

# Economic headaches await Italian leader

## A wide coalition could hinder change

By Eric Sylvers

**MILAN:** Romano Prodi appeared close on Monday to becoming Italy's new prime minister, yet economists and independent experts were cautious about whether he would have any better luck than Silvio Berlusconi did at turning around a stagnant economy plagued by structural problems and an inflated public debt.

Prodi will need to find an approach acceptable to almost 10 different parties in his center-left coalition, including two different

**Economics** Communist parties. One of those parties, which took about 7 percent of the national vote, brought an abrupt end to Prodi's first stint as prime minister by pulling its support from the government in 1998 over disagreements connected to economic policy.

Prodi has expressed a willingness to tackle Italy's persistently poor economic growth, brought on by deteriorating competitiveness, as well as budget deficits that exceed European Union limits. There is also the public debt equal to more than a year's worth of economic output. But there are questions about how quickly he can move, if at all.

"It's clear the government has to do something to assist the competitiveness of the Italian economy and has to do something to get the country's finances in order as quickly as possible," said Edward Teather, an economist with UBS in London. "I'm sure that Prodi would like to take the economic issues on head on, but it's not clear he will be able to because of his wide coalition."

Standard & Poor's said Monday that the election results were unlikely to affect Italy's debt rating in the short term. But the credit rating agency said debt must be reduced soon to stave off future ratings cuts.

Prodi's platform called for tax incentives for companies that create permanent jobs, while taxes would be raised for those that create temporary work.

That would be a radical change from Berlusconi, who managed to bring down Italy's unemployment by encouraging the hiring of temporary workers, but at the same time angered many by creating what has been called a new class of workers under 40 who have never had a permanent job.

The center-left platform also calls for tax incentives to encourage research and a reduction in corporate tax if the money is reinvested. Prodi has said he will raise capital gains taxes on stock market profits and reintroduce an inheritance tax that was abolished by Berlusconi, but only on inheritances worth "several million euros." He also wants to abandon a change that, beginning in 2008, raises the minimum retirement age to 60 from 57.

Similar to most every government in the past two decades, Prodi has promised a vigorous fight against tax evasion, a move that if successful could raise billions of euros for the state's coffers. He has spoken against selling off state-owned assets and criticized Berlusconi's extensive use of one-time measures to raise funds. One such program allowed Italians to repatriate money illegally invested abroad by paying a small tax.

That the Italian economy needs reforming to make the country more competitive with not only China and India, but also Germany and Spain, has been well expounded by most independent observers and politicians. But how to get that done has been a topic of debate during Berlusconi's tenure, during which he had a strong majority in both houses of parliament. He ran the country for longer than anybody since Benito Mussolini.

Many economists and business leaders say Berlusconi achieved less on the economic front than they had hoped and that lack of results has left Italy slow to confront the challenge presented by emerging Asian economies and faster-moving European Union partners. Foreign investors have cooled to



Max Rossi/Reuters

Supporters of the Ulivo coalition followed election results outside the coalition's main office on Monday. Romano Prodi, who is supported by Ulivo, will be face by several economic problems if he takes over office. Protests in Rome followed Italy's 2006 budget.



Andreas Solaro/AFP

Italy recently as uncertainty rose over the elections.

Many economists, investors and political pundits have said the worst outcome for Italy would be one in which there was no clear winner.

"Berlusconi couldn't get much done when he had a clear majority so it's not clear how Prodi will be able to accomplish much if he gets in with a minimal margin," said Roberto Crapelli, a managing director for Roland Berger Strategy Consultants.

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