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The Deep Economic Roots of Italy's Political Troubles

By Mark Weisbrot
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Much of the media, and the analysts on which it relies, have provided a misleading narrative on the current political problems in Italy, following Sunday's "no" vote on a referendum on constitutional changes. It has been lumped together with Trump, Brexit, the upsurge of extreme right-wing, anti-European or racist political parties and "populism," — which in much of the media seems to be code for demagogic politicians persuading ignorant masses to vote for stupid things. "Stupid things" here is defined as whatever the establishment media doesn't like.

Of course we do not have a detailed map of why various Italian voters rejected the proposed constitutional changes. The most obvious explanation is that Prime Minister Matteo Renzi, who has been in power since February 2014, had promised to resign if the people voted no. This mobilized all of his political opponents, including those within his own party.

Those who wanted to defend Renzi had a hard sell. He was not offering a future for the country, and especially for the young people who most overwhelmingly voted "no." Unemployment is at 11.6 percent, and youth unemployment is more than 36 percent. Of the unemployed, most are long-term unemployed, having been out of work for more than a year. And there are big regional disparities, with parts of the generally less-well-off South having been harder hit since the world recession.

The IMF projects that the Italian economy will not return to its 2007 level of GDP — what the country produced nine years ago — until the mid-2020s. In other words, nearly two "lost decades," as the Fund itself noted. This is really bad, by any modern historical comparison.

In these circumstances, it is not surprising that voters across the political spectrum rejected sweeping constitutional changes that would have given much more power to the executive. The split in the electorate did not fit the standard media narrative, distilled from Brexit, Trump, etc., of the young, educated, and pro-European on one side ("yes") versus xenophobic, populist, uneducated and anti-European on the other ("no"). Young people in particular had a reason to vote overwhelmingly "no": they face a dismal future under the current regime.

In one important sense there are similarities between the rise of Trump and the fall of Renzi. Both are the result of the long-term failure of neoliberal policies implemented by the major political actors. In both cases, the center-left lost a big part of its working and middle-class base because it was jointly responsible for this failure.

In the US, the neoliberal era was launched "big league" by Ronald Reagan, but Bill Clinton became a co-owner by bringing us NAFTA, the WTO, financial deregulation, and other neoliberal structural reforms that have done permanent damage.

In Italy there have also been neoliberal reforms since the 1980s, but the most devastating was adopting the euro in 1999. Now you might think that nothing could be worse than having to say the words "President Trump," but adopting the euro put Italians in an even worse jam. They lost control over their most important macroeconomic policies (monetary, fiscal, and exchange rate), and gave it to some really wrong people in the European Commission, the European Central Bank (ECB), the Eurogroup of Finance Ministers, and the IMF.

There have been some positive changes in the eurozone since 2012, when the European Central Bank finally decided to act like a normal central bank and effectively guarantee the bonds of the largest member countries (unlike for Greece, where it insisted, together with the rest of the European authorities, on inflicting further brutal punishment). And the ECB's quantitative easing, begun in March of 2015, was a major step forward. It has played a significant role in the recovery — however weak — of the eurozone, including Italy, which finally emerged from a three-year recession in 2015.

But the European authorities are still committed to a program that promises another lost decade of mass unemployment, possibly undermining the eurozone and European Union, as inevitably angry voters look for solutions or scapegoats. The elite consensus is that the keys to recovery are in "structural reforms" — deregulation of various markets, especially labor; reduced real wages; and "internal devaluation." The theory is that such reforms increase efficiency and competitiveness and will allow for economic recovery even as the government cuts pensions, health care, and other social spending in order to pay down debt and please the "confidence fairies."

Unfortunately, Renzi is part of this consensus, voluntarily or otherwise. His Jobs Act, which took effect nearly two years ago, is typical of these structural reforms. It has gutted employee protections and made it easier to fire and lay off workers, while promising to increase long-term employment relative to temporary contracts. But the opposite has happened so far.

To recreate an economy that would give young Italians a future without having to leave the country, the country would have to leave the euro. Or, alternatively, elect a government that had a credible threat of leaving and was tough enough — presumably with allied governments in other eurozone countries —to force the eurozone authorities to change course. But the options currently on the table for whatever government emerges from the current crisis are looking pretty grim.