

Italy needs to solve the crisis of its political class

Tito Boeri and Luigi Guiso

Nanni Moretti, the Italian film director, predicted that 60m Italians would be freed this week from the interests of one of them – Silvio Berlusconi. Mr Moretti has excellent instincts: his film, *Habemus Papam*, saw through the pageantry of the Vatican to the often forgotten human fragility of the Pope. But he was not so good at predicting Italian voters.

Mr Berlusconi, who was essentially defeated only a month ago, is back. His dramatic return – perhaps the most important political event on the continent this year – rides on the back of his promise to abolish a property tax reintroduced by Mario Monti's government. Retired Italians are house-rich and cash-poor, which makes property taxes hateful, particularly when liquidity and credit are scarce.

Mr Berlusconi went further: he promised to pay back the €4bn tax, out of his own pocket if necessary (his assets total €5.5bn). He in effect promised to operate as a bank – something Italians lack (last year, credit extended to families in Italy fell by €20bn).

The result of his success, and the reason his return is so important, is deadlock. Italy has two equally powerful houses of parliament. The lower house has an automatic majority rule; Pier Luigi Bersani, leader of the centre-left Democratic party, won the largest share of votes, so gets the bulk of its seats. But, in the upper house, Mr Berlusconi's success is a problem.

He did well enough to ensure that Mr Monti's bloc is not big enough to form a coalition with Mr Bersani. Indeed, it is now hard to see how a majority coalition can be formed without the 54 seats taken by the Five Star Movement, led by Beppe Grillo, a former comedian. Mr Grillo can make a majority with Mr Berlusconi or Mr Bersani. But we know almost nothing about what he will now do.

Some of the movement's senators may well defect to Mr Berlusconi. If they remain with Mr Grillo they will have to pass half of their senatorial

What is certain is that the big loser of these elections is Mr Monti. He had hoped to control the most important party after the Democrats, but came fourth with a disappointing 10 per cent of the votes and only 22 senators.

Mr Monti's motivation for running was to form a coalition, open to all of those willing to subscribe to economic reform. He wanted to consolidate what his technocratic government had done. But he has not gained enough votes to accomplish this task, presumably because in voters' minds the costs of his reforms are salient whereas the benefits are hard to appreciate.

Nevertheless, the outcome may be similar – a large coalition led neither by Mr Berlusconi nor Mr Bersani, but by a Monti-type person (not necessarily Mr Monti himself) with a less ambitious task: prepare the country for the next elections, ideally under an improved set of electoral laws.

The new government should address the crisis of the political class, whose failure explains the success of Mr Grillo. It should take up his proposal to cut MPs' wages and reduce their number. After all, Italy's deep economic problems can be addressed only by reforming the mechanism that selects the ruling class that is responsible for Italy's failures. Luckily debt management at the Treasury has bought time for this task as it has already accomplished a quarter of the total refinancing required for the year.

Meanwhile, a new president will be elected by the new parliament. And it will be the Democratic party, thanks to its large number of MPs in the lower chamber, that will decide who should follow Giorgio Napolitano. Hopefully, the new president will be as wise and capable as his or her predecessor and, much as he has done, will reassure markets and Europe that Italy will complete its long transition to political stability and realism.

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salary to his movement. Whether they will do so or not depends on their ethical standards. This too is an unknown: these senators are all political novices.

