

Business and Politics : The Italian Case

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Introduction

The intertwining of business and politics, and the conflicts of interests it provokes, is an issue of concern in all democracies. Rarely, however, is this conflict of interests as dramatic as in the case of contemporary Italy, where one of the country's most prominent businessmen, Silvio Berlusconi, has formed a political party, won elections and occupied the Prime Minister's office. Berlusconi's extensive media interests have led to concerns about the fairness of electoral politics, whilst the numerous judicial investigations into his activities, and Berlusconi's determination to curb the power of investigating judges, create a further democratic dilemma for Italians. The current situation appears alarming and anomalous, but the intervention of business interests in political decision-making is nothing new in Italy, and indeed Berlusconi's arrival on the political scene can only be properly understood by reference to the system of *partitocrazia* or 'rule of the parties' which preceded it. This paper will briefly show how the particular Italian mix of business and politics laid the foundations for the country's present predicament, and will assess the implications for Italian democracy of the Berlusconi phenomenon.

Partitocrazia, Corruption and the Italian Political Economy

Whilst postwar Italy is well known as a textbook example of government instability and polarised pluralism, it is less widely understood that until 1992 the Italian political system was characterised by a high degree of continuity in government personnel, and a substantial, if punctuated, continuity in patterns of policymaking. The Christian Democrats (DC) were the principal party in every postwar government until 1993, and despite the presence of a significant progressive Social Christian element within the party, its dominance of the centre-right political space made it the obvious political reference point for Italian business interests. The DC's initial social mobilisation was centred more strongly on the Catholic Church and its lay organisations, but it also had close ties to the private business sector, organised into the employers' peak association Confindustria. These ties remained throughout the party's existence, although they were weakened in the 1950s, as the party began to institutionalise and acquire greater organisational autonomy. The DC's consolidation allowed it to negotiate with Italian business from a position of strength as the main governing party, and the only feasible bulwark against Italy's powerful Communist Party (PCI).

From the 1950s on the DC gained a direct foothold in economic life. The strategy for strengthening the party organisation centred on a growth in state interventionism, and in particular the expansion in the political control of industrial activity through state holdings. State holding companies became key party resources which were used to finance party organisational activities, by providing cash directly and employing party supporters. Added to the legacy of Fascist state interventionism, the DC's strategy of *occupazione dello stato*, in which its coalition

partners (such as the Socialists) joined enthusiastically, meant that economic life was heavily conditioned by political dynamics. The DC in part supplanted private business by running sectors of the economy through political channels.

The governing parties' appetite for state resources, combined with the ideological requirements of the post-1963 centre-left coalitions, brought about a significant expansion in both state management of productive activity and state redistribution of income, goods and services. Government spending grew rapidly in the 1970s and 1980s, reaching almost Scandinavian levels in the late 1980s. Heavy use of 'quasi-fiscal' regulation, such as the deliberate non-implementation of revenue policies for favoured economic groups, further enhanced politicians' leverage over economic activity. The leverage was used to construct complex and sophisticated clientelistic networks, through which the governing parties were able to 'buy' political support. In many Christian Democrat-dominated areas, and particularly in the South, the traditional 'notables' clientelism was replaced by a 'new' clientelism based on party organisation, described by Sidney Tarrow as 'the judicious manipulation of blocs of votes through the allocation of economic development projects from the state' (1967: 331). The expansion of state employment in this period was used for political purposes, with jobs in the postal service and other public services allocated to loyal party supporters.

The governing parties also used their control over tenders for public works to extract bribes from private companies in a systematic manner. In turn, private companies keen to get their hands on lucrative state contracts (whose costings often effectively reimbursed companies for their bribes, at the Treasury's expense) were only too willing to enter into such a relationship. This form of illicit financing exploded in the 1980s, as the DC's electoral decline increased levels of political competition between the parties, who responded with increasingly profligate campaign spending. The fiscal shortfalls resulting from this situation were met by public borrowing, with Italy's national debt rocketing to over 100% of GDP. In short, in Italy's *partitocrazia* centre-right political parties and private business interests had anything but an 'arms length' relationship. Big business interests, caught up in a web of corruption and complicity, were slow to react politically to this economically unsustainable situation.

