be 25-30 kilometres per hour," he says. "That is an immense cost for the economy. You need simply better trains, and less transportation on the roads, and more roads.

"The country is highly indebted, and at the same time under-capitalised. Of course, to re-capitalise a country in a situation where you cannot increase debt is extremely difficult. We cannot get finance from outside.

We have to get it from within the budget by saving on the way we spend.

"It is extremely difficult to bring about a reduction in spending, particularly in a highly unionised country such as Italy," he says. "All these are services. All that means a reduction in employment."

A further complication is that the worst areas for overmanning in the public services are central and southern Italy, which are much poorer in income per head than the north.

"The idea that help to the south should take mainly the form of overmanning in public services is very prevalent. I tend to think the opposite: that low productivity is due to this overmanning, and it makes investment less attractive."

Mr Padoa-Schioppa's answer to his dilemma is to promote excellence – in public services as in the private sector. "The way forward is to show that there are good practices already in the country," he says. "I am seeking to show that we do not demand the impossible."

Excellence is also the key to private sector performance, he says. Italy is and will remain a manufacturing centre, from history and cultural tradition. But it will only be able to compete by producing higher quality than cheaper manufacturing centres in Asia.

On the one hand, focus on manufacturing makes Italy more vulnerable to globalisation, he says. On the other, "the amount of people who want a Ferrari is increasing extremely fast. The same is true for excellent wine and sophisticated clothing. If Italians are capable of moving fast into the top layer of quality, then the fact that they manufacture traditional

goods is not an impediment. It is also an opportunity".

ONLINE VIDEO

For a video of Tommaso Padoa-Schioppa discussing market turmoil with Martin Wolf, go to www.ft.com/specialvideo



Tommaso Padoa-Schioppa: 'I am seeking to show that we do not demand the impossible'

Charlie Biddy