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Save Italy from this fiscal folly

Berlusconi must be told to drop his tax-cutting plans

How much longer before Silvio Berlusconi, Italy's prime minister, and the economy in his charge run out of road?

Not long, if the mood music at this week's meeting of European Union finance ministers in Luxembourg was any guide. With its burgeoning public deficit, undiminished stock of debt and the aspirations of Mr Berlusconi to stay in power through tax cuts, Italy is now the undisputed delinquent of the eurozone. Throw in the mounting pension liabilities of a rapidly ageing population and the declining competitiveness of the nation's industrial base and it is no wonder that Joaquin Almunia, the EU commissioner for economic and monetary affairs, is signalling action against Italy for its excessive deficit under the EU's stability and growth pact, probably before the end of June.

For unlike France, Germany and Greece, whose deficits played such a big part in undermining the pact to the point where EU leaders last month approved a significant weakening of its terms, Italy is not even pretending to play by the new rules. Mr Berlusconi's response to disastrous losses for his four-party House of Freedoms coalition in last week's regional elections was to put his faith in still higher deficits.

Undeterred by Commission forecasts that the budget shortfall could rise to 4.6 per cent of gross domestic product in 2006 from a predicted 3.8pcr cent this year, Mr Berlusconi has promised €12bn in personal and business tax cuts next

year – tax cuts that Italy cannot afford.

For both Mr Almunia and Mr Berlusconi, the stakes could not be higher. For the Commission, the looming dispute could determine whether the single currency area can continue as a rule-based system. For the prime minister it is all about survival in office.

There is a chance that a damaging clash can be avoided. But that will depend on events and personalities in Rome in the days ahead.

Fortunately, Mr Berlusconi is not the undisputed master of all he surveys. Business leaders are losing faith in his economic policies. Two of his partners in the governing coalition – Gianfranco Fini, leader of the conservative National Alliance, and Marco Follini, leader of the centre-right Democratic Union of the Centre – are distinctly uncomfortable with his fiscal adventurism. It is likely too that Carlo Azeglio Ciampi, Italy's highly respected president, will take a dim view of his tax-cutting plans. It was Mr Ciampi, as finance minister in the 1990s, who brought Italy within the EU's deficit limits, enabling the country to become a founding member of the eurozone.

Mr Ciampi was due to see Mr Berlusconi last night. Mr Fini and Mr Follini will have their turn tomorrow at a coalition summit.

All three have a duty to try to turn Mr Berlusconi away from his path of fiscal folly. Only if they succeed is there a case for his government surviving until the general election that must be fought by May next year.