The subsequent political success of Silvio Berlusconi must be understood in terms of two contrasting consequences of the political economy of the 'First Republic' – the period of Christian Democrat domination which ended in 1993-4. First, the politicisation of economic life, and in particular the absence of what might be called a 'culture' of the market economy, allowed the accumulation of disproportionate economic power by well-connected individuals and groups. A credible antitrust authority, for example, was only established in the 1990s. Economic empires such as the Agnelli family (owners of FIAT), Mediobanca (the only significant source of venture capital until the 1990s) and Berlusconi's Fininvest corporation, rested heavily on political 'protection'. Berlusconi's political sponsor, Socialist Bettino Craxi, was able to exploit the DC's electoral decline to enhance the governing role of the Socialists in the 1980s. In exchange for favourable news coverage, Craxi provided Berlusconi with political backing for his illegal creation of three private nationwide television channels, which were subsequently legalised by a Socialist-sponsored law (the *legge Mammì*). The resulting monopoly of private broadcasting enjoyed by Berlusconi, in the absence of any serious regulatory authority, became a powerful political tool without equal in any other western democracy.

Second, the damaging long term consequences of the 'First Republic' system provoked a powerful antiparty reaction which destroyed both the Christian Democrat and Socialist parties (Daniels 1999). The extensive corruption at the heart of the government system, and the economic mismanagement that underpinned it, became unsustainable (della Porta 1995, 1997). The Maastricht Treaty established a strict monetary and fiscal regime for entry into the Euro at a time when Italy's annual deficits were running at over 10% of GDP. Simultaneously, judges in Milan and elsewhere had begun uncovering the web of corrupt deals which sustained the finances of the main political parties, resulting in the indictment of dozens of leading politicians (the *manipulite* investigations) (Waters 1994). A mood for political change was created which the established parties were unable to meet, creating an opportunity for rival political forces. Berlusconi, whose political backing had collapsed at a time when his corporation was facing a debt crisis (McCarthy 1996), intervened to fill the gap left by the old Christian Democrat-Socialist coalition, presenting himself as a 'new' political alternative capable of reforming the corrupt and inefficient 'First Republic' system.

Forza Italia : The Corporation as Party

Forza Italia (FI) was created by Berlusconi to contest the elections of March 1994. Although work was already under way before Berlusconi officially announced his candidacy two months before the elections, the organisational task of constituting a new political force ready to contest elections took less than a year. In spite of this, FI polled the most votes of any party in the election (21%), and the electoral coalition it formed with two other relatively new political formations, the Northern League and National Alliance (AN), won a parliamentary majority. This extraordinary success was due to the political vacuum left by the collapse of the old order, and the peculiar features of FI as a political movement.

In 1992-3 the old DC-dominated order collapsed (Morlino 1996). Submerged by a wave of judicial investigations, the DC and Socialists suffered a series of electoral humiliations at the regional and local level. The left-wing opposition, led by the former Communists of the PDS (Left Democrats), were the main beneficiaries. Under the new majoritarian electoral rules established in 1993, subsequent elections appeared likely to produce a victory for a left-wing coalition which had poor relations with the business world in general, and Berlusconi's economic empire in particular. In the absence of any viable conservative force, Berlusconi decided to stand himself under the banner of *Forza Italia*.

FI was established as the political arm of Berlusconi's Fininvest corporation, a holding company with interests in television, radio, newspapers, publishing, marketing and advertising, sport, insurance and financial services. In a sense, therefore, it bore little resemblance to a political party. Two of Berlusconi's companies, Publitalia and Programma Italia, were seconded to political activity for a period of months in order to establish a campaigning organisation throughout the national territory and choose candidates to stand for election. Fininvest regional managers become regional coordinators of the new party. Another Fininvest company, Diakron, was devoted to political marketing: finding out through extensive market research (opinion polls) which kind of political message would be popular, and developing a marketing strategy to win votes. Although a more traditional party structure – in the form of the so-called 'Forza Italia

Clubs' – was developed, this structure was superficial and had no formal rule in party decision-making. The role of a mass membership in the 1994 election campaign was insignificant.

