Bush Loses Ally Berlusconi as Prodi Wins Italian Elections

by Claudio Celani

With the electoral defeat of Italian Prime Minister Silvio Berlusconi on April 10, the Cheney-Bush Presidency lost one of its closest allies. However, there will be no radical change in Italian policy, such as immediate withdrawal of troops from Iraq. The new Prime Minister, Romano Prodi, who is making a comeback after a few years in "exile" as chairman of the European Union Commission, is expected to freeze the situation, while joining the mainstream line in the EU.

But this already is a turn of policy, as outgoing Prime Minister Berlusconi did not hesitate to break with his European partners France and Germany on the issue of the Iraq War, where Berlusconi supported Bush. The shift has implications for the coming showdown with Iran, especially because Italy has now joined, together with Japan and Canada, the 5+3 nations group which is negotiating on the Iran nuclear issue. However, it will take several weeks for the Prodi government to be effectively in place, as the new Prime Minister will formally receive his mandate from a new State President, who must be elected by Parliament in mid-May. The new government will have a tiny majority of only two seats in the Senate, signalling quite a precarious life, or even an early demise, unless Prodi seeks some sort of a dialogue with the opposition or elements of it.

In fact, Romano Prodi's Unione party managed to lose almost entirely the 4-5 point advantage it had over its rival coalition, Berlusconi's Casa delle Libertà (CdL), two weeks before the election. The Unione got 49.8% of the votes in the House of Deputies (lower house), against 49.7% for the CdL. Thanks to a majority bonus, this 0.1% advantage gave the Unione 340 seats against 277 of the CdL. In the Senate, Berlusconi's coalition got significantly more votes than Prodi's, with 50.2% against 48.9%, but, paradoxically, won fewer seats because of the complicated electoral law, which adds up bonuses of three seats for each region "won" by either coalition. In the end, Prodi's center-left coalition has only two Senators more, 158 against 156. This figure might change, as seven Senators with life terms can be formally counted, five of whom are expected to vote for Prodi, but whose presence won't be more than sporadic. De facto, the Unione will hardly be able to rule without asking for a confidence vote for virtually every bill.

Anyone other than Romano Prodi would have done better against an incumbent government with a smeared face in foreign policy, and facing popular discontent because of the growing impoverishment of Italian families compared to five years ago. But Prodi is a shallow figure, with an allegiance to international financial markets and the Euro-Maastricht monetary system. Thus, he became an easy target for Berlusconi and his allies, especially in the last phase of the campaign, in which the central issues became taxes, infrastructure, and "family values." Prodi was ambiguous on all three issues, as underscored by his proposal to introduce to his party's program a home property tax, a Greenie-tainted attitude on key infrastructural and energy investments, and a proposal for legalizing homosexual marriages.

Polarized Electorate

Voter participation, at 83.6%, was even higher than traditionally high Italian standards, and defies explanations of "political disaffection"; it, however, presents the picture of a country split down the middle. Reflecting a European-wide pattern, it was more an "against" vote than a "pro" one. Most Unione voters voted for Prodi not because they like him, but because they hate Berlusconi, and vice versa. Half of Italians are afraid of Berlusconi's abuse of power and divisive policies, but the other half is afraid of Prodi's technocratic leanings and of a return to Green Party anti-industrial policies. This has resulted in no clear mandate for the winner.

Berlusconi has exploited the situation and called for a "government of national concordance" after the model of the Grand Coalition in Germany. As of this writing, Berlusconi has even refused to acknowledge Prodi's victory, although this was formally confirmed by the Supreme Court on April 19, after a recount of contested ballots. Berlusconi is playing hardball, knowing that conflicts in the Prodi coalition will sooner or later explode, and that he might as well just wait on the riverbank to see the corpse of his enemy float past. On the other side, Berlusconi's very figure is the obstacle to a Grand Coalition type of government.

The Prodi coalition is divided into two camps: a radical jacobin faction which insists on "taking no prisoners," and a pragmatic faction, around former Prime Minister Massimo D'Alema, which rejects the idea of a Grand Coalition, but seeks a dialogue with the opposition on economic and institutional issues.

