Italy plunges deeper into recession as general election approaches

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Italy's recession will be worse than previously expected this year, the Bank of Italy said as it cut its 2013 estimate for economic growth. Gross domestic product (GDP) is now expected to fall 1 percent this year, compared to the 0.2 percent reduction forecast last July.

The decline in output was "due to the worsening of the international scenario and the continuation of the weakness in business activity in recent months," the central bank said. Italy's national output fell by 2.4 percent in 2012, leaving the country in its fourth recession since 2001.

Data published by the statistical agency ISTAT showed that industrial production declined 5.4 percent last year and new orders by 6.7 percent. Production is 25 percent below the level prior to the 2008 economic crash. Consumer spending has recorded its biggest post-war fall with new car sales slumping by nearly 20 percent in 2012.

Italy's public debt has reached €2 trillion (US$2.7 trillion), 126 percent of GDP, the second-highest debt level in the euro zone after Greece. It needs around €420 billion to refinance its debt this year, and press reports suggest that €7 billion in additional austerity measures will be needed in the next few months.

Ratings agency Standard & Poor's has warned that there is a significant risk that the economy will not recover in the second half of 2013 as predicted. Other economists have warned that Italy could be forced to request help from the European Union (EU).

Much has been made in the press of Italy's ability to borrow €6 billion in a sale of 15-year bonds at 4.8 percent interest last week. The last time these type of bonds were sold was in September 2010, before the country was engulfed by the sovereign debt crisis and borrowing costs were pushed above the critical 7 percent level. But this recovery has only been possible because the European Central Bank has promised to buy up unsaleable government bonds and thereby reduced the borrowing costs of the peripheral countries.

In the midst of the debt crisis in November 2011, a non-elected technocratic government headed by former European Union Commissioner Mario Monti was imposed on Italy. Monti was supported by a broad coalition stretching from Silvio Berlusconi's People of Freedom party (Popolo della Liberta, PDL) on the right, to the Democratic Party (PD), whose main predecessor was the Italian Communist Party and the Left, Ecology and Freedom movement (Sinistra, Ecologia e Libertà, SEL) on the left.

Monti imposed a drastic austerity programme, undermined workers' rights, raised the retirement age and pushed up taxes for workers and the middle class. Unemployment rose to over 11 percent, and hundreds of thousands were forced into partially subsidised leave. Among young people unemployment has increased from just under 30 percent to 37 percent in one year. The impoverished southern regions, where one in four workers are without work and nearly 1.5 million inhabitants have left, faces a total economic collapse. Under Monti's rule, an additional 1 million Italians fell below the poverty line, bringing the total to over 10 million.

In less than a year Monti's popularity plummeted. He resigned in December after Berlusconi's PDL refused to support him in confidence votes in parliament and called early elections for February 24-25.

The sudden calling of the elections was aimed at finding a new means to continue with the austerity measures—with or without Monti. EU leaders are demanding that the next Italian government stick to his agenda. "Monti was a great prime minister of Italy and

I hope that the policies he put in place will continue after the elections," European Council President Herman Van Rompuy declared. Germany's foreign minister Guido Westerwelle told *Der Spiegel*, "Italy must not stand still after two-thirds of its reform process. That would bring new turmoil not only to Italy, but also to Europe."

The most likely scenario after the elections is a PD-SEL "Italy Common Good" coalition government with Pier Luigi Bersani as prime minister. Bersani began his political career in the Italian Communist Party and was one of the most resolute advocates of its transformation into the overtly pro-capitalist PD. He went on to hold several ministerial positions and became one of the most important and reliable supporters of Monti. Bersani's main selling point is that he is better placed to integrate the trade unions and so-called "left" into the process of implementing government policy.

Although "Italy Common Good" is polling around 40 percent, which will give it a majority in the lower house, it will need the support of another party in the Senate. Bersani is looking to Monti and his new coalition "With Monti for Italy" to fulfil that role. PD economics spokesman Stefano Fassina has declared, "Given the coherence with the coalition led by Premier Monti, I think the right way should be that of building an alliance" with him.

Monti is calling for further labour market deregulation, tax cuts and the "liberalisation" of key industries. Prominent individuals from the PD and PDL have defected to Monti's coalition, including former foreign minister and EU commissioner Franco Frattini and the PDL's European Parliament leader Mario Mauro. "With Monti for Italy" will receive about 13 percent of the vote, according to recent opinion polls.

However, Monti has called on the PD "to cut out" the "extremists" within its ranks, blaming them for his failure and mentioning Fassina, along with SEL leader Nichi Vendola, a former leader of Rifondazione Comunista (Communist Refoundation) and the main Italian General Confederation of Labour (CGIL).

Monti makes these demands to prove his loyalty to the dictates of Italy's creditors. But he has nothing to fear from these forces. Fassina has made it clear there are "no shortcuts" to reducing Italy's public debt, saying, "It would be easier to tell fairy tales, but this is the reality." He promised the PD would not increase government spending unilaterally, but would seek "a grand bargain" with the EU, giving Brussels control of national budgets through the creation of a super-commissioner on fiscal matters, as proposed by German finance minister Wolfgang Schäuble.

"The residual empty and formal sovereignty over fiscal discipline in national parliaments should be transferred to Europe," Fassina explained, adding, "This is not to avoid doing our homework. The structural reform agenda should move on… We will seek an agreement between the trade unions and businesses to freeze wages in exchange for investment."

The CGIL and other trade unions have been complicit in the austerity measures, signing scores of industrial agreements leading to the destruction of thousands of jobs and vital benefits. Bersani relies on the CGIL and SEL to promote him and paint the PD's right-wing policies in "left" colours. Vendola claims a Bersani government would mean "discontinuity with the agenda of Monti." In 1996 and 2006, Vendola, Rifondazione Comunista and the numerous pseudo-left groups inside it similarly justified their support for Romano Prodi's government by saying that Silvio Berlsuconi would come into office otherwise. In reality, Prodi's attacks on the working class helped Berlusconi to victory on both occasions.

For his part, Berlusconi is resorting to anti-austerity, anti-reform rhetoric, attacking Germany's economic "hegemony."

"Monti is Merkel's lapdog and I will lower taxes, especially the property tax. The spread or interest rate difference between Germany and Italy is a con-trick. Trust me," Berlusconi declared, with one PDL senator promising "guerrilla warfare" to "paralyse the Senate and make it ungovernable."

In the opinion polls, the PDL, reunited with its former partners the Northern League, are on about 30 percent.