

THE LEX COLUMN

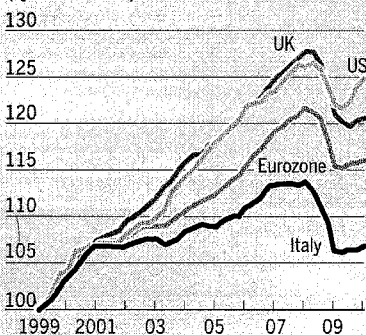
Italy's fading bella figura

It is one of the glories of Europe that Italy's economic model survives its catastrophic politics. Government after ineffectual government comes and goes, yet Italian companies successfully navigate an enormous public debt, lack of structural reforms, the erosion of their competitive advantages and intense export competition to keep the country in the Group of Seven. The model's success, however, is largely an illusion: Italian real gross domestic product grew 10 percentage points less than the eurozone average in the past decade, according to Capital Economics.

Now another hot political autumn is in store. In the national tradition of dysfunctional administration, the coalition of prime minister Silvio Berlusconi is self-destructing. Many hope he will lose out. Yet the potential winners - his erstwhile allies Giulio Tremonti, finance minister, and Gianfranco Fini, a long-time nemesis - have little new to offer. There is no hint that anyone's agenda includes the structural reforms to labour, education and administration that Italy needs. This internecine fight on the right of Italian politics may lead only to further economic stagnation.

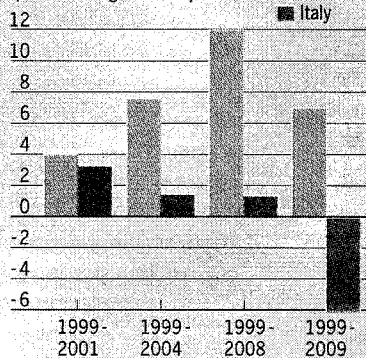
Italy in the slow lane

Real GDP (Q1 1999=100)



Sources: Capital Economics; UniCredit

Labour productivity (cumulative growth, %)



Investors should be worried, although not by the 120 per cent ratio of government debt to GDP. That is well managed and mitigated by modest levels of private sector and household debt. Italy's problems are in the real economy. UniCredit calculates that, relative to Germany, Italy's competitiveness in unit labour costs has deteriorated by 26 per cent since 1999. In that period, eurozone productivity rose by 7 per cent - Italy's fell by 6 per cent.

Investors can count the cost of exposure to this environment. In the decade to the end of 2009, Italian stocks underperformed the FTSE Eurofirst 300 index by 11 percentage points. Confindustria, the business lobby, warns that Italy's fate without reform is long-term decline, a process that may be already under way. Italy needs a political revolution, not a passing political crisis, to rediscover its economic mojo.

