

Italians Have Perfected the Art of Waiting It Out

Italy's economy has been in the doldrums for years, but Rome is just fine with leaving its problems to solve themselves.

By Vernon Silver

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Rome this past summer could easily be confused with the capital of an aspiring failed state. A drought exacerbated by crumbling infrastructure led to threats of daily 8-hour water shut-offs. The aqueducts, historically the pride of Rome, leaked some 40 percent of their flow.

Trash piled high in the parks and grass went uncut as the city grappled with public works corruption scandals. Over the course of the summer, police discovered at least two clandestine hazardous-waste-disposal plants, although the news coverage curiously focused on how the hidden facilities evaded their electric bills. The upside, for some, is that the city's buses have become free for fare dodgers, because there aren't enough ticket checkers. And in a symbolic touch, the parched, overgrown Roman landscape became tinder for fires that sent clouds of smoke over the already stifling city. Rome was burning.

Evidence of decline abounds in the rest of the country, too. Up in Florence, the [Uffizi Gallery](#) closed temporarily when the museum's air conditioning failed. Down in Sicily, desperate migrants streamed ashore. Perhaps most important, a robust business recovery from Italy's decade-old financial crisis seems out of reach. Just this month, the world's biggest hedge fund firm, Ray Dalio's [Bridgewater Associates](#), disclosed it's wagered more than \$1.1 billion that shares of some of Italy's top companies will fall, including the two biggest banks and [Enel SpA](#), the nation's largest utility.



Piles of trash left in Piazzale Sisto V, around the corner from Termini station, the main train hub of Rome, on Oct. 15, 2017.

PHOTOGRAPHER: MARTINA ALBERTAZZI

But will any of this spur angry Italians, clamoring for change, to embrace a radical movement to Make Italy Great Again? Don't count on it. This country is more complicated. Italy has certain social and financial advantages—it's playing a long game. And having avoided a Greek-style meltdown or a rash decision like Brexit, Italians might just be onto something.

They've already had their dalliance with a legally challenged, billionaire Putin pal in the person of former Prime Minister Silvio Berlusconi. These days, many Italians are just pleased that Donald Trump has eclipsed Berlusconi as the butt of jokes and controversy. They've also tried a populist party. The Five Star Movement, founded by a comedian, swiftly gained influence in recent years. The Five Star is now part of the establishment. Guess which party runs Rome City Hall, perched on a hilltop piazza designed by Michelangelo with sweeping views of the wildfires? Yep.

The Italian electorate has shown itself resistant to change. In a December referendum it voted down constitutional reform aimed at breaking the political logjams in Rome that have long hindered any swift or deep policy changes. By rejecting the referendum, Italians also ended the term of Italian Prime Minister Matteo Renzi, halting his reform agenda to cut taxes and make it easier for businesses to hire and fire.

Why? Italians are engaged in an epic game of “kick the can.” Drawing on an intimate knowledge of their own history, they see an upside to letting problems sort themselves out, piano piano—slowly. It's even part of the national curriculum. By age 11, almost all Italian schoolchildren learn the story of Quintus Fabius Maximus Verrucosus, the Roman general who 2,200 years ago slowly ground down Hannibal by avoiding direct battle. He was nicknamed the Cunctator—“the delayer.”

The epithet was a compliment. Today the Cunctator is embodied up and down the boot, in decisions small and large that err on the side of inaction. On trial for a crime? Hire a lawyer skilled at stretching out the process through endlessly rescheduled hearings and lengthy appeals. The statute of limitations will eventually run out. It looks bad, but it works. (Just ask [Berlusconi](#).)

Take what's happened with migrants who arrive by sea. Officially, all arrivals in the European Union are fingerprinted for a database. In practice, in recent years that step was at times overlooked, and migrants made their way from Italy to other countries without a record of their arrival. That's crucial, because asylum requests are handled by the country of entry. When an un-fingerprinted migrant arrives in, say, Sweden, it's as if he's been teleported directly from

Mogadishu to Malmo. The Somali [becomes a Swedish problem](#). Italy has successfully kicked the can northward.

