

Europe rests on Monti's shoulders

di Philip Stephens

Italy is back. Germany's Angela Merkel sits at the top of Europe's power list. France's Nicolas Sarkozy can lay claim to be the continent's most energetic leader. Mario Monti is its most interesting. After an absence lasting a couple of decades Italy has returned to the stage. Mr Monti's fate may turn out to be Europe's.

The other day the White House said that Italy's prime minister would soon meet Barack Obama. To describe its announcement as effusive would be an understatement. Mr Monti and the president would discuss "the comprehensive steps the Italian government is taking to restore market confidence and reinvigorate growth through structural reform, as well as the prospect of an expansion of Europe's financial firewall". Translate and you get: "Mr Obama is behind Mr Monti all the way – including when he puts pressure on Ms Merkel."

There was a time when Italy had something to say in Europe. The Italians championed the great integrationist leap of the 1980s. The Milan summit in 1985 gave the push for the single market. Five years later a meeting in Rome set the timetable for the euro. This provided the occasion, incidentally, for the toppling of Margaret Thatcher: her "No, No, No" to the single currency stirred a Tory rebellion. Strange as it seems, British Conservatives were once mostly pro-Europeans.

The era of Silvio Berlusconi put an end to Italian influence. Though always assured of a warm welcome from Vladimir Putin, Mr Berlusconi was shunned by his European Union peers – seen by turns as a cause of irritation and embarrassment. Mr Monti, a serious-minded academic with a serious plan, is different in every dimension. Mr Berlusconi made crude jokes about Ms Merkel's appearance. Mr Monti talks to her about economics.

There is a second Italian at the top table. Mario Draghi – the other Mario – has made his own headlines during his short presidency of the European Central Bank. As far as economic orthodoxy goes, Mr Draghi styles himself an honorary German. Yet a big refinancing operation launched under his direction – quantitative easing by another name – has propped up the banking system and calmed financial markets.

The ECB scheme is not a permanent fix, but it has given the politicians space to negotiate Ms Merkel's precious fiscal compact. For all the ever-present shadow of Greece, there are signs that the euro crisis is passing from an acute to a chronic phase.

Mr Monti matters because it is in Italy that the euro's long-term prospects will be decided. If Greece does fall by the wayside, Ireland, Portugal and Spain will be in the line of fire. Italy, though, is the pivotal player. If the eurozone's third-largest economy cannot chart a credible economic course, the euro does not have a future as a pan-European project.

Mr Monti has a couple of cards to play. His austerity measures are already proving unpopular but Italy's elected politicians are scarcely in good shape. Mr Berlusconi snipes from the sidelines but his centre-right coalition would be crushed in a snap election. So Mr Monti thinks he has another year – until scheduled elections in spring 2013 – to get his strategy up and running.

The second card is that he can speak truth to German power. His record as a liberal reformer in the EU Commission is indisputable. His demeanour defies every stereotype of the feckless southern European. Oh, and Mr Obama is right behind him when he tells Ms Merkel that indefinite austerity would turn a fiscal into a suicide pact.

I suspect Mr Sarkozy rather resents Mr Monti's intrusion. The French president is not one to share the limelight. Until now Paris has sustained the pretence that leadership belongs to the Franco-German partnership. In truth, the chemistry between the president and chancellor is anything but good.

As it happens, Mr Sarkozy has more interest in Mr Monti's success than most. Whenever I meet the French elites, as at the latest Franco-British Colloque, I am struck by their insistence that survival of the euro is existential. What they mean, I think, is that the break-up of the single currency would see France tipped into Europe's second economic tier – and rob it of any remaining claim to global influence.

There is no guarantee that Mr Monti will succeed. Big spending cuts and tax increases are one thing. The real test will come in liberalising the economy. Here he confronts a honeycomb of closed shops, restrictive practices and rent-seeking cartels. This week Italian cities have been thrown into chaos by taxi drivers and truck operators. Lawyers, pharmacists and petrol-station operators are also up in arms at plans to strip away their privileges. This will not be easy.

The choices are unavoidable. The debate about the future of the eurozone is hopelessly polarised. On one side stand those who say the enterprise can be saved only if Catholic southern Europe absorbs the Protestant north's culture of thrift and hard work. On the other side are those who say that all would be well if only the Germans were ready to spend and borrow more and underwrite the debts of their southern neighbours. Both sets of arguments are hopelessly naive.

The challenge facing Europe – one crystallised by the euro crisis – is to adapt to a world in which it can no longer dictate the terms of exchange. Policymakers and economists can argue all they like about the merits and demerits of devaluation or fine-tuning the balance between fiscal rectitude and support for demand. The big question is whether Europe can compete in a world over which the west no longer holds sway. That's why what Mr Monti is doing in Italy really does matter.