Budget Deficits and Constitutional Constraints

Antonio Martino

Introduction

Budget deficits were regarded as the ultimate propellant of economic growth when, under the influence of the "Keynesian revolution," most economists believed that high employment and stability could be achieved through appropriate manipulations of the budget. In recent times, however, we have witnessed a reversal in the profession's conventional wisdom. Deficits are now being blamed for a lot of different economic problems: inflation, unemployment, slow growth, the stock market crash, high interest rates, balance of payments difficulties, instability of exchange rates, and a variety of other troubles.

While some of these criticisms are dubious or definitely unfounded, it is increasingly recognized that, whereas deficit-financed increases in public spending change the *structure* of total spending, by transferring funds from the private to the public sector, their impact on the *level* of aggregate demand may very well be negligible in most cases.

Be that as it may, what follows will be devoted to examining the following three theses:

1. Budget deficits make government growth easier. The possibility of running a deficit allows politicians to hide the cost of government from those who bear it.
2. Paradoxically, under different circumstances, the preoccupation with the size of the deficit may slow down the growth of spending. According to Professor Milton Friedman (1987, 1988), this is the case in the United States today. I maintain, however,

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that in the long run the "Friedman effect" is less important in slowing down spending growth than financial illusion is in accelerating it.

3. While Constitutional constraints may ultimately prove ineffective, they are probably all we can hope for to (temporarily?) halt or slow down the increase in public sector spending.

In analyzing these issues, I shall mostly draw on my country's experience. I am convinced, however, that the conclusions are not idiosyncratic in that they are broadly applicable to a variety of other countries. Italy seems to be the ideal candidate for the study of government deficits both because it ranks as number one among Western advanced democracies in terms of the deficit to GDP ratio, and because it has an admirable fiscal Constitution that was intended to make the formation of budget deficits almost impossible.

The Problem

The single most significant feature of Italy's economy in the past 25 years is the growth of government spending, taxation, and budget deficits. In fact, Italy's problem is an extreme variation of a more general theme: "Public spending in the 24 industrial countries belonging to the Organization for Economic Co-operation and Development (OECD) is now about 43 percent of their gross domestic products. In 1960 . . . the ratio was only 29 percent." And, "in all industrial countries, taxes have risen as a proportion of GDP since 1965" (*The Economist,* 1 June 1985).

Spending

From 1960 to 1987 public sector spending has increased 68 times in nominal terms, 489 percent in real terms (taking inflation into account), and it has gone from 32.7 percent of GDP to 52.2 percent. The process tends to accelerate: From 1980 to 1987 public sector spending has increased 204 percent in nominal terms or 42.3 percent in real terms, and it has gone from 43.2 percent of GDP to 52.2 percent (see Table 1).

From 1980 to 1987 the increase in public sector spending has absorbed 58.2 percent of the increase in GDP: For every million lire of additional product, 582,000 lire have gone to the government and 418,000 lire have been left to the private sector. It is worth noting that this spectacular increase has taken place at a time when all governments were giving the control of spending top priority in their programs. The results of their efforts have been disappointing, to say the least. Had spending remained constant in nominal terms from

TABLE 1

PUBLIC SECTOR SPENDING IN ITALY

	Billions of Lire Current Prices	Billions of Lire 1987 Prices	Percent of GDP
1960	7,588	87,181	32.7
1965	14,581	132,032	37.3
1970	22,816	177,948	36.3
1975	57,816	263,439	46.1
1980	168,811	360,749	43.2
1985	431,183	477,429	52.9
1987	513,351	513,351	52.2

SOURCE: Based on data from Banca d'Italia, 1988.

TABLE 2

TAX REVENUE AS A PERCENTAGE OF GDP, 1982–84 AVERAGE

Country	Average Tax Rate (%)
France	44.61
Italy	40.72
United Kingdom	38.56
Germany	37.57
Canada	33.61
United States	29.52
Japan	27.08
"G–7" Average	35.95
OECD	36.87

SOURCE: Peleggi (1987, p. 14).

1980 to 1987, in 1987 the budget would have shown a *surplus* of 238,084 billion lire; had it remained constant in real terms, the budget would still have had a *surplus* of 46,145 billion lire. Finally, had spending grown in proportion to GDP, net borrowing in 1987 would have amounted to 17,979 lire instead of 106,456 billion lire.