The country's most crucial can-kicking involves the economy, a habit that dates at least to the 1990s effort to qualify for the euro and a derivative transaction the Economist cheekily dubbed "the greatest trade ever." Under the deal, Italy received a big upfront payment that made the nation's accounts look robust, with an agreement to pay it back with interest a few years later. Italy made it into the euro zone, while the nation's true financial health could be dealt with afterward.

The reckoning never came. A decade later the global financial crisis pushed Italy into a double-dip recession that slashed industrial production by more than a quarter. Unemployment hit 12.8 percent at the start of 2014. Italy's debt of more than €2 trillion (\$2.4 trillion) rose to 132 percent of gross domestic product, compared with 96 percent in France. Italy's deficit-to-GDP ratio has long [exceeded the levels](#) agreed upon for membership in the euro zone.

While Germany pushed for Italian austerity, successive Italian governments sought time to allow the economy to reawaken. "Instead of facing the problem, the competent Italian institutions have preferred to wait for an alleged economic recovery," says Marcello Minenna, a lecturer at the London Graduate School of Mathematical Finance. Kicking the can, Italy tried to manage its debt through the use of derivatives. "This approach was revealed to be a boomerang for public finances," says Minenna, who's [published](#) research on the topic, with Italy racking up a negative mark-to-market on a derivative portfolio of about €38 billion, plus €32 billion of cumulative losses from 2011 to 2016.

The waiting game had other costs, Minenna says: a €100 billion tax shortfall, €300 billion of gross nonperforming loans at the banks, and 40,000 bankrupt businesses.

There's real misery behind those figures. Italians living in "[absolute poverty](#)" almost tripled in the past decade, with 4.7 million people, or 7.9 percent of the population, unable to afford a basic basket of goods and services. On a recent morning, I saw an older man approach the bakery counter at a supermarket in Rome seeking day-old bread. The saleswoman confirmed this was a regular thing, and not for some recipe requiring stale bread. "People are desperate," she said.

Youth unemployment at 35.4 percent has wiped out a generation's ability to build careers or families. Just 52.1 percent of Italian women age 20 to 64 were employed at the start of this year, the lowest level in the EU after Greece. As a resident of Rome, it's a culture shock when I visit Munich or New York and see

professional women in their 20s and 30s out at pricey bars and restaurants. Milan has some of that, but not Rome.

And yet, no debt-crisis blowup. No Brexit. No Berlusconi 2.0, yet. But how? What the bleak statistics don't show is Italy has got things Americans only dream of. Health care: free. University: practically free. Wine: well, might as well be free. Quibble if you must over the quality of care, the value of an Italian degree, or the merits of the €3.60 bottle of supermarket wine from last night (better than what you'd get in a New York restaurant for \$20). The Bloomberg Global Health Index of 163 countries [ranks Italy as the healthiest](#) on Earth, based on variables such as life expectancy and incidence of high blood pressure.

You can be sure the guy shopping for stale bread won't max out his insurance when he gets cancer and that his grandkids don't have \$100,000 in student loans. Want to know why Italy didn't have a mortgage bubble like Spain or the U.S.? The money parents save on education and health care often gets spent on a house for their kids. In fact, Italy is solid as a rock as measured by individual borrowing. Italian household debt, at 41.8 percent of GDP, is half the level that's in the U.S. Per capita, it's €11,600, less than half the U.K.'s £26,000 (\$34,000).

Just before heading to the beaches for summer break, government leaders in Rome sealed deals for €5.4 billion to bail out Banca Monte dei Paschi di Siena (again) and unwind two other lenders by injecting as much as €17 billion. Not only were these expensive solutions, but they did little to address the underlying causes of the banking woes, such as incompetence, corruption, and politics. As long as the economy takes off, it won't matter much.

The signs are actually good as the nation prepares for elections in early 2018. Italian stocks are up by almost a third this year in dollar terms, more than double the S&P 500's Trump bump. And Italy's latest economic report showed GDP expanded for a 12th straight quarter. It was a feeble 0.3 percent, but it raised hopes the recovery might be real this time.

If it isn't, they can kick a can. Just check any park in Rome. —With Giovanni Salzano