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From one crisis to the next?

Left-wing responses to the economic crisis after Corona

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While politicians argue about whether it is "socially legitimate" and "economically acceptable" to tax the wealth of the rich, a recently published study reveals a growing social and economic gap between workers and capital owners. What have been the fiscal and economic policy responses of the Italian government to this growing inequality and what left-wing solutions are being put forward?

When considering Italy's current economic and financial crisis, one must take into account **two premises**. Firstly, since the crisis of the 1970s, the Italian tax system has become less and less progressive. The tax burden has been gradually shifted from capital owners and the wealthy to workers and social groups with low income. This was done primarily by lowering tax rates on income and wealth. In 1974, very high incomes were still taxed at 86%. This rate fell to 43% over the last 45 years resulting in an estimated loss of revenue worth 150 billion euros and forcing the state to borrow on financial markets to finance its necessary expenditures.

The second element of consideration is therefore the public debt. Currently, Italian public debt amounts to 2,500 billion euros, on which interest of 60 to 70 billion will accrue annually. The repayment of interest is the third highest state expenditure after those for pensions and for the health system. This means that the Italian state spends more money on the repayment of interest than on the education system. Indeed, 89% of the total public debt is the result of interest repayments.

A growing social divide

This dynamic has led to growing inequalities in recent decades, as demonstrated by the socio-economic research institute Censis (Centro Studi Investimenti Sociali). Their **report on Italy's social situation**, published at the beginning of December, paints a deeply divided society: *“The gap between the poor and the rich is opening up at an increasingly rapid pace.”* According to the Censis study, around 5 million people at risk of poverty live and work at the lowest level of the “pandemic society”. The lockdown and temporary closure of entire economic sectors has led to the destruction of 841,000 jobs in the second quarter of 2020. Most affected are irregular workers in the private service sector (care, catering, tourism, etc.) who were working without a contract and without social protections. In addition, there are another 1,424,000 people who are neither working nor looking for a job today; 60% of them are women.

The Coronavirus crisis has also reinforced the proletarianisation process of an important part of the so-called “middle class”. As the Censis study shows, only 23% of self-employed workers (from craftsmen to small businesses owners, to lawyers, architects, etc.) have the same income in the current year as in 2019. Around two thirds of these workers either earned less or were unable to work at all throughout pandemic and thus received no income at all. In addition, 400,000 temporary contracts were not renewed within eight months. Only thanks to the ban on dismissals until 21 March 2021 was it possible to avoid an explosion in unemployment. It is estimated that around 1 million workers will lose their jobs from next spring.

At the same time, wealth is increasingly concentrated in the hands of a few super-rich. The wealth of the richest one percent of Italian society has grown by 5.2% during the pandemic; the top 5% own 41% of the country’s total wealth, greater than the wealth of the bottom 80% of society. In short, an accumulation of unemployment and misery on the one hand is at the same time an accumulation of wealth on the other.

Privileges of state employees?

The public debate, however, has focused less on these enormous social inequalities and the contradictory dynamics of capital accumulation, and much more on what is termed by the press the “privileges of state employees”. Italy has around 3.2 million employees in the public sector. And it is precisely in the public administration that permanent employment, protection against dismissal and relatively high wages continue to prevail. As such, bourgeois politicians and business associations are keen to force state employees to give up their “privileges” and part of their wages to the state. However, the liberalisation of the labour market, begun decades ago, has also affected the public sector. Today, there are about 400,000 precarious public workers, especially in the education and health sectors. Moreover, following the 2008 crisis, state employees were forced accept an increase in the retirement age.

The attack on state workers is no coincidence. Public sector unions had called a strike for 9 December 2020 because of the government's unwillingness to guarantee new jobs and stable employment. The reaction of the bourgeoisie had two objectives. First, the attack on the "privileges of state employees" was intended to convey the idea that state employees already get more than they are entitled to. Secondly, this attack was not only directed against state workers, but against all workers; the crisis precipitated by the pandemic must not be used as a premise for allowing progress to be made on workers' rights.

Financial regulation 2021: Direct payments to enterprises

In the second wave of the coronavirus, direct aid was given to businesses and to some select occupational groups, particularly following the **protests** that broke out at the end of October. The decrees, known as "pick-me-ups" (in Italian: *ristori*), are primarily temporary measures with no obligation of repayment. According to official figures, around 26 billion euros were distributed in October. Companies were financially supported with the extension of the furlough scheme and exemption from social security and tax contributions. Certain workers received one-off cash payments (e.g. self-employed cultural workers were given 1000 euros). However, these measures are short-term solutions to a comprehensive problem of the prevailing welfare state logic. Indeed, it is precisely in a changing labour market that a profound transformation and expansion of the welfare state is needed.

In addition to the temporary measures, the **2021 financial regulation** was passed by parliament at the end of November. For the 2021/22 package, 38 billion euros have been made available for relief measures, a large part of which will again be given to companies as direct aid, with the argument that it will "promote employment": companies that hire young people and women will not have to pay social security contributions for 36 months; companies that make investments in the South will receive tax credits until 31 December 2022. However, there are hardly any measures planned in the financial regulation that would directly benefit workers in the longer term. The Italian government has therefore opted for "business as usual": through the financial regulations of the last five years, companies have received 10 billion euros in tax giveaways without any obligation to stabilise employment or increase wages.