Taxation

Contrary to popular mythology, Italy is a heavily taxed country. Italians may be ingenious tax evaders, but they end up paying more explicit taxes than taxpayers of other Western countries.

International comparisons are always difficult to make. However, this should not discourage us from making them. The figures in Table 2 should not be taken at face value; even with all caveats, however, they show how much more serious the problem of excessive taxation is in Italy compared with the other six members of the so-called Group of Seven (G–7) and the average for OECD countries.

It is also interesting to note that the only country in which tax revenue as a percentage of GDP exceeds Italy's—France—is in the process of revising its GDP figures upward, so that Italy may soon achieve the dubious honor of being the most heavily taxed country in the G–7.

In addition to international comparisons, which are inevitably debatable, the severity of taxation in Italy is shown by the rapid growth of taxes over time. The figures in Table 3 show the rapid growth of public sector revenue since 1975. From 1975 to 1987 total revenue has increased more than nine-fold in nominal terms or over 110 percent in real terms, and it has gone from 33.6 percent to 41.4 percent of GDP. The increase has been particularly exorbitant in income tax revenue: From 1975 to 1987, it increased almost 16 times in nominal terms or three and a half times in real terms, and the percentage of public spending it finances has gone from 14.6 percent to 26.7 percent. Finally, as for marginal rates, Italian taxpayers start facing a 26 percent marginal rate at an annual income of U.S. $8,500.

Marginal Propensity for Public Sector Spending

The figures on public spending and revenue allow us to analyze the relationship between the two. Specifically, how public spending

TABLE 3

TOTAL PUBLIC SECTOR REVENUE IN ITALY

	Billions of Lire		
	Current Prices	1987 Prices	Percent of GDP
1975	42,159	192,098	33.63
1976	55,778	217,514	35.61
1977	70,596	235,357	37.14
1978	85,454	253,985	38.45
1979	102,567	265,680	37.96
1980	134,315	287,031	34.40
1981	168,007	300,444	35.90
1982	209,308	321,330	38.40
1983	257,463	344,952	40.64
1984	288,793	349,067	39.68
1985	326,757	361,803	40.06
1986	369,031	386,010	40.90
1987	406,895	406,895	41.41

SOURCE: Based on data from Banca d'Italia, 1988.

reacts to increases in revenue deserves investigation. The reason is obvious: From an ex post perspective, it is an arithmetic truism that if revenue increases while spending remains constant, the deficit is reduced. What is true ex post need not be true ex ante: An increase in revenue compared to last year's need not reduce the deficit if in the meantime spending also increases. The net effect of an increase in revenue on the size of the deficit obviously depends on the size of the spending increase compared to the magnitude of the increase in revenue.

Borrowing a somewhat different Keynesian concept, what matters is the "marginal propensity for public sector spending," the ratio of the increase in total government spending to the increase in tax revenue. This propensity is shown in Table 4 for the period 1975–87. The figures show that the marginal propensity for public sector spending has been greater than one in every year except 1976 and 1986, averaging 1.3123 for the entire period: A 1,000,000 lire increase in revenue has on average resulted in a 1,312,300 lire increase in spending, and a consequent 312,300 lire increase in net borrowing. It further means that, even though revenue has increased every year, this has not resulted in a reduction of the deficit, because, with the exception of 1976 and 1986, the increase in revenue has always stimulated an even larger increase in spending.

TABLE 4

ITALY'S MARGINAL PROPENSITY FOR PUBLIC SECTOR SPENDING

	dG	dT	dG/dT
1975	12,078	5,740	2.10
1976	13,195	13,619	0.97
1977	16,197	14,818	1.09
1978	21,843	14,858	1.47
1979	20,897	17,113	1.22
1980	38,863	31,748	1.22
1981	53,237	33,692	1.58
1982	51,021	41,301	1.24
1983	54,540	48,155	1.13
1984	46,628	31,330	1.49
1985	56,946	37,964	1.50
1986	41,669	42,274	0.98
1987	40,499	37,864	1.07

NOTE: dG = increase in public sector spending, billions of lire; dT = increase in public sector revenue, billions of lire; dG/dT = "government's marginal propensity to spend."
SOURCE: Based on data from Banca d'Italia, 1988.