The first test of this complex situation will occur with the

European Commission

Romano Prodi, the new Prime Minister, won by a slim margin, based on voters' hatred of his predecessor, Silvio Berlusconi. Unfortunately, Prodi is offering no positive alternative for Italy—and about half the voters hate him more than they do Berlusconi.

election of the new State President. Carlo Azeglio Ciampi's successor must be elected before mid-May, by Parliament in a joint plenary session, possibly with a large majority to guarantee unity of the country. The new President shall then formally invest Prodi with a mandate to form the government.

Fight Over the Economy

The first hard test for the government will be the budget. On one side, Italy has agreed on a two-year plan with the EU Commission, to reduce the deficit down to the 3% of GDP parameter established by the EU's Stability Pact; on the other side, with a current 4.2% deficit, the Prodi coalition has made electoral promises which cost a minimum of EU 10 billion. This will make the adjustment plan virtually impossible to carry out.

Moreover, Fitch and Standard & Poor's rating agencies have already warned that, unless Italy enforces budget discipline, a further downgrading of Italy's sovereign debt is unavoidable within this year. Betting on a default risk, Goldman Sachs has adviced its customers to buy credit default swaps against Italian bonds, which have already a 32-basic-points spread against the German Bund (a state bond), the largest since the birth of the European Monetary Union (EMU). Of course, such derivative-leveraged pressure is pushing the spread up further. Still, demand for Italian bonds is high, as indicated by recent auctions; however, a downgrading would increase the costs of Italy's public debt, which is already at 108% of GDP, threatening to push it out of control, as the Euro-Maastricht straitjacket keeps the real economy shrinking

Despite Italy's debt, given its industrial potential and its capability to generate sovereign credit, there is actually no "case of Italy." There is instead a "case of the international financial system," which is bankrupt and whose vultures in search of prey are creating a political crisis in Italy.

This is demonstrated by a nasty commentary published by Wolfgang Munchau in the London *Financial Times* on April 17, which "predicted" that international speculators will react to Prodi's weak victory by taking out long-term bets against Italian state bonds. This is similar to what happened in 1992, when the George Soros-led speculation forced the Italian lira out of the European Monetary System.

The article unleashed a debate in Italy where, unlike in the past, even from the traditionally pro-British Prodi camp, it was judged to be an unacceptable act of colonialism. One of the clearest statements came from a veteran of the old Christian Democratic-centered political system, Paolo Cirino Pomicino, who had been Finance Minister in the late 1980s, and is now a member of the European Parliament. In an article in *Il Giornale,* Pomicino wrote that the Goldman Sachs/*Financial Times* "one-two punch seems in reality more aimed at pushing the new government to implement wholesale policies like those implemented in the nineties by the same center-left government. Goldman Sachs and the *FT* are both expressions of those international financial circles who, since the beginning of the eighties, have seen Italy not only as a market, but also as a country to be colonized." The British campaign, Pomicino wrote, aims at pushing the Prodi government, "under the specter of insolvency," to put on sale its 30% control share of the national oil company ENI, of the electricity company ENEL, of the defense industry Finmeccanica, and so on. Sections of Prodi's coalition and Bank of Italy Governor Mario Draghi "could be accomplices" in that sellout, Pomicino wrote.

However, like all large debtors, Italy holds the knife in its own hands. The central question is therefore, whether the next government will capitulate to demands from financial markets and enforce brutal budget cuts, or whether it will defend its industry and state social protections. Potentially, a large coalition of forces could use its broad support base to engage in a pro-national policy; but it could also go in the opposite direction, if it is dominated by pro-globalization interests.

The Italian LaRouche movement has published a statement by its chairman, Paolo Raimondi, calling for a productive credit policy to launch an economic recovery, referring to the debate in the U.S. Democratic Party over a revival of Alexander Hamilton, the founder of the American System of political-economy. The statement can be read at www.movisol.org.