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## U.S.-EUROPE ANALYSIS SERIES

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### Italy's Government on the Verge of Breakdown

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The center-left's extremely narrow victory (just 24,750 votes) in the Italian national election of April 2006, has not yet been accepted by the outgoing Prime Minister Silvio Berlusconi. He has even written a letter to several European heads of government stating that he may have not lost. A recount is in the making (but it will take a long time). Curiously, many recent elections in Western democracies have recorded the existence of an electorate divided almost in half: the United States in the 2000 and 2004 presidential elections; Spain in the 2004 parliamentary elections; Germany in the 2005 parliamentary elections; Mexico in the July 2006 presidential elections; and, as said, Italy in the 2006 parliamentary elections. There are good reasons to believe that the 2007 French presidential and parliamentary elections will be similarly close. The phenomenon of close democratic elections may deserve special analytical and political attention.

While Berlusconi was fighting for his life, the center-left proceeded to elect the Speaker of the Senate, Franco Marini of the *Margherita* (Daisy) party, the Speaker of the House of Deputies, Fausto Bertinotti of *Rifondazione Comunista*, and the President of the Republic, Giorgio Napolitano of the Left Democrats. On all of these occasions, the parties of the center-right vigorously opposed the center-left candidates and denounced the appearance of a dictatorship of the majority. Between May 19 and May 23, Prodi's government was formed and received a vote of confidence from the Senate and from the House. The new government is made up of 25 ministers (four more than the previous one) and 62 undersecretaries. The total number of the members of the government: 97, is greater than that of any other Italian government, except Giulio Andreotti's last government (April 1991-April 1992), which had 99 members. The fact is that the center-left is a highly diversified coalition containing many small parties, all in need of offices in order to maintain some visibility in the eyes of their voters. The two leaders of the major parties of the governing coalition, Massimo D'Alema (Left Democrats) and Francesco Rutelli (*Margherita*) serve both as Deputy Prime Ministers and as Ministers, respectively of Foreign Affairs and Culture.

Even before it was formed, there was a great deal of skepticism about the durability and the capacity for reform of Prodi's government. Inaugurated exactly ten years before, Prodi's first

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government was constantly shaken by infighting and was finally ousted by a decisive vote cast by Rifondazione after slightly more than two years in office. The Italian center-left coalition remains as diversified as it was in 1996-1998, if not more so. However, with respect to that period there are some advantages and some disadvantages. The clear advantage is that all the members of the center-left coalition have possibly learned from the consequences of their 1996-1998 behavior. Now they are well aware that if they rock the boat of the government to the point of producing a crisis, not only will there be no positive consequence for any individual parties, but the risk of immediate new parliamentary elections will loom large indeed. In a situation in which only a handful of votes separates the two coalitions, the likelihood that Berlusconi and his partners will obtain a clear victory appears very high indeed. Moreover, the leader of *Rifondazione Comunista* is a “rational” politician and will not jeopardize his important institutional office on the altar of a crisis. Meanwhile utilizing the power inherent in that office, he can significantly influence the agenda of the government.

One disadvantage concerns the stance of the center-right. In the period between 1996 and 1998 the center-right was licking its wounds and Berlusconi was trying to reduce his political distance from the Northern League. Today, in contrast, the center-right opposition appears, if not exactly cohesive and united, certainly very bitter and determined to make day-to-day life very difficult for the center-left. Berlusconi insists on denying full legitimacy to Prodi’s government and denouncing the presence of former “Communists” (both Napolitano and Bertinotti) in important institutional offices. He has even asked his supporters to take their opposition to the streets and squares of Italy. Finally, he is entertaining the idea of blocking the functioning of the Italian parliament through filibustering or simply not participating. On many issues, the presence of a certain quorum of parliamentarians is required to produce a valid vote.

In all likelihood, the major drawback for the center-left coalition is the not-so-hidden struggle for supremacy between the Left Democrats and the *Margherita*. For the time being the struggle is somewhat muted because of the honeymoon that Prodi is enjoying. The Left Democrats, however, believe that, being the larger party of the coalition, sooner or later their leader should become the Prime Minister, implying competition between Left Democrats and *Margherita*. Meanwhile, the drawn-out debate over the construction of a new party, desired by Prodi and to be called *Partito Democratico*, requires their continued cooperation. It is unlikely that Prodi will retain enough energy and time to look after both the functioning of his government and the politics of the future *Partito Democratico*.

In practice, the new government will have one priority: to create the conditions for a process of economic growth and, at the same time, to make some structural changes in the Italian economic system. If Prodi succeeds in doing so, all the rest will, to some extent, follow. How to obtain the resources necessary to revamp the Italian economy is the task of the new Minister of Finance, former member of the executive board of the European Central Bank, Tommaso Padoa Schioppa. He will be working in close collaboration with the recently appointed Governor of the Bank of Italy, Mario Draghi. The professional competence of both men and their international experience and credibility constitute a real asset for the government (and the country) in the eyes of foreign investors, rating agencies, and European and international economic organizations.

