Saving Italy: Remembering the examples of FDR and Thatcher

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May 2013

Limes Italy

A Tale of Two Leaders

Mr. Prime Minister, I’d like to begin my briefing by telling you a couple of little stories. On April 12, 1945, American Vice President Harry Truman, with congressional business through for the week, was following the time-honored tradition of having a convivial whiskey with the Congressional leadership in the office of Speaker of the House Sam Rayburn. Not quite finished socializing, Truman received an urgent summons to the White House. It was 5.30pm. There he met a collected Eleanor Roosevelt, dressed in black, who informed him that Franklin Delano Roosevelt, the longest serving and greatest president of the modern era, had died of a massive cerebral hemorrhage earlier that day at his Warm Springs, Georgia house.

Beneath his genuine cantankerousness, Truman was a decent Midwesterner to his core. His immediate, stunned reaction was to ask Mrs. Roosevelt if there was anything he could do for her. She calmly replied, ‘Is there anything we can do for you? For you are the one in trouble now.’

Mr. Prime Minister, I could not put it better myself. I know enough about the situation you are in, about the horrendous position Italy finds itself in, to not attempt to congratulate you on what truly amounts to being given a poisoned chalice. If I can help you in any way, know that I will.

Another of the rare examples of someone who saw off the destruction of their country will unnerve you as a continental European, but I will persevere
nonetheless. I had the pleasure of getting to know Margaret Thatcher a little in her final years; one of the great moments of pride in my life is being mentioned in the acknowledgment page of her final book, *Statecraft*, as an intellectual resource. I once had the nerve to ask her over tea what were the greatest problems in seeing a reform program through.

She laughed and told me the easy thing was to be blessed by the ineptitude of your enemies, which gave you the time necessary to implement real change. In her case surely the fascist General Galtieri, the Stalinist Arthur Scargill, and the hapless Michael Foote fit the bill. The hard thing she said, was sticking with reformist policies that you had painstakingly thought through over the years, when they did not provide an immediate solution (as they never do) to entrenched structural problems, in the face of the condemnation of enemies (and worse) the nervousness of supposed political allies, eager at the first bump in the road to change course.

Mr. Prime Minister the only way out of this mess is to here and now think through creative policies to save Italy, and then let no power or persuasion deter us in sticking to them. The first step is to forget the old, tired divisions of left and right and instead pragmatically to look at the precious few examples of bold reformers who turned the ship of state around.

Here, in the modern world, entirely incongruously you find FDR and Mrs. Thatcher. Following their joint examples will not be for the faint-hearted; the mere mention of both is still capable of alienating nearly everyone in a room full of people from any western country. But that is to miss the point; saving countries is not about storing up gratitude, it is about empirical success. FDR saved American capitalism, saw the country through the Depression, preserving its greatness for when it was needed to save the world from fascism. He took a frightened, psychologically demoralized people, and transformed them in the course of a dozen years into the greatest power in the world. Love him or hate him, that cannot be in dispute.
Likewise, Mrs. Thatcher took a country where the unions had the power to bring down weak governments, mounds of trash were piled in the streets for weeks, and the UK was seeking IMF loans like a developing country, fundamentally altered its course, and left it a great power, one that continues to punch above its weight. She grabbed the UK by the scruff of the neck, refusing to accept that managing decline was the best that could be hoped for, and transformed and restored Great Britain. Love her or hate her, that cannot be in dispute.

In short, for both their all-too-human foibles, for all their tactical mistakes, at the historical level what they both did largely worked. And that is Italy’s only hope, sir. The populists of the Five Star Movement are right about a number of things, one of the biggest of which is: If Italy is to survive, pursuing policies based on more of the same is surely no longer an option. Like Mrs. Thatcher you too are blessed by having inept enemies. Almost everyone agrees the old political class has utterly failed, their reputations damaged beyond repair. But so too the new populists are far better at deconstructing what has gone wrong, rather than putting convincingly new and workable policies in place. Italy and the world are waiting in an intellectual vacuum for new and real answers. Lets give them some.

**How we got here**

However, first there must be a post-mortem on how things have come to such a pass—and how continuing along in the same way can only bring ruination—if Italy’s course is to be righted.

