

Monti is not the right man to lead Italy

di Wolfgang Münchau

Most Italians know they owe the fall in bond yields to Draghi

The financial crisis has faded in Italy but the economic crisis has been growing. There has hardly been a day without news of the credit crunch worsening, and a fall in employment, consumption, production and business confidence. Once again, a European government has misjudged the predictable impact of austerity. Having shown almost no growth for a decade, the Italian economy is lingering in a long and deep recession.

Like the other countries on the eurozone's southern rim, Italy faces three options. The first is to stay in the euro and take on alone the burden of full adjustment. By this I mean both economic adjustment, in terms of unit labour costs and inflation; and fiscal adjustment. The second is to stay in the eurozone, contingent on shared adjustment between creditor and debtor nations. The third is to leave the euro. Successive Italian governments have tried a fourth option – stay in the euro, focus on short-term fiscal adjustment only and wait.

Since we know from economic history how such episodes end, option four will ultimately lead us back to options one, two or three. My favourite would have been the second: make euro membership conditional on symmetrical adjustment. But Mario Monti, Italy's prime minister, did not stand up to Angela Merkel. He did not tell the German chancellor that his country's continued engagement with the single currency would have to depend on a proper banking union with full resolution and deposit insurance capacity; a eurozone bond; and more expansionist economic policies by Berlin. In his interview with the Financial Times last week, Mariano Rajoy, the Spanish prime minister, demanded symmetrical adjustment – again, rather late, since Germany is already planning an austerity budget for 2014. In view of all political decisions already taken, the option of symmetrical adjustment is slowly receding.

So where does this leave Italy ahead of next month's elections? As prime minister, Mr Monti promised reform and ended up raising taxes. His government tried to introduce modest structural reforms but they were watered down to macroeconomic insignificance. Having started as a leader of a technical government, he has emerged as a tough, political operator. His narrative has been that he saved Italy from the brink, or rather from Silvio Berlusconi, his predecessor. A fall in bond yields has played into this narrative, but most Italians know they owe this to another Mario – Draghi, president of the European Central Bank.

On the left, Pier Luigi Bersani, general secretary of the Partito Democratico, has supported austerity but has recently been trying to distance himself from those policies. He has also been more hesitant on structural reforms. His main campaign themes are a wealth tax, the fight against tax evasion, money laundering and gay rights. He says he wants Italy to stay in the eurozone. There is a marginal chance he will

be more successful in standing up to Ms Merkel because he is in a better position to team up with François Hollande, the French president and a fellow Socialist.

On the right, the alliance of Mr Berlusconi and the Northern League has been behind in the polls but is making advances. So far, the former prime minister has had a good campaign. He has delivered an anti-austerity message that has struck a chord with a disillusioned electorate. He also keeps criticising Germany for its reluctance to accept a eurozone bond and to allow the ECB to buy Italian bonds unconditionally.

You could interpret this as an option-two stance: insist on symmetrical adjustment or get out. We know Mr Berlusconi only too well, however. He was a prime minister for long enough to have shaped such a debate much earlier. To become credible, he must produce a clear strategy that maps out the choices in detail. All we have now are television soundbites.

Judging from the latest opinion polls, the most likely election result is gridlock, perhaps in the form of a Bersani-Monti coalition of the centre-left, possibly with a centre-right majority in the Italian senate, where different voting rules apply. This would leave everyone, more or less, in charge. Nobody would have the power to implement a policy. Everybody would have the right to veto one.

If that were the case, Italy would continue to muddle through, pretending it had opted to remain in the euro but without creating the conditions to make membership sustainable. In the meantime, I would expect an anti-euro political consensus to emerge that would probably either win an outright majority in subsequent elections or trigger a political crisis with ultimately the same effect.

As for Mr Monti, my best guess is that history will accord him a role similar to that played by Heinrich Brüning, Germany's chancellor from 1930 to 1932. He, too, was part of a prevailing establishment consensus that there was no alternative to austerity.

Italy still has a few choices open. But it has to make them.