

The Rise and Fall of Berlusconi

Is Italy's flamboyant leader going down in flames?

By Christopher Dickey
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April 3, 2006 issue - The lights were set up, the camera was ready. Italian Prime Minister Silvio Berlusconi stood in front of the Italian and European Union flags, ready for a portrait, but he stopped for a second to chat with an American reporter. "You know," he said, practicing a line he would use before a joint session of the U.S. Congress a few days later. "When I see the *American* flag, I don't see just a symbol of a country, I see a symbol of freedom and democracy." He smiled, satisfied. "And that European flag?" the reporter asked. Berlusconi seemed a little taken aback. He paused and thought. "Under construction," he said.

Listening to the 69-year-old billionaire turned politician's increasingly frenzied politicking against the euro and Brussels, one might think "under destruction" would be more accurate—especially if Berlusconi manages to win his uphill bid for re-election on April 9 against former European Commission president Romano Prodi. Right now, however, that seems unlikely. Berlusconi's political machine is in meltdown. The candidate's first televised debate was a disaster. His coalition and his cabinet are out of control. Instead of tending to allies, he's battling the big business interests that ought to be his core support—all of them alarmed by Italy's seemingly unstoppable economic slide. Along with much of the rest of Europe, they hope more and more for a Prodi victory. But while many of Italy's ills can justly be laid at the door of its flamboyant prime minister, those that matter most—and most threaten the rest of Europe—will persist no matter who wins this year's closest and most important election.

It wasn't supposed to be this way, at least in Berlusconi's eye. He imagined winning a second term by sheer force of personality, thrusting himself onto the public stage to showcase his natural advantages: ebullience, charm and take-charge personal confidence. But that strategy seems to have backfired. Tense and defensive, he looks these days like he probably feels—a man whose hopes for staying a step ahead of Italy's vindictive prosecutors (by running the country) are coming to a potentially ugly end. The latest polls show him behind by 3.5 to 5 points, a gap that has lately widened rather than narrowed. The winning smile that has long been his emblem looks increasingly like a rictus. Berlusconi's last best hope is that the Socialists' famously soporific Prodi will so thoroughly bore the electorate—or the extremist fringes of Prodi's cobbled-together leftist coalition so appall it—that at the last moment Italians will throw up their hands and return to the long-running political carnival that has been Silvio's Circus.

It would be premature to count him out, of course. As the longest-serving Italian prime minister since World War II, he has brought admirable political stability to a country notorious for its lack thereof. Yet Europe wants him gone, for good reason. Partly it's his government's uncanny knack for infuriating European leaders, which at times seems almost pathological. At the height of the controversy over Muhammad cartoons earlier this year, one Berlusconi minister donned a T shirt emblazoned with a particularly insulting caricature of the prophet. (The minister resigned, but not before 14 people were killed in anti-Italian riots in Libya.) Harking back to 2003,

when Berlusconi likened a German member of the European Parliament to a "kapo" in a concentration camp, a member of his cabinet just last week compared the Netherlands' legalization of euthanasia to Nazi eugenics. Even the government of Berlusconi's ally Tony Blair has been rattled by accusations that the Italian magnate involved the husband of a British cabinet member in money laundering and tax evasion, a charge both men deny.

The real danger that Berlusconi's Italy poses for Europe, however, is economic. Over his tenure, Europe's fourth largest economy has become its weakest link. From an already anemic growth rate of 1.8 percent in 2001, Italy slowed to 0.0 last year. *Niente!* The country faces such "profound, serious problems," new Central Bank Gov. Mario Draghi said this month, that it has "run aground." And worries are growing that the country will be an increasing drag on the rest of the European Union. "There's no doubt that Italy is the sick man of Europe," says economist Tito Boeri of the prestigious Bocconi University business school in Milan.

Is Berlusconi to blame? Of course not, he trumpets, pointing an accusatory finger at the economic crunch following the terrorist attacks on the United States in September 2001, a few months after he took office. "Europe probably suffered most, after what occurred, because of its inability to adjust," Berlusconi told NEWSWEEK last month. In his version of history, restrictions on debt and the rising strength of the euro are at the heart of the problem. "Four years ago," said Berlusconi, "to buy a euro, 82 cents of a U.S. dollar were enough. Today you need \$1.20. What does this mean? That any European product is more expensive by 50 percent!" Thanks to Brussels, "our companies have their hands tied, are crushed, are squeezed between the hypervaluation of the euro, the many regulations they have to comply with, and competitions from new economic systems led by China and India which, among other things, resort to unfair competition."

Berlusconi doesn't go so far as to say he'd pull out of the euro zone, if re-elected. In his interview, he put it more obliquely: "I'll try to convince my colleagues to open their eyes and change, which is not very easy." Despite Berlusconi's hot rhetoric about the euro, he knows the cold realities. When Italy had the lira, sure, Rome could devalue whenever necessary to jump-start exports. But those tactics brought on double-digit inflation, forcing families and small businesses to become currency speculators if they wanted to survive. The sense of insecurity that created is one reason earlier governments were so shaky and short-lived. The EU stability pact that underwrites the euro has been in place the whole time Berlusconi has held office—and probably helped to keep him there, if only by forcing his government to keep its spending under some semblance of control. Berlusconi recognizes as well as anyone that Italy's economic decline would probably accelerate under more-populist policies. "Deficits would go sky-high," says Antonio Missiroli, chief policy analyst at the European Policy Center in Brussels. "You could end up with a sort of Argentina-like crisis."

