

# Letta's Government: Between the Italian Rock and the European Hard Place

Written by Franco Pavoncello

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FRANCO PAVONCELLO, MAY 17 2013

Since the end of Christian Democratic Party in 1993, the Italian political system has been plagued by endemic weakness, with two heterogeneous, sterile coalitions: the Center-Left, led by the PD, heir of the Communist Party, and the Center-Right, led by Berlusconi's PDL, caught in a constant fruitless battle. This weakness was somewhat masked by the "euro dividend", which by transferring monetary authority to Frankfurt, and unifying interest rates on public debt for all the Eurozone countries, created a benevolent climate in which national politics lost much of its importance, especially in the eyes of the international financial markets. The Italian political system could use the huge massive cheap liquidity in the financial markets and both opposing coalitions, in turn, used public resources to buy consensus. They thus could avoid any serious program for reforms to tackle the enormous waste of public resources, or streamlining the productive infrastructure of the nation.[1] The net result was that Italy's GDP has had zero growth since the late 1990s, public accounts deteriorated and public debt grew.[2] The country was increasingly pervaded by a social and moral decline in which politicians came to be seen increasingly like a "caste", completely detached from the life of the average citizen, only concerned with its own privileges, and totally incapable of expressing a modern effective political leadership.

This explosive situation came to the surface with the crisis of 2008, which dried up financial liquidity, and reintroduced national political risk in the equation, with financial markets suddenly extremely attentive to the financial stability and political quality of Eurozone countries.[3] Italy quickly came under scrutiny, because of its huge public debt and stagnant economic indicators. This was coupled with the complete collapse of international credibility of Prime Minister Berlusconi (embroiled in sexual scandals and troubles with justice), and of his government, deemed incapable of dealing forcefully with the economic and financial situation. This led to the spiraling of interest rates on Italian debt, reaching unsustainable levels of about 7.5% and raising increasing fear of a bailout action becoming necessary for Italy.[4]

The Italian political class in all its components was clearly incapable to deal with the crisis. The only way to avoid a national bankruptcy, which some feared might lead to the collapse of the entire Eurozone, was to bring in a technocratic government capable of stabilizing the situation and regain credibility at the international level. This led to the resignation of Berlusconi and the nomination by President Napolitano of Mario Monti as the next Prime Minister, with the support of 90% of Parliament, a clear sign of surrender by the political class. Monti launched a program of economic austerity and painful reforms which had the merit of putting order in the financial life of the country, regained international credibility both at the political and financial level and produced a reversal in interest rates on debt which declined by a whopping 4% from its top. These successes, however, were achieved at the cost of a growing level of unemployment, a sharp decline in GDP growth, which has remained negative for the past few years, and a generalized decline in standard of living, which in 2013 was back to the level of the mid-90's. Banks' credit to commercial companies and individuals dried up, with increasing numbers of entrepreneurs committing suicide, and export and industrial production declining sharply as well.[5] All this took place while the political class was increasingly entangled in episodes of crass corruption and appeared absolutely incapable of producing even minimal cuts to its many privileges and excesses, contributing to a growing alienation of public opinion from the traditional political parties which had ruled the country for decades.

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Monti's Government was cut short at the end of 2012 by Berlusconi who, the day after a conviction to four years of jail for tax-fraud, reversed his decision to leave politics, announced the end of his coalition's support for the government and called for new elections to be held as soon as possible.

## **The Election and its Aftermath**

The election of 25 February 2013 was once again held with the disgraceful electoral system introduced in 2005 which, while forcing heterogeneous coalitions, tends to produce an easy majority in the lower house and an almost assured lack of majority in the Senate. This renders it almost impossible for one side to score a clear electoral win. Furthermore, this time, instead of only a Center-Left and a Center-Right coalition, as in the past, there were two other important groups competing. One was the Civic List of Mr. Monti, who made what many regard as a terrible mistake in deciding to enter politics, and the other, far more important, was the Five Star Movement of Mr. Grillo, a former comedian, rabidly opposed to traditional parties and their privileges, whose public tirades against the corrupted and impotent political class started to fill the squares of the peninsula with throngs of cheering, angry citizens.

