

**Gustavo Piga**, *L'interregno. Una terza via per l'Italia e l'Europa*, Hoepli, Milano 2020.

As the decade of the Great Recession came to an end, many observers believed that the world was entering a new era of prosperity. Instead, just around the corner, the black swan of Covid-19 was preparing to enter the scene, opening an unprecedented and dramatic phase of economic uncertainty, a suspended time, what Antonio Gramsci would have called an "interregnum," in which "the most varied morbid phenomena occur."

Gustavo Piga's book is entitled precisely "The Interregnum" and takes the term in this Gramscian sense. As the subtitle states, he explores a "third way for Italy and Europe." The volume is divided into five parts for a total of 40 short chapters, preceded by a chapter 0, "Covid." The first part describes "the crash" of the 2000s. The second part retrieves the "lesson of 1930," namely the successful rescue of the American economy initiated with Roosevelt's New Deal. The third compares Roosevelt's wisdom with the "madness" of the European Union which, in the midst of the 2008 recession, continued to demand compliance with the rules of austerity enshrined in the Treaties, or as Piga phrases it, kept running "on autopilot in the perfect storm." The fourth part outlines "a different idea of the Union," distinguished both from the traditional call of nationalists for an about face and the acceleration, or flight forward, advocated by the proponents of the United States of Europe. The final part focuses on the "internal challenge" that awaits Italy.

Instead of retracing the author's journey step by step, I will try here to go straight to the goal and grasp the strength, and the limits, of the analysis and the proposal put forward.

Piga's thesis is that there is a close analogy between the crisis of 1929 and that of 2008. Both were caused by a collapse in investment owing to a spreading climate of uncertainty, mistrust and fear that policymakers were unable to contain. Economic agents (households and firms)

hoarded their savings instead of channeling them into productive investment. In short, the two great crises of modern capitalism were characterized by an excess of savings over investment and a parallel, simultaneous, shortage of aggregate demand in relation to productive capacity. That is to say, these were typical Keynesian crises. Keynes had explained that when uncertainty prevails, households, even those who have not seen their incomes fall, cut consumption and save more, while companies, even healthy ones, postpone investment projects, waiting for the fog of uncertainty to be dispelled. At such times, when the economy spirals into recession owing to lack of demand (i.e. an excess of savings), government must intervene to compensate for the fall in private investment by increasing public spending. In Piga's account, this is exactly what Roosevelt rightly did with the extraordinary public works plan of the New Deal, as opposed to the European Union which, on the contrary, with the Fiscal Compact of 2012, imposed a restrictive fiscal policy on member states in order to quickly regain budgetary balance.

In order to shift to a new fiscal policy, Europe will first have to solve a political trilemma. Not that of Rodrik (which Piga considers wrongly put). Rodrik, as we know, contended that it is not possible to have simultaneously, in Europe and in the world, national sovereignty, democracy and full economic integration. In fact, to have full economic integration and therefore also a single currency, there must necessarily be a set of common rules that inevitably erode national sovereignty. This, according to Piga, is a "false" trilemma, because in reality it is possible to have democracy and economic integration (single currency) even with a weak federal government, i.e. without excessively eroding national sovereignty. Historical confirmation comes from America in the 19<sup>th</sup> century. The United States had a single currency, a democratic political system, and a "weak" federal government that left a great deal of autonomy to the states. Piga uses data and graphs to show that there was no substantial increase in public spending until Roosevelt, who in any case left state and local governments free to decide how to

use federal funds. The “true” trilemma, says Piga, is another: it is not possible to have austerity, democracy and a single currency at the same time. In fact, with austerity and a single currency, the member states must give up national sovereignty, hence democracy; and with austerity and democracy you cannot have the euro but only a series of exits from the common currency. In order to have democracy and the single currency, austerity must be renounced in favour of expansive fiscal policy, while ensuring the necessary support for the weakest countries. This is Piga’s third way. Not an about-face and march backward towards a (confederal) Europe of nation states, nor a (rash) acceleration towards federation, a “United States of Europe,” but the patient work of strengthening the “de facto solidarity” (as Schuman would have said) among the European peoples.

For Piga (as for the Community’s founding fathers), the European identity, in fact, consists in unity in diversity, and hence in solidarity. The problem is how to develop solidarity during this period of interregnum. Piga’s answer is that we need to strengthen the solidarity that is possible here and now. When the Berlin Wall fell, the rich West Germans did not hesitate to help the poor East Germans, whom they saw as natural brothers. Not so the Greeks or the Italians, whom they regarded as distant relatives at best. What is needed, that is, is to foster the greatest possible amount of solidarity without demanding some premature surge of generosity. Germany, which before the pandemic had accumulated a huge trade surplus, thanks also to the advantages of the single European market, could have helped the other European countries (and hopefully will do so soon) simply by raising the wages of German workers in order to encourage an increase in domestic consumption and therefore also in imports from the rest of Europe. More generally, Piga continues, the issue is to update the European treaties by abolishing the Fiscal Compact, and with it the very idea of austerity, and writing a new fiscal constitution that, as in Roosevelt’s America, reinforces “federal” solidarity while safeguarding national autonomy and providing, unlike the current treaties, for government action in

the face of crisis. It took the Covid pandemic to suspend the unholy austerity pact, but, as Piga says, “a rule that has to be suspended is a stupid rule, in that it cannot predict crises” (p. 161).

This is an important book, clear, simple, brilliant and at the same time profound, capable of explaining, even to readers without a background in economics, the pitfalls and at the same time the opportunities of the present “interregnum.” The work illustrates the limitations both of a hasty U-turn and of a flight forward, arguing convincingly for an active pause leading to the adoption of a fiscal constitution that allows for as much solidarity as possible, in the knowledge that, along the lines of Roosevelt’s New Deal, it will eventually work in favour of a closer union of the European peoples.

In Piga’s thesis I see three points that should perhaps be discussed more thoroughly. First, not all crises are Keynesian, i.e. due to excessive saving and under-investment caused by uncertainty, and in some cases austerity (or restrictive fiscal policy) may be needed to correct unsustainable expansions. Second, it is questionable whether the America of the 19th century, with its weak federal government, can really be compared to contemporary Europe. And third, the original European “economic constitution” actually did contemplate crisis. In particular, the Dublin Council of December 1996 established that member states could exceed the budget deficit ceiling of 3% of GDP when there was an “annual reduction in GDP in real terms of at least 2%” (later reduced significantly).

The real problem is that the European authorities did not realize that 2008 was not a normal crisis but a “Great Recession” that required extraordinary and coordinated action to bolster, first and foremost, the weakest links in the European chain. In part, they failed to see this because they had forgotten the lesson of the 1930s when Roosevelt, with extraordinary public intervention, was able to overcome the fear of private agents, while the policy of austerity stubbornly pursued by the Weimar Republic favoured Hitler’s rise to power.

Gustavo Piga has recouped the lessons of the 1930s to explain the

## BOOK REVIEWS

current crisis and to point the way out of the unhappy, uncertain interregnum in which we find ourselves.

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