First, looked at from an historical, structural perspective, Italy has simply made the wrong geopolitical bet. As the smallest of the major European powers, throughout its history Italy has often been the important, if junior, partner in alliance with a larger protector. Now, with Europe listing, its finds itself a protectorate without a protector.
In retrospect the golden age of American preeminence (1945-90) during the Cold War was so subtly and skillfully managed that the ebbing of US dominance (and the political and economic stability that it quietly provided) was not much noticed in Italy or the rest of Europe, let alone missed. Yet an unsung American-dominated NATO provided the security underwriting for the European postwar boom—the insurance policy that allowed Western Europe to get back on its political and economic feet—a fact quickly brushed aside by euro-federalists, often acting as if the EU had somehow primarily brought about prosperity and security on its own. It is a comforting story—as it allowed Europeans to write America’s dominance out of the history pages—but it is factually utterly erroneous. Worse, this false narrative has led directly to a series of calamitous geopolitical decisions following the end of the Cold War.

Fatally, from the Italian point of view, embracing Europe as its next great protector made great sense. The weak historical basis of the Italian state made longing for a strong supranational government to supersede it rather attractive. Given a weak Italy, the need for a strong Europe primarily explains the country’s longstanding pro-EU fervor. However, to put it mildly, this has proven to be a false choice.

In believing the EU could take America’s place as the new surrogate great power to which it was primarily allied, the Italian elite walked off a geopolitical cliff. If the euro zone crisis has illustrated anything, it is that the EU is a queer halfway house—neither one thing nor another, neither supranational power nor merely another multilateral organization—not ready for global prime time. It has become embarrassingly clear that beneath all the platitudes it is Germany, and not Brussels, that is calling the shots in the euro-crisis. At the time of the establishment of the euro, this was certainly not something elites in either Berlin or Rome had foreseen, besotted as they both were by the mirage of the EU becoming a great power in its own right.
Germany and the other northern creditor states grudgingly accept in theory that to save the euro project (and the EU itself) closer economic and political union are an imperative at the European level, starting with the German-sponsored fiscal compact and moving on to establishing a common banking union. But accepting this and acting on it have proven to be entirely different things.

For—from a German point of view—closer integration means giving a degree of political power to the very countries in southern Europe (Greece, Portugal, Cyprus, Spain, and possibly Malta and Italy) that they have unenthusiastically just had to bail out, and who they blame for the crisis in the first place. That this view is laughably simplistic does not make it any less deeply ingrained in the German elite. (Germans never seem to remember that it was their banks that so foolishly lent money to the Greeks et al when they certainly should have known better—in essence the Berlin’s bailouts of seemingly feckless countries has made it possible for Germany to avoid directly bailing out their own feckless banks).

Rewarding the guilty with greater political power (over German taxpayers no less) strikes the Berlin elite as a form of moral political hazard, of rewarding the guilty, which psychologically sticks in the craw. Politically—given that the German people share the narrative of their elite that this is all the fault of shiftless southerners—actually following through on the need for ever-closer union through euro-bonds and the like would prove almost impossible for any German leader. Consistently in polling, Germans favor the euro, but only on their terms, not accepting a transfer union, and with cash being doled out, only in return for immediate austerity, the German answer to the crisis.

Mr. Prime Minister, please notice the EU has not formed the basis of this conversation. Italy has made a two-decade error in believing the nonsense that euro-elites fed them about the EU being the future. The more mundane reality is that a dominant nation-state, Germany, is calling the shots, doing just enough to keep the euro alive, without creatively doing more to actually stabilize the situation, based on
its (mis)perception of its own short-term national interests. This is unlikely to change. As such, limping along is the best that can be hoped for. Truly Italy’s EU protector turned out not to exist. The EU can’t save you, Germany won’t save you.

Neither can the US, distracted as it is by its own significant post-Lehman problems and by the administration’s pivot to and concentration on Asia. There is no doubt the Obama White House is genuinely worried about the euro crisis in general and Italy specifically, looking for anyone, anyone at all, to guarantee against a euro collapse that would derail the shaky global recovery. But the US is preoccupied, unprepared and surprisingly uninformed about the details of the euro crisis.

