Telos PRIMO PIANO SCALA c

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The electric shock produced by the thoughts Prof. Bagnai shares with the readers of Primo Piano Scala *c* makes any comment redundant. Instead, we should ask ourselves why these ideas and arguments, which in many respects are backed even by representatives of the ECB, make such little headway in Italy. It is all the more urgent to find an answer to this question, at a time when the *disaffection of Italian citizens* is undermining a political system patiently built up over the last twenty years. Instead of evoking the spectre of *populism,* perhaps we should reflect on the relationship between the self-referential nature of the political debate and the decline of democratic institutions. Bipartisan majorities are indeed one of the possible options: but the agreement between the Right and Left also (and quite physiologically) ends up by curbing and marginalising any opportunity for dissent.
Even some of the very simple facts mentioned by Bagnai are hidden behind the smokescreen of a consensus unanimously erected by the political *milieu* and traditional media. Several of these facts trickle through even in the Government's policy papers: fiscal austerity has resulted in an increase rather than a decrease of the public debt, it was intended to redress the current account balance by dampening internal demand, therefore recession and high unemployment are not collateral effects of a fiscal consolidation, but the cornerstone of a correction of imbalances in our balance of payments.
The simple consideration that the political debate systematically neglects these facts should make us reflect on the state of health of our democracy. Which appears not to be undermined by the economic crisis or extemporary protest movements, but by a long term process which, together with the construction of the Monetary Union (from the EMS to the Euro), has gradually transferred control over the management of economic policies from democratically elected institutions to technocratic, supranational and non-elected bodies. This has forced political parties to agree, whether out of necessity or conviction, on a single economic policy compatible with the characteristics of the monetary union, regardless of whether or not voters agreed and even disregarding democratic decision-making processes. The famous *divorce* between the Treasury and the Bank of Italy back in 1981 has led to a structural change in how we finance the public debt and distribute resources to social expenditure, investments and economic rent: but it did not even need to be passed by Parliament. Is this economic policy a desirable one? Is it in the country's best interest? Is it neutral from the point of view of distribution of income? Alberto Bagnai has given us very clear answers, which we hope may input into a debate that Italian democracy cannot afford to ignore.

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BAGNAI

EURO: WINNERS AND LOSERS

> *"Peripheral countries were the engine of the Eurozone's growth: Germany had the second lowest growth rate in the Eurozone, a little higher than Italy. It was a heavy trailer vehicle, not an engine."*

Telos: Most people believe that the villain behind the crisis experienced by Eurozone peripheral countries is their sovereign debt. In your book, "*Il Tramonto dell'Euro*", you draw from economic doctrine a completely different pattern of interpretation. Can you explain to our readers why public debt is not the problem?

Alberto Bagnai: The Eurozone crisis was caused by private and not public debt. This explanation for the crisis - considered heretical here in Italy - is widely accepted in some of the most orthodox Institutions abroad: just read the speech by Vitor Constancio, Vice President of the ECB, delivered in Athens on 23 May 2013. Let's look at figures: in countries like Spain and Ireland, the sovereign debt/GDP ratio was negligible (lower than 40%), it was stable in Greece, and decreasing in Italy. However in these countries private debt (families, businesses) was increasing *vis-à-vis* foreign creditors. Today banks are going bust in all Eurozone countries (including the *virtuous* but rather careless creditors) because they cannot recover their loans to the private sector. At this point, the Government obviously has to intervene and, as a result, public debt increases: this is exploited as an excellent excuse to demolish pillars of the welfare State. It was the Euro that caused the boom in private debt. By eliminating the exchange rate risk, the single currency facilitated the free movement of capital within the Eurozone, in other words the accumulation of (mostly private) foreign debt by peripheral countries (the so-called PIIGS). Since there was no control over this process, it encouraged a hegemonic power (Germany) to flood peripheral countries with its own products, and give those countries the financial means to buy them. Credit from Northern countries financed consumption, not investments, in Southern Europe. Contrary to what is usually held, peripheral countries were the engine of the Eurozone's growth: Germany had the second lowest growth rate in the Eurozone, a little higher than Italy. It was a heavy trailer vehicle, not an engine.

