# No retreat from austerity in Italy

**Chris Marsden**
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It took just one day and a visit to Berlin for newly installed Italian prime minister Enrico Letta's pledges to shift from policies of austerity to economic growth to be exposed as a mixture of false promises, evasions and flat-out lies.

Letta, of the Democratic Party (PD), heads a grand coalition that includes media mogul Silvio Berlusconi's People of Liberty (PdL). It was formed at the behest of President Giorgio Napolitano, an aging Stalinist, aiming to continue the savage austerity measures imposed by the previous unelected technocratic administration of Mario Monti.

Achieving this is no easy task, given the extraordinary crisis facing Italian capitalism.

Italy's national debt will rise to 130.4 percent of gross domestic product this year, despite the austerity measures imposed. Since 2008, its gross domestic product has shrunk by 5 percent and industrial output has declined by a quarter. The Bank of Italy's latest financial stability report shows that 7.2 percent of all corporate loans are now in arrears, led by the building industry, and a further deterioration is taking place.

Even if Italy could continue borrowing at 4 percent interest rates, its economy would need to grow by 5 percent for its debts not to rise as a proportion of GDP. Instead, the economy will in fact shrink by 1.3 percent this year, by the government's own calculations, and borrowing costs will rise.

More important still, the ruling class and the political elite must contend with massive anger in the working class over growing hardship and rising unemployment, which stands at 11.6 percent and affects one third of young people. This anger has found little organised expression as yet, because Italy's trade unions are suppressing opposition to the employers and government austerity programmes. But this situation cannot be sustained indefinitely, especially amid a sharp deterioration in the economic fortunes of European capitalism.

A stark expression of the social misery that is developing in Italy was provided by the shooting of two police officers, one seriously wounded, by Luigi Preiti, 49, motivated by anger at the loss of his job and the ending of his marriage.

In parliament Monday, the nominal left lower house speaker, Laura Boldrini, warned, "There's a social emergency that needs answers and our politicians have to start giving them."

But Letta, whose party is already in a shambles, could only offer a speech filled with contradictory promises—pledging to honour Italy's promises to the European Union (EU) and International Monetary Fund (IMF) to impose cuts, while stimulating the economy and coming to the aid of the most beleaguered.

"We will die of fiscal consolidation alone, growth policies cannot wait any longer," he declared, adding that Italy's €2 trillion debt "weighs heavily" on ordinary Italians. As a result, Europe was suffering from "a crisis of legitimacy."

The political class must respond to growing anti-establishment sentiment, he warned.

Letta pledged to reduce taxes on workers and young people to stimulate economic growth, to work with Italy's unions to bring down unemployment, and to champion a "welfare system which is more universal, more focused on young people and women, extending it to those who are not covered, especially temporary workers."

However, when it came to concrete measures, Letta offered little. Instead of abandoning the widely unpopular housing tax, in line with a PdL campaign pledge, it will be suspended in June and reviewed. Only plans to increase Italy's VAT rate by 1 percent to 22 percent were abandoned.

Abandoning the housing tax will cost €8 billion in state revenues , and not collecting it in June will leave a

€2 billion shortfall. Letta made no attempt to show how doing this was compatible with the declaration by his foreign minister Emma Bonino that Italy cannot change the fiscal commitments made with the EU and IMF for this year.

"Italy cannot re-negotiate the 2.9 percent," Bonino told reporters in parliament. This implies that Letta was pinning his hopes on renegotiating terms of debt repayments as demanded Monday by Berlusconi and echoed by PD industry minister Flavio Zanonato.

Such demands offer nothing for working people. According to Zanonato, they centre on suggestions to "pursue a credible economic policy to maintain its reputation in Europe and keep the spread between Italian and German bond yields low", while excluding investment spending from the European Stability Pact.

For his part, the minister of economy and finance, the former deputy governor of the Bank of Italy, Fabrizio Saccomanni, spoke of restructuring the state budget and cutting public spending—indicating that the axe will merely fall elsewhere.

Even prior to Letta's departure for Berlin for discussions with German chancellor Angela Merkel, the rating agency Standard & Poor's gave a negative verdict on Letta's pledges to restore growth. Echoing Moody's, it kept Italy's sovereign debt rating at "BBB+"—just two notches above junk grade and with a negative outlook.

Things only got worse for Letta later that day. At a joint press conference with Merkel, Letta spoke cryptically of the need to reach a synthesis between reform and growth measures and of Europe, showing "the same determination to pursue growth as it does to maintain sound public finances."

But Merkel gave him short shrift, stating that she saw no contradiction between budgetary discipline and the goal of economic growth.

"For us in Germany, budgetary consolidation and growth are not at cross-purposes but have to go hand in hand to lead to greater competitiveness and therefore more jobs," she said. "We want to ensure Europe emerges from this crisis stronger than it went into it. As part of that, every country must do its part."

Her caveat that "Italy has taken considerable steps in this regard" only indicates that further steps are considered necessary.

"Growth allows solid finances, solid financing creates the prerequisites for growth," she added. "But it is important that we don't see growth as something where we spend public money, but where companies feel able to invest and create jobs. That's why we need structural reforms and less bureaucracy."

Letta responded with a promise to honour all reform commitments of the previous Monti government and pledged to fill the €8 billion funding gap left by abandoning the housing tax—i.e., by pledging further austerity measures.

Letta met with French president François Hollande in Paris yesterday, before departing for Brussels for talks with European Commission president Jose Manuel Barroso. But whatever additional rhetoric emerges from discussions with these ostensibly more sympathetic ears, nothing can be expected by working people in Italy or the rest of Europe from any section of the bourgeoisie to alleviate the terrible social hardship they face.

The Letta government as well as governments in other countries hardest hit by the debt crisis, such as Greece and Spain, may ask for some leeway from the German government. However, they all agree that the working class must continue to foot the bill for the crisis. Moreover, in the name of "restructuring", they offer as an alternative to an exclusive emphasis on budget cuts measures to step up the rate of exploitation of the working class through speed-ups, wage cuts, rationalisations and privatising of public assets.

Such calls for a shift in strategy—which would amount only to inflicting pain and austerity through other means—have repeatedly foundered on the conflicting national interests of the European powers.