

Talking Financial Turkey on a Summer Yacht

Judith Harris (August 19, 2016)



An important three-way summit brings together Matteo Renzi, François Hollande and Angela Merkel, meeting on board ship Aug. 22 off the isle of Ventotene. On the storm-tossed agenda: Brexit and the Italian economy.

ROME -- It's showtime in the big Italian yacht basins, and one of those seaworthy individuals attracting attention is none other than politician Beppe Grillo, a guest aboard a manufacturing friend's big boat that docks at Porto Cervo in Sardinia. Elsewhere the yacht crowd is even more seriously big time. An important three-way summit brings together Italian Premier Matteo Renzi, French President François Hollande and German Chancellor Angela Merkel, on board ship Aug. 22 off



the beautiful isle of Ventotene, which lies between the regions of Lazio and the Campania.

Its agenda is attracting more interest than the fact of the shipboard encounter. High on the list is what position this Big Three of the European Union will take in regard to Brexit. Merkel, who met last month with the new British Prime Minister Theresa May, is willing to postpone the British exit from the EU by at least a year, according to British press reports. "We are listening to the UK, we are listening to what Britain actually wants and then we will give the right response," Merkel told reporters July 19. However, other EU countries are insisting that the UK be punished by pushing forward its withdrawal; hence the importance of Renzi's and Hollande's positions.

For Renzi, support of the Merkel-May position may be a bargaining chip for obtaining help on the problem of Italian public debt, widely criticized for having reached 135% over the annual Gross Domestic Product (GDP). In a swap for a slow-down on Brexit, Renzi is expected to ask Merkel simply to shut an eye to the problem, although even if she and Hollande agree to do so, the problem remains. While it is generally believed that a major input of public spending will produce the famous Keynesian multiplier effect, by which every Euro invested passes through up to seven hands, thus multiplying itself and triggering economic revival as during the Thirties, new studies challenge this: if a state borrows excessively, the surge in interest rates actually undermines the value of the investment, and worsens the picture.

In recent days the Italian political situation has come under fire from authoritative media in the U.S. as well as in Europe. The Wall Street Journal, for one, called Rome "the cause of the European stomach ache." Other international journals point out that the Italian economic crisis far predated the general disaster of 2008 caused by banking scandals. The problems will hit the fan this autumn, when Italy is to vote a referendum on voting and on a radical reduction of the Senate, in hopes that change will make the political process more efficient.

Renzi now acknowledges that he had made a mistake by his earlier identifying a "yes" vote with approval of his governance, and a "no" vote with disapproval of him personally. As Renzi's popularity has waned, he has tried to backtrack, but the autumn referendum remains a huge risk: a victory for the "no's" will bring down his government, making new elections inevitable. In that case, who might succeed Renzi? Possibly a candidate promoted by that man enjoying the yacht off Sardinia; in June's local elections, 19 out of 20 townships went to his Movimento Cinque Stelle (M5S) candidates, including in Rome and Turin.

Still, Grillo's party is coming under close scrutiny because of the signs of muddle in the city of Rome, where his M5S faces its first tough test of actually governing, as opposed to campaign rhetoric. Polls this August give the M5S Mayor Virginia Raggi a popularity rating of around 46%, but even more of those queried say they have little or no confidence in her, for a total 52% (Winpoll test with 1,500 interviewed).

Raggi's troubles come not only from the delays in dealing with the rubbish crisis, but also over her cabinet appointments of people earning unusually large salaries by Italian standards. The head of her office is now earning E200,000 (\$225,377) annually, and, when challenged over this, snapped, "I am not a charity." One of her advisors, a specialist in rubbish, has received over one million euros as a consultant for the previous administrations which are being blamed for the current garbage problems.



If the Summit partners discuss the Italian economy, they will have to deal with deeply serious problems that go beyond the trash crisis in Rome. First and foremost is the low growth of the Italian GDP, exactly 0% in the second quarter of 2016 over the first quarter, and just 0.7% over the same period of 2015. Renzi's economic czar Pier Carlo Padoan makes assurances that the public accounts are "under control." Growth throughout the EU has slowed down, with just 0.3% in the Eurozone and 0.6% in the UK, but Italy's flat zero growth is troublesome. Government efforts to cut expenses take their own toll: for the past six years schools have been put on a harsh diet, with the result that the Court of Accounts shows a decrease in teaching staff of 9% and teachers' salaries blocked at E1,300 (\$1,465) monthly.

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