The result of the election sent a true shock throughout the country. The Center-Left coalition, which was thought to be an easy winner, while obtaining the absolute majority in the lower chamber (thanks to the crazy mechanisms of the electoral system) could not form a majority in the Senate and lost three million votes compared to the previous election. The Berlusconi Center-Right coalition, in turn, though still alive, lost seven million votes compared to the previous elections. The truly amazing result, however, was that Grillo's Five Star Movement received a stunning ten million votes, making it the first party in terms of number of votes; a shocking result that sent a deep shiver of disbelief down the spines of politicians.[6]

In terms of numbers, the election created three political groups which were of roughly equal strength, so that at least two of them had to join forces for a government to be formed. Berlusconi's Center-Right coalition wanted to set up a Unity National Salvation coalition with the Center-Left led by the PD. The PD, in turn, and even more so the party Secretary Bersani, an apparatchiki of the old Communist Party, was absolutely hostile to any form of dialogue with the Center-Right, and instead wanted to build a coalition with the Five Star Movement. However, Grillo and his party were staunchly opposed to any form of collaboration with traditional political parties, and every time Bersani offered an alliance they covered him with insults. This tragic stalemate, lasting for two incredible months while the life of the country was suspended, was further complicated by the end of the mandate of the President of the Republic Napolitano and the need to elect a new President.

It quickly became evident that the solution to the formation of a government passed through the election of the new President of the Republic by Parliament. Bersani's strategy to elect a candidate that could be acceptable to the Five Star Movement, and not be seen as a compromise with Berlusconi's Center-Right, ended up being disastrous, burning prestigious candidates like Prodi, and fracturing the PD itself. It became clear that politicians were quickly running out of viable solutions and that the country was entering the dangerous uncharted territory of a terrible economic and social crisis accompanied by the paralysis of the political system. Many turned to President Napolitano, 88 years old, who had strongly emphasized that he wanted to leave office and spend the last years of his life in peace, literally begging him to accept a second election for a seven year mandate. In light of the cliff the country was facing Napolitano accepted, receiving an overwhelming endorsement by all the groups in Parliament except the Five Star Movement. In his acceptance speech Napolitano did not spare criticism to the political class and forcefully stated that he was accepting on the understanding that a Center-Left and Center-Right coalition would be quickly formed so as to make the necessary institutional and economic reforms to insure the beginning of a period of growth and recovery for Italy. If this were not to occur he would resign immediately.

Napolitano's Diktat, followed by his selection of Enrico Letta as the Prime Minister designated, accelerated the negotiations between the Center-Left and the Center-Right for the formation of a national emergency government with ministers from two coalitions which until yesterday spent most of their time delegitimizing each other.

## **Will Letta's Government Survive?**

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The formation of the Letta Government raises a series of questions that seem to be taken from a game theory textbook:

1. Will it survive Italian and European politics? And for how long?
2. What are the main tasks it has to deal with?
3. What will follow it?

To answer the first question, it must be said that Letta's Government is stronger than it looks. First of all there is the clear threat of President Napolitano to resign should the government not be allowed to function. This is something that traditional parties cannot afford at this stage. The PD is in a state of confusion, evidenced by the resignation of its secretary Bersani. It is a weak party that needs time to recover and has found in his former vice-secretary Letta a miraculous help to buy time, even if this entails making an agreement with the eternal enemy Berlusconi.

