There is something rotten in macroeconomic imbalance procedure

Ruggero Paladini

On 5 March, the European Commission has published an in-depth analysis on "macroeconomic imbalances" finding, according to the rules of the fiscal compact, the countries in critical situation. Which implies the need for adjustments under penalty that can reach up to 0.5% of GDP. There are three countries: Italy, Croatia and Slovenia. It makes you think that it is the proximity of Italy to drag the two countries of the former Yugoslavia in the dock.

Of course the first question is how did miss Germany, who also came to a current account surplus that exceeds the limit of 6% of GDP. The answer is that the measures to increase domestic demand, by the coalition government, will stimulate imports, so that the surplus will decrease. So no problems for Germany.
Let us focus on Italy, and compare some of the data taken from the Eurostat website dedicated just to macroeconomic imbalances, comparing the Italian situation with that of two other southern European countries (leaving aside the Greek case, too different and dramatic). Look at Table I, taking the latest data, for 2012, all in relation to GDP:

Table I

2012	Italy	Portugal	Spain
Current account balance*	-2,3	-6,5	-3,1
Net international investiment position	-26,4	-115,4	-91,4
Gross private debt	126,4	223,7	193,4

*tree years average

The data for these three indicators seem favourable to Italy. The current account balance is in the red (but the trade balance is in surplus for all three countries), and it is better for Italy than for Spain and especially Portugal. Not to mention the other two indicators, where the difference, in favour of Italy, is even greater. Then look at two other indicators of macroeconomic imbalance, with Table II:

Table II

2012	Italy	Portugal	Spain
Nominal labor change	3,1	-5,3	-5,6
Gross public debt	127	124,1	86

Well, now here we are: the Italian public debt is higher than that of Spain; with Portugal the difference is minimal, and it should be noted that, through the European fund EFSF, Italy is a creditor of Portugal. But perhaps the most significant is the increase in the cost of labour, compared to a sharp fall in the two Iberian countries. The Commission's report recognizes that in 2013 the cost of labour has increased in line with that of the euro, but

this is not enough.

Obviously there would be some objections: it is true that the Italian debt is higher, but the deficit is lower. The OECD estimates are:

Table III

Deficit-GDP ratio	2013	2014
Italy	3	2,8
Portugal	5,7	4,6
Spain	6,7	6,1

So if the Italian debt is higher, the deficit, which is the first factor that determines the dynamic of the debt-GDP ratio is lower. Zsolt Darvas of Bruegel, Brussels's economic think-tank, on September 3, 2013, calculated, using plausible parameters, that towards 2020 the Spanish debt will exceed the Italian one of ten percentage points.

The likely response by Olli Rehn would be: but the deficit is not an indicator considered in the excessive deficit procedure. It makes you wonder why. Perhaps the real reason lies in the fact that Italy, in the opinion of the Commission, did not cut enough spending. In the 2010-2012 period the decrease of public consumption was 19% in Portugal, 7.1% in Spain, and only 3% in Italy (Eurostat data). No matter that the government consumption in Italy is well below the European average.

Turning to the issue of competitiveness, the Portuguese export increased by 35.2%, and the Spanish one slightly less, 34.1%. A remarkable performance. And Italy? Well, Italy has achieved 31.2%. Less than the Iberian countries, but just a little. For a country that has a "serious" problem of competitiveness it is not that bad.

In fact, the Commission thinks and judges based on two objectives: cutting public spending and wages. The goal is the "Modell Deutschland uber alles" said a year ago the Financial Times. It is mission impossible; Keynes has already written all the madness when each country try to go into surplus.

Mind you, each country got its problem with public spending. In Italy, more than in others, partly because of organized crime, corruptions and inefficiencies lurk. In particular purchases of goods and services and public works offer many occasions of bribery. It is this field that need to be tackled, together with that of tax evasion. The goal should not be the decrease of public services and the public apparatus in general, but the efficiency of the sector. But the Italian employers are not exempt from liability: the efficiency in areas protected from the competition is very poor, the quality of managers low, the tendency to favour areas with safe performance continues.