As for the two exceptions, in those two years Italy's marginal propensity for public sector spending was 0.97 and 0.98, respectively. This means that in 1976 and 1986 the increase in revenue has in fact resulted in a reduction in the deficit. However, a deficit reduction of 20 to 30 thousand lire has cost the Italian taxpayer one million lire. In the light of the evidence, increasing public revenue through higher taxation does not seem a very effective way to cut the deficit.

The Deficit

The most spectacular increase has been that of the deficit. From 1961 to 1987 the deficit (in the IMF definition) has increased 319 times in nominal terms or over 28 times in real terms, and it has gone from 1.4 percent of GDP in 1961 to 11.6 percent in 1987 (see Table 5).

To get an idea of the size of Italy's deficit, we can compare it to the U.S. deficit. In 1985 the U.S. deficit (in the IMF definition) reached a staggering $212.11 billion. Had the federal government run a deficit equal, in proportion to the country's GDP, to that of the Italian government, it would have reached $597.5 billion. This means that, in relative terms, the Italian deficit in 1985 was almost three times larger than the U.S. federal budget deficit. And this is an understatement because in America the total public sector deficit is smaller than that of the federal government (as some state and local governments run budget surpluses).

According to the data in Table 6, the magnitude of Italy's public sector deficit is substantially higher than that of any other country in

TABLE 5

ITALIAN GOVERNMENT DEFICIT

	Billions of Lire		Percent of	
	Current Prices	1987 Prices	GDP	Total Public Sector Spending
1951	388	5,315	3.74	n.a.
1956	330	4,030	2.02	n.a.
1961	357	4,015	1.38	4.10
1966	1,831	16,169	4.32	11.81
1971	4,757	35,298	6.94	16.77
1976	14,866	57,972	9.49	20.93
1981	53,296	95,308	11.39	24.00
1986	108,497	113,489	12.02	22.94
1987	113,899	113,899	11.59	22.19

SOURCES: For the deficit and the CPI: International Monetary Fund, *International Financial Statistics*, various issues. For GDP and public sector spending: Banca d'Italia.

TABLE 6

GOVERNMENT DEFICIT AS A PERCENTAGE OF GDP, 1987

Country	Deficit as Percentage of GDP
Italy	12.6
Canada	4.9
France	2.7
United Kingdom	2.7
United States	2.4
Germany	1.5
Japan	0.9

SOURCE: Roberts (1987, p. 5).

the G–7. Although the table refers to 1987, updating the table does not change Italy's position as the leading deficit nation in the G–7.

The relationship between the deficit and government spending is illustrated in Figures 1 through 4. In real per capita terms, the cost of government in Italy has increased from U.S. $1,410 in 1960 to U.S. $6,986 in 1987 (Figure 1). The time pattern of the deficit has been remarkably similar to that of total spending both in absolute terms (Figure 2) and as a percentage of GDP (Figure 3). Finally, the deficit as a percentage of total spending has fluctuated along a rising trend (Figure 4).

Public Debt

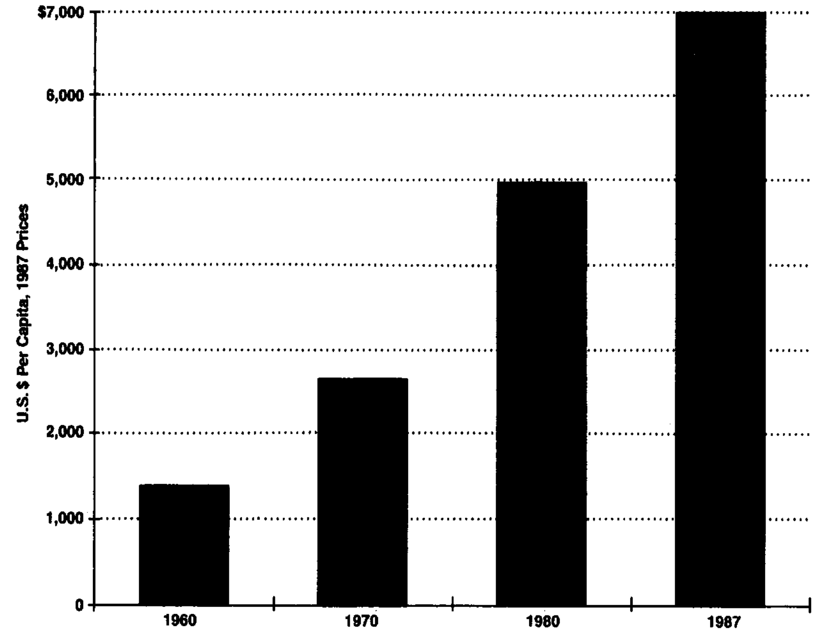
Not surprisingly, the need to finance growing annual deficits has resulted in the rapid increase of total public debt outstanding.

