Silvio Berlusconi's anti-European rhetoric means that he may yet hold the balance of power after next year's Italian elections.

by Blog Admin

Earlier this month the current prime minister of Italy, Mario Monti, announced that he would resign. This was shortly followed by the reappearance of his predecessor, Silvio Berlusconi, back on to the Italian political scene. **Valentino Larcinese** *writes that while it is unlikely that he will win the country's coming elections in early 2013, his strong brand of anti-EU, anti-austerity, and anti-euro rhetoric may yet see him hold the balance of power in the Italian government.*

Italy is today the weakest link in the euro area. Not in a financial sense: in spite of what some commentators used to claim exactly a year ago (and some still do), Italy is very unlikely to default on its debt. And if you invested in Italian bonds a year ago you are probably not regretting your choice. Italy is instead the euro's weakest link politically, because of the instability and fluidity of its political system, because it is historically prone to populism and because it is currently pervaded by a powerful anti-European rhetoric. Now the possible resurrection of Silvio Berlusconi on to the political scene presents another risk: after plundering his country for a decade, Mr Berlusconi is today one of the biggest threats to Europe. True, he is unlikely to win in Italy's upcoming elections early next year, but we should not forget he can deploy a propaganda machine which is unparalleled in any democracy and which has worked amazingly well on many occasions. In 2006, having presided over the worst government in the history of the Italian Republic, and after five years largely dedicated to passing ad hoc laws to escape his own judicial prosecution, he lost the general election to Romano Prodi by only a handful of votes. It is hard to imagine such an outcome would have materialised in a country with a more balanced political debate.

But Mr Berlusconi is not just about propaganda. He has a rare skill at sensing the deep sentiments and concerns of the country. And he now smells the blood dripping out of the euro project. The critical point here is the fixed exchange rate with the German mark. Italian companies have relied for decades on the possibility of devaluing the lira and therefore maintaining competitiveness in spite of the many structural limits of the Italian productive system. The last two decades have witnessed increased competition for Italian products (mostly low-tech) from emerging markets and then the delegation of monetary policy to the European Central Bank, fixing the exchange rate with more dynamic economies like Germany. These two factors combined have delivered a huge blow to many Italian firms (though with some important exceptions). Not surprisingly this has coincided with the start of a long debate on the necessity of "structural reforms" in the labour market, in the judiciary system, and in public administration. The few reforms that have been implemented so far have only created a new class of young precarious workers, with low salaries, no rights, and few future prospects. Highly skilled workers have fled Italy for a long time because of a lack of meritocracy. Now the absence of any opportunity at any level means that young Italians with all types of skills are leaving the country if they can, unless they can count on family or political links. In the meantime Italian firms are hardly more competitive today than they were two decades ago.

Now German-imposed austerity is also contracting internal demand at an unprecedented rate. Christmas shopping has been estimated to be 15 per cent lower this year compared to last year (which was also not a bonanza year). This is not surprising, since Mr Monti had to implement a number of tax increases (in particular a new tax on estate property, called IMU, which raised about 24 billion euros) at a time of economic crisis: hence, the perception that the euro, or even Europe, has become a problem, rather than an opportunity. According to a recent survey of the PEW Research Center, only 30 per cent of Italians think that the euro is a good thing and only 22 per cent that European integration has strengthened the economy. Many Italian voters will undoubtedly also look at the devastation of Greece and conclude that they want to take a different route.

It is not hard to forecast that, for the first time, Europe will be an important theme of the electoral campaign. It can also be predicted that Silvio Berlusconi is preparing his return to the battlefield with his usual mix of policy proposals, this time framed in an anti-European tone: less taxes (his first promise has been to abolish the much hated IMU), less austerity and, if necessary, we can leave the euro and place tariff barriers on Chinese imports. We could all be richer and surrounded by gorgeous young girls if only we could do it our way rather than following Angela Merkel.

There might be something ridiculous in the return of the "Cavaliere" but, since his propaganda is tuned to the prevailing mood in the country (particularly in the industrial North), and since it is based on half-truths (the secret of well-crafted propaganda), it should not be dismissed flippantly. The question becomes then: does Berlusconi stand any chance of winning again? Probably not this time, given that the damage he is responsible for has become evident to even the most ill-informed Italians. So, why is he coming back? He is probably betting on an inconclusive election, one in which no party will have a majority: a fragmented parliament populated by fringe groups like Beppe Grillo's "Five Stars" movement. In such an environment his support may still be required to form a majority and he could then hold whatever government will come to ransom. This would again shelter him from judicial prosecution and his media empire from reforms. Of course, the new government would still be unable to make any structural reform of the economy, but this has never been a big concern for the former prime minister.

Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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