This can be seen in the administration’s none-to-subtle support for the outgoing technocratic Prime Minister, Mario Monti, whom anyone who knew anything about Italian politics was aware stood no ghost of a chance of winning the recent election. The White House parachuting in election svengali David Axelrod could not begin to stem the tide against Monti, whose demise merely points out the reality that modern countries do not like to be ruled by puppets, no matter how well meaning. It was all too easy for populists of both the left and right to paint the outgoing premier as a tool of the ECB, Mrs. Merkel, and euro-elites in general. The US will remain a peripheral if well-meaning player in what comes; it is no longer the cavalry come to save you.

Nor can Mario Draghi, the able head of the European Central Bank (ECB), do much more than he has already done. By clearly and forcefully stating last year that the ECB would do all that it takes to preserve the currency, Draghi—like the good central banker that he is—bought Europe’s leaders time. But time to do what? Rather than being grateful for Draghi keeping the immediate wolves from the door and using that time to put in place comprehensive European-wide and national reform programs to end the crisis, Europe’s leaders—with a gun no longer to their heads—dithered, hoping against all reason that strong words from the able ECB chief would prove enough to magically end the crisis. This has proven a shameful
dereliction of duty. As Draghi himself has made clear, the ECB is no substitute for political leaders promulgating bold reform agendas.

So, in the words of the great John Lennon, ‘I don’t believe in Beatles, I just believe in me.’ The EU/Germans, the Americans, and the ECB will not save Italy. Only Italians, led by you, can do this. Or, as the great transcendentalist thinker Ralph Waldo Emerson put it, ‘Nothing can save you but yourself. Nothing can save you but the triumph of principles.’ Here are six principles and policies (largely inspired by FDR and Mrs. Thatcher) we can put forward to do nothing less than save Italy.

**Saving Italy**

*First, never forget about national political legitimacy. Reviving fireside chats is in order.* As the euro crisis has rolled endlessly along, it has become ever more painfully apparent that the ultimate problems here are political, more than economic. Unless you are German, the main groups deciding the fate of southern Europe are all unelected. Think of Jefferson for a moment, and then consider the Troika (the IMF, the ECB, and the EU/Germany), doling out the harsh terms to country after country, dictating national economic policies, all without a shred of democratic legitimacy. Any tough economic medicine—and plenty will have to be meted out—stands absolutely no chance of policy success without the democratic support of the people in question.

This is not some naïve view, but rather merely the practical realist understanding that without such democratic support, long-term sacrifices will not prove sustainable, meaning policies will fail, in spite of all the suffering, further enraging a southern European younger generation that sees youth unemployment levels reaching a suicidal 35-50%. A lost generation is being sacrificed to the orthodoxies of a bunch of unelected European bureaucrats. That is unwise in the extreme, as such a reality is political dynamite.
Mrs. Merkel is the poster child for this lack of coming clean with the European electorate. Functioning as a sort of anti-FDR, she has chosen to say as little as possible about the crisis ahead of German parliamentary elections in September of this year, for to explain economic realities to the German people (that they are on the hook for much of the bailout funds doled out up to now, as risk has been methodically removed from the private sector and placed on sovereigns across Europe, particularly Germany) would be to frighten them, anger them, launch a broad debate about what to do, and imperil her chances at re-election.

I am sure her advisers think such anti-democratic tactics are clever and Machiavellian; in reality they are hopelessly naïve. Does anyone really think the German public will forget that they have not been fully informed about what is going on here? The blow back for Mrs. Merkel (and she may well be returned as chancellor) will reach hurricane force; she is merely storing up her people’s righteous indignation for the future.

Mr. Prime Minister, you must not do the same. The Italian people took a chance on electing you, following the recent deadlock; you must now take a chance on them, and level with them about the hard days ahead, but also about what can be saved and renewed. Your theme here should be the great adage of Lampedusa’s The Leopard, ‘If we want things to stay as they are, things will have to change.’

I would not be here giving you advice if you had been appointed as the next in a line of technocrats, as to follow that seemingly easy immediate course is to set the stage for endless failure. Only an elected premier can pursue the bold course of action I am recommending. In the spirit of FDR—who in the darkest days of the Great Depression regularly and frankly talked to the American people over the radio through a series of ‘fireside chats’—you must candidly and regularly communicate directly with Italians, about how bad things are, what you intend to do to improve them, and that the future can be far better, if everyone keeps their nerve.
I still believe that people respond to the truth, just as many Europeans have come to detest the obfuscations, evasions and half-lies the euro-elite has bombarded them with throughout this sorry affair. To do the tough things ahead it will be necessary to maintain democratic public support above all. Talk to Italians, level with them. Southern Europe (rightly so) is in populist revolt due to this lack of democratic legitimacy. We must not see the people as the enemy but as the key support for our reform program. Reforms are not too politically unpopular to implement, but this is only true provided they are bolstered by democratic consent.