The figures in Table 7 illustrate the growth of public debt. As in the case of the deficit (see Table 5), total debt was reduced as a percentage of GDP until the mid-1960s. From then on it started to grow rapidly: In 1987 it was 68 times larger than in 1965 in nominal terms, and over 7 times in real terms. During the same period, public debt rose from 34.2 percent to 92.4 percent of GDP. According to a recent government paper, the correct ratio for 1987 is 97.2 percent, and it is supposed to rise to 120.7 percent by 1992. Per capita public debt in real terms (1987 prices) has risen from U.S. $1,954 in 1966 to U.S. $12,798 in 1987 (see Figure 5).

The deficit has also been a source of difficulties (and a scapegoat) for the monetary authorities, who are always prepared to blame the rapid rate of monetary growth on the size of the budget deficit. While in general monetary growth has been closely related to the increase

FIGURE 1

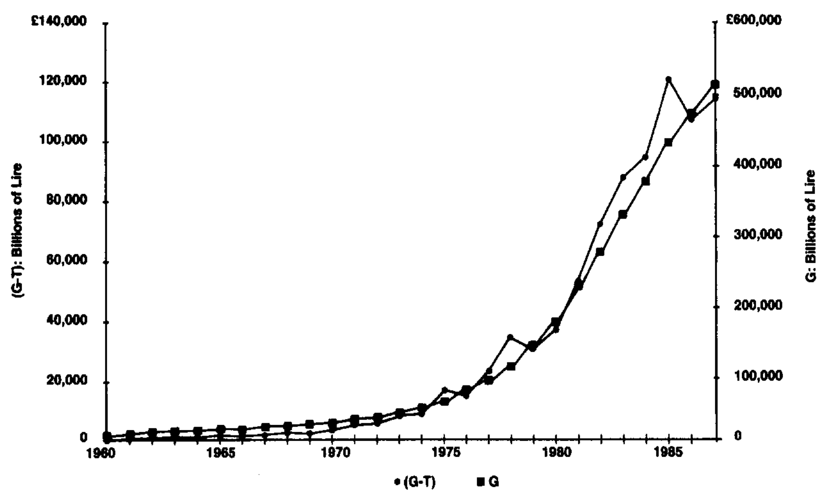
ITALY: REAL PER CAPITA COST OF GOVERNMENT, 1960–87



SOURCE: Based on IMF and BI data.

FIGURE 2

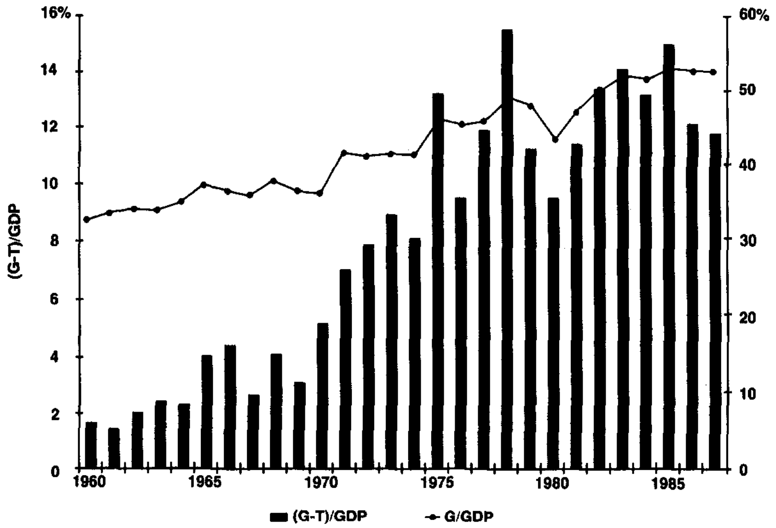
ITALY: BUDGET DEFICIT AND TOTAL SPENDING, 1960–87



SOURCE: Based on IMF and BI data.