Your book plants the seed of a rather disturbing idea in the minds of readers: the Euro has made the macroeconomic situation in Italy, and many other peripheral countries, very similar to that of emerging countries. The logical conclusion is that leaving the Euro would make Italy more stable instead of more fragile: is Italy more at risk if it stays rather than leaves the Eurozone?

Again, this is not my own finding. It was an idea expressed by Paul De Grauwe, the greatest

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expert of European monetary integration: a European citizen who indebts himself in Euros today is like a citizen in an emerging country who indebted himself in dollars in the Nineties. Today a Portuguese citizen has as much control over the emission of Euros as an Argentine citizen had over the emission of dollars. A country is considered peripheral and financially fragile when it loses it monetary sovereignty, in other words when it has to turn to the market to refinance its private and public debt. The risk Italy runs by remaining in the Eurozone is very clear: throttled by an excessively strong currency, Italian businesses will either have to delocalise, or close, or sell to foreign investors. The outcome? The death of the internal market and the ensuing need for further salary cuts in an effort to keep up with foreign markets, which can only be done by lowering the cost of labour.

Whatever happened to the various Growth and Competitiveness Agendas, ranging from the well-known ECB letter to the Monti Agenda? Would you consider cuts to the Welfare State, privatisations, and the deregulation of the labour market as a credible recipe? Above all, is the mantra of attracting foreign investors well founded? In short, what does Italy really need to *stop the decline?*

This mantra is intended to encourage the predatory behaviour of foreign capital. The results prove that there is no other rationale: nearly –5% of GDP in the last two years, a negative record for the OECD zone. We need foreign capital because our earnings, and therefore our savings, have dropped vertically since we've been crushed by the Euro. A Government concerned more about attracting foreign investments rather than helping the Italians to put money aside (by triggering growth), shows its true colours: it certainly isn't interested in Art. 47 of the Constitution ("*The Republic encourages and safeguards saving in all forms*"). The rhetoric of flexibility is also wearing thin: OECD indicators clearly demonstrate that Italy opened up its labour market well before Germany, and to a much greater extent. But economists are now asking themselves whether labour flexibility is the right substitute for a flexible exchange rate. When flexibility turns into job insecurity, a worker cannot improve his skills as his company grows. This kind of flexibility is good for large service enterprises (large scale distribution, call centres, etc.), often already owned by foreigners, but it penalises small and medium sized manufacturing enterprises, the backbone of our system. The meltdown in Italy's labour productivity is clearly due, among others, to these reforms.

The problem in Europe is political as well as economic: the democratic deficit in decision-making processes regarding important economic policies appears to have worsened. You are committed to disseminating information, especially online: to what extent and in what ways do you think it's possible to induce a bottom-up change?

My choice reflects my perception of what I feel the civil duties of an intellectual should be: to disseminate information and culture. A person does his duty because he feels he should, not because he expects something in return. The creation of the single currency based on the stated assumption (for example by Mario Monti) that the technically incorrect choice to adopt the Euro would have caused economic crises, and this in turn would have prompted citizens to *do the right thing*, in other words to do what the *élite* told them is the best thing (a hypothetical *more Europe*). In short, the Euro, rather than a currency, is an elitist, paternalistic, and classist method of Government. The democratic deficit which is now emerging was therefore an essential and intentional element of European construction. However despite the fact I am committed to inform citizens, I'm not particularly enamoured of a *bottom-up* approach to implement change: in any case it would be a lopsided battle. I'm afraid that the only slim and rather remote chance we have is that the European *élite* finally come to understand that the economic suicide of our continent will inevitably affect them as well.

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