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Italy's not the new Greece. It's the new Argentina

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The Italian government's decision to bust the deficit limits it had agreed with the European Union is depressing. But it's not surprising.

It's not just that Rome is now governed by a grand coalition of extremists: Interior Minister Matteo Salvini's far-right League and Economic Development Minister Luigi Di Maio's anti-establishment 5star Movement.

For years, Italian politicians have portrayed the country's fiscal constraints as the result of foreign machinations — unfair limitations imposed by Brussels or Berlin.

Right-wingers have portrayed the financial storm that ousted then Prime Minister Silvio Berlusconi in 2011 as a conspiracy. Italy's rising cost of borrowing, they claim, was somehow weaponized to drive out one of the few politicians who stood up to Germany.

More recently, former Prime Minister Matteo Renzi demanded, and obtained, “flexibility” over Brussels-mandated budget constraints, thereby undermining the legitimacy of fiscal rules.

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Indeed, his center-left Democratic Party's electoral program promised a budget deficit of 2.9 percent — quite a bit higher than the 2.4 percent deficit the government unveiled Thursday night.

Renzi's rhetoric portrayed the negotiation over budget limits as a diplomatic skirmish with the European Commission — a framing that plays into the hands of the populists in charge of the country today.

Seen in this light, a bigger deficit is proof that Italy is staring down the European technocracy — never mind the consequences for the country's finances over the long term.

Italy's government is made up of strange bedfellows. The League is primarily concerned with restricting immigration. The 5Stars lean left; their key campaign promise was a “citizen's income” for the poorest of Italians, one they partially delivered on by busting through the EU's spending constraints.

Luigi Di Maio (left) and Matteo Salvini's view on government spending is troublesome for the long-term health of the economy | Alberto Pizzoli/AFP via Getty Images

For now, the two parties have squared their differences by agreeing to spend more freely.

At least in Renzi's times, laxer public finances were seen as a necessary counterpart to supply-side reforms. Now bigger deficits are good in themselves.

Salvini and Di Maio both champion a vulgar form of Keynesianism: a blind preference for government spending, regardless of the macroeconomic outlook.

This has dire consequences for the long-term health of the economy.

Italy's cost of borrowing has roughly doubled since the government took power last spring. This is a serious matter in a country where the public debt is over €2.2 trillion or 132 percent of GDP. It also translates into a higher cost of credit for households and businesses.

This is particularly troublesome for the enterprising, productive part of Italy: In short, the League's stronghold in the north.

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Perhaps because they lack a credible alternative now that an aging Berlusconi has been marginalized, Italy's northern entrepreneurs support the League. But the truth is that while they are getting the tougher immigration policy they desire out of the deal, they're not getting much else.

To the contrary, the government has suggested reducing the flexibility of the labor market, renationalizing the highway system and forcing shopkeepers to keep their doors closed on Sunday.

How long will the northern businesses continue to support the government? It is hard to say.

The reasons behind Italy's economic stagnation have been well known for decades: an inflexible labor market, excessive spending and taxation, over-regulation. But no government in the past 15 years has been able to push through anything but inconsequential reforms.

It's possible that the budget unveiled this week reflects an underlying acceptance among Italy's political and business classes that the country is simply incapable of reform — that Italy's descent into a Latin American-style struggling economy is now inevitable.

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This time the problem may be even worse. The government isn't just proposing a quick pop of deficit spending, followed by belt-tightening later on — a common pattern in Italy.

Higher deficit spending isn't an extraordinary measure. The government intends it to be the new normal.

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