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Baron of the budget (Int. a Tommaso Padoa-Schioppa)

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## SPOTLIGHT

# Baron of the budget

## *Technocrat navigates Italy's finances*

By Karina Robinson

**R**ome **R**ome  
 Like Captain Ahab searching for the great white whale, Tommaso Padoa-Schioppa feels he is pursuing a goal that remains just outside his grasp.

"Chasing billions of euros for the budget is like chasing the whale," said Padoa-Schioppa, the Italian minister of economy and finance, who read "Moby Dick," the classic novel by Herman Melville, this summer.

Whether the whale represents salvation or hubris is what readers of Melville, and observers of the country's convoluted budget negotiations, will have to decide for themselves.

The Italian debt is 107.6 percent of its gross domestic product, one of the heaviest burdens in the world. Padoa-Schioppa, 66, a career technocrat and one of the fathers of the euro, has devised a budget that he insists will bring the debt burden under 100 percent by 2011 and trim the budget deficit next year to 2.8 percent of GDP, in line with European Union rules, from 4.8 percent this year.

The response has been harsh criticism by rating agencies, members of his own government, retirees, owners of small businesses, the middle class, big business, and commentators both foreign and domestic.

"It achieves the right aim — reduction of deficit — using the wrong means — increasing taxes instead of reducing expenditure," said Daniel Gros, director of the Center for European Policy Studies.

Riding for two hours on the way home from a debate on ethics and markets at the University of Chieti, Padoa-Schioppa, a father of three and a lover of Bach, appeared remarkably serene. But this is a man who says he does not believe in opinion polls and insists people may not like the budget, but they understand the necessity for it.

Padoa-Schioppa believes that the triptych underpinning the budget — growth, fiscal adjustment and equity — has been satisfied by, respectively, public investment, the reduction of debt, and social programs aimed at the poorer members of society and allied to measures against tax evasion.

This idealism may explain why in May, after eight years on the board of the European Central Bank, Padoa-Schioppa took the job of minister of economy in Italy.

"I did hesitate a lot," he said. "I was fearful of the enormous public expo-

sure and loss of anonymity."

But, he added, "I have a certain passion for public service. It would not have been right to refuse."

The gulf between Padoa-Schioppa, an economist who studied at the Massachusetts Institute of Technology in the 1970s, and his opponents is surprising, especially since he managed to avoid criticism during his tenure in 1997 and 1998 as head of Consob, Italy's securities watchdog agency, which is often a political minefield.

Structural changes in the Italian economy, like deregulating the energy market and using tax incentives to encourage the formation of larger companies, are on the agenda for next year. He said that in 2007, the government would post a surplus, before debt service, of 2 percent of GDP that would reach 5 percent in 2011.

Standard & Poor's appears unconvinced. In a report published Oct. 19, the rating agency lambasted the Italian budget and cut the country's credit rating to A-plus from AA-minus — making Italy, along with Greece and Portugal, one of the few euro zone countries not to enjoy an AAA rating.

S&P said the budget would lead to net increases in spending as a share of GDP. It also claimed that the government was unrealistic in its goals for reducing tax evasion by €4 billion, or \$5.3 billion, and in the savings that it believed could be generated from changes in the civil service.

Padoa-Schioppa disagrees. "We have done more technical work than the rating agencies," he said. "I think we are very conservative in our estimates."

The finance minister has also faced criticism that a number of tax increases hit the middle class disproportionately. Luca Cordero di Montezemolo, the president of Confindustria, the employer's body, said the budget appeared to have been written by the extreme left with the approval of a major trade union, CGIL.

At the university debate, however, Padoa-Schioppa sounded decidedly capitalist, answering a question by stating that the main aim of a company was to produce profit at the end of the year, and that he did not believe in keeping a company afloat if it was losing money.

Tax evasion was another issue that came up during the debate with Archbishop Bruno Forte of Chieti-Vasto — although, unlike many Italians, the theologian and the government minister agreed on its undesirability.

Daniele La Monaca/Reuters