

## Send in the clowns

*How Beppe Grillo and Silvio Berlusconi threaten the future of Italy and the euro*



A sense of humour in adversity can be attractive, but it is not always useful. Confronted by the worst recession in their country since the 1930s and the possible implosion of Europe's single currency, the people of Italy have decided to avoid reality. In this week's election a quarter of the electorate—a post-war record—did not even bother to show up. Of those who did, almost 30% endorsed Silvio Berlusconi, whose ruinous policies as a clownish prime minister are a main cause of Italy's economic woes. And a further 25% voted for the Five Star Movement, which is led by a genuine comedian, Beppe Grillo. By contrast, Mario Monti, the reform-minded technocrat who has led Italy for the past 15 months and restored much of its battered credibility, got a measly 10%.

This result is a disaster for Italy and for Europe. In Rome the centre-left coalition headed by Pier Luigi Bersani, the pre-election favourite who ended up getting only a whisker more of the vote than Mr Berlusconi, is now struggling to form a government: it is unlikely to be stable or durable (see article). Meanwhile, financial markets across Europe swooned on the news. Share prices fell sharply almost everywhere. Sovereign-bond yields jumped across the Mediterranean countries, to levels touched three months ago, even as they fell in Germany, bringing the euro crisis back to centre-stage.

In fact the danger is less of break-up than of stagnation. This was the week, history may conclude, when Europeans made clear that they were not interested in reform. Nine months after the French ran away from change, the Italians sprinted past them. As many as two-thirds of Italians rejected not only German-imposed austerity but the entire reform agenda that was designed to improve their economy's dismal record of near-zero growth. Follow that path, and it leads to the economic paralysis and political decline that Japan has endured for the past 20 years.

## Change course or be like Japan

The election result is scarily reminiscent of the most recent occasion when the centre-left governed Italy, in 2006. Then a ramshackle coalition under Romano Prodi stuttered on, only to expire after less than two years. Mr Bersani could try to form a "grand coalition" bringing together elements from the centre-left and the centre-right, though that means dealing with Mr Berlusconi. Mr Bersani might do better to form a minority government with Mr Monti, sustained from outside by Mr Grillo's Five Star Movement, a formula that has more or less

worked in Sicily. The “grillini”, as Mr Grillo’s new deputies and senators are known, need to decide whether to be purely negative in seeking to overturn the entire political order, or whether to be responsible and support sensible reforms.

To complicate things, the new parliament also has to elect a replacement for the president, Giorgio Napolitano. The best candidate is a former centre-left prime minister, Giuliano Amato. But whoever is chosen, and whatever government is cobbled together, Italy will struggle to avoid a fresh election later this year. It would be better if that election were fought with new political leaders and under a new electoral system that makes a repeat of today’s gridlock less likely.

In the meantime, the worry is of no progress with the reforms that are desperately needed to restore vitality to an asphyxiated economy. To do nothing, as Italy’s voters seem to wish, is not the answer to the country’s problems. Italian GDP per head has actually shrunk during the euro’s first 13 years of existence. This performance has little to do with a lack of demand caused by excessive fiscal austerity, as some euro critics loudly claim. It has everything to do with year after year of steadily rising labour costs and falling productivity, which have undermined Italian competitiveness and exports. If Italy’s government cannot regain lost competitiveness and reignite growth through greater liberalisation of its labour and product markets and reforms to the country’s legal and welfare systems, the economy will suffer, and youth unemployment will climb even higher than today’s 36%.

### **Too big to fail or to bail**

This is dangerous. It is hard to see Italy remaining in the single currency in such dire straits—and equally hard to imagine the euro surviving if it falls out. Italy is the euro zone’s third-biggest economy and, although its budget deficit is quite small, it has the biggest stock of public debt (at almost 130% of GDP). This makes it too big to bail out.

But without growth, Italy will not be able to service its debts. The possible pattern is clear: a series of crisis meetings, a few half-hearted efforts at reform to buy off Germany’s Angela Merkel, not enough growth, too much austerity, and then another crisis. The euro survives, but at immense economic cost. The euro zone becomes Japan.

Explore our interactive guide to Europe’s troubled economies.

It does not have to be that way. Italy’s political convulsions underline the need for Mrs Merkel to adapt her prescription. So far it has been a lot of austerity and some reform; it should be the other way round.

Deep recession and rising unemployment across the Mediterranean countries are triggering a popular backlash. Structural reforms continue to be essential if southern countries in the euro are to win back competitiveness and rekindle growth. But, given the voters’ response and the scale of recession, the pressure for continued fiscal austerity should now ease. Several countries—France is the most recent example (see article)—are expected to miss their budget-deficit targets this year. The European Commission should accept this if governments implement reforms. And northern members of the euro zone, especially Germany, should be readier to stimulate demand through tax cuts and spending increases.

The irony is that both of Italy’s clowns have got one thing right. Mr Grillo was right about Italy’s overpaid and corrupt politicians. Mr Berlusconi was right that austerity alone will not solve Europe’s crisis. Yet that does not mean Italians can run away from their predicament. If they continue to reject reforms, reality will catch up with them. Whatever the clowns may tell you, that is not funny.

**Fonte: The Economist, London, v. 406, n. 8825, p. 11, 2 a 8 Mar. 2013.**