*Second, mindless German-promoted austerity must come to an immediate end.* The facts are in, and the experiment has resoundingly failed to anyone capable of reading numbers. Despite Monti’s efforts at reform, Italian debt has actually increased, to around 130% of GDP by the end of this year, dangerously high and certainly near the tipping point where the bond markets will decisively turn on the country. As of today, it is estimated that 29% of Italian firms cannot meet their operating expenses, as they are starved for liquidity. Italian GDP shrunk by 2.1% in 2012, and Italian youth unemployment is a ghastly 37%. Crucially, the basis for all this suffering—lessening the productivity gap with dominant Germany—is not being achieved. As of 2013, Italy is still becoming relatively less competitive than Germany, despite all the pain. The country has clearly had enough, as the February 2013 elections made clear wherein two-thirds of Italians rejected German-imposed austerity measures and the Monti reform agenda.

This will be by far the most popular thing you do during the whole of your premiership, Sir, and it is an essential starting point for all that follows. You must make it clear that while going for growth in the short term is absolutely necessary, there is absolutely no room for the usual round of wasteful spending. Only projects relating to areas such as infrastructure (desperately in need of an update) which over time will increase Italian competitiveness will be taken on board to prime the pump.
In line with the Five Star Movement’s correct and telling observation that the old political class is hopelessly corrupt, you must initiate at the same time an anti-corruption and tax avoidance drive, using outside auditors to monitor all Italian government spending (federal, regional, and local), cracking down hard on tax cheats and unfair procurement practices, making it abundantly clear to all Italians that the suffering that will be necessary in the days ahead will be fairly borne by all. This will further heighten your initial popularity, making tougher reforms politically possible.

Immediately upon taking office you must explicitly reject the German consensus of cash for austerity, announcing your wish to privately discuss Europe’s common future (privately so as not to put her in a political corner) with the German chancellor. But whatever the outcome of these talks you must lay down the marker (Thatcher-like) that the days of pain for no gain are over. In the short run, growth imperatives must drive Italian political economy.

Third, you must confidently barter with the heretofore-implacable Germans regarding a loosening of austerity terms at the European level. There are only three macroeconomic ways out of this mess. The first is for Italy to leave the euro, externally devalue its currency, and along with real reforms of its labor and product markets, return to economic competitiveness. The second is for Italy to stay in the euro, and initiate a massive internal devaluation, through decreasing prices and wages. The third is for Italy to stay in the euro, and benefit from a significant increase in prices in the euro-core, above all Germany. There are simply no other grand economic strategies to square the euro-crisis circle.

You must politely and calmly make it clear to Mrs. Merkel that up to now the second option has been tried, and that the debtor countries internal devaluation on its own has failed to produce results. Your suggestion is that Italy—good European partner that it is—will agree to continue on this thankless road (at least to a degree) and will work to keep its structural deficit in balance (something Italy can presently
accomplish without much undo strain), while undertaking meaningful reforms to labor and product markets to improve Italian competitiveness. But in turn Germany and the northern Europeans must embark on the third macroeconomic course, significantly increasing euro-core prices there, something not even much mentioned as a policy option up to now. Options two and three must be tried together if the competitiveness gap is to be mastered, and the currency put on a sustainable footing.

There is no doubt this will put Germany out of its comfort zone; Goldman Sachs estimates that for this approach to work Germany would need inflation to be more than four percentage points greater than the euro-zone periphery for 10-15 years. Even if it makes objective economic sense for Germany to increase wages and prices just as Italy lessens wages and prices, why would the Germans do this, to stoke inflation (their greatest economic historical fear, going back to the 1920s Weimar regime) long after they had finally tamed that dragon?

