The New York Times

February 24, 2013

Austerity, Italian Style

By PAUL KRUGMAN

Two months ago, when Mario Monti stepped down as Italy's prime minister, The Economist opined that "The coming election campaign will be, above all, a test of the maturity and realism of Italian voters." The mature, realistic action, presumably, would have been to return Mr. Monti — who was essentially imposed on Italy by its creditors — to office, this time with an actual democratic mandate.

Well, it's not looking good. Mr. Monti's party appears likely to come in fourth; not only is he running well behind the essentially comical Silvio Berlusconi, he's running behind an actual comedian, Beppe Grillo, whose lack of a coherent platform hasn't stopped him from becoming a powerful political force.

It's an extraordinary prospect, and one that has sparked much commentary about Italian political culture. But without trying to defend the politics of bunga bunga, let me ask the obvious question: What good, exactly, has what currently passes for mature realism done in Italy or for that matter Europe as a whole?

For Mr. Monti was, in effect, the proconsul installed by Germany to enforce fiscal austerity on an already ailing economy; willingness to pursue austerity without limit is what defines respectability in European policy circles. This would be fine if austerity policies actually worked — but they don't. And far from seeming either mature or realistic, the advocates of austerity are sounding increasingly petulant and delusional.

Consider how things were supposed to be working at this point. When Europe began its infatuation with austerity, top officials dismissed concerns that slashing spending and raising taxes in depressed economies might deepen their depressions. On the contrary, they insisted, such policies would actually boost economies by inspiring confidence.

But the confidence fairy was a no-show. Nations imposing harsh austerity suffered deep economic downturns; the harsher the austerity, the deeper the downturn. Indeed, this relationship has been so strong that the International Monetary Fund, in a striking mea culpa, admitted that it had underestimated the damage austerity would inflict.

Meanwhile, austerity hasn't even achieved the minimal goal of reducing debt burdens. Instead, countries pursuing harsh austerity have seen the ratio of debt to G.D.P. rise, because the shrinkage in their economies has outpaced any reduction in the rate of borrowing. And because austerity policies haven't been offset by expansionary policies elsewhere, the European economy as a whole — which never had much of a recovery from the slump of 2008-9 — is back in recession, with unemployment marching ever higher.

The one piece of good news is that bond markets have calmed down, largely thanks to the stated willingness of the European Central Bank to step in and buy government debt when necessary. As a result, a financial meltdown that could have destroyed the euro has been avoided. But that’s cold comfort to the millions of Europeans who have lost their jobs and see little prospect of ever getting them back.

Given all of this, one might have expected some reconsideration and soul-searching on the part of European officials, some hints of flexibility. Instead, however, top officials have become even more insistent that austerity is the one true path.

Thus in January 2011 Olli Rehn, a vice president of the European Commission, praised the austerity programs of Greece, Spain and Portugal and predicted that the Greek program in particular would yield “lasting returns.” Since then unemployment has soared in all three countries — but sure enough, in December 2012 Mr. Rehn published an op-ed article with the headline “Europe must stay the austerity course.”

Oh, and Mr. Rehn’s response to studies showing that the adverse effects of austerity are much bigger than expected was to send a letter to finance minsters and the I.M.F. declaring that such studies were harmful, because they were threatening to erode confidence.

Which brings me back to Italy, a nation that for all its dysfunction has in fact dutifully imposed substantial austerity — and seen its economy shrink rapidly as a result.

Outside observers are terrified about Italy’s election, and rightly so: even if the nightmare of a Berlusconi return to power fails to materialize, a strong showing by Mr. Berlusconi, Mr. Grillo, or both would destabilize not just Italy but Europe as a whole. But remember, Italy isn’t unique: disreputable politicians are on the rise all across Southern Europe. And the reason this is happening is that respectable Europeans won’t admit that the policies they have imposed on debtors are a disastrous failure. If that doesn’t change, the Italian election will be just a foretaste of the dangerous radicalization to come.