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Monti's Mixed Legacy—And Troubled Prospects

Italy's outgoing PM can meet a political demand by offering right-of-center voters a serious alternative to bunga bunga conservatism.

By: Alberto Mingard – January 8th, 2013

Italy's next general election is expected in February. With economic contraction forecast for this year and public debt at 126% of GDP, the country badly needs deregulation and credible public finances. This is a set of policies that is most often associated with a conservative platform à la Margaret Thatcher. Could Mario Monti, the outgoing technocratic prime minister, supply it?

A former economics professor and European Commissioner, Mr. Monti has governed for little more than a year. In November 2011, he was named senator-for-life by President Giorgio Napolitano to shield him from political influence. A week later, he was appointed prime minister at the helm of a technocratic government, taking the place of Silvio Berlusconi, whose reputation was ruined by endless scandals.

Thirteen months later, Mr. Monti resigned on Dec. 21 after pushing his government's 2013 budget through Parliament. He was first explicitly asked to run for Italian prime minister at a meeting of the European People's Party in Brussels early last month. Now he is blessing a coalition of centrist parties that want him to stay as prime minister in the next cabinet.

Mr. Monti is regarded highly outside of Italy, too. But even if he seemed like the epitome of responsibility compared to his predecessor, Mr. Monti's record in office was mixed: a successful pension reform, higher taxes—and not much else. Ahead of the election, he is trying to rally support around a policy platform that he published late last month.

But his manifesto, known as Agenda Monti, does not offer real recipes for opening markets and cutting government. It is a document largely written in a bipartisan spirit, but equidistance is not a substitute for solutions.

This much should have become clear to Mr. Monti over the past few months. Leading a government supported by both the left and the right, the general impression was that the prime minister often fell prey to converging veto powers. Yet now that he has a chance to outline his own program rather than other parties', he is offering very little of substance.

For instance, he is now proposing moderate tax cuts, a promise he is not very credible in making. Mr. Monti didn't break from previous governments on fiscal issues. His government's austerity plan mostly took the form of higher taxes, practicing what ECB President Mario Draghi, in an interview last year with the Journal, called "bad consolidation"—as opposed to "good consolidation," under which "taxes are lower and the lower government expenditure is on infrastructures and other investments."

This sort of austerity has showed meager results in Italy: In the first 10 months of 2012, the Italian government's net borrowing requirement was €74 billion, according to the Bank of Italy. That's €10 billion more than what was needed over the same period in 2011 and even slightly more than in 2010.

On regulation, Mr. Monti has consistently advocated liberalization to free the Italian economy from red tape, but his government achieved little on this front. The only visible "liberalization" was the unbundling of the natural gas network from the partly state-owned energy giant Eni. Yet even this took the appalling form of a de facto renationalization via the government bank, Cassa Depositi e Prestiti.

In Agenda Monti, the word "privatization" is not mentioned even once. That's fitting, as the Monti government carefully avoided undertaking any privatization. Vague references to a proper "valorization" of Italy's public assets hardly constitute a clear commitment to dismantling state-run businesses. Selling even part of Italy's huge stock of public assets could help cut government debt in the short term without further burdening an already overtaxed economy.

Despite having achieved a strong pension reform that substantially raised the retirement age, the Monti agenda does not include much welfare reform. Reforming health care is by all standards a priority for an aging society such as Italy's.

After years of bunga bunga conservatism, Italy desperately needs a credible center-right party: preaching and delivering fiscal responsibility, lighter regulations and freer markets. Mr. Monti is credibility incarnate, but his policies are not conceived to fill this vacuum.

Of course, it could be that Mr. Monti's intention is not to court Mr. Berlusconi's former voters. Italy's is a peculiar political landscape nowadays. Although it is by and large a two-party system, it has a proportional representation electoral law that gives small parties significant bargaining power in the coalition-building process.

The other option for Mr. Monti would be to ally with the left-leaning Democratic Party, the likely winner of the next elections. The contents of Mr. Monti's agenda are not incompatible with a social-democratic platform. But if he really wants to meet a true political demand, Mr. Monti should be bolder and offer right-of-center voters a serious alternative to Mr. Berlusconi. Both the legacy of his government and the temptation to play it safe may turn him in the other direction.