The simple answer is….there is always option one. Italy does have choices. You must make it very clear, Mr. Prime Minister, that as a good European your fervent wish is for Italy to stay in the euro-zone, but you will not commit economic suicide to do so. The Achilles heel of the Draghi put has always been political, the danger that a systemically important country would reject the prescribed austerity medicine, thereby refusing to trigger the ECB bond buying designed to save the debtor state and all of Europe from the abyss. Italy is such a case.

If Germany refuses to see sense, you must make it absolutely clear that you are prepared to leave the euro, which will lead to the welcome devaluation of your new external currency (while at the same time implementing Thatcherite-inspired labor and product market reforms) rather than remain inside, on a sure path to ruination, without Germany in turn hewing to option three and increasing spending.
Here paradoxically, you actually possess great leverage, due to Italy’s weakness. If Italy currently finds itself a prisoner of German economic orthodoxy, the euro-zone as a whole (and in reality the global economy) ironically finds itself a prisoner of your unhappy country. Countries only count in the new multipolar order if they are a big asset or a big liability to the new system.

Initially, Europe was thought by the Obama team to be neither, with euro-elites wrongly believing the continent was an asset. Both predictions have proven lazy and off-the-mark: Europe in general and Italy more specifically amount today to the biggest strategic liability on earth, for Italy sits at the center of the dysfunctional euro-zone system which could derail the global economy. If Italy goes bankrupt, the euro is over, and if this happens in an unmanaged way (as is likely) the rest of the world—from China to the US—will be badly affected by this economic catastrophe. In this sense, Mr. Prime Minister, you are not Cyprus. You have all the leverage you need.

Fourth, you must convince Italians that the time has come to move beyond the fruitless arguments about austerity and Keynesianism. It is not one or the other that must be championed, but both in the correct sequence. In the short run, only a return to economic growth can save Italy and southern Europe. As such a priming of the pump—with the emphasis on areas like infrastructure spending that actually improve Italian competitiveness—must take center stage. Of course the great danger in such an approach is that to markets (and indeed to countries like Germany) all this seems like merely another grand excuse for Italy and the others not to grasp the nettle, to put their economic houses in order, and instead to assume another spending binge is all that is needed to put things right. Markets will not accept such a lazy outcome, nor should they.

Market (and German) expectations have to be taken on and surmounted. The way to do this is to surprise them. As such, at the exact same time you are rejecting German austerity and unveiling your targeted stimulus program for the near term,
a detailed, definitive medium-term debt-reduction plan (tentatively to take effect in two-three years should the conditions be right), must put in place, based on plausible growth expectations, the clear assurance that structural reforms will be undertaken, and yes, targeted budget cuts. While this will enrage purists of both the left and the right, you can afford to have Milton Friedman and Paul Krugman angry with you, provided the markets are impressed this short- and medium-term new narrative you have to sell actually fits together and makes sense.

Fifth, economic reform is an imperative, and wrenching change is not optional; it must be communicated that this is the only way out of this mess. The Italian state consumes 50% of the country’s GDP, an unprecedented figure and one that is surely crowding out the dynamic private sector investment needed to give Italy a chance at sustainable growth. This figure must be brought down to less stratospheric levels, say around the 40%-42% levels of Germany, the UK and the US.

Mario Monti tried and largely failed at labor market reform; you cannot afford that luxury. Italy is presently shackled with a stifling bureaucracy, labor laws which so coddle workers that firing them is almost impossible, artificially bestowing jobs for life whatever the changing economic circumstances (as such hiring new full-time workers is not in most employer’s interests), and a dysfunctional court system that makes it challenging to enforce contracts and collect debts. All this must be swept painfully away, along with legal protections for a whole host of professions, a cartelization that keeps prices high, competition low, and innovation out. If the right will squirm at your immediate lunge toward Keynes, the left will be distinctly wary of your Thatcherite urge to genuinely economically reform the seemingly unreformable corporatist Italian economy, and give economic freedom back to the Italian people.

But you must go farther still to complete this Italian revolution. Privatizations, deregulation, and taking on the entrenched political elites of both left and right—forcing them by your success to implicitly accept what you have done, as happened
in both the case of FDR and Mrs. Thatcher—should be the final long-range goal of your premiership. By taking on right-wing and then left-wing sacred cows in turn, by putting forward as a piece this new and workable platform, you will force both to change, and on your terms, as by ignoring old labels and succeeding, the intellectual initiative will be with you as you revitalize the Italian state.