FIGURE 3

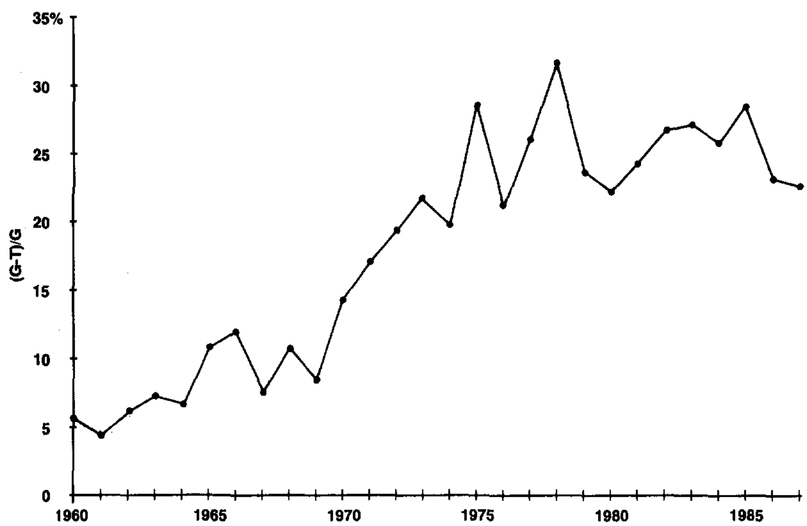
ITALY: GOVERNMENT DEFICIT AND SPENDING AS A PERCENTAGE OF GDP



SOURCE: Based on IMF and BI data.

FIGURE 4

ITALY: BUDGET DEFICIT AS A PERCENTAGE OF TOTAL SPENDING



SOURCE: Based on IMF and BI data.

TABLE 7

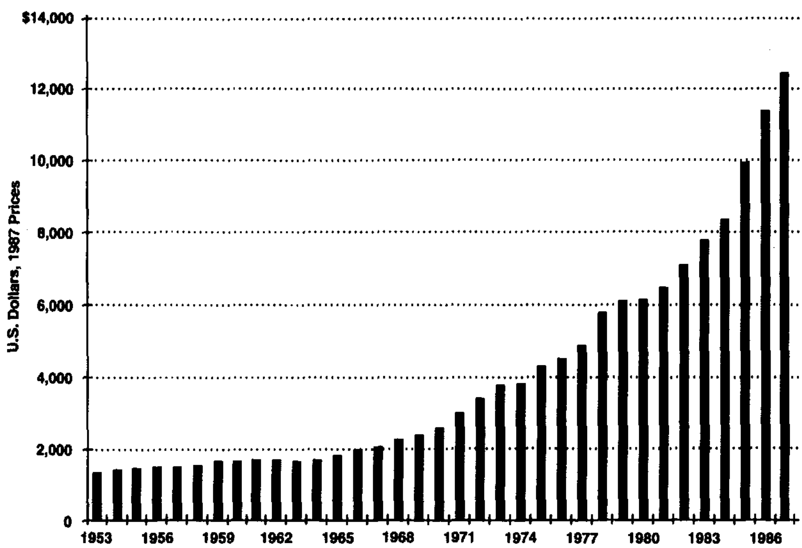
ITALY'S PUBLIC DEBT

	Billions of Lire Current Prices	Billions of Lire 1987 Prices	Percent of GDP	Billions of U.S. Dollars 1987 Prices
1950	4,709	70,867	50.9	54.65
1955	7,300	91,765	48.6	70.76
1960	9,286	106,689	40.0	82.27
1965	13,378	121,139	34.2	93.41
1970	23,189	180,857	36.9	139.46
1975	67,087	305,682	53.5	235.72
1980	206,212	440,675	52.8	339.82
1985	654,261	724,433	81.2	558.63
1987	907,842	907,842	92.4	700.06

SOURCE: IMF, *International Financial Statistics, Yearbook 1987;* the 1987 figure is from Banca d'Italia, 1988.

