

## Italy: No Time for Inaction

Marco Vicenzino (April 30, 2008)



As Mr. Berlusconi celebrated his third comeback as prime minister, Italy's rapid shift toward economic decline continues unimpeded. Any Italian government, regardless of ideological affiliation, has very few, if any, options. The only way forward is structural reform. Italy's impending economic crisis may soon reach a tipping point if immediate action is not taken. The situation requires a collective will for solutions and, above all, a collective effort to implement desperately needed reforms. Mr. Berlusconi's new government must prove strong, effective and capable of making the tough and often unpopular decisions required. Italy has yet to experience the thorough reforms implemented by other European countries, such as the UK under Margaret Thatcher in the 1980's.

Cleaning up Naples' garbage and resolving the impasse of Italy's national airline, Alitalia, which is on the verge of bankruptcy, may help create momentum and set the tone for a new era of action.

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However, continuity of action and the will to tackle larger obstacles and implement greater change will incessantly test the new government. Relentless persistence and perseverance in problem-solving is fundamental to its success and Italy's future. Italy's economy is expecting zero percent growth in the coming year. It possesses the most overregulated economy and lowest labor productivity rate in the developed world. Labor and pension reform and deregulation remain essential priorities. Excessively powerful unions continue to exercise disproportionate influence over effective national policy, as evidenced by the recent Alitalia debacle. Corruption and organized crime in Italy's southern regions continue to hinder economic development.

With over 150 parties competing at the national and local level, the election's outcome marked a significant, and much needed, reduction of parties represented in parliament. Although consolidation of political parties will continue, the regionalist Northern League, which doubled its votes, can potentially act as spoiler. As a previous coalition partner, the League is likely to be generally cooperative but still prove confrontational on certain issues such as devolution of power and economic reform. At present, fewer parties in parliament will bode well for more stable government and effective action. Electoral reform, however, remains fundamentally important to guarantee stability for future governments.

Italians remain largely disillusioned with the status quo and the current political establishment. Although voter turnout was lower than the previous election, 80 percent participation rate is still impressive when compared to other democracies in the developed world. Italian voters were driven not so much for love of a candidate, though, but by antipathy towards the opposition.

As the most challenged of Europe's major economies, Italy appears to many outsiders as a nation in denial of its economic realities. Some may conclude that Italians are not a receptive audience willing to listen or accept the inevitable demands necessary to overhaul the economy. But Italians have historically proven resilient at adapting to difficult circumstances. Although few will disagree on the need for economic reform, reaching a consensus on how to achieve it remains the fundamental challenge.

Until now, much of the difficulty may be attributable to the lack of credible leadership across the political spectrum, in Italy and throughout much of the European Union, to communicate objectively and effectively the realities and challenges of globalization, how and why they will impact daily life, the sacrifices and adjustments required to secure and amend certain existing benefits and the long-term opportunities available for integrating into a more global economy.

At present, Italy still has limited time to determine the process and pace of change. However, should resolute action be delayed, crisis mode will materialize in the not too distant future, forcing Italy to change through radical measures by necessity and under more severe circumstances and conditions.

Failure by Italy's political class to connect with ordinary citizens contributes to a growing divide between the governing and governed. Leadership requires the ability to appreciate and relate to the public's needs and understand their grievances. The new government must be able to instill and inspire a sense of national purpose and convince citizens that reform is a collective need that can only be achieved through a collective effort. Failure to do so will result in increased public disillusionment with the status quo and contribute to further uncertainty and fear of the future. The inability to provide vision or opportunity will continue to tragically impact Italy's youth, its future and erode the pillars of any free society.



## FOREIGN POLICY

Unlike Italy's 2006 election when Iraq was a dominant issue, foreign policy played no role during the recent election campaign. However, Italy's involvement in Afghanistan will inevitably resurface in the coming months as a leading issue, particularly as the task in Afghanistan grows difficult and the intense, open and public debate among NATO members on burden-sharing can no longer be avoided by national parliaments. In recent months, it has become clear that Europe's NATO members must bear a greater share of responsibility in Afghanistan, as France has promised 1,000 more troops. Within the next year, Italy will have to increase its contribution to Afghanistan, particularly in the number of troops and material support. After the far-left's failure to win a single seat in the new parliament, the parliamentary debate will be less hostile but confronting public opinion in a traditionally pacifist post-war culture may prove challenging.

Italy's historically close bilateral relationship with the U.S. will be marked by a return to Mr. Berlusconi's strong pro-U.S. rhetoric and reflected by his strong personal bond with Mr. Bush. To a certain extent, there will be a more substantive change in Italy's Middle East policy that is more in line with America's, particularly in the Israel-Palestinian conflict. Mr. Berlusconi announced throughout the campaign that his first foreign trip will be to Israel. Under a Berlusconi government, Italy will take a more publicly vocal stance against Iran's nuclear position, but this is likely to be tempered by Italy's close commercial ties to Iran, which will determine the extent of public criticism. Italy will not cease relations or maintaining a dialogue with Iran.

In Europe, Mr. Berlusconi will find a far less hostile environment from his previous tenure in power. The election of like-minded center-right leaders in Germany and particularly France under Mr. Sarkozy will allow for extensively more cordial relations than with Mr. Schroeder and Mr. Chirac. In addition, Mr. Berlusconi previously joined the UK's Tony Blair to oppose a vision of a more federalist Europe under Franco-German tutelage. Continuity with Prime Minister Gordon Brown should be expected. Furthermore, relations with the Portuguese center-right head of the EU Commission Barroso will definitely prove far more fruitful than with former EU Commission and Berlusconi arch-nemesis Romano Prodi.

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