Italy Slowly Recognizes that the Substance of 'Austerity' Matters

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Apologists for big government have regularly warned that Europe's austerity measures would push the European economy into a recession.

To some extent they've been correct, but not for the reasons they claim. So far austerity in countries like Greece and Italy have been austerity for the *private* sector, not the public.

They've attempted to close budget gaps by tax increases rather than spending cuts. Witness Mario Monti's implementation of a tax on first home purchases (sure to do wonders for your housing and construction labor markets).

Fortunately there is some small ray of hope that Italy has come to recognize the error of its ways. As **reported** in today's *Financial Times*, instead of pushing for an increase in the value-added tax, Italy will focus its next austerity measures on cutting government. As the *Financial Times* goes on to explain:

The new government's €30bn austerity package, passed in December, was heavily oriented towards tax increases rather than spending cuts, an emphasis that is now widely recognised by ministers as having driven Italy deeper into recession.

When even the *Financial Times* recognizes that tax increases are contractionary, then perhaps there is some hope for Italy (and Europe) after all. Now if we can actually get spending costs of real significance (€30 billion is a rounding error for the Italian government's budget).