FIGURE 5

ITALY: REAL PER CAPITA PUBLIC DEBT, 1987 PRICES



SOURCE: Based on IMB and BI data.

in the deficit, the sharp reduction in the monetary growth rate in the past 8–9 years has been achieved despite the continued growth of the deficit. This fact seems to suggest that monetary policy can be effectively kept under control even in the face of large and growing deficits.

An Explanation

Gordon Tullock (1983) has maintained that we do not have a general theory of government growth, that all explanations of the rapid increase in taxation and spending in the postwar era are contradicted by the evidence: What is true for a given country at one time is not true for another country or for another period of time. In a sense, this is true by definition: The circumstances and the prevailing intellectual climate vary from country to country and over time. It is also true that a general theory should apply equally well to past trends as to contemporary developments. There is no doubt that we do not have any satisfactory explanation for such a wide range of events. But in another sense we do have a theory of government growth that explains fairly closely the prevailing tendencies in Western democracies during the last 25 to 30 years. It is not new, but it is worth mentioning.[1]

The starting point of such an explanation is the existence of three asymmetries in the perception of costs and benefits of public spending. First, the democratic political process tends to favor decisions that result in benefits for a small group of beneficiaries where the cost is spread over a large number of taxpayers (or consumers). For example, a decision to confer a benefit of, let us say, \$230 million to 1,000 beneficiaries (say, a subsidy to the domestic exporters of a given good) gives each one of them a \$230,000 incentive to make sure the proposal is approved. On the other hand, if the cost of the bill is spread evenly over the entire U.S. population, it would cost each and every American citizen only \$1. "In these circumstances the outcome is not in doubt: the spoliators will win hands down" (Pareto 1896).[2]

The existence of such an asymmetry is confirmed by the realization that spending on public goods has not been the main factor behind the growth of total spending. Since public goods benefit the whole of society, they often lack a constituency lobbying for them, so that the growth of public spending is usually slower. There is further

[1]The following explanation draws on my 1986 paper.

[2]Quoted in Stigler and Friedland (1980).

evidence of the existence of this asymmetry in the near-impossibility of reducing government spending, since the costs of the reduction would fall on a small number of former beneficiaries, and the benefits would go to society as a whole.[3] Finally, it is obvious that the success of the first group of beneficiaries will provide an incentive for the formation of other groups, so that the asymmetry results in a process of government growth that continues over time.

The second asymmetry occurs because the political process tends to favor decisions based on visible benefits and invisible costs. The visibility of benefits guarantees the support for the proposal by the potential beneficiaries, while the invisibility of costs neutralizes the opposition of the taxpayer-voters who will bear them. In the previous example, while each one of the producers of the good has an incentive of $230,000 to be exactly informed about the effects of the subsidy for him, the value of the information for the individual taxpayer is only $1. In all likelihood, therefore, while the beneficiaries will know exactly how much they stand to gain from the proposal, those who bear its cost will (rationally) be ignorant of its impact on them.

Finally, the political process favors decisions that result in an immediate (even if small) gain whose cost (even if large) is paid in the distant future. This last asymmetry is particularly acute in Italy because, given the high instability of the executive (the average "life expectancy at birth" of Italian governments is less than a year), the time horizon of political decisionmakers tends to be very short. Governments generally tend to favor spending decisions that confer an immediate gain to some group in society, even if the future cost of the decision is substantial, because in all likelihood it will be borne by another government.

If this analysis is correct, we would expect government growth to be faster when public spending is financed by a device that spreads costs over large numbers of taxpayers, hides these costs from those who bear them, and produces immediate benefits at the expense of high (if not disastrous) consequences in the future. Such a device exists, and it is called a deficit. Its time pattern—in Italy, at least—confirms the preceding analysis beyond any doubt.

