Powerful Lobbies Stall Italian Reform Efforts

By Giada Zampano

ROME—Italy's efforts to overhaul its sclerotic economy have stalled, threatening to leave the broader eurozone mired in low growth for years to come.

Powerful lobbies and vested interests have resisted the government's push to reduce the country's bloated public spending, revamp its rigid labor laws, and rewrite electoral rules to create more political stability—measures seen as critical to jump-start Italy's moribund growth and competitiveness. Now, the anticipated resignation of the country's president next month—and the political haggling over his successor—will further delay legislative debate over a slate of reforms.

The stakes are high, both for Italy and the eurozone. Italy, now locked in a triple-dip recession, needs big changes to cope with a €2 trillion ($2.44 trillion) public debt, address poor competitiveness, and kick-start growth. Failure to overhaul the eurozone's third-largest economy would make it exceedingly difficult for the whole region to grow and could undermine the monetary policy pursued by the European Central Bank.

Speaking at an end-of-year news conference on Monday, Mr. Renzi said that "there is a sense of worry, fatigue, lack of confidence in Italy."

When Mr. Renzi rode into power 10 months ago, international pressure was high on Italy to tackle its chronic problems. Mr. Renzi won huge popularity for promises of bold action, from dismantling the privileges of a discredited political class to overhauling rigid labor regulations.

But the 39-year-old premier has encountered fierce resistance. He has had to repeatedly call votes of confidence to push his bills through. He was forced to water down plans to reform Italy's labor laws and electoral rules. Unions staged a general strike this month, and violent protests have erupted across Italy, pushing Mr. Renzi's popularity down to its lowest levels so far.

Concerns about Italy's stalled reform efforts and the threat of a new economic crisis in Europe intensified Monday after Greece was forced to call snap elections in January. Mr. Renzi brushed off worries that fresh turmoil in Greece could spread to Italy and said Italy would see a "decisive" economic recovery in 2015.

The premier also rebuffed criticism that he has failed to deliver on his promises. "We have done everything that we promised," he said. "We have made many mistakes, but we have put [our reforms] in motion....I'm sure than Italy can make it."

But the pressure on the government could grow next year, with the likely resignation of Italy's president on Wednesday promising to generate fresh political turmoil and compound the troubles the premier has had in delivering on his promises.

But the threat of a drawn-out, fractious parliamentary vote for a new Italian president could delay the passage of key bills—particularly a proposed overhaul of labor regulation now before parliament. It could even push Mr. Renzi to call snap elections to bolster his parliamentary support and push through his agenda.

Mr. Renzi's efforts to streamline Italy's five separate national police forces, which have twice as many members per capita than Germany, is emblematic of the roadblocks he faces.

Florence, a city of just 600,000 inhabitants, for instance, has about a dozen emergency call centers and eight police canteens. But heated protests by senior police officials this spring cut short a debate over reductions, forcing Mr. Renzi to settle for a modest plan to merge a relatively small forest patrol into a bigger corps and cut some overlapping functions.

"There has been and there is huge resistance," says Marianna Madia, minister in charge of overhauling Italy's public administration. "When things remain the same for a very long time, they become set in stone and that makes change slow and difficult."

An attempt to reduce the country's bloated public spending also has stumbled. Carlo Cottarelli, a former senior IMF official drafted to suggest cuts, compiled a 72-page review proposing reductions in everything from Italy's thousands of unprofitable state companies to civil servants' huge salaries.

Last summer, Mr. Renzi drew on Mr. Cottarelli's review to propose €20 billion in cuts for 2015. But when the premier presented the final budget in October, the savings, instead, totaled about €15 billion, with just a third coming from the central government. Local cities and regions were required to come up with the biggest share. Many economists found the spending review disappointing because it failed to find fresh resources to decisively cut Italy's sky-high taxes.

"Putting the burden of the cuts on the regions is tantamount to giving up," said Tito Boeri, professor at Milan's Bocconi University. A government spokesman said the government would be "vigilant" in ensuring the cuts are delivered.

Elsewhere, Mr. Renzi's signature economic measure has been a labor overhaul meant to make firing and hiring easier. Mr. Renzi initially sought new rules allowing companies to fire workers in case of an economic downturn—now very difficult—or for disciplinary reasons, which effectively opened the door to firing underperforming employees. Currently, courts often force companies to reinstate dismissed workers, "a powerful deterrent" to new hiring, says labor lawyer Roberto Pessi.

But unions have blasted the plan, staging a one-day general strike on Dec. 12. Mr. Renzi watered down his bill, which is still in parliament,

weakening the rule that would allow for dismissals for disciplinary reasons. Italy's employers association says the bill will have negligible effect on hiring.

Mr. Renzi also promised to abolish Italy's 107 provinces, a superfluous layer of local government that employs about 50,000 people. But eliminating the provinces requires changes to Italy's constitution. So the government resorted to a softer, transitional solution, whereby 20,000 of the employees would be rehired in other public offices and the provinces will keep key powers.

Italy's accounting court, a budgetary watchdog, said the effort is likely to save only about €150 million at best.