Mala Tempora Currunt. The Drastic Reduction of Sovereign Debts Has Absolute Priority

by Giovanni Paparo

According to the Centro Studi Confindustria (CSC) September forecast, Italian GDP will rise by 0.7% this year and reach 0.2% the following – compared to 0.8% and 0.6% registered in June – thus remaining 4.5 points lower with respect to the pre-recession highs of first quarter 2008.

Internal demand remains weak due to the uncertainty which discourages spending decisions, high unemployment, decrease of the actual income of families and profit margins of companies as well as the inevitable repercussion of the budgets approved. On the other hand, the international situation has worsened considerably during the course of summer and will continue to remain unfavorable over the next few months, thus translating into a moderate increase of international exchange and global economic activity.

Especially true for advanced countries where laws to reduce national debt will result in a slowdown together with the lack of results of previously approved expansion initiatives. But the slowdown also involves emerging countries where restrictive monetary policies have been introduced in order to contain the worrying acceleration of inflation.

The book Debt, Deficits, and the Demise of the American Economy, by Peter Tanous and Jeff Cox, published by John Wiley & Sons (www.wiley.com) presents a terrifying picture of the situation. It begins with the following declaration to the New York Times by Alan Greenspan, former president of the Federal Reserve: “The problem we now face is the most extraordinary financial crisis that I have ever seen or read about.”

The financial catastrophe, according to the authors, will begin with the collapse of the so called PIIGS nations—first Greece, than Ireland—leading to a crisis of confidence in European banks and a sharp devaluation of the euro. Uncertainty about the fate of the EU will bring a rapid decline in world stock markets. The bond markets will collapse and interest rates will spike.

Shortly after, the focus will shift from Europe to US and its monumental debt and out-of-control deficit spending. The US Treasury will shift its printing presses into high gear as it churns out additional billions to cover its debts, but America’s deteriorating financial condition will cause a spike in interest rates. Several states will default and in many cases retirement checks to former state employees will cease to be paid.

With the risk of a chain reaction capable of involving stronger countries as well, drastic reduction of sovereign debt is becoming absolute priority. We can imagine with what determination Italy will be prompted to reduce its national debt and higher interest rates. According to CSC it is, however, the low growth of Italy that worries the markets the most and more than the public financial situation in itself. Only stronger growth expectations, together with the rigor of fixing the accounts, can restore trust of the investors.

We note with satisfaction that the Italian trade fair system which we manage is conducting an important role in favoring growth.

Editorial