I must stress at this point that the validity of this analysis does not depend on the existence of an *uninterrupted* growth of the deficit. What happens is that, when the deficit reaches a certain amount, the

[3]Compare Milton and Rose Friedman (1984, p. 42): "[There] is an asymmetry between the resistance to increasing the size of government and to decreasing it, between introducing new programs and dismantling them. An increase in the size of government is far less likely to run into concentrated and effective resistance—and, indeed, sabotage—than a decrease in the size of government."

need to reduce it—stressed with great vigor by fiscal conservatives of all political parties—results in higher taxation. It is quite possible, therefore, that the asymmetries will produce increases in the deficit followed by increases in explicit taxation, and a reduction in the deficit, and so on. (This, however, has not been the case in Italy, where the deficit has grown with almost no interruption: See Table 5).

The "Friedman Effect"

Milton Friedman (1987, 1988) has argued that the existence of a budget deficit may prevent government from increasing spending: "Most commentators bemoan the large budget deficit. I welcome it. The deficit is the only thing that is forcing us to think seriously about how to control federal spending. The economic effect of the deficit is unquestionably bad, but the political effect of the deficit is good." And, more recently, "the deficit has been the only effective restraint on congressional spending."

Friedman was obviously referring to the situation in the United States in 1987. Given President Reagan's commitment not to increase taxation under any circumstance, the deficit is an effective deterrent to spending increases. However, if the U.S. president was not as concerned with excessive taxation as Mr. Reagan, the deficit, rather than restraining spending, would have provided a wonderful excuse for increasing taxation. Let's hope that the Bush administration will spare us conclusive evidence in favor of this assumption.

In other words, while I believe that the "Friedman effect" has been effective in the United States, I am convinced that it is not a lasting phenomenon. Sooner or later, perhaps after a change in government, the possibility of running a deficit will prove to be a force favoring the growth of spending rather than its containment.

This is so because, in the long run, the possibility of running a deficit allows the three asymmetries to operate unconstrained. In the words of James Buchanan (1983, pp. 17–18):

> Beneficiary groups, recipients of direct transfers or of governmentally financed programs, tend to be concentrated, organized, and capable of exerting influence over elected politicians. By contrast, taxpayer groups, those who pay taxes, tend to be widely dispersed and, indeed, tend to include almost everyone due to the fact that taxes are general rather than specific. As a result of the asymmetry, it becomes easier to get political decision makers to expand budgets than to contract them.

In other words, the asymmetries work unconstrained when budget deficits are possible, but they do not necessarily result in the uninterrupted growth of the deficit, because governments alternate between fiscal prudence and folly. What the asymmetries guarantee is that the reduction of the deficit will always take place at a higher level of taxation and spending rather than at a lower level. But it is still the *possibility* of running a budget deficit that makes it possible for spending to keep growing uninterruptedly.

Italy, the Constitution, and Keynes

An objection arises at this point. The structure of incentives affecting the behavior of voters, politicians, and taxpayers so as to promote the growth of government can be assumed to have existed ever since mass democracy was born. Why, then, did government deficits not start to increase in Italy until the early 1960s?

The extraordinary paradox of the Italian case is that Italy has a fiscal Constitution that was intended precisely to avoid the kind of financial disorder we now experience, by forcing spending decisions to conform to a standard of financial responsibility. Unfortunately, the constitutional constraint did not succeed.

The cornerstone of Italy's fiscal Constitution is the last paragraph of Article 81, which reads: "Every other law which involves new or greater expenditures must indicate the means to meet them." The intent of the authors of this article is made explicit in the published proceedings of the discussion that preceded its approval. Their aim was that of ensuring a responsible approach to spending decisions and a tendency toward a balanced budget. Since the previous paragraph of Article 81 forbids the introduction of new taxes and expenses in the budget law, the combination of the two principles should have resulted in a "rigorous constraint" on the formation of increases in the deficit. The meaning of the rule embodied in the last paragraph of Article 81 is unequivocal to anyone who reads the proceedings of the Constitutional subcommittee; its implications are even clearer to economists familiar with the work of Knut Wicksell, who, as early as 1896, had recognized the need to couple spending proposals with specific plans for covering their costs as a way to achieve financial responsibility.

