

Italy's economy

Creeping along

ROME

How Alitalia symbolises the ills of the euro-area's third economy

THE Italian economy has been the euro-area's tortoise for so long that a broad slowdown makes it look better. Studies by the Bank of Italy and financial regulators all conclude that the exposure of Italy's financial system to Wall Street's crisis is modest. As Fabio Pammolli of CERM, a think-tank, puts it, "not having capital markets as developed as in some other countries is paradoxically an advantage in this situation. It is the other face of one of the historical problems of the Italian economy."

Yet that is not stopping some in Silvio Berlusconi's right-wing government, which includes the protectionist Northern League, from portraying recent developments as a revenge on the free-market economists who for years pilloried Italy for its old-fashioned, retail-oriented banks, excessive reliance on manufacturing and reluctance to embrace global-

isation. The finance minister, Giulio Tremonti, this week put economists in a category with "bad teachers, exorcists, faith healers, shamans [and] witch doctors." But Francesco Giavazzi, an economics professor at Bocconi University, says that Mr Tremonti is drawing "completely wrong" conclusions from his analysis.

Although Italy may have escaped the worst direct effects of the crisis, it will be vulnerable to its indirect ones. A slowdown in America and Germany could do immense damage to an economy that is driven largely by exports. Because of this, Mr Giavazzi says, the crisis ought not to be seen as a reason for shrinking from globalisation, nor for failing to make more reforms. "If you cut Italy out from the demand of the rest of the world, which is what globalisation is all about, you are cutting out the main engine of growth", he argues.

Since trade is a matter for the European Commission, Italy is in no position to raise tariffs or take other protectionist measures. But it can discourage foreign investment—which is just what the government is doing over Alitalia. Mr Berlusconi vetoed a takeover by Air France-KLM earlier this year in favour of an all-Italian consortium of investors who were ready to buy the airline's profitable bits and merge them with its main domestic rival, Air One. But the consortium has pulled out of talks with the trade unions. Italy's civil-aviation authority has said that, without a credible rescue plan, it will withdraw Alitalia's licence to fly. Mr Berlusconi will do everything he can to stop the airline going under, not least because it would be a blow to his government's economic nationalism. But time is running out.



Flying at low altitude