And EU financial aid?

Only a year ago, the ruling 5-Star Movement rejected the reform of the European Stability Mechanism (ESM). On this it was in agreement with the right-wing, anti-European opposition parties. The pro-European coalition partner, the Democratic Party (PD), on the other hand, was always in favour of recourse to EU financial aid. On 9 December, the Italian parliament finally adopted the ESM reform, after the 5-Star Movement had made a sharp U-turn a few weeks earlier. Politically, the party leadership defended this change of direction by saying that a crisis within the government coalition had to be avoided. On the specific question of the ESM, the 5-star Movement maintains that the reform is a technicality that will have no influence on Italy's capacity to reject the ESM in retrospect.

Experts, on the other hand, call this an illusion: it is impossible to accept the ESM reform without being forced to resort to it in the crisis. In other words, a country's capacity to reject the ESM depends on the role of the European Central Bank (ECB). For years the ECB has acted as a "brake on speculation" by buying up a large part of member states' government bonds on the financial markets, thus keeping interest rates low. But those who now advocate ESM reform are at the same time calling for the ECB to withdraw from this role as a buyer of government bonds. It is up to the market to "discipline" individual states by raising interest rates. States like Italy, with a sharp economic downturn and a high level of public debt, thus risk a financial crisis that forces them to resort to EU aid. Debt restructuring means – Greece docet – austerity, privatisation of public services, attacks on workers' wages and social rights.

Most politicians, on the other hand, hope that the Recovery Fund will stop the public debt spiral and strengthen the competitiveness of the Italian economy as well as employment and productivity through innovation projects. Around 209 billion euros have been earmarked for Italy, 82 billion without repayment obligation, 127 billion as a loan. However, a first tranche of the money will reach Italy in summer 2021 at the earliest. The fundamental question is how the money will actually be invested. Given the current direction of the Italian government, it can be assumed that it will once again be used in financial incentives for companies and one-off payments, with the the structural problems that underlie the current crisis being left unaddressed.

Fears that the money is going into the wrong pockets are reinforced by the non-transparent procedure for appointing a new specific "monitoring authority" for overseeing the deployment of the Recovery Fund. Prime Minister Giuseppe Conte plans to set up a task force of about 90 people to draw up investment projects. This technical body is expected to be given special powers that will allow decisions to be taken over the heads of the implementing agencies (public authorities, institutions, companies). The lack of democratic control over the distribution and use of EU aid thus increases the likelihood that the large sums of money will be used on speculation.

Left-wing responses to the crisis

The dominant responses to the economic and financial crisis continue to rely on mainstream neoliberal approaches, i.e., with the priority being to guarantee liquidity to economic actors and keep interest rates low. But how long central banks can maintain these policies is extremely unclear. There are fears that the Coronavirus crisis will slide into a **bank crisis** next year due to insolvencies and loan defaults. Italian banks are particularly at risk. The solutions chosen so far fail to address the roots of social inequalities and the structural weakness of the Italian economy. A turnaround in financial and economic policy is needed.

Three left responses that are being discussed among critical economists, political organisations, trade unions and social movements are worth outlining here. Though not in themselves sufficient for overcoming the crisis, they are important points around which a new class-based left-wing politics should orient itself.

First, there needs to be a political campaign for a progressive tax system. In fact, there has been some movement on this issue as Left parliamentarians have tabled a bill for the introduction of a **property tax** (*patrimoniale*). According to this proposal, assets of 500,000 euros or more should be taxed at a rate of 0.2% and assets of 50 million euros or more at 2%. The initiators hope that this will generate revenues of around 18 billion euros. However, by abolishing the tax on second homes, the bill makes concessions to wealthy real estate owners. What is needed is tax relief on low incomes (a “no tax area”), an increase in tax rates on large fortunes/incomes and the taxation of the super-rich with a “**Billionaire Tax**” (10% on the assets of Italy's richest one percent).

Secondly, it is necessary to invest the money earmarked for the economy in structural and public projects. It is insufficient to provide companies with money and hope that this will then increase employment and productivity. Financial incentives and tax gifts too often peter out in the absence of a general industrial policy. This is why we need investment in public infrastructure such as rail and transport for people and goods to give production sites an industrial development framework; massive recruitment in the public sector to strengthen the essential sectors (health, education, transport); the introduction of a legal minimum wage and universally binding collective agreements to counter the spread of precariousness and in-work poverty.

Thirdly, there is a need for a political campaign that puts the issue of "**collective planning**" at the centre. At the beginning of the pandemic, European governments did not hesitate even for a second to change rules that had previously been called “untouchable”: abrogation of the Euro Stability Pact, state intervention to bail out companies, etc. If we are to avoid yet another case of socialised losses and privatised gains when things go back to “business as usual”, collectivity must be central. Vital and systemically important sectors must not be subordinated to the rules of the free market and thus to private profits; they belong under collective control and planning.

As lofty as these goals may seem, it is the only way for a class-based left-wing politics that is not to be ground down between a chauvinist right and a social liberal left.

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