The constitutional constraint worked rather well until 1961. As shown in Table 5, from 1951 to 1961 the government deficit in Italy declined 8 percent in nominal terms or 24.5 percent in real terms, and as a percentage of GDP, it went from 3.74 in 1951 to 1.38 in 1961—a 63 percent decrease. The budget was not balanced, but the *tendency* was there: As a percentage of GDP, the deficit was cut substantially in the 1950s. Then the trend changed: From 1961 until today, the growth of the deficit is one of the few certainties of economic life. Why?

In my opinion, the answer is threefold. First, there is the impact of the "Keynesian revolution." As long as the "balanced-budget norm" prevailed, the formation of larger budget deficits was discouraged, and the constitutional constraint was enforced. Until 1961, there have been 12 cases of laws sent back to Parliament by the president of the Republic, who refused to sign them because they violated Article 81 of the Constitution. After the political change of the early 1960s—the "opening to the left" (the formation of a government coalition including the Socialists)—and the advent of the "Keynesian revolution," the "balanced-budget norm" was replaced by the Keynesian mythology of deficit spending. The various presidents of the Republic did not avail themselves of their veto power, and the Constitutional principle was no longer enforced. The working of the three asymmetries became unconstrained, and the budget deficit exploded.

The rapid growth of government can therefore be attributed to the combined effect of the system of political incentives typical of the democratic political process on the one hand, and the consequences of the "Keynesian revolution" on the other. The "decoupling" of decisions on spending and taxing, made possible by the abandonment of the "balanced-budget norm," has allowed taxation and spending to grow rapidly in response to the political pressures resulting from the three asymmetries mentioned above.

The evidence, in Italy at least, confirms the validity of Buchanan and Wagner's conclusion (1978, p. 27):

> The mounting historical evidence of the ill effects of Keynes's ideas cannot continue to be ignored. Keynesian economics has turned the politicians loose; it has destroyed the effective constraint on politicians' ordinary appetites to spend and spend without the apparent necessity to tax.
>
> Sober assessment suggests that, politically, Keynesianism represents a substantial disease that over the long run can prove fatal for the survival of democracy.

In addition to the deleterious consequences of Keynesianism, two more factors contributed to the abandonment of the constitutional rule. First is the general nature of the Italian Constitution: an ambiguous, quixotic, and often unenforceable document. Second, the last paragraph of Article 81 could have been (and should have been) expressed in a more specific way, so that it could be either enforced or *openly* violated. As it happens, it has been possible to by-pass it by "interpreting" it in a more flexible manner. For example, when a bill introduces an expenditure destined to continue in the future, politicians and "constitutional experts" maintain that the principle is respected if the law "indicates the means" to finance the expense for the first year, even if it ignores the necessity to raise the funds for the following years.

Conclusions

These last two factors could and should have been avoided: There is no reason why the Italian Constitution should make delightful reading for anyone opposed to written constitutions. Also, the constitutional principle could have been phrased in a more explicit and binding way. It is impossible to tell a priori, however, if a better worded rule within the framework of a meaningful constitution would have stood the test of the change in intellectual climate brought about by Keynesianism. But, on the other hand, we should probably avoid the extreme pessimism of Anthony de Jasay, who, in his admirable book (de Jasay 1985), likens constitutional rules to chastity belts: "With its key always within reach, a chastity belt will at best occasion delay before nature takes its course" (p. 187).

Even if the introduction of a constitutional rule is only a temporary remedy, in that, sooner or later, politicians will try to bypass it, it is the only chance a democracy has to contain the displacement of individual liberty by the growing Leviathan. It is not accidental that, in the Western world, countries with a federal constitution or a constitutional rule (such as Switzerland, Finland, or the United States) are those that have the best record in the containment of government growth.

The Italian experience should teach other countries that a fiscal constitution is necessary. Indeed, if one agrees that the "Italian disease" is only a more acute form of the same illness that affects all Western societies, the need for a set of constraints on irresponsible spending decisions is an urgent one. It is the most a country can do to avoid falling into the kind of financial disarray that is currently plaguing Italy.

But the Italian experience also teaches another, less optimistic, lesson: Although monetary and fiscal constitutions are necessary, they are far from being a sufficient guarantee against excessive and irresponsible government. There is no such a thing as a foolproof legal device that can protect us forever. There is no substitute for our constant alertness, for our awareness of the threat posed to our freedom by an increasingly intrusive Leviathan.

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