Talking Money Matters with Renzi and Padoan

Judith Harris (October 21, 2015)

Italy's youthful Premier Matteo Renzi and his more mature Finance Minister Pier Carlo Padoan are talking money. On the agenda: a pending law that cuts property taxes, raises the cash limit for money transfers, and offers part-time jobs to those waiting for pensions that don't come. But there are also quarrels about public income deriving from gambling.
ROME -- Italy's youthful Premier Matteo Renzi and his more mature Finance Minister Pier Carlo Padoan have both done an about-face over money. This is hardly surprising: money talk is difficult, and top economists worldwide quarrel about whether it is better to cut taxes so as to stimulate growth, or to keep one's house in order by curbing the national debt through high taxes.

Nowhere does this debate matter more than in Italy, where a high earner with a salary of $400,000 hands over to the state almost 49% of his salary in taxes, according to a study made last year by PricewaterhouseCoopers. Of the 20 countries examined by this prestigious accountancy firm, Italians were the most severely taxed. Second in line was India, where 45% went to taxes, followed by the

U.K., 43%, and France, 42%. In the U.S. the similarly well-to-do earner living in New York State paid much less in taxes, or just 39.5%. (If the reader wants to be truly tax exempt, consider Saudi Arabia, where barely 3.14% goes for taxes.)

The current Italian debate in Parliament over a mega-finance bill called the "Stability Law" deals with various issues. Property taxes loom large. For all those owning their first home, says the pending government proposal, the despised property tax, the TASI, introduced in September 2014, is to be entirely eliminated. But then Premier Renzi had second thoughts. The latest version is that the new law will not apply to those owning "luxury homes."

"People who own castles will have to pay," Renzi decided this week. The same will apply to all those owning luxury apartments, villas and "palazzi" -- technically, that is, those residences categorized as A1, A8 and A9. By numbers, this means that some 45,000 owners of up-market dwellings will continue to pay. Politically, Renzi's reversal was a tip of the hat toward the truculent left wing of his Partito Democratico. In money terms it means that their contributions should bring into government coffers E 90 million, or almost $103 million. This tax compromise had already been put into effect by three previous governments, those headed in turn by Silvio Berlusconi, Mario Monti and Enrico Letta. The debate is far from finished, however, for amendments to the proposed bill continue to pour in, including in the Senate.

The second about-face was by Minister Padoan, who had initially opposed boosting the maximum amount of money which can be paid legally in cash to E 3,000 ($3,400). Among the objections to this item in the pending "Stability Law" was that easy cash transfer eases criminal activity. Initially Padoan agreed. "But I have now changed my mind after carefully looking into the question.... There is no real correlation between a limitation upon the amount of cash transferred and the dimensions of the submerged economy," he told a reporter for the financial daily Il Sole-24 Ore. "A more flexible cash limit can be beneficial for an economy like Italy's where electronic payments are less common than in other countries, such as France."

Minister Padoan's extraordinarily broad background makes him Renzi's secret weapon. On TV he can seem gruff, but in person he is congenial and makes an effort to explain his positions, as this reporter can verify from my own recent meeting with him. Minister of the Economy and Finances since 2014, he had been director of the Italian section of the International Monetary Fund from 2001 through 2004, and after June 2007, Deputy Secretary General of the OECD. Nor is this his first experience in Italian governance; he has had stints as economic advisor to two previous prime ministers, Partito Democratico hard-liner Massimo D'Alema and the more moderate (and technical) Giuliano Amato.

His opinions therefore carry weight. In his view, in the early years of this decade Italy's priority was to get the deficit under control. Today, he believes, the "imperative" is to relaunch employment and economic growth while at the same time not neglecting to clean up the debt mountain. When the new financial law passes, he predicts, employment should benefit from government incentives, and the Italians' tax burden will decrease by about 2 percentage points. Next year more can be done, he says, and public debt will drop in 2016 "although the low rate of inflation is of concern," he admits.

The same bill under debate also deals with pension plans. A crucial problem which must be faced regards the "esodati," or those left entirely without income because let go from jobs before reaching pensionable age, which in many cases means a wages gap of a decade. Under study, but not until next year, is a plan to offer the over-63 years of age part-time paid work. Another problem under debate, given the financial limitations of the national pension plan INPS, is whether the state can afford workers choosing early retirement with a reduced pension.

Also under heated public debate is the fact that the government makes money from gambling. In Italy gaming is possible in 22,000 places, from casinos and bingo halls to simple slot machines tucked into a cafe corner. Many Italians object to the fact that the state makes money from what they consider a vice, and an encouragement to the weaker members of the public to become betting addicts. Gambling has been described as Italy's third biggest industry, involving at least $100 billion and giving employment to 120,000. According to one survey, 55% of those playing, even occasionally, fall below the poverty line.

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