In fact, Italy could end up there anyway, with or without Berlusconi. The man who made billions by building a private media empire likes to present himself as the paradigm of entrepreneurship and a great friend of business. And to be fair, he has introduced new flexibility into the labor market and managed to reform the pension system further. But while he talks about the bottom line, he's really about razzle-dazzle. What sounded like bold concepts for cutting taxes and government bureaucracy when he took office in 2001 now smacks of what some call "spaghetti

economics." As Italy's economy has declined, Il Cavaliere has made almost no effort to introduce the sort of serious reforms that could reverse the slide. "In his five years there were neither big privatizations nor structural reforms," says Boeri. "His idea was just to raise public expenditure and cut taxes to revitalize demand." It didn't work. Many European businessmen now worry that, eventually, Italy's economy will deteriorate to such an extent that the country could be forced out of the euro zone even if Berlusconi doesn't really want to go that route—and even if Prodi, Mr. Europe, is elected.

In a sense, Italy is the proverbial apple that poisons the barrel. Consider the situation Prodi finds himself in. Even if he wins by a substantial margin, he will have a hard time taking the economic steps he considers necessary. Reason: thanks to changes in the electoral law pushed through by Berlusconi, Italy has returned to the old system of proportional representation that created such unstable coalitions in the past. "The country will be much less governable," says John Harper at the Bologna Center of Johns Hopkins University. Yet obviously, painful decisions must be made. Italy's trade deficit for 2005 surpassed \approx 10 billion, a result of both skyrocketing energy costs and rising labor expenses. European budget deficits are supposed to be held to 3 percent of GDP annually. Several countries have exceeded that, but Italy, at about 4 percent, is among the worst. And its example makes it easier for other countries to justify slipping beyond the bounds.

Compare Italy's zero growth with other nations of Europe: Spain at 3.4 percent, the U.K. at 1.8 percent, France at 1.4 percent. Only by Italy's standards could such performance be considered anything but anemic. Yet at a time when Europeans need to believe in change, Berlusconi has actually helped discredit the kind of free-market reforms needed to make Italy's economy, and Europe's, more dynamic. He likes to cite the successes of Ronald Reagan in the United States and Margaret Thatcher in Britain, but he has been utterly unwilling to walk their walk. Italian economic and industrial policies are so hapless, in fact, that the country's business class is in open revolt. One of Berlusconi's most aggressive critics is Diego Della Valle, chief executive of the global clothing and shoe behemoth most famous for the Tod's brand. After Della Valle took Berlusconi to task for his failures, Berlusconi denounced him as a businessman who'd "gone out of his mind and supports the left." Nor did he stop there. Della Valle "must have many skeletons in his closet, and many things that must be pardoned," Berlusconi went on to say, seemingly oblivious to accusations that he himself has misused his office and his power in the legislature to block or defeat criminal prosecution for his own business dealings. As for Della Valle, he dismissed the prime minister as "a man on the edge of a nervous breakdown."

Italy's prime minister thus looks increasingly isolated. "Berlusconi is running alone this time," says Gianfranco Pasquino, author of a dozen books on Italian politics. His coalition partners have not only distanced themselves, they've taken to sniping at him. Fellow conservatives in other European countries are clearly uncomfortable. Germany's former chancellor Helmut Kohl, a key architect of European construction and the mentor of current Chancellor Angela Merkel, recently endorsed Berlusconi's opponent as "my friend" and said that only Prodi is "capable of restoring Italy to its place in Europe." In case anyone missed the point, Kohl underlined it: "Let me be clear: I am here to support a great European. [Prodi] is an excellent example of cosmopolitan Italy, linked to his roots but capable of looking beyond borders."

Under the circumstances, it is perhaps natural that Berlusconi would seek solace elsewhere. President George W. Bush, for one, still calls him "my friend." For Berlusconi's vocal support of democracy, his talk of free enterprise and for committing thousands of Italian troops to support the 2003 American-led occupation of Iraq, he won a standing ovation from the Republican-dominated Congress in Washington last month. The moment probably marked the high point of his election campaign back home, if only because it's rare that Italians have seen that kind of homage paid to one of their leaders. For a day or so, he was called *l'Americano* in the press with some grudging admiration. Meanwhile, the mercurial prime minister began a pullout last year of all the Italian forces in Iraq, amid concerns that Italy will be targeted by terrorists just as Spain was in 2004 and Britain last year.

After Berlusconi came back to Italy, both friends and enemies expected him to come on strong in the first televised debate with Prodi. But his performance went flat. Since then he's complained of back pain, and even taken enforced time off. Can Berlusconi recover his élan as well as his health? Only a few days are left in the campaign. April 3 brings another TV debate, in which the prime minister will be fighting for his political survival. The battle will be watched intently, at home and abroad. Detractors rooting for his fall cannot help but be mindful, however, that Berlusconi's passing would in many ways be only a prelude to further trouble. His escapades and pratfalls have been a diversion from Italy's grave, and growing, problems for far too long. Indeed, the country's difficulties are so formidable that any successor would have to be almost superhuman to overcome them. Is Prodi that man? Or will he find that, in his struggle to do the job that Berlusconi ducked, Italians do not want to follow? The stability that Berlusconi brought to the landscape might very well give way to the fractured, internecine politics of yore, with little agreement on where the country should go or how it should get there. This, ultimately, might be Berlusconi's legacy. Win or lose, Europe will be dealing with him and his works for many years to come.

With Jacopo Barigazzi in Milan, Eric Pape in Paris, Barbie Nadeau In Rome and Friso Endt In The Hague

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