Berlusconi and his coalition, in turn, after losing seven million votes, are very cautious and must respond to an electoral basis that wants a government in place to deal with the immediate economic challenges of the country. Berlusconi, moreover, has lost his appeal to the four year prison conviction for fiscal fraud and a new six year conviction for charges regarding prostitution of a minor has just been asked by a Milan prosecutor. While in public he utters belligerent statements against the "communist judges", he is well aware that having his coalition in government is his best insurance in his fight with the magistrates, at least for now, and he has been giving clear signals that he has no intention of bringing down this government.

Even more importantly there is a generalized feeling among the members of the coalition, as well as among industrial and labor circles, that the country and its people are on the verge of exhaustion[7] and that immediate steps must be taken to revive the economy, otherwise the situation might become socially too risky, especially with Grillo and his party fomenting public opinion. Thus PD and PDL continue to bicker now and then, but they are forced onto the same boat.

It is fair to say that there is widespread consensus in the country that Letta's Government is the only road the country can travel for now. Will his Government continue to be supported domestically? It might if it deals with some basic immediate tasks. What are these most stringent tasks to be achieved within the next few months?

The first is to jumpstart economic growth, introducing liquidity into the system by paying the State's debts to private companies, and providing renewed unemployment benefits, by taking steps to stimulate employment, especially for the youth, (by cutting taxes on labor, for instance) and by negotiating with Europe for more room to maneuver in spending for investments. At the institutional level, Letta must eliminate the present electoral law, a true disgrace for the country which insures political instability[8], cut parties' public financing, and complete the elimination of unnecessary and expensive provincial governments. If he succeeds in reaching these objectives, he might muster enough support internally to last for the foreseeable future.

As far as Europe is concerned, the attitude of the Eurozone leadership appears to be an asset for Letta and his team rather than an obstacle. European leaders have appreciated the concrete program enunciated by Prime Minister Letta and are reassured by his renewed commitment to remaining below the 3% deficit, also in light of the impending removal of Italy from the list of countries with "excessive deficit" infraction. Letta, in his trip to Berlin, Paris, Brussels and Madrid, which he took immediately after his election, has certainly received positive endorsements. One feels that Europe has welcomed the formation of the new government under this young leader with a sigh of relief, at least for the time being. A fundamental question mark is how Europe, and especially Germany, will react at the European Council of June, when Letta, in line with his predecessor's strategy, will ask Europe to reduce its focus on austerity and reduce rigor by concentrating on economic growth. Whatever the answer to that question, it should not endanger his government's survival.

It is not easy to predict how long Letta will stay at the helm, although at the moment he is sailing in relatively calm seas. What appears likely, however, is that after this government there will be new elections, and probably the resignation of the President of the Republic.

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[1] For a historical discussion of this period of Italian political life see Berlusconi's Italy: Mapping Contemporary Italian Politics by Shin, Michael E. and Agnew, John A. , and James Newell *The Politics of Italy* (Cambridge Textbooks in Comparative Politics)

[2] In this article from L'Unita' you can get a somber picture of the decline of the Italian economy in the past decade <http://tinyurl.com/dy4rkn7>

[3] For a discussion on the return of politics in the eurozone countries see my interview to the Council of Foreign Relations. <http://www.cfr.org/italy/political-ripples-eus-sovereign-debt-crisis/p25503>

[4] <http://www.economist.com/node/21537027>

[5] <http://tinyurl.com/d6783ec>

[6] For a summary of the elections in English see <http://tinyurl.com/d7byrjp>

[7] This year GDP has so far had a yearly decline of -1.5%, worse than the official forecast of -1.3%.

[8] It is of these days the ruling by the Italian Supreme Court that the present electoral system might be unconstitutional. [http://www.corriere.it/politica/13\\_maggio\\_17/legge-elettorale-cassazione-boccia-premio-maggioranza\\_4a6bb2ee-bee7-11e2-be2c-cd1fc1fbfe0c.shtml](http://www.corriere.it/politica/13_maggio_17/legge-elettorale-cassazione-boccia-premio-maggioranza_4a6bb2ee-bee7-11e2-be2c-cd1fc1fbfe0c.shtml)

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