Who Says it’s Only the Economy?

Judith Harris (July 14, 2011)

On Thursday the Italian Senate passed the hastily redrafted emergency austerity budget. The situation, in a nutshell, is dire. Although Italy has the third largest economy in the Euro zone, its national debt has soared to $2.6 trillion, or 120% of its GDP. But pessimism is in the air, and the latest International Monetary Fund projection is that by the end of this year public debt will shoot up even further.

ROME, Needless to say, no one here is speaking of anything but the economy and its accessories of sovereign debt, rating agencies, government bond interest rates and what went wrong with the Euro, starting with lack of adoption of regulatory measures. On Thursday the Italian Senate passed the hastily redrafted emergency austerity budget. Given the sense of emergency, the opposition refrained from tabling any amendments to enable the rapid passage of the austerity budget cobbled together by Minister Giulio Tremonti. The lower chamber, the Camera dei Deputati, is expected to follow suit on Friday, in hopes that this will calm the markets, tugging Italy back out of its bankrupt

Euro tar pit of Greece, Portugal, Ireland and Spain..

The situation, in a nutshell, is dire. Although Italy has the third largest economy in the Euro zone, its national debt has soared to $2.6 trillion, or 120% of its GDP. But pessimism is in the air, and the latest International Monetary Fund projection is that by the end of this year public debt will shoot up even further. Panic set in when credit rating agencies downgraded Italy in June, triggering a drop in the stock market—at the moment recovering—as government bonds and bank shares were sold, presumably by speculators betting that in a few months they can pick up the same shares at a lower price.

At mid-week, following the Senate vote, the treasury announced it will sell up to $7 billion of government bonds that will mature between five and 15 years. But this raises a new problem, for the cost of debt servicing (that is, borrowing costs) touched a 14-year high, by Bloomberg calculations. Merely financing the debt will cost the nation—meaning the tax payers—some 75 billion this year but significantly more in the future, with 85 billion predicted for 2014.

The market chaos brought a truce between an obviously troubled Silvio Berlusconi, head of the government, and his League-leaning budget minister Giulio Tremonti, until only weeks ago considered a probable successor to Berlusconi himself as premier. No one bothered to conceal the hostility between the two, and Tremonti was predicted to be on the point of resigning, particularly because Neapolitan magistrates have asked for the arrest of one of Tremonti's right-hand men, Marco Milanese, accused of corruption. Gossip in industrial circles here had Tremonti himself a suspect, particularly after it emerged that he lives in Rome in a posh apartment whose $12,000 monthly rent is paid by a businessman. However, Tremonti explained that he is merely a houseguest who stays only in the bedroom he occupies in the flat, which he will give up anyway. Meantime Neapolitan magistrates leaked the news that Tremonti is not currently under investigation for corruption.

After all this brouhaha, speaking Wednesday to a banking association, former university prof Tremonti threw out a phrase, typical of erudite Italian intellectuals, in Latin: "Hic manebimus optime." Scurrying for their dictionaries, reporters learned that it means simply, "I'm not going anywhere." In other words, he has no intention of resigning. Instead the resignation that hurts is that of Mario Draghi, who, along with President Giorgio Napolitano, stands tall among Italian leaders. Draghi headed the Bank of Italy until only weeks ago, when he left to take over the same position for the Euro zone. The loss of his guidance in Italy adds to the problems.

Pro-government politicians are casting blame for the extent of public debt upon the administrations of the early 1990s; the opposition takes a different view, and a published schedule of government administrations side by side with public debt amounts shows a continuous rise over decades. Similarly being brushed aside are questions about just which austerity measures are being adopted, there being a single, simple alternative: cut expenses or raise Italy's already outrageously high taxes. To this question a senator from Berlusconi's Freedom Party (PdL) replied blithely that the package would not hurt ordinary working taxpayers much because it imposes taxes on luxury products like fancy Ferraris.

Those who say it's only the economy, stupid, got it wrong. Although free-market advocates claim that the capitalist market follows its own rules, other experts here point out that the rating agencies (accused by some of speculation) take into account the general political climate as well.

Economist Michele Boldrin, born in Padua in 1956 and educated in Venice, is one of the most authoritative of overseas Italians. He has spent the past 27 years in the US (University of Chicago, Northwestern, UCLA), and is a fellow at the Economic Policy Research Center in London. Boldrin is less than tender with the Berlusconi administration, but he also spreads the blame to the unions and the industrial aristocracy: "For the past decade our country has been in decline. Our public sector spends income that it has not produced, and spends it poorly, in an unfair way. It finances this spending in a way that is even more unjust and whacky. All this paralyzes our economic growth and makes us incapable, today, tomorrow and forever, of repaying our accumulated debt, and of offering future generations the prospect for a decent life. The entire caste of government and opposition, trade union and manufacturers union [Confindustria], refuses to recognize this banal fact. And the socio-economic elite of the country are terrorized by the risk of losing their privileges.” Italy, he concludes, has no need of an economic “maneuver” or austerity package. What it needs is “a radical change of direction.”

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