

the Italian political puzzle 20 years after the Maastricht treaty

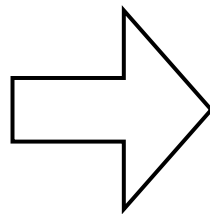
- ▶ Revolutions require either blood or time. I prefer time. (Romano Prodi)
- ▶ A carriage going uphill too slowly eventually recedes. (Andrei Sakharov 1921-1989)
- ▶ Until Greece and Spain exist, we will never be the last ones. (Gioachino Rossini 1792-1868)

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the European Dream and the 1993 Maastricht criteria

The Maastricht criteria (also known as convergence criteria) are the criteria for European Union member states to enter the third stage of European Economic and Monetary Union (EMU) and adopt the euro as their currency. They impose control over inflation, public debt and the public deficit, exchange rate stability and the convergence of interest rates. The purpose of setting the criteria is to maintain the price stability within the Eurozone even with the inclusion of new member states. **The underlying dream was that the common currency would drive and accelerate further steps in the federation process and push less organized countries to converge faster towards European standards so that when today's students and postdocs are our age, Europe has already become very much like a big Switzerland...**

1. Inflation rates

No more than 1.5 percentage points higher than the average of the three best performing (lowest inflation) member states of the EU.

2. Government finance

2.a. Annual government deficit – The ratio of the annual government deficit to gross domestic product (GDP) must not exceed 3% at the end of the preceding fiscal year. If not, it is at least required to reach a level close to 3%. Only exceptional and temporary excesses would be granted for exceptional cases.

2.b. Government debt – The ratio of gross government debt to GDP must not exceed 60% at the end of the preceding fiscal year. Even if the target cannot be achieved due to the specific conditions, the ratio must have sufficiently diminished and must be approaching the reference value at a satisfactory pace. As of the end of 2010, only six EU member states, [Bulgaria, Estonia, Poland, Luxembourg, Finland and the Czech Republic], still meet this target.

3. Exchange rate

Applicant countries should have joined the exchange-rate mechanism under the European Monetary System for two consecutive years and should not have devalued its currency during this period.