Instead, FI's campaigning strength rested on its access to marketing expertise, and the almost limitless propaganda potential of three successful nationwide television channels (Farrell 1995: 42). The absence of any real regulation of political advertising allowed Berlusconi to run large numbers of campaign broadcasts (*spot*) at minimal cost. Eighty per cent of FI's advertisements in the 1994 campaign were broadcast on Fininvest channels, ensuring that campaign spending (itself largely financed by Fininvest) returned to Fininvest's coffers. Naturally, Berlusconi used his influence over his employees to ensure that news bulletins were manipulated in FI's favour to an extent unprecedented in a western democracy. More opaque techniques, such as recruiting television celebrities to 'plug' the party inappropriately during their transmissions, were also employed: in 1994, even Italy's version of the 'Wheel of Fortune' was used to persuade viewers to vote for FI. These 'modern' means of reaching the voting public replaced the more 'traditional' activist-based campaigning work characteristic of mass parties with ideologically-motivated memberships (Seisselberg 1996). The party's campaign was heavily personalised around the figure of Berlusconi, and the other candidates, almost all of whom were new to electoral politics, kept a low profile. This strategy was extraordinary successful, and within three months of formally entering the political arena, Berlusconi was Prime Minister.

In the subsequent period FI has become more similar to a traditional political party. Although Berlusconi's original intention was to maintain FI as a *partito leggero* ('light' party) without a territorial apparatus or mass membership, a series of disappointing results in local and regional elections, and defeat in the 1996 general elections, persuaded him to consolidate the party's organisation (Poli 1997, 2001). This involved establishing a more concrete party presence at the local level, in order better to equip the party to fight elections down to the local and neighbourhood level. Party membership increased, and the party sought more credible candidates for electoral contests, a number of whom had been active in politics before 1994. As a result, FI has in some areas become a reincarnation of the local elites of the DC-Socialist period, whose political 'machines' had been effective in distributing clientelistic benefits to voters (Sicily is a particularly good example of this). However FI remains quite a different kind of party to its predecessors in the centre-right political space, and this distinctiveness has clear implications for the relationship between business interests and the party system.

Business in Politics: The Policy Implications

The presence of a party such as FI at the heart of government poses a number of problems. For all FI is no longer simply the political arm of a business corporation, the interests of Fininvest, and of course Berlusconi himself, loom large in FI's strategic concerns. Of course, this is not a problem unique to FI or indeed to Italian politics. As party membership has declined and the cohesiveness of party electorates has been weakened, parties of both left and right have been placed under organisational pressure. With increasingly volatile electorates, elections have become more competitive, at the same time as party organisations, lacking the reserves of voluntary activism of the past, have become less able to meet such challenges. The most obvious response to a decline in activism is to use capital-intensive, media-oriented strategies, yet such strategies create yet a further

problem: media-oriented campaigning is expensive, and parties have fewer and fewer paying members to help meet these costs. How parties resolve these dilemmas has importance implications for the policy process.

One way of meeting the shortfall is for parties to solicit donations from wealthy supporters. Such donations, however, are not always given lightly, and dependence on this source of financing is likely to mean that parties will spend much of their time defending the interests of their donors, possibly at the expense of their electorates. Party politics in the US, and to a lesser extent Britain, appears to reflect such a scenario. A second way of generating funds is for party leaders to use their control over the public administration to solicit bribes from individuals and companies; for example by requesting 'commissions' in exchange for directing lucrative public works contracts to particular companies. This particular technique has been widely used in some governing parties in western Europe, most notably in Italy, but also in France, Germany, and Spain. Here, parties are less constrained in policy terms, but the costs of this kind of corruption, both economic and political, are significant.

The case of FI appears to suggest a third alternative. In this scenario, rather than parties seeking corporate backing, the corporation itself sustains the party. This implies that the corporations' interests must come first, but that afterwards policy is likely to be relatively less constrained by the need to respond to other corporations, or indeed by the need to 'sell' administrative decisions. This allows the 'business firm party' (Hopkin and Paolucci 1999) to develop populist programmes which respond to electoral demands, provided these demands do not conflict with the corporations' interests. Although FI has become more of a party in the traditional sense, with an increasingly institutionalised and articulated structured and some form of mass membership (Poli 2001), these organisational developments have not by any means cancelled out the party's origins as a political representative of Fininvest and Berlusconi. Berlusconi is still firmly in control of the party organisation and its statutes are possibly the most centralised of any European political party (see Poli 2001: Chs.6-8). Beside state subventions, the party's main source of financial resources (in cash and in kind) remains Fininvest (see Poli 2001: 275-6).

