



# The 2013 Italian Election



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- The Italian election of February 24-25 is becoming increasingly hard to call with any certainty, as the centre-right under Silvio Berlusconi continues to close the gap on the centre-left coalition led by Pier Luigi Bersani. Berlusconi's Lazarus-like return remains this election's wildcard.
- The centre-left is most likely to win in the Camera, but the crucial Senate election will be decided by races in Lombardy and Sicily which both look too close to predict. A Berlusconi victory in either would force Bersani into a complicated coalition negotiation with Mario Monti's centrist coalition. Personality and policy will both be important.
- A Bersani-led coalition promises a high level of continuity with the agenda pursued by Monti's technocratic government over the last fourteen months. Bersani is a pragmatic social democrat with a record in government of product market reform.
- Bersani has pledged to lower payroll taxes, reduce Italy's property taxes and widen economic participation among women. A Bersani government is unlikely to take leftist gestures like Hollande's 75% top tax rate, but neither will it introduce sweeping liberalisation.
- On the European level a Bersani government will be a strong potential ally for Paris. Bersani sees himself as pro-European and has deliberately distanced himself from anti-German rhetoric on the campaign trail. His support for tougher European oversight of national budgets will win him friends in Berlin. His views on the need for debt mutualisation in the Eurozone will not.
- For the markets, continuity will matter. A messy or ambiguous coalition negotiation is likely to test nerves and raise doubts.

## Politics returns to Italian government...

This month's Italian elections on February 24-25 are the first of two major electoral events in Europe in 2013 - the second being Germany's federal elections in the autumn. The choices Italy makes will be watched closely by the markets and its fellow EU member states. The combination of Monti's government of technocrats and Draghi's promise of ECB intervention have given Italy a respite and done much to restore the country's international credibility. This election will be an important test of that credibility.

The election marks the return of party politics to the government of Italy. For the past 14 months the country has been governed by Monti and a team of technocratic ministers. This has brought a measure of much needed stability and reform to the Italian economy. What will the return of party politics bring?

By forming the *With Monti for Italy* list, Monti has made the descent from being above politics to being another politician plying for votes. His coalition brings together a collection of technocrats and personalities with two rather marginal political parties, Pier Casini's *Union of the Centre* and Gianfranco Fini's *Future and Freedom*.

On the centre-left the *Italy. Common Good* alliance led by Pier Luigi Bersani brings together the centre-left *Democratic Party*, and the leftist *Left Ecology Freedom* group led by Nichi Vendola. Silvio Berlusconi, who international observers had probably assumed to be politically dead and gone, is back in alliance with the *Northern League* and has returned Lazarus-like to close some of the gap in the opinion polls with the centre-left.

Berlusconi has used the scandal at the Monte de Paschi Siena bank to good effect to attack the Bersani coalition, and his apparent residual attraction to parts of the Italian electorate remains the wildcard in this election. The final player on the field is the *Civil Revolution* alliance led by magistrate Antoni Ingròia and bringing together leftists, greens and Antonio Di Pietro's *Italy of Values*.

### A Bersani victory in the Camera...

Italians will vote to elect members to both the Camera lower house and the Senate. In the country's bicameral system, the two houses have equal roles and powers, and the confidence of both is necessary to maintain a government. Durable and strong governments need to secure a majority in both houses.

Elections to both houses award the list ahead in the polls a 'winner's bonus' of a majority (55%) of seats. But there is a twist. For the Camera, the winner's bonus goes

to the list polling most votes across the whole country. In the Senate, a winner's bonus goes to the list ahead in each of the country's regions.

Italian political polls are notoriously unreliable, and with 30% of the electorate undecided, the election remains impossible to call with certainty. Adding to the uncertainty is the prohibition on publishing polling data by Italian election law after February 9. Bersani and the centre-left have been ahead in the polls consistently since November 2011 and look set to top the national poll. But Berlusconi has clawed back votes in recent weeks.

