

Silvio's economic bunga-bunga is wrecking Italy

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The national mood in Italy is dire, just as wives and children head for the seaside or mountains, leaving husbands to philander in town. The country is being sucked into the vortex of deficit and debt that is swallowing economies across southern Europe and putting at risk the future of the euro.

The reason is not so much economics as flawed politics, and once again the finger of blame points at Silvio Berlusconi. His best service to Italy would be to resign now and let others lead the fightback.

Nobody can pretend the Italian economy is in great shape. But it's not bad enough to warrant the Gadarene rush of credit-rating agencies and investors to dump Italy. Our deficit is smaller than that of the UK. True, our debt as a proportion of gross national product is one of the worst in Europe, reflecting how we have been living in never-never land. But while Italians remain happy to buy their country's bonds, that problem is manageable. Italy's banks are basically sound too.

Meanwhile, our flinty finance minister, Giulio Tremonti, who makes George Osborne look a softie, has ordained €48 billion (£42 billion) of cuts to ease the deficit. The Italian parliament, which normally drags out difficult decisions for months, agreed them at lightning speed last week with cross-party support. But politicians of all parties are preparing for the backlash. It does not take much to bring on massive strikes in Italy and it promises to be a hot autumn, dwarfing anything the British trade unions

are likely to dish out.

Inflation is producing awesome price rises. The steady influx of illegal immigrants from north Africa is swamping Italy's ability to host them, and many are being covertly shepherded across the borders to Italy's neighbours. The Northern League has renewed its push

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for fiscal federalism, which would divide Italy even more deeply into a prosperous north and a deprived south. It raises all the old questions, in this 150th anniversary year, about whether Italy has ever really been a single country.

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But the real reason for the lack of investor confidence in Italy and the black mood in the country lies in the rotten state of our politics. That is why even the tough economic measures now being taken may not be enough to save Italy. It needs a new government, one that is prepared to drive through serious economic reform. There is much hopeful talk of creating a "new economy", free from corruption and nepotism.

That is not going to happen while Berlusconi remains in charge. In his glory days he posed as the Italian Thatcher, ready to reform Italy's economy root and branch, sweeping away restrictions and privatising the state's vast holdings in some of the country's largest companies. We are still waiting. If he would not do it at the height of his popularity, there is no way he is going to tackle the problems as his authority seeps away.

It's even worse than that. By all accounts, he has been actively undermining his finance minister in the interests of his own political survival by hinting that the austerity package will be diluted to ease the pain for Italy's voters. The damage that inflicts on Italy's credibility and creditworthiness is hard to overstate.

Add to that Berlusconi's shameless attempt to slip covertly into the austerity package a clause that would extend the time for his own company to pay the huge damages awarded against it by the Italian courts. Fortunately, he was caught and compelled to back down. But it's yet another blow to the country's credibility.

This time he may finally have gone over the limits. Italians may forgive bunga-bunga as the last throes of an old goat, like Hugh Hefner of Playboy with his simpering young girlfriends. Putting the whole economy at risk is a step too far. Even Italians may lose patience with him and his antics.

The outlines of a post-Berlusconi government are beginning to take shape. They do not involve the squabbling mish-mash of left-wing opposition parties that have offered no solution to Italy's economic woes. Instead the initiative now rests with President Giorgio Napolitano, a former Communist. Although the president has few powers, he has respect and moral authority — and he is using them to rally Italians to make the sacrifices necessary to save the economy. Berlusconi is ever more obviously the main obstacle to that.

Perhaps we shall move to a government headed by a respected non-political figure, such as Mario Monti, the former European commissioner, while retaining the better performers from Berlusconi's team, such as Tremonti. Governments of all the talents have traditionally been Italy's route to salvation in tough times and they do not get much tougher than now. Monti's recent Financial Times article can be read as a job application.

The best way for Berlusconi to serve his country is to step down and clear the way for others to restore Italy's political sanity and financial credibility. Will he go voluntarily? Not on past form. But just maybe his own colleagues will finally pluck up the courage to tell him his time is up. After all, it worked with Caesar — if a shade more brutally.

*Europe and a looming world crisis, Editorial, page 24.
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