How does this affect FI's role in the policy process? As Michael Laver has argued, political entrepreneurs who use private resources to sustain their candidacy 'are making a private investment in the potential benefits of future incumbency' (1997: 80). Berlusconi and Fininvest had powerful private incentives for making this contribution to Italian party politics. The anomalous distribution of Italian media ownership from which Berlusconi benefited was made possible by the political support of PSI leader Craxi, and the main opposition party, the Democratic Left had long argued for regulatory changes which would force Berlusconi to sell some of his interests. The collapse of the DC and PSI made the Democratic Left the likely winners of the 1994 election, and the creation of Forza Italia was a successful reaction to this threat. More worryingly, since 1994 FI has revealed itself on a number of occasions to be above all a vehicle for the defence of its leader's personal and business interests. Since its creation, FI has adopted positions on issues such as broadcasting regulation, the organisation of the Italian justice system and pensions reform which appear closely to reflect the private interests of Berlusconi and Fininvest.

The most obvious example of this is the failure since 1994 to reform Italy's anomalous television market. The attempt by the Left Democrat leader D'Alema to agree constitutional reforms with FI during 1997-8 was exploited by Berlusconi to extract a promise that the left would leave his

television interests intact (Bufacchi and Burgess 2001: xi). Now that FI is safely installed in government once again, this extraordinary televisual monopoly, in which Berlusconi owns the three largest private channels and as Prime Minister directly influences the management of its state-run rivals, can be consolidated to the financial advantage of Fininvest. The business interests of Fininvest have also been furthered in other ways by Berlusconi's adventures in politics. During his brief tenure as Prime Minister in 1994, a law (*legge Tremonti*) was passed to provide tax relief to companies investing a larger amount in 1994-5 than in the five previous tax years. Mediaset, Berlusconi's television conglomerate, had no real activity and invested practically nothing in the 1989-93 period. After then, all of Berlusconi's television interests were moved from Fininvest into Mediaset, and the media products (films and programmes etc) transferred were granted the tax relief envisaged in the *legge Tremonti*. Given that the products were largely old material, and therefore hardly 'investment', a circular from the minister Tremonti detailing the implementation of the law was required in order for Mediaset to qualify for the exemption. The benefit to Mediaset was 181 billion lire (93500000 euro) (see Veltri and Travaglio 2001: Ch.4).

FI has also dedicated great energy to defending the personal interests of Berlusconi, and in particular to hindering judicial investigations on his affairs and those of Fininvest. In the last decade, Berlusconi has been implicated directly in 14 different trials, and indirectly in high profile trials of associates. Not surprisingly, FI has spearheaded pressure to curtail magistrates' powers and draw up some kind of amnesty for corruption offences uncovered by the *Mani pulite* investigations. The first Berlusconi government tried and failed to pass a decree (the *decreto Biondi*) which would have established an amnesty for individuals accused of involvement in corrupt party financing. The campaign against the magistrates at the forefront of *Mani pulite* continued throughout FI's period of opposition (1995-2001), but on its return to government in 2001, the Berlusconi government acted quickly on a number of fronts relating to his judicial problems. First, the reform of company law which had been piloted by the previous centre-left Amato government was modified by the new legislature in such a way as to effectively decriminalise the offence of false accounting. This change, pushed through by FI parliamentarians who were also legal representatives of Berlusconi outside parliament, meant that two of the Prime Minister's convictions for false accounting became statute-barred. Second, a further legislative measure, again drafted by Berlusconi's lawyers, introduced more demanding requirements for evidence from Switzerland to be accepted in Italian courts; this measure undermined the prosecution case in a further trial in which Berlusconi was involved. Most recently, Berlusconi's minister for Justice Castelli intervened to remove a prosecuting magistrate from a trial of his associate Cesare Previti. The government is at present preparing a broad-ranging judicial reform, with the express intention of limiting the powers of prosecuting magistrates.

Conclusion

Even after little over a year in office, Berlusconi's two governments have provided ample evidence of the extent to which corporate sponsorship of a political party can influence public policy to the obvious advantage of the corporation. The involvement of Berlusconi and Fininvest offer support to Michael Laver's suggestion that political entrepreneurship can be understood as an investment made by entrepreneurs in the hope of achieving some measurable 'return'. As one of Italian's most powerful businessmen and the subject of a number of judicial enquiries, Berlusconi

appears already to have enjoyed substantial returns on his investment in politics. The financial fortunes of Fininvest have substantially improved since 1994, although it is difficult to establish the extent to which Berlusconi's political activity is responsible for this. Much clearer and more measurable is Berlusconi's use of institutional power to undermine judicial proceedings against him and his associates. In any case, *Forza Italia* underlines the contradictions and dangers inherent in the close intertwining of business interests and political decision-making. It may be an extreme, and up to now unique, example, but the 'conflict of interests' which has undermined Italian democracy since 1994 is present to a less obvious extent many other democracies.

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