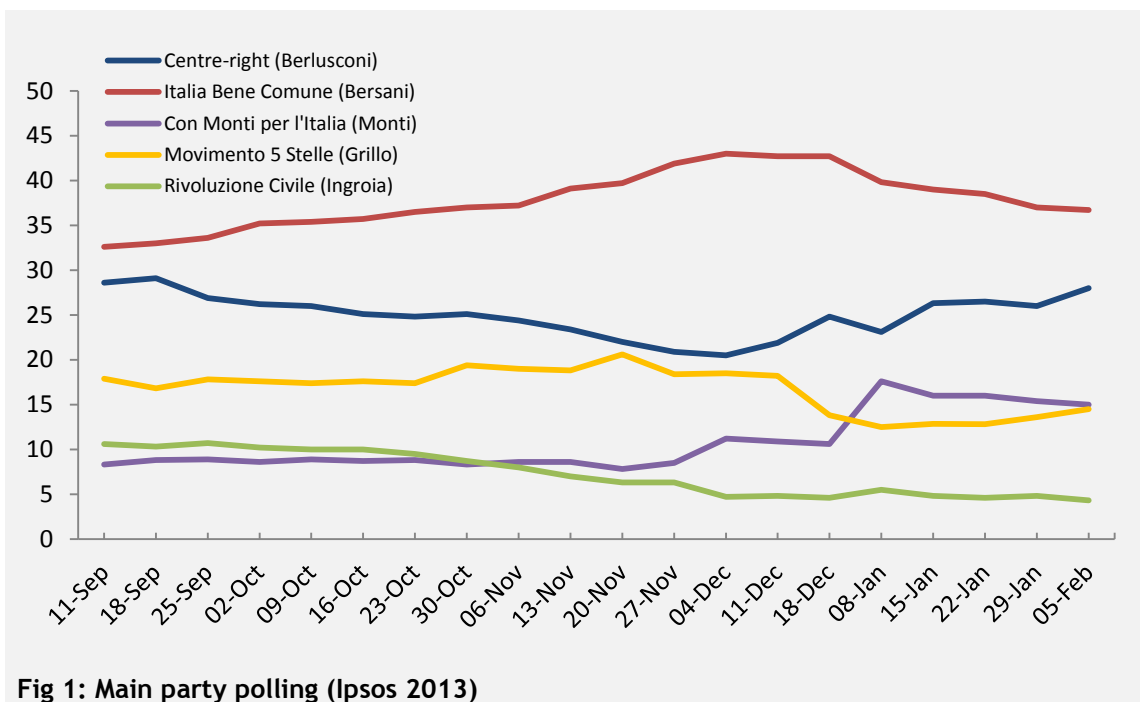


Fig 1: Main party polling (Ipsos 2013)

Since December the gap between Bersani and Berlusconi has closed from 22.5 to around 10 points. Monti's early hopes of taking at least a fifth of the electorate have not materialised: his most recent polling has been around 15%. Beppo Grillo's eclectic, anti-establishment *Five Star Movement* polled unexpectedly well in last year's regional elections in Sicily and opinion polls give it support at levels close to those for Monti's list.

Bersani and the centre-left remain on track to win a majority in the Camera. But the margin looks likely to be much smaller than was in prospect last year with Berlusconi currently polling around 25%, of which 5% comes from the *Northern League*.

### ...but an election decided in the Senate

In the Senate things are very far from clear cut. Bersani will have to win both the country's largest region Lombardy, with 49 of the 315 seats, and Sicily to gain a clear majority. A loss in Sicily, the smaller of the two, will leave him one seat short of the 158 he needs. In that case, he will have a number of possible options available to

