



Ressort: Politik

Italy is set to get a new government today

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With Prof. Giuseppe Conte as President of the Council of Ministers, the government of 5-Star Movement (M5S) and the Lega Movement was born in Italy. After three months from elections. For the Ministry of Economy and Finance was appointed Prof. Giovanni Tria, Director of the Faculty of Economics of the University of Rome "Tor Vergata", a professor whose opinion is quite "tepid" on the Euro money and who supports

the flat tax, even at the cost of increasing VAT. Enzo Moavero Milanesi, a life in the EU institutions and former EU minister with Monti and Letta governments, has just been appointed to the Ministry of Foreign Affairs and International Cooperation.

Political crisis and massive sales on the financial markets acted as a corollary to the birth of the Italian government and several international observers were shocked by the strength of the support given, in one of the founding countries of the EU, to parties adopting an incendiary, populist and intolerant rhetoric.

It seems, from a superficial point of view, that League voters are simply trying to reduce taxes, while Five-stars Movement supporters - largely situated in the poor south dominated essentially by criminal economy - want to get easy money through the so called citizenship income.

Notably, the high poverty rate, the fragile public finances, the high spending for pensions and low spending for youth and research, and a growing social inequality are long-term issues in Italy. In particular, the new ruling parties rightfully are appealing the national and European ruling classes because they have avoided to make difficult choices on long-lasting problems.

Although the list may be longer, two particular cases apply to Italy. The first affects the public debt. Italy has the fourth highest debt-to-GDP ratio in the world, about 135%, and the government is now spending more money on interest payments than on public investments. Reinhart et al. (2015) have shown that the levels of indebtedness seen today are branded unprecedented in advanced economies "outside of wartime". They can be divided into "orthodox" (promoting growth, privatization, primary surpluses) and "unorthodox" (e.g. financial repression, inflation, restructuring, etc.).

In a country that has experienced 20 years of stagnant real GDP and has no obvious way out of this negative balance in the short term, it is more likely that radical changes will be sought rather than minor changes to the status quo.

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Italian populists are thundering about how to solve the country's problems, which they believe are based mainly on Economic and Monetary Union, on national sovereignty and on the issues concerning democratic politics. The national and European ruling classes must provide a clear answer if, in defending the European project, want to regain popularity.

Subsequently, the current populist agenda could well lead to an impoverished Italy. Anyway, highlighting the high costs of dismantling the status quo will not be enough.

The economic agenda of the Italian populists is likely to exacerbate rather than mitigate Italy's long-standing problems. And the fragmentary, small-scale approach followed by the European and national ruling elites is tolerable only for a country under normal economic conditions. If the defenders of the European project want to regain popularity, they will have to present a transparent alternative approach.

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