The center-left continues to stress the need to make all Italians pay their taxes while the center-right has not abandoned its campaign slogan accusing the center-left of planning to raise taxes. At least in one instance, the center-left will indeed look to new taxes. Berlusconi's government has totally eliminated the inheritance tax. In all likelihood, the center-left will re-introduce it at least for upper-income people. This issue is also related to a wider and more significant debate concerning how much of the legislation passed by Berlusconi should be retained, partially revised, or just totally jettisoned. The center-left election manifesto was very critical of most of the center-right legislation and, of course, Berlusconi has promised very intense filibustering against all attempts to repeal his legislation.

Debate also remains on what to do with the law increasing the retirement age by 2008 and how to make the labor market more flexible without producing too many "precarious" workers. On both issues, Prodi promised in his electoral campaign and in his speech during the parliamentary debate over the confidence vote that he will consult both the National Association of Entrepreneurs (*Confindustria*) and the trade unions and will try to reach some agreements with them. While the unions seem interested in being consulted, they, especially the left-wing CGIL, have already taken a somewhat rigid position that does not bode well for the government. Moreover, the new Minister of Labor is a former trade unionist inevitably inclined to be much receptive to the demands of his fellow union leaders, perhaps excessively so. Fortunately for Prodi's government, his Minister for Economic Development, Left Democrat Pierluigi Bersani has launched an excellent series of measures to liberalize and make the Italian economy more competitive, in part by depriving several special interests of their privileges.

The three most controversial pieces of legislation inherited by the center-left government concern a law on conflict of interests concerning members of parliament and government, a law on the mass media, and a package of constitutional reforms. The first two laws are intrinsically related because the now-leader of the opposition, Silvio Berlusconi, is also the owner of the major media corporation, Mediaset, through which he controls half of Italy's television market and broadcasts more than half of all commercial ads. There is no doubt that Berlusconi and his many collaborators and supporters will adamantly oppose any attempt to pass a serious conflict of interest law and any law redistributing commercial resources and redefining the regulation of mass media. On the other hand, there are more than a few politicians within the center-left who would accept a sort of partition of the TV news and commercial market since now it is possible for them to control the RAI-TV public broadcasting system.

Berlusconi also owns a couple of very important publishing houses, a major insurance company, and he is engaged in real estate activities of great importance. His claim is that the left wants either to expropriate him of the resources necessary for being active in politics or to oust him from politics altogether. Many of his voters share his belief. Therefore, any law on conflict of interests, unless it could make binding reference to some European directives, is bound to raise the level of political conflict and hostility.

According to several observers, the most damaging feature of Italian governments has been their instability and, to a lesser extent, the lack of significant decision-making powers in the hands of the Prime Minister. While both problems may be the consequence of the nature of Italian parties and of the functioning of the party system, Berlusconi's coalition decided to tackle them, first by

passing a broad, ambitious package of constitutional reforms and, second, by drafting a proportional electoral law containing provisions to ensure a majority party. The center-left definitely lacks the cohesion to produce an equally ambitious package of constitutional reforms. As expected, all of the constitutional reforms, most of which were quite confused and which contained the possibility of creating damaging inter-institutional conflicts, were defeated in a referendum held June 25 and 26. At this point, it remains to be seen whether the center-left will succeed in drafting and approving a new electoral law.

Finally, though foreign policy does not appear to be a high priority of the new government, several important steps have been made. The gradual withdrawal of Italian troops from Iraq by the end of December 2006 was already on the agenda of Berlusconi's government. Those troops may be replaced by humanitarian workers. The Italian mission in Afghanistan will continue in spite of the dissent coming from within the center-left. Italy will also attempt to play a role in the Middle East. High on the agenda is the reacquisition of some prestige within the European Union through whose diplomatic channels Prodi and the new Minister of Foreign Affairs D'Alema will deal with the U.S. government. While it is difficult to say whether foreign policy may become the ground for some bipartisan agreement, it seems to be the only one in which the level of conflict is not extremely high. A lot will, of course, depend on the capability of Minister D'Alema who, being an astute politician, will do his best not to create unnecessary confrontations. In all the other areas of governmental activity, the political conflict between the two coalitions will not diminish in the short run. Perhaps, exactly because it is being so openly challenged, Prodi's government will be supported and defended by all of its constituent parts. This support and the consequent unity of action, however, may not extend to all areas of interest to the government. Indeed, there is no guarantee that the political stability of Prodi's government will automatically entail appreciable decision-making efficacy.