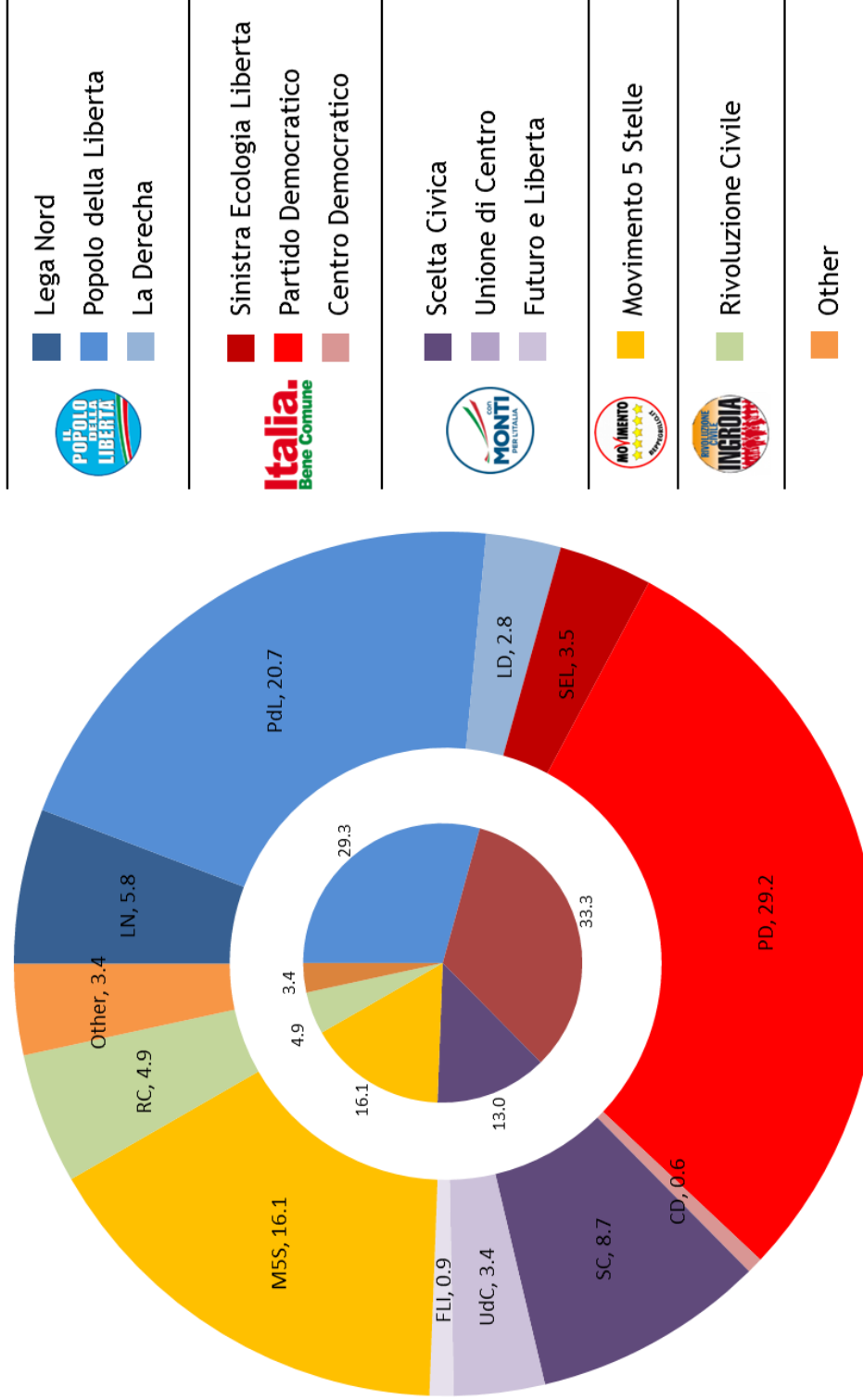


Fig 2: Polling by coalition and party, February 5 (Tecne)

him. If Antoni Ingroia's *Civil Revolution* coalition gain senators in Campania, where they are close to the 8% threshold, Ingroia has already flagged that he would be willing to make a pact with the centre-left. This would create the thinnest of majorities for the centre-left.

If he loses Lombardy, or both Lombardy and Sicily, Bersani will be between 7 and 16 seats short of a majority, and have no choice but to make pacts with Mario Monti's likely 35 or so senators. This would involve creating a coalition that would stretch across quite a wide part of the political spectrum from centre-right elements of Monti's list to the leftists of *Left Ecology Freedom*. This would raise a number of policy, personnel and personal problems.

