

Left vs Right in Europe: Spain and Italy

by RAINER ZITELMANN

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Spain's Pedro Sánchez and Italy's Giorgia Meloni (image created in Shutterstock)

Spain under the socialist government of Pedro Sánchez

Spain's economy is the 55th freest in up the 2024 *Index of Economic Freedom* and Spain ranks 30th out of 44 countries in the Europe region. In its assessment, the Heritage Foundation writes: "Spain's progress toward greater economic freedom has been uneven. Regulatory efficiency and the rule of law are relatively well maintained, but long-term gains have been modest. Fiscal freedom, government spending, and financial freedom challenges are significant. Fiscal deficits and high public debt reflect a need to reform financial management... Business start-up procedures have been streamlined, and there are now fewer licensing requirements. Despite some progress, labor regulations remain restrictive and burdensome. Inflationary pressure remains a concern."

But the outlook for economic freedom in Spain is not at all positive.

Under Pedro Sánchez, who was re-elected in November 2023, Spain is governed by a Socialist-Communist coalition. The rule of law has been significantly hindered by the Executive, with a controversial Amnesty Law that has granted amnesty to hundreds of citizens convicted of very serious crimes, including corruption and terrorism. The government has also made political appointments that hinder the independence of key institutions, such as the Constitutional Court.

According to the *Economic Performance Indicator*, a study published by Instituto Juan de Mariana, Spain is the worst-performing country in the entire European Union. The *Economic Performance Indicator* analyses the evolution of EU economies between 2019 and 2023, according to five leading variables: economic growth; household income; job creation; tax pressure; and government debt.

Job creation is non-existent, but the government has tweaked official statistics in order to pass seasonally-employed contractors as workers with a permanent job. Government debt is a significant drag on the overall performance of the economy. It currently sits at almost 108 percent of GDP, significantly above the Eurozone's Stability and Growth Pact ceiling of 60 percent of GDP. Instituto de Estudios Económicos estimates unnecessary government spending to be as high as €60 billion (£50 billion).

Tax policy has been atrocious. While tax revenues have held steady across the EU, the tax-to-GDP ratio in Spain is now almost three GDP points higher than before the Covid-19 pandemic. The Tax Foundation now ranks Spain as one of the OECD member states with the least competitive tax systems. The Spanish economist Diego Sánchez de la Cruz is scathing in his evaluation: "Throughout his mandate, Pedro Sánchez has approved at least 69 tax hikes. More than 70,000 companies have closed under the current government. Foreign investment is roughly 50 percent lower than at the beginning of the Sánchez presidency in 2018. Also, gross capital formation in 2024 is three percent lower than in 2019."

Italy under the right-wing government of Giorgia Meloni

Italy comes a very poor 81st in the Index of Economic Freedom 2024 and is therefore in a significantly lower position than Spain, mainly due to its extremely high level of debt. In the Europe region, Italy ranks 38th out of 44 countries. The Heritage Foundation writes: "The Italian economy has been mired in a protracted slowdown. Despite repeated attempts at reform, economic competitiveness has flagged. Much-needed structural reforms have not been implemented effectively, and the economy is still burdened by poor management of public finance and other institutional issues. Public debt, which is more than 140 percent and growing, undermines prospects for long-term development. Because of the regulatory framework's complexity, the informal sector still accounts for a significant portion of economic activity in Italy."

The right-wing Giorgia Meloni has been in power in Italy since October. What does this mean for Italy's economy?

Professor Alberto Mingardi from the liberal think tank Bruno Leoni explains: "Giorgia Meloni comes from a political culture which is hardly libertarian or classical liberal. Yet the Italian Prime Minister promised 'not to disturb those who those who want to get things done,' a motto somewhat reminiscent of *laissez-faire*."

Meloni is head of a coalition government in which different parties have a similar liberal-*ish* attitude towards regulation and taxes, but tend to prefer lax public finances. In particular, her own party and the Northern League have long pushed for Italy to quit the euro, in order to free the government from any financial straightjacket.

Mingardi has a more nuanced opinion: "Yet so far, Meloni's government has been more illiberal on regulation than on public finances. The government has banned artificial meat and is at the forefront of efforts to regulate artificial intelligence. The impression is that it considers any technological innovation a threat. There is no sign that Italy might liberalize different markets, or even simply remove the ban on Uber, while Meloni is in charge. On the other hand, the Minister of Finance, Giancarlo Giorgetti, has been a careful steward of Italy's public finances."

Giorgetti inherited a difficult financial situation from his predecessors, the populist government led by Giuseppe Conte and the technocratic one led by Mario Draghi. The debt to GDP ratio is 137.3 percent, one and a half times the European average. Giorgetti has been good at avoiding new expenses, but has not yet succeeded in cutting older handouts. He has launched a small (partial) privatisation programme, which is focusing on selling minority stakes in government-controlled companies to bring some cash to the treasury.

Mingardi takes a positive view of the planned constitutional reform: "On the upside, Meloni has been pursuing constitutional reforms that may improve the Italian outlook in the long term. She favors a policy of 'autonomia', which is a very partial and limited federalism, but better than the status quo. She is betting on a reform to allow Italians to elect the prime minister directly, which may end the Italian history of extremely short-lived governments. The average government in Italy since 1948 lasted 14 months."

Rainer Zitelmann is the author of the books *How Nations Escape Poverty* <https://nations-escape-poverty.com/> and *The Power of Capitalism* <https://the-power-of-capitalism.com/>