

# POLITICO

## Renzi's messy metamorphosis

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MILAN — When Matteo Renzi became prime minister two years ago — three months after a resounding triumph in the primaries to choose the Democratic Party's secretary — the 39-year-old was widely lauded as the man who could bring Italy back to economic and political sanity. Now he's engaged in a war against the European Commission and looks like a more bourgeois cousin of Greece's Alexis Tsipras. What happened?

Renzi is a pure-bred politician. Finding the right enemy is a big part of any politician's success. He took over his party from a by and large hostile oligarchy, which he now fully owns. He sustained and then dashed Silvio Berlusconi's hopes of continuing to have a say in national politics. He now plays carrot and stick with the MoVimento 5 Stelle (Five Star Movement) founded by comedian Beppe Grillo, a vocal critic of the government who can nonetheless be a useful ally, for example in electing the new Constitutional Court justices.

At the beginning of his tenure, Renzi's *esprit florentine* — that almost Machiavellian mix of nimbleness and cynicism so useful in politics — seemed to serve the grander goal of fixing some of Italy's structural problems. Renzi targeted the Italian system of industrial relations, and showed little patience for its liturgies. He openly fought the trade unions, and his "Jobs Act" removed from Italian law the so-called "Article 18" of the Worker's Statute, essentially making it close to impossible for businesses with more than 15 employees to fire anyone.

Renzi seemed interested in reviving competitiveness by means of the first "annual competition law" — a piece of legislation supposed to do away with a number of the anti-competitive features of recent laws and regulations. Likewise, he has emphatically begun to reform public administration and, most importantly, amended the constitution, by abolishing the senate and strengthening the prime minister's powers.

This batch of reforms, Renzi contrived, should convince the European Commission to allow Italy to slow down on its commitments to balance the budget. Of course, one may wonder, if supply-side reforms were to create growth, why was more public spending necessary in the first place?

But Renzi doesn't think institutionally: He thinks electorally. He plays with public finances to increase his constituency. Right before the 2014 European elections he announced a tax subsidy of €80 a month for low-income workers. In his 2015 budget, he cut the property tax and indulged

in other fiscal spending, including a voucher of €500 for the “cultural consumptions” of young Italians who turned 18.

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**Renzi’s strength is based on a simple fact:** There is no alternative, for national government, besides the right-wing populists of the Northern League or the left-wing populists of the Five Star Movement. But, with the promised renaissance still out of reach, people are growing impatient with their latest messiah.

The first Renzi seemed to realize that the country needed supply-side reforms to revive growth. And it’s true that he got the ball rolling and achieved some considerable success. But the devil is in the detail. The “Jobs Act” was noble in its aim but came with complications in its fine print — it still awaits proper implementation, as do most of Renzi’s reforms.

Nor has the government been successful in its efforts to curb spending. The reform of the civil service will yield no overall savings in the government budget. Likewise, Renzi’s much-advertised spending review was made largely ineffectual after the promised €16 billion-worth of cuts were reduced to €6 billion (out of a budget of some €700 billion).

Previous governments provided for safeguard clauses, technical tools that prescribe automatic tax raises in the case that sufficient cuts aren’t accomplished. They should be a powerful incentive for reform, and a way to avoid the unpopularity of higher taxes. Now the Renzi government is thinking of simply ignoring them, without cutting spending any further.

Italy has often appeared to be hostage to its many veto-players, from its trade unions to its taxi drivers. The case of Uber is revealing. Though the prime minister described the app as an “extraordinary service,” his government did not come up with a regulatory framework for it, and the judiciary basically outlawed it.

Here comes the second Renzi. He is apparently convinced that the reforms set in motion by the first Renzi did their job: Italy, in his mind, finished its homework.

For months now, Renzi has boasted that Italy is growing again. But growth has been anemic at best. Alas, Italians do not buy a new fridge or a new car depending on the certitude of their leaders.

Since growth is still sluggish, then, the problem must lie with Brussels-engineered “austerity.” Thus the latest expansionary budget law. If the first Renzi wanted to do supply-side reform, the second wants to increase aggregate demand. Instead of getting rid of obstacles to wealth creation in the private sector, he now goes for more redistribution by the public sector.

First he sought more spending power in return for pro-growth reforms. Now he asks for it and offers nothing in return. His original diagnosis was correct: An inflexible labor market, a lame bureaucracy, over-regulation and over-taxation have been defining features of the Italian economy for years, and for years have kept it down. No matter what Renzi may think or hope, these problems weren’t solved in the last 24 months. He had the right cure — it was simply not properly administered.

Renzi's shrewdness may work differently on a broader European playing field than it did in Italy. He seems not to realize that, with Portugal and Spain turning left, and with Tsipras still being Tsipras, if the EU were to accommodate Italy's demands, it might trigger a domino effect.

The problem is most likely not that Renzi is still a parochial leader, a former mayor with little understanding of the greater international scheme. By now we know he is too smart to not fully master his job, two years after his appointment.

Renzi made a different mistake, one that is common to many smart men. He started to believe his own propaganda.

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