### Luigi's choice

The tightening of the race means that the result on polling day may force Bersani to have to make a choice that he would rather avoid, between governing with Monti or with Nichi Vendola. Although relations between Bersani and Monti have been strained in the course of the election campaign, Bersani respects Monti and is well aware that the Monti government has restored the country's international credibility. Bersani is not in denial about Italy's need for fiscal retrenchment and reform, although there are some differences of view on the pace and scale. In forming a government Bersani will want to avoid looking to be turning his back on Monti.

Bersani's problem is the hostile relationship between Monti and the leftist Nichi Vendola and his *Left Ecology Freedom* party. The two have frequently clashed over austerity measures and social issues like gay marriage (which Monti opposes). Vendola has stated that he would never serve in a government with Monti, and that his presence in the centre-left alliance must be an alternative to Monti's. For his part, Monti makes no secret of regarding *Left Ecology Freedom* as not a fit governing partner - an impression formed in part by its record as a deeply unreliable supporter of Prodi's 2006 government. Monti's alliance partner, the Christian Democrat Casini, has also confirmed that his presence in a coalition is incompatible with Vendola's.

With *Left Ecology Freedom* poised to win around 15 seats in the Senate, and Monti twice as many, it may be mathematically possible for Bersani to exclude his coalition partner and simply govern with Monti. Bersani, however, has so far publicly ruled out such a possibility and he will be wary of cutting Vendola adrift. Vendola has charisma and strong oratorical skills. His record as regional governor in Puglia has impressed. He also has good links with the country's main trade union federation, the CGIL. Bersani would much prefer to have Vendola inside the tent, rather than outside causing trouble.

Bersani's dilemma is determining whether he can keep both Monti and Vendola on board or if he is going to have to choose one or the other. Precisely how Bersani would choose will obviously depend on circumstance and expedience. We need to keep in mind that one of the new parliament's first tasks will be electing Giorgio

Napolitano's successor as the country's president. This all points to some fraught politics (as Bersani puts together a governing coalition) and the return of some of the dysfunctionality that has plagued the Italian political system.

### What would a Bersani government look like?

Bersani's political roots are in the PCI, Italy's reformist communist party. Although the *Democratic Party* that Bersani now leads is not simply a renamed PCI, it does have some of the party's DNA. This includes respect and affinity for the trade union movement, a focus on the PCI's old electoral base in Emilia-Romagna and an intellectual and emotional distance from the idea of markets. This is combined with intense pragmatism and caution on actual policy and tactics.

Bersani has pledged to continue many of the measures and reforms put in place by the Monti government over the last year, while calling for austerity to be complemented with measures to create jobs and promote investment. On balance, a Bersani government is likely to position itself as the inheritor of the Monti reform agenda, especially if the electoral maths sees Monti return to government as Finance Minister. A Bersani government is unlikely to take leftist gestures like Hollande's 75% top tax rate, but neither will it introduce sweeping liberalisation.

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#### Product Market Reform

The *Democrat Party* has backed the Monti government's product market reforms and liberalisation in the insurance market, pharmacies, and legal services. The 'Bersani Decrees' of 2007 liberalised sectors like the pharmacy sector, taxis, telecommunications, insurance, and television broadcasting. Keen to demonstrate that governments of the centre-left can take decisive action on economic and structural reform, Bersani could actually surprise in this area.

#### Labour Market Reform

On labour market reform, Bersani has proposed to lower Italian payroll taxes, which are among the highest in Europe, funded by increases in the top tax rate and tougher enforcement on tax evasion. He has also promised measures to improve economic activity rates among women, including wider access to childcare.

On structural reform of the labour market his electoral coalition may be any uneasy ally. *Left Ecology Freedom* has set itself against further reform of the Italian labour market, after Monti's initial attempts to weaken rights of recourse and redress for sacked workers in 2012. Monti's reforms to the pension system are strongly opposed by the trade union, CGIL, which is an important *Left Ecology Freedom* constituent, and Bersani has conceded that they may be changed.