4. Long-term interest rates

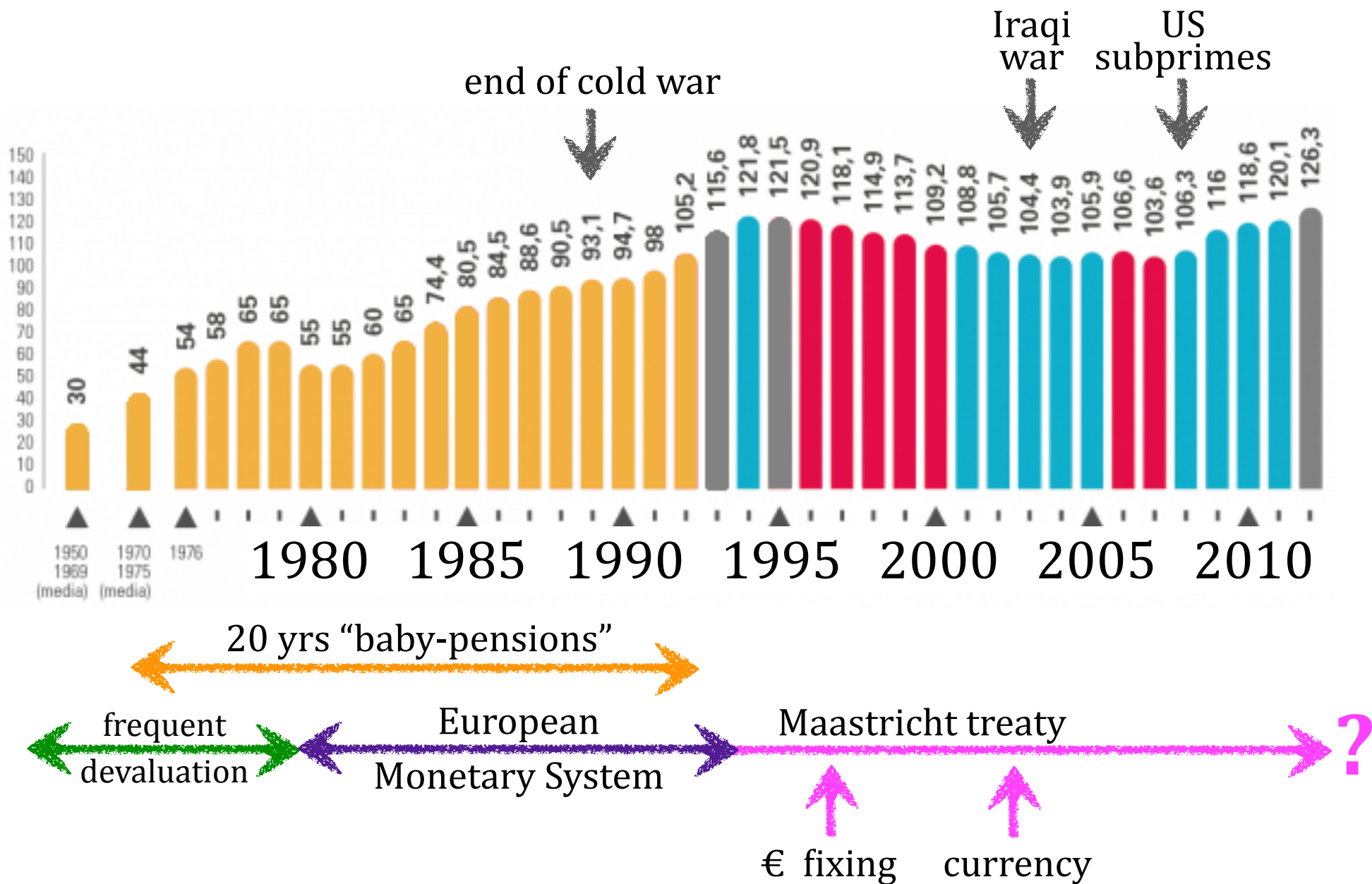
The nominal long-term interest rate must not be more than 2 percentage points higher than in the three lowest inflation member states.

the government debt over the last ~60 years

1. Public spending may be very roughly split into "minimum state" (police, judges, army) and "welfare" (health, school). [NB The pension system is ambiguous: under equilibrium conditions, if well designed, it could require minor public spending (most of it being balanced by contributions); but in many countries it went out of equilibrium for reasons including ill design, demographic changes, bad political decisions; thus becoming, in practice, an additional, often relevant portion of the welfare public spending.]
2. In more or less all developed countries the "minimum state" has remained approximately constant after WW2, while "welfare" enormously grew, and public spending grew with it.
3. The **government debt** (or public debt), which manifests itself as the bonds issued by the Treasury, is formed when the government spending is greater than its revenue - the budget deficit. This difference, **if not financed by the issuance of currency**, is covered by the issuance of **bonds**.
4. Those countries whose tax increase was not too far from the growth of spending have today limited debts. Others have spent quickly while taxes grew slowly, whence the large deficit, which over the years produces a large debt, exponentially boosted by the interests to be paid on previously issued bonds.
5. The relevant Maastricht parameter is the ratio of gross government debt to gross domestic product; in times of economic crisis the GDP decreases and the parameter can go wild even with an acceptable debt.
6. **Italy** presently spends more than other countries, but not much more. In some key services, like school, it by now spends less than most European countries. Since 1990 the primary budget (collected taxes minus current expenses before paying interests on state bonds) has been, depending on governments, either healthy or not too unhealthy, i.e., either a small surplus or a small deficit. Our gigantic debt mainly comes from the past: for too many years we collected significantly less taxes than the money we spent. Over the same period of time our economic growth was less and less robust, and over the last years it was negative (recession), which impacts on budget equilibrium (taxes grow as the GDP grows) and on the Maastricht parameter (where the GDP is at the denominator).

