Italy: Technocrat Monti introduces new drastic austerity package

Stefan Steinberg
6 December 2011

In response to pressure from financial markets and European leaders, Italy’s new prime minister, Mario Monti, has moved quickly to introduce new austerity measures.

Over the weekend, Monti—whose curriculum vitae includes a spell as advisor to the Goldman Sachs investment bank—held a series of discussions with employers’ representatives, trade union leaders and heads of the major political parties to outline his proposals. He then brought forward a cabinet meeting by one day in order to present his new program on Sunday and reassure the financial markets before they opened on Monday.

On Monday he gave details of the package to Italian parliamentary deputies, making clear he aims to whip through the necessary legislation before Christmas.

At the centre of the cuts package, estimated at €30 billion, is a major assault on Italy's pension system. Previously, pensions were the most important form of social security in Italy: anyone paying continuous contributions for 35 years could retire at 58. Entire families frequently depended on this support.

The pension age is to be raised drastically, for both men and women, to the age of 66 by 2018. Compensation for price inflation is to be scrapped for the years 2012 and 2013for most pensions. The new legislation also increases the number of years workers have to pay into the system to qualify for a full pension to 42.

Further austerity measures include a 2 percent increase in the value-added tax—a measure hitting low-income earners and their families hardest.

Monti stressed that another of his legislation’s main aims is to lower labour costs; the package contains new rules making it easier for employers to sack workers.

Monti has been encouraged to undertake this latest offensive against Italian labour law by the conduct of Italy's main trade union organisations—the CGIL, CISL and UIL. In 2009 they struck a deal with Italian business federation Confindustria to accelerate the “restructuring” of labour relations and phase out the country's existing national contract agreements.

Underlining the class nature of Monti's cuts package, proposals to introduce a one-off tax hike for the wealthy or a tax on high incomes have been scrapped. The inclusion of a new tax on luxury goods is aimed entirely at winning union support for the cuts.

Monti was able to draw up his new cuts, which will have devastating consequences for Italian workers, due to the support of the main parliamentary parties—first and foremost the Democratic Party—and the absence of any opposition from the union leadership.

Approval for Monti’s measures came predictably from Angelino Alfano, the leader of Silvio Berlusconi’s People of Liberty party, after the new prime minister dropped the plans for a tax on the rich. More significant, however, was the support from Democratic Party leader Pier Luigi Bersani, who had already made it clear a month ago that he would back Monti's cuts.

After Monti's presentation of his measures, Bersani made clear that his party would accept the new legislation. While he held out the possibility of somewhat tweaking the emergency budget, Bersani said: “We will now listen to what is said and what route the government intends to follow.”

Criticism of the new proposals from union bureaucrats was low-key. Susanna Camusso, head of Italy’s biggest union, CGIL, declared on Monday that Monti's program as a whole was “indigestible,” but announced no plans to oppose the cuts. Two other trade union bodies, the CISL and the UIL, announced their intention of carrying out a two-hour strike on December 12, to allow their members to harmlessly let off steam.

Berlusconi's main ally in the outgoing government, the separatist Northern League, has declared it is not prepared to support Monti's proposals. Northern League leader Umberto Bossi evidently reckons that he can exploit the inevitable public backlash against the cuts to further the Northern League’s racist and pseudo-populist agenda.

The financial markets reacted predictably to Monti's proposals. On Monday the yields on Italian 10-year bonds dipped below the recent record levels of 7 percent; shares rose on the Milan Stock Exchange, with banks benefiting the most.

Praise for Monti's initiative also came from the Italian employers’ federation, Confindustria, and from leading representatives of the European Union (EU). According to the EU economic affairs spokesman, Amadeu Altafaj, “The steps taken yesterday are very important. They definitely go in the right direction of decisive structural reform.”

In his own comments on the Italian cut package, EU Economic Affairs Commissioner Olli Rehn made clear that, while the measures agreed by the Italian cabinet on Sunday would "help remove some bottlenecks to growth," the EU expected much more. He pressed the Monti government to introduce even more sweeping cuts.

The French and German governments also welcomed Monti’s new measures.

Shortly after assuming office, Monti held talks with German Chancellor Angela Merkel and French President Nicolas Sarkozy, with both leaders urging Monti to make sharper cuts.

Monti has argued in favour of the introduction of euro bonds, in order to increase liquidity to the banks. The proposal is supported by Sarkozy but has up to now met with sharp resistance from Berlin. Irrespective of their differences over the best methods to restock European bank vaults, the leaders of Europe's two biggest economies are united in their advocacy of drastic austerity measures for Italy and the rest of the continent's working population.

The introduction of new cuts confirms a pattern which has developed for Europe as a whole in the past two years. In 2009 the euro crisis erupted with an EU-IMF bailout package for Greece aimed at refunding European and international banks. The bailout was to be paid for by driving broad layers of the working population into poverty.

In 2010 the financial markets turned their attention on other economies, such as Ireland and Portugal—in every case demanding new social cuts, aimed at slashing social spending and restoring the types of wages and working conditions which prevailed a century ago. In 2011 major economies at the heart of Europe, such as Spain and Italy were targeted—culminating in the latest cuts introduced in Italy.

The financial markets have now also engineered the replacement of elected governments by unelected bankers and technocrats, such as Lucas Papademos in Greece and Monti in Italy.

On the same day Monti presented his new program to the Italian parliament, Merkel and Sarkozy met for new talks on proposals to prop up the euro. At the centre of their discussions is the introduction of semi-dictatorial powers for France and Germany in order to enforce new rounds of austerity throughout Europe.