#### Energy Policy

As Minister for Industry in the late 1990s, Bersani pushed through the liberalisation of the Italian electricity market that

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broke up ENEL (creating grid operator TERN), privatising the electricity market and ending the ENEL monopoly on sales and imports. When the centre-left returned to power in 2006, he was returned to the government as Minister for Economic Development and undertook further market liberalisation. He may, for example, be drawn to the prospect of using further energy market reform as a way of tackling some of Europe's highest consumer and business energy costs.

A Bersani government would probably continue the reduction in support for renewable energy which has been taking place under Monti and Berlusconi before him. Further large-scale installation of solar is very unlikely, although wind power and biomass still could expect continued support, especially if *Left Ecology Freedom* remains in the governing coalition.

#### Fiscal Policy

Bersani has campaigned on a promise to reduce property taxes for all except the largest properties. He has proposed a tax cuts for lower incomes and a higher tax rate for high earners (although nothing like Francois Hollande's punitive 75% rate). He has also promised a crackdown on tax avoidance and evasion.

#### European Policy

Bersani broadly backed Monti's austerity agenda and Bersani and the *Democratic Party* are enthusiastic and instinctive European integrationists. They advocate closer coordination of European fiscal and economic policies through 'new institutions', including a reshaped European legislature combining national and continental politicians.

Bersani has called for a new European budget commissioner with stronger powers to oversee national budgets. He has implied that the trade-off for this might be greater scope for industrial policy at the member state level in European state aid rules - Bersani would like greater scope to support the development of Italy's energy infrastructure, for example.

At a practical level he is likely to want a constructive relationship with Berlin and if Monti remains in his government he will be an important bridge. He has deliberately distanced himself from Silvio Berlusconi's anti-German rhetoric on the campaign trail.

But there is also no question that Bersani also sees himself as part of the European family of social democrats, and sees Francois Hollande as a potential ally. Like Hollande, he has warned against seeing austerity as a dogma. Also like Hollande, he sees European debt mutualisation as a key part of the Eurozone's future stability. In Berlin, this will not necessarily be seen with equanimity.



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**Financial  
Markets Reform**

Bersani can be expected to push on with the Financial Transaction Tax on derivatives and Italian equity transactions foreseen for July 2013. Bersani has expressed no serious interest in structural reform of Italian banks, beyond what is being contemplated at the European level, which is now very little.

**Foreign Policy**

Europe has inevitably dominated election debate on Italy's external policy. Monti had previously offered Italian logistical support for the French in Mali, but this has been withdrawn due to the prospect of parliamentary objections from Berlusconi's *People of Freedom*. The *Democratic Party* has maintained that it would resurrect support if elected.

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## Parties, coalitions and candidates

Italian electoral law allows, and encourages, political parties to form pre-electoral coalitions in order to maximise their representation. Each party runs their own lists of candidates, but they benefit from the strong performance of their allies.

Large parties benefit from the inclusion of smaller ones, because it increases the total number of votes for the coalition. For smaller parties, it is also easier to enter parliament within a coalition than on their own, as the thresholds for entry are lower; 2% as opposed to 4% for standalone parties. The system is intended to encourage political cohesion in a highly fragmented party system. In 2006, all Italian parties ran inside one of two main coalitions: Berlusconi's *People of Freedom* and the *Olive Tree* coalition of Romano Prodi.

Italy's system of 'perfect bicameralism' differs from most parliamentary systems in that the two houses have equal roles and powers, and the confidence of both is necessary to maintain a government. The current electoral system (like its predecessor) makes it entirely possible that a coalition may have a majority in one house but not the other - this occurred in 1994 and 2006, with both governments lasting less than two years. Observers need to have their eye on the results in both houses, but the Senate is likely to be key in determining the outcome in 2013.