Italy's debt, from baby pensions to the Euro

(shown: ratio of gross government debt to gross domestic product)

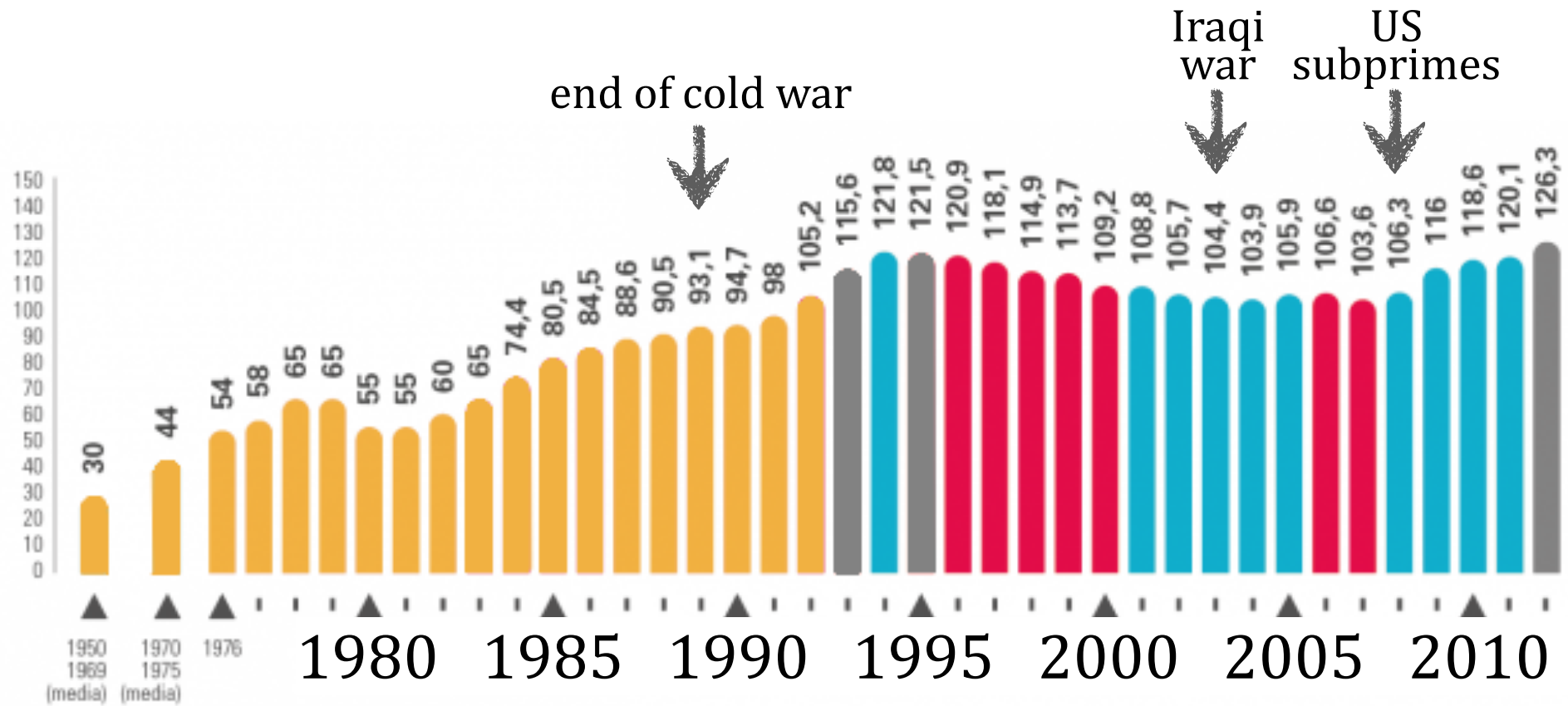


Voting laws

- **Proportional law:** "heavy" political parties and exact representation (a party receiving 15% of the votes gets 15% of the seats for its candidates); the possible role of ground-state citizens in selecting their representatives (but high costs because of **large districts**); less stable governments; why it was introduced and how it was abandoned (referendum).
- **Single-member district:** emphasis on individual candidates bound to local communities (**small districts**) and government programs and stability (induces bipolarization); "light" political parties; simple plurality voting system, first-past-the-post or winner-takes-all; drawbacks, correction: primary elections **or** two-round single-member constituency.
- Also, a few **constitutional amendments** would help avoid duplication of work and loss of time with two identical legislative bodies (transform the Senate in something like the Bundesrat); we should also strengthen the prime minister's role, prohibit conflicts of interest and simultaneous political power and media ownership, regulate by law political parties.
- Instead, in 2005, Berlusconi and his allies imposed a crazy new Constitution (which was rejected by a referendum) plus a horrible voting law (which we still have) humorously called **Porcellum** by the politician who actually wrote it! It's a messy voting system, with no equivalent in the world, whose practical purpose was to reduce the expected loss of his coalition; to obtain that, it combines all drawbacks (party leaders rather than citizens decide which candidates are elected; the law strongly distorts representation yet it destroys "bipolarization" and does not guarantee the existence of a stable government). When I show the Parliament produced by this law in the recent general elections of last february and its relation to the votes, you will judge yourself.

