

**World Affairs**

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**[Roman Europe?](https://www.project-syndicate.org/commentary/italy-not-germany-leads-europe-by-anatole-kaletsky-2016-04%22%20%5Ct%20%22_blank)**

BERLIN/VENICE – As the European Union begins to disintegrate, who can provide the leadership to save it? German Chancellor Angela Merkel is widely credited with finally answering Henry Kissinger’s famous question about the Western alliance: “What is the phone number for Europe?” But if Europe’s phone number has a German dialing code, it goes through to an automated answer: “Nein zu Allem.”

This phrase – “No to everything” – is how [Mario Draghi](https://www.project-syndicate.org/columnist/mario-draghi), the European Central Bank president, [recently described](https://www.ecb.europa.eu/press/pressconf/2016/html/is160310.en.html) the standard German response to all economic initiatives aimed at strengthening Europe. A classic case was [Merkel’s veto](http://www.ft.com/cms/s/0/dfe66cbe-0625-11e6-9b51-0fb5e65703ce.html#axzz46NduYs3T) of a proposal by Italian Prime Minister Matteo Renzi to fund refugee programs in Europe, North Africa, and Turkey through an issue of EU bonds, an efficient and low-cost idea also advanced by leading financiers such as [George Soros](https://www.project-syndicate.org/commentary/surge-funding-european-refugeee-crisis-by-george-soros-2016-04).

Merkel’s high-handed refusal even to consider broader European interests if these threaten her domestic popularity has become a recurring nightmare for other EU leaders. This refusal underpins not only her economic and immigration policies, but also her bullying of Greece, her support for coal subsidies, her [backing of German carmakers over diesel emissions](http://www.ft.com/cms/s/0/f54880d4-0638-11e6-9b51-0fb5e65703ce.html), her kowtowing to Turkey on press freedom, and her mismanagement of the Minsk agreement in Ukraine. In short, Merkel has done more to damage the EU than any living politician, while constantly proclaiming her passion for “the European project.”

But where can a Europe disillusioned with German leadership now turn? The obvious candidates will not or cannot take on the role: Britain has excluded itself; France is paralyzed until next year’s presidential election and possibly beyond; and Spain cannot even form a government.

That leaves Italy, a country that, having dominated Europe’s politics and culture for most of its history, is now treated as “peripheral.” But Italy is resuming its historic role as a source of Europe’s best ideas and leadership in politics, and also, most surprisingly, in economics.

Draghi’s transformation of the ECB into the world’s most creative and proactive central bank is the clearest example of this. The enormous program of quantitative easing that Draghi pushed through, against German opposition, has saved the euro by circumventing the Maastricht Treaty’s rules against monetizing or mutualizing government debts.

Last month, Draghi became the first central banker to take seriously the idea of [helicopter money](http://uk.reuters.com/article/ecb-policy-germany-idUKL5N17E1N3?feedType%3DRSS%26feedName%3DrbssFinancialServicesAndRealEstateNews) – the direct distribution of newly created money from the central bank to eurozone residents. Germany’s leaders have reacted furiously and are now subjecting Draghi to [nationalistic personal attacks](http://www.ft.com/cms/s/0/73bd1d6e-06dc-11e6-9b51-0fb5e65703ce.html?ftcamp=crm/email//nbe/MarketsAfternoon/product#axzz46NduYs3T).

Less visibly, Italy has also led a quiet rebellion against the pre-Keynesian economics of the German government and the European Commission. In [EU councils](http://www.politico.eu/article/eurozone-needs-finance-minister-padoan-economic-banking/) and again at this month’s International Monetary Fund meeting in Washington, DC, Pier Carlo Padoan, Italy’s finance minister, presented the case for fiscal stimulus more strongly and coherently than any other EU leader.

More important, Padoan has started to implement fiscal stimulus by cutting taxes and maintaining public spending plans, in defiance of German and EU Commission demands to tighten his budget. As a result, consumer and business confidence in Italy have rebounded to the highest level in 15 years, credit conditions have improved, and Italy is the only G-7 country expected by the IMF to grow faster in 2016 than 2015 (albeit still at an inadequate 1% rate).

Padoan has more recently created an imaginative [public-private partnership](http://www.italy24.ilsole24ore.com/art/government-policies/2016-04-12/padoan-170953.php?uuid=AC23rD6C) to finance a desperately needed recapitalization of Italy’s banks. And he has launched his initiative without waiting for approval from ECB and EU officials, who [blocked an earlier “bad bank” plan](http://www.ft.com/cms/s/0/38cacbb4-fff9-11e5-99cb-83242733f755.html#axzz46NduYs3T) under German pressure. Financial markets immediately rewarded Italy for its defiance, with the share price of the country’s biggest bank, Unicredit, jumping by 25% in three days.

Italy’s increasingly assertive resistance to German economic dogmas may not be surprising: The country has suffered from almost continuous recession since joining the euro. Moreover, Padoan, who was formerly the OECD’s chief economist, is the only G-7 finance minister with professional economics training. He understands better than anyone that misguided fiscal and monetary policies have been the underlying cause of Europe’s economic underperformance, and are largely responsible for the political tensions threatening to destroy the EU.

The renaissance of Italian self-confidence and leadership can also be observed in domestic and international politics. Renzi was the only European leader to increase his party’s vote share in the 2014 European Parliament election, and his dominance of Italian politics has since grown. While populist politics now threatens Germany, France, Spain, and Britain, Italy has turned its back on Silvio Berlusconi, and Renzi has squeezed support for the Northern League and the Five Star Movement. As a result, Italy has started implementing labor, pension, and administrative reforms that were unthinkable in the past.

In foreign affairs, too, Italy has become more assertive. The Italian foreign minister, Paolo Gentiloni, is collaborating with his predecessor, Federica Mogherini, now the EU’s High Representative for foreign affairs, to create more pragmatic and effective European policies on Libya and the refugee crisis. Most significantly, Italy is leading an effort to repair relations with Russia after the Ukraine confrontation and to strengthen cooperation over Syria. This campaign appears to be bearing fruit with a gradual lifting of EU sanctions against Russia, starting this summer.

Given the failures of German leadership in Europe and the political vacuum elsewhere in the EU, Italy’s decision to raise its profile is surely right. As Renzi put it in a [recent interview](http://www.nytimes.com/2016/01/29/world/europe/matteo-renzi-italian-premier-pushes-for-a-place-at-europes-power-table.html?_r=0), “After two years listening, now I speak.”

It remains to be seen whether Italy can assemble a coalition of economically progressive and politically pragmatic countries to overcome German conservatism and dogmatism. But one way or another, Europe’s political economy will have to adapt to the [new type of global capitalism](https://www.project-syndicate.org/commentary/next-phase-for-democratic-capitalism-by-anatole-kaletsky-2016-03) evolving out of the 2008 crisis. With luck, a new breed of wily and agile Italian leaders will out-maneuver the blundering German dinosaurs, whose outdated rules and doctrines are leading the EU toward extinction.