*Partito Democratico (Democratic Party) - Pier Luigi Bersani*



The Democratic Party (PD) is the historical heir of the Italian Communist Party, but was formed in 2007 as a merger of social democratic and centrist political forces to consolidate the progressive spectrum of Italian politics. Its 'big-tent' conception is why the PD is not a member of the Party of European Socialists, and the party's name is an explicit reference to its American namesake.

Like most Italian politicians of the left, Pier Luigi Bersani began his political activity in the Italian Communist Party, and was present through the left's many incarnations. A heavyweight and member of the party's 'old guard', he has been a minister in every government of the centre-left since the early 1990s. Despite his leftist origins, as Minister for Economic Development he oversaw significant economic

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liberalisation.

Party leader since 2009, he was elected last year as the candidate for the *Italy. Common Good* coalition, composed of the PD and the eco-socialist, *Left Ecology Freedom*, (SEL), defeating Matteo Renzi and SEL leader, Nichi Vendola, in nation-wide open primaries. Bersani's victory over the younger and more centrist Renzi deflected the possibility of generational change in the PD, and asserted the dominance of the party's social-democratic faction.

*Sinistra Ecologia Liberta (Left Ecology Freedom) - Nichi Vendola*



Nichi Vendola was previously a member of the Communist Refoundation Party, and was elected President of the southern Italian region of Puglia as the common candidate of the left in 2005. Prior to his re-election he began the formation of *Left Ecology Freedom* (SEL), designed to draw together a coalition of parties to the left of the PD, from democratic socialist to ecologist factions.

Vendola ran in the primary elections for the leadership of the *Italy. Common Good* electoral coalition, but only achieved 15% of the national vote, although he received a much stronger 37% in his native region of Apulia. Unsurprisingly, the party's stronghold is Vendola's home region of Puglia where it is expected to gain up to 10%, double the national estimate. However, the party has also had success elsewhere, and the mayors of Milan and Genoa are both independents close to SEL.

Socially liberal (Vendola is one of Italy's few openly gay senior politicians), Vendola is a force to be reckoned with, and likely to be very influential in a Bersani government particularly in regards to economic and social policy. He is economically left of centre and has rejected an alliance with Monti, whom he perceives as the standard bearer for German-dictated austerity.



*Popolo della Liberta (People of Freedom) - Silvio Berlusconi*

Silvio Berlusconi, the billionaire media mogul, governed Italy from 1994 to 1995, 2001 to 2006, and 2006 to 2011. From the 1990s onwards, he was instrumental in gathering centre-right forces into coalitions led by his new *Forza Italia* political party. He was later successful in merging with the national-conservative, *National Alliance*, led by Gianfranco Fini to form the *People of Freedom*



party. Although he stepped down as Prime Minister, enabling the technocratic government of Mario Monti in 2011, Berlusconi withdrew support for Monti in the middle of last year.

The prospect of primaries for the leadership of the centre-right ended when he announced his candidacy for the upcoming general elections in December 2012. He is campaigning on a broadly populist and anti-austerity platform: criticising Monti for too much deference to the priorities of Berlin and calling for lower taxes, and the abolition of Monti's controversial IMU, the unified local property tax. International media coverage often reduces Berlusconi to something of a caricature, but resources and a dense network of political patronage in key regions like Campania mean that it is far too easy to write him off.

#### *Lega Nord (Northern League) - Roberto Maroni*



The *Lega Nord* is - as its name implies - a political party based in Italy's Northern regions, where it is strongest in the Veneto. It is economically liberal and advocates fiscal federalism to diminish Northern Italy's subsidy of the South. It is also the most eurosceptic of the Italian parties, and sits with the *UK Independence Party* in the European Parliament. The party was one of a few to oppose Mario Monti's technocratic government.

The party has often been a member of Berlusconi's cabinet and was finally included in Berlusconi's centre-right coalition, as part of a deal that included the support of Berlusconi's party for Maroni in the Lombardy regional elections to be held on the same day.