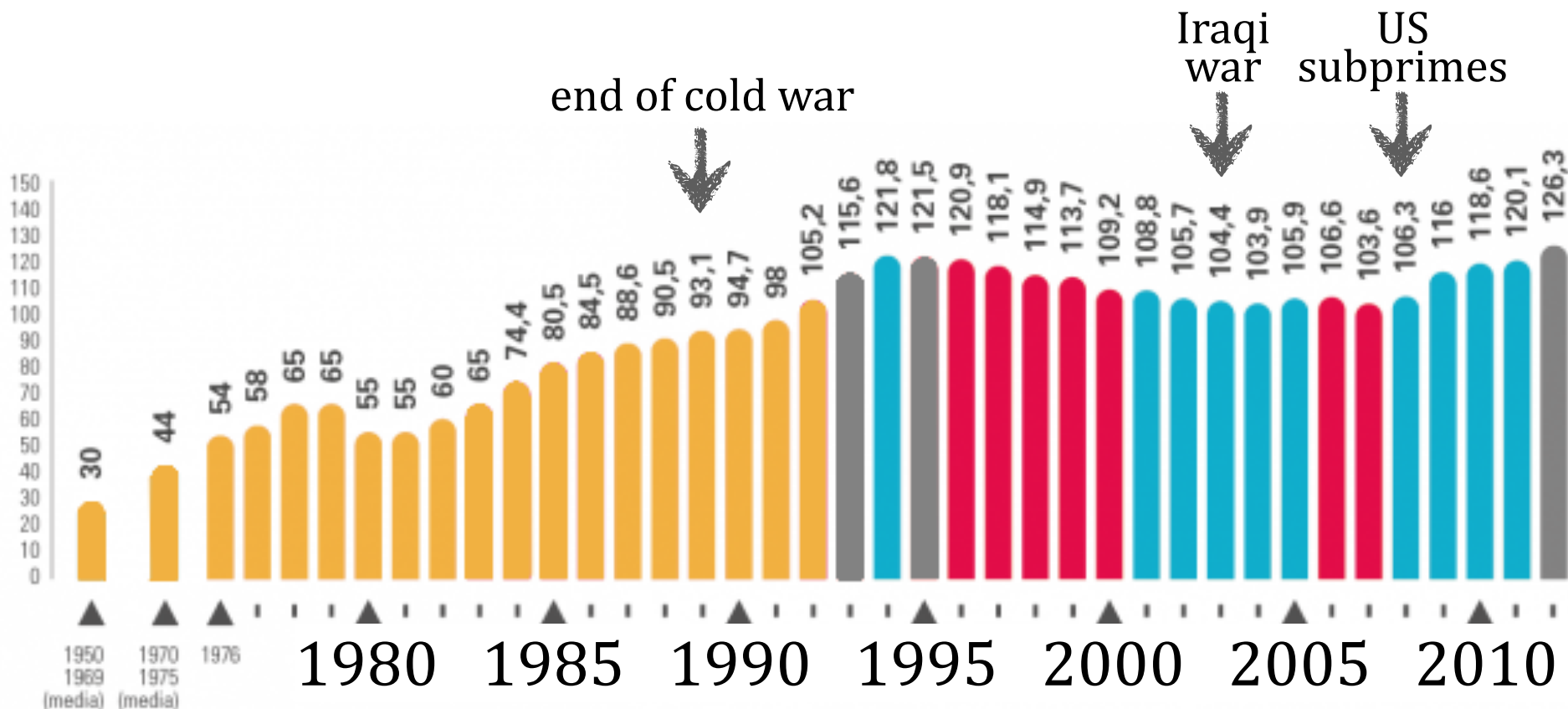
Italy's debt and its voting law

(shown: ratio of gross government debt to gross domestic product)



Italy's debt and its governments

