Italy To 'Nationalize' EU Economic Policy

by Claudio Celani

A debate on urgently rejecting the current European economic policy has broken out in Italy, prompted by figures showing the worsening of public accounts as a result of a serious slump in production. Several Cabinet members have issued public statements urging the review of the malthusian 3% cap on the public budget deficit, imposed by the European Stability Pact; or, proposing to bypass it, by not including investment expenses in the calculation of the deficit. The move, reflecting proposals made repeatedly to audiences of Italian elected officials by Lyndon LaRouche, could be crucial to an infrastructure-led recovery.

Italy has always been critical of the rigid Maastricht criteria, which have forced the country to enforce large budget cuts affecting the pension, school and health systems, and which, above all, have blocked any infrastructural investment for more than a decade. Italians, however, have so far abstained from officially calling for a review, because, Italy is the country with the highest public debt.

But now, with both France and Germany facing increasing public deficit and production crises, the Maastricht parameters are no longer a "sacred cow" in those countries, either. The three largest economies in the European Union are dangerously close to the 3% limit established as the maximum allowed ratio between deficit and GNP: France is 1.4%, Italy 2.2% and Germany 2.7%. These figures will worsen in the next few months, as the economic crisis worsens. The Italian government will therefore meet on Sept. 30 to discuss how to raise the new policy with its European partners.

EU Head vs. Italy

The debate on economic policy inevitably puts on the table the issue of sovereignty in Europe. The current technocratic "Europe-wide government," the European Commission, is the staunchest enforcer of the malthusian Stability Pact. EU chairman Romano Prodi has an Italian passport, but is first a technocrat. Thus, he felt compelled to react arrogantly against his country, by stating that the Stability Pact is "an indispensable regulation."

But the power of the European Commission might come to an early end if, as indicated by several European governments, decision-making power is moved out of Brussels, back into the hands of the European Council of Ministers, and, to a large extent, back to the level of the single national states and their elected governments. Anticipating this fight, several members of the Italian Cabinet, and of the government coalition in Parliament, have warned that any decision on European economic policy must be taken by member countries, and not by the supranational commission. Rocco Buttiglione, Minister for European Policy, declared that "The Stability Pact was not made by the Commission, and the Commission cannot decide on its modification. It was made by the heads of state and government, and its modification should be decided by the European Council of Ministers."

Even more explicit was Culture minister Giuliano Urbani, who told the Turin daily *La Stampa* Aug. 14: "We need a Europe which takes less common decisions and defers them to direct relationships among national governments. . . . At the end, it will be the national governments which decide." Urbani said that "The review of the Stability Pact is mandatory," and that "investments have to be excluded from the calculation of budget expenses." The same proposal was supported by another cabinet member, Carlo Giovanardi, in an interview with the daily *Avvenire,* while the chairman of the Parliament Budget Committee, Giancarlo Giorgietti, declared: "We want production to start again."

The proposal of not counting investments—i.e., economic infrastructure projects—as expenses against a government deficit, is not new. The first to formulate it was Franco Modigliani, an Italian-American economist at MIT who won a Nobel Prize a few years ago. He stressed that such practice belongs to traditional economic accounting, and that the Maastricht Treaty actually introduced an aberration.

Opposition Is Split on Government Move

Whereas the government parties share this view, the center-left opposition is split. Leaders such as former Labor minister Cesare Salvi, considered a "leftist," but also former Premier Massimo D'Alema, a moderate, agree on a change. Economist Napoleone Colajanni, a Social Democrat, said: "The idea itself of a Pact is an idiocy: You cannot connect real figures, such as current expenses and income. . . . The question today is development." Greens leader Alfonso Pecoraro Scanio, a former Agriculture minister, also said: "We cannot become the supporters of a radical monetarism." But other opposition leaders, like Luciano Violante, raise a defense of "economic rigor" and of the Stability Pact.

This is no surprise, for those who know that Violante, a former prosecutor, is reported to be the secret head of the "Clean Hands" faction, the man who led the assault against his political opponents in 1992 with the political use of justice. That assault paved the way for a decade of technocratic governments which, in order to "balance the budget," have sold one-third of the Italian economy to foreign interests. Such defenders of "economic rigor" appear pathetic before a reality in which Italian industrial output lost 5% in May, in comparison to the same month of 2001, and the trend is for further downturn.

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