#### *Scelta Civica (Civic Choice) - Mario Monti*



An economist by training, Mario Monti, widely referred to as *Il Professore*, was Italy's European Commissioner from 1995 to 2004. In a highly tactical move by President Napolitano, he was appointed Senator for Life in anticipation of Berlusconi's resignation in late 2011. He has since been leading a technocratic unity government that has implemented a range of austerity measures. An English speaker and popular with European elite networks at the top of the European institutions he has had a transformative effect on perceptions of Italy abroad, although his lack of a genuine domestic constituency has inevitably eroded his

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ability to push through painful reform, especially as opponents like Berlusconi have increasingly seen the political upside in opposing his unelected government.

It is partly in recognition of this that he appears to have decided late last year to seek a firmer popular stamp on his programme by contesting the election - at least indirectly. As a Senator for Life he personally does not need to stand for election. But he is campaigning at the head of an electoral platform that supports his agenda alongside the more established Fini and Casini. His chances of winning the election are slim to nil, but his coalition is designed to prevent Bersani from making deals in the Senate.

Because of the higher thresholds to enter the Senate as a coalition (20%), the two other parties will be incorporated into Monti's platform as a single list in the Senate, for which the threshold is only 8%. In the Camera, they remain as three separate lists. His list is explicitly defined as apolitical, and its candidates are professionals and technocrats in Monti's image. It is expected to get twice as many votes as its coalition partners combined, which is likely to solidify Monti's dominance and ensure cohesion in the coalition.

*Unione di Centro (Union of the Centre) - Pier Ferdinando Casini*



Pier Ferdinando Casini's *Union of the Centre* (UdC) is a conventional Christian democratic party, more socially conservative and less economically liberal than Berlusconi's centre-right. It considers itself the political heir of the Christian Democratic party that ruled Italy for 50 years, of which Casini (above) was a member for much of his early political life.

Casini has been a consistent ally of Berlusconi for much of the period since 1994, and was Speaker of the Camera for the entire duration of the second Berlusconi government. However, in 2008 he distanced himself from the centre-right and ran on a centrist platform, joining the opposition after Berlusconi's victory. UdC did not join the *People of Freedom* project and has occasionally made alliances with the PD at the local level. He has been a consistent supporter of the Monti government.

*Futuro e Liberta (Future and Freedom) - Gianfranco Fini*

The ideology of Gianfranco Fini's new *Future and Freedom* can be loosely defined as conservative, but the party was arguably created for the chief purpose of giving Fini a political home after his fallout



with Berlusconi in 2010 over the then-Prime Minister's apparent determination to continue to deny and fight accusations of impropriety. A former leader of the post-fascist *Italian Social Movement*, he has undergone a long ideological journey but his political origins may explain his party's somewhat statist approach to the economy. On social issues, it is more liberal than the UdC.

Though likely to remain below the 2% threshold, Fini will still enter parliament due to yet another oddity in Italian electoral law, which allows the 'best losers' within a pre-determined coalition (i.e. the first party below 2%) to bypass the threshold.



#### *Movimento 5 Stelle (Five Star Movement) - Beppe Grillo*



The comedian-turned-activist, Beppe Grillo, is the only significant new face in these elections, and the emergence of his anti-establishment *Five Star Movement (M5S)* is the most significant new arrival on the Italian political landscape since the last Italian election. The 'movement' has coalesced around a significant thread of voter frustration with mainstream Italian politics. It is running on an anti-corruption platform advocating transparency, direct democracy, sustainability, and environmentalism. The movement achieved electoral breakthrough in 2012 when it won the mayorship of Parma and became the largest political party in the Sicilian regional assembly. Defining the M5S as a citizens' movement, Grillo initially denied he would run for parliament but it was later confirmed that he would be their top candidate.



#### *Rivoluzione Civile (Civil Revolution) - Antonio Ingroia*



Though a single list, *Civil Revolution* is a heterogeneous coalition of political parties, mainly the centrist and anti-corruption *Italy of Values* led by Antonio di Pietro, the Italian *Greens* and the *Communist Refoundation Party*. Its candidate is the magistrate Antonio Ingroia, who has spent decades fighting the Mafia and is not directly affiliated with any political party.

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