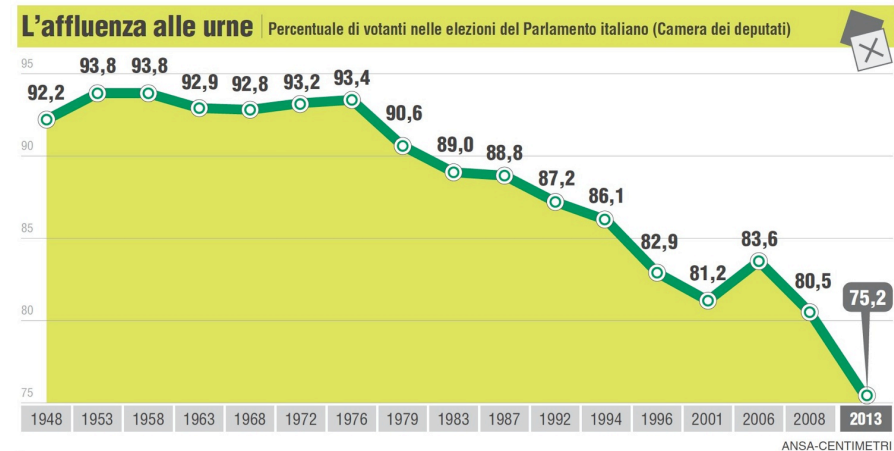
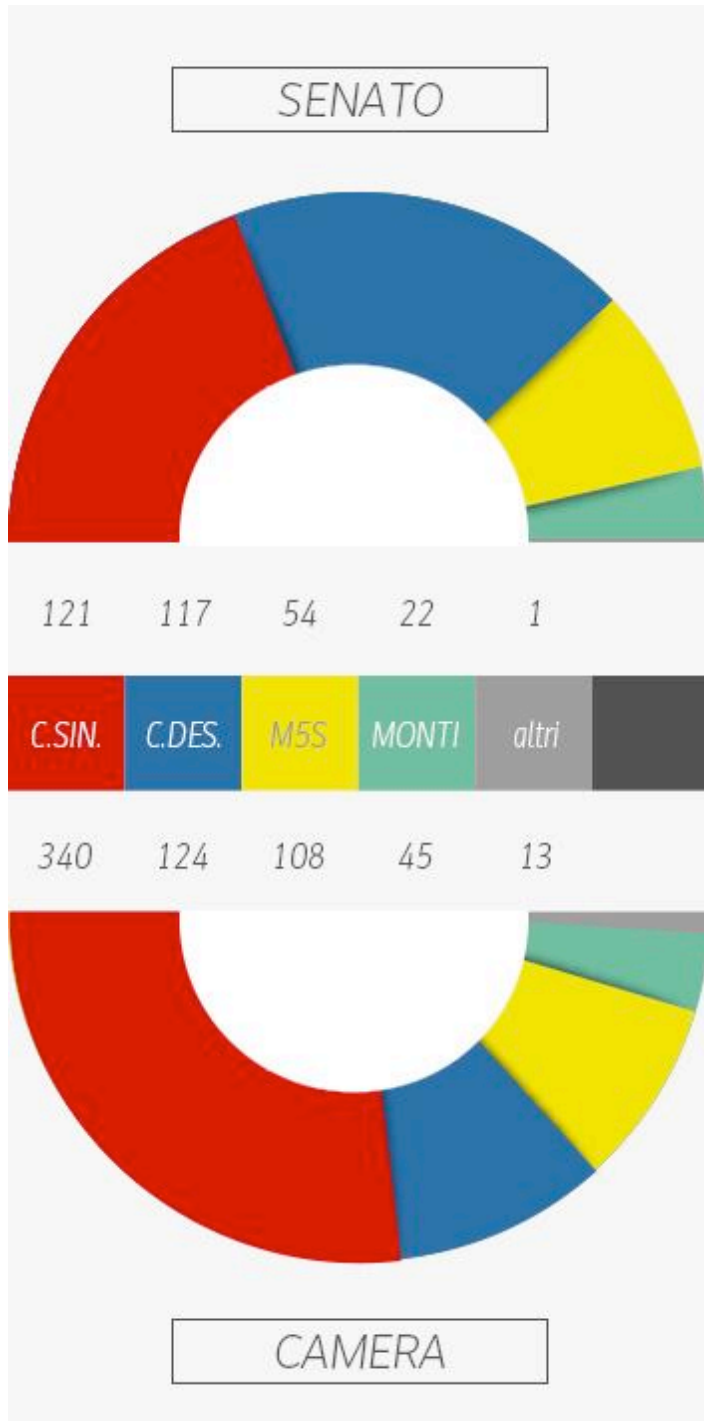
(shown: ratio of gross government debt to gross domestic product)