*Sixth, and finally, following the political genius of FDR’s first hundred days, do everything at once, confounding your enemies and forcing them to play intellectual defense given the breadth and audacity of your program. To succeed, step-by-step, you must couple the unwavering strategic goals of Mrs. Thatcher, with the supple tactical skills of Franklin Roosevelt.*

I am afraid, Mr. Prime Minister, that there is one more mighty factor that has to be conquered if Italy is to be saved: The element of time. However, if you follow in FDR’s footsteps you can make a political virtue of this policy necessity. We both know that the Italian economy is teetering on the brink, and that given the February 2013 political hostility to further austerity, the markets (and the Germans) are waiting to pounce on you. Everyone expects you—in failed, time-honored, Monnet-style, cautious, fashion—to slowly lay out your reform program, never imagining either the extent of its boldness, or the fact that you don’t plan to dip your toe into the reform pool (unveiling one proposal, which if it squeaks by will lead to you proposing a second step); you plan to jump in.

It is by far the best strategy to put everything forward at once, both the short-term moderate and targeted Keynesian stimulus as well as the medium-term monetarist efforts at liberalization and structural reform of the Italian economy. At the worst, this will surely set (used as we all are to German glacial caution regarding policy) everyone back on their heels, confusing and baffling enemies, all the while making your changed narrative the basis of all future policy discussions. As an annoyed Union General Grant snorted to his generals on coming east to fight famed
Confederate leader Robert E. Lee in the American Civil War, ‘I am tired of hearing about Bobby Lee, it’s time his generals started talking about us.’

The advantage of the current policy-free zone is precisely that it is waiting to be filled; that seizing the intellectual political high ground is eminently doable, and that merely accomplishing this will confound both the believers in suffocating German-inspired economic orthodoxy as well as those economic populist primitives, currently lying to your people about how easy and painless escaping from all this can be.

Mr. Prime Minister, lets face it, you simply don’t have time to do anything less than a policy ‘Big Bang’ along the lines of FDR’s hundred days if you wish to escape from your present straightjacket. In pointing out both the degree of the crisis and the urgency of action you will, in the words of Mark Twain, have the added advantage of saying something true. These are dangerous, stirring times; a key part of this plan is rising to meet them. But then sir, that is what leadership is about.

So there you have it, Mr. Prime Minister. Confound your enemies by ignoring classic left-right narratives and focus on the oddest political couple imaginable (FDR-Mrs. Thatcher), both of whom stared decline and disaster in the face and ushered it away from their imperiled countries. Confront people with the failures they know regarding the German austerity imperative, instead offering a solution that will madden both the left and the right, a coherent narrative getting beyond the tired tale of austerity or Keynes and focusing on both, on what can work. Ignore the cynicism of the past political generation and take a chance on parliamentary democracy, leveling with the Italian people both about how bad things are, and what can still be so possible. Confront an EU that has let you down, not angrily demanding its dissolution, but offering it a game plan to save itself—if it so chooses—never backing down from the fact that Italy will escape the shackles of current continental economic wisdom, one way or another. No one will see this coming, sir, and it just might work.
I can see your conventional advisers are shaking their heads furiously in disagreement with what I have just said sir, telling you that to accept such a bold plan would be madness. Remember that Pier Luigi Bersani, after failing to establish a government after the deadlocked February 2013 elections, glumly stated, ‘Only a mentally ill person would wish to govern Italy.’ I’ve always believed a little creative madness, to do what everyone else thinks is undoable, to follow in the footsteps of FDR and Thatcher, is just what the doctor ordered. Know if you adopt this bold gamble on behalf of the Italian people, I’ll do any and everything I can to help you.

Good luck, Sir,

All best,
John

--Dr. John C. Hulsman is President and Co-Founder of John C. Hulsman Enterprises (www.john-hulsman.com), a successful global political risk consulting firm helping businesses and governments around the world survive and thrive in the new multipolar era. A life member of the Council on Foreign Relations, he is also the author of all or part of 10 books, including Amazon bestsellers Ethical Realism, The Godfather Doctrine, and most recently an acclaimed intellectual biography of Lawrence of Arabia, To Begin the World Over Again.