Hopes and efforts: for nothing?

I GOVERNI	FORLANI	CRAXI	DE MITA	CIAMPI	PRODI	BERLUSCONI	MONTI
Gli esecutivi che hanno retto il Paese	18 ottobre 1980 28 giugno 1981	4 agosto 1983 17 aprile 1987	VI governo 13 aprile 1988 22 luglio 1989	28 aprile 1993 10 maggio 1994	17 maggio 1996 21 ottobre 1998	II-III governo 11 giugno 2001 17 maggio 2006	16 novembre 2011 28 aprile 2013
ANDREOTTI	SPADOLINI	FANFANI	ANDREOTTI	BERLUSCONI	D'ALEMA	PRODI	?
III-IV-V governo 29 luglio 1976 4 agosto 1979	I-II governo 28 ottobre 1981 1° dicembre 1982	VI governo 17 aprile 1987 28 luglio 1987	VI-VII governo 22 luglio 1989 28 giugno 1992	10 maggio 1994 17 gennaio 1995	I-II governo 21 ottobre 1998 25 aprile 2000	II governo 17 maggio 2006 8 maggio 2008	!
ANDREOTTI	FANFANI	GORIA	AMATO	DINI	AMATO	BERLUSCONI	LETTA
I-II governo 4 agosto 1976 18 ottobre 1979	V governo 1° dicembre 1982 4 agosto 1983	28 luglio 1987 13 aprile 1988	I governo 28 giugno 1992 28 aprile 1993	17 gennaio 1995 17 maggio 1996	II governo 25 aprile 2000 11 giugno 2001	IV governo 8 maggio 2008 16 novembre 2011	28 aprile 2013 ad oggi

results, february 2013



from EU nightmare back to the EU dream?

- I presented some Italian peculiarities (see Rossini); however, the financial crisis imported from the US threw many other EU states into a similar economic crisis and associated political despair
- Italian voting laws and bad habits didn't help, but the insufficient success of the strongly pro-Europe democratic coalition in the last elections also reflects the loss of hope of many people who, this time, did not vote at all or wasted their vote into useless protest
- Italy and others are painfully complying with EU prescriptions, but this seems to cause further recession, which in turn worsens rather than improving already critical national budgets
- further momentum to overcome the hill is needed (see Sakharov): how to regain it? maybe with the election of the next European Parliament with constitutional powers, a quantum leap in terms of federal economic, defense and foreign policies? maybe with a new German leadership which (a) understands the enormous risks undergone by Germany (let alone by the others) if the carriage inverts its motion and falls back breaking into pieces, and thus (b) sets the relaunch of the EU federal process as one of its main priorities?