



The EU should seize the chance to stop Italy's eurosceptic drift

by Luigi Scazzieri
5 September 2019

Italy's new coalition government between the Five Star Movement and the Democratic Party is good news for Europe. But a resurgence of the League is likely unless Europe helps Italy in a visible manner.

The latest twist in Italy's turbulent politics has delivered an unlikely coalition government between the centre-left, pro-European Democratic Party and the populist Five Star Movement. Giuseppe Conte, one of Italy's most popular politicians, will stay on as prime minister. The birth of the new government marks the end of the political crisis that began when Matteo Salvini, leader of the far-right League and former deputy prime minister, pulled the plug on his party's coalition with the Five Star Movement in early August in the hope of triggering elections in which he could win a majority. The move backfired when the Five Star Movement and the Democratic Party agreed to form a new government rather than risk contesting elections in which both seemed certain to suffer heavy losses.

Despite being able to agree on a coalition, the alliance between the Five Star Movement and the Democratic Party is likely to be awkward and uncomfortable, at least initially, as there will be many issues on which the parties disagree. The coalition agreement is made up of a list of promises lacking in detail. It states the government will try to raise economic growth, but "without compromising the equilibrium of public finances." The parties also pledged to cut the number of politicians, improve labour conditions, fight all forms of inequality, launch a 'Green new deal', and combat tax evasion.

Nevertheless, the new government is good news for Europe, as the alternative – a League-dominated government – would have been much worse. If the parties had not been able to form a coalition there would have been a new election, and polls leave little doubt that it would have led to a government led by the League, in coalition with the far-right Brothers of Italy.

The League had promised a package of tax cuts and greater public spending worth a combined €50 billion. Even though Salvini would probably have softened his plans once in power to avoid a confrontation with the EU, the fiscal splurge, combined with his party's ambiguous stance on the euro and flirtation with the idea of a parallel currency, would have rattled investors. That would have made it

more expensive to finance the country's debt, and ultimately raised the risks of Italy leaving the euro. A government led by the League would also have created foreign policy problems for the EU by forging tighter links with Donald Trump and Vladimir Putin, although it probably would not have vetoed EU sanctions on Russia. Domestically, there was also a risk that Salvini's strongman tendencies, culminating in his call for Italians to give him "full powers", could have led to a gradual erosion of the democratic norms that underpin Italy's constitution and democratic system. With a large majority, the League would have been highly influential in determining the choice of Italy's next president when incumbent Sergio Mattarella's term ends in 2022.

The risks of a League-led government have been averted for the time being. Italy's new government is likely to take a much less confrontational stance towards the EU. The Democratic Party is staunchly pro-European, and the Five Star Movement is much less eurosceptic than the League. Conte was among the European leaders that voted to nominate Germany's Ursula von der Leyen as President of the European Commission, and MEPs from both coalition parties supported her in the European Parliament to secure her election. This in itself will ease tensions and set a new tone in relations between Rome and Brussels. The presence of the Democratic Party in the new government is also likely to improve relations with other member-states, particularly France, which have been harmed by a series of bilateral spats under the previous Italian administration.

The new government is likely to be more responsible in economic terms than either the previous government, or a government led by the League. While it has no appetite for fiscal tightening, and wants to change eurozone fiscal rules, it will be much less willing to pick a fight with the EU. The choice of Democratic Party MEP and university professor Roberto Gualtieri as finance minister is bound to reassure financial markets. The Five Star Movement-Democratic Party coalition will also be more co-operative in other areas of European policy. On migration, the new government will probably adopt a more humane stance: non-governmental associations' ships carrying migrants are likely to be allowed to dock in Italy without waiting for weeks. It is also possible that the new government will be more supportive of the EU's anti-human trafficking operation in the southern Mediterranean, Operation Sophia. The EU suspended the maritime part of the operation in March, while boosting air surveillance and other areas, after Italy said it would no longer take in people who had been rescued at sea. A new Italian approach to migration would reduce friction with other member-states and could pave the way for a more lasting agreement on EU burden-sharing of migrants landing in Italy.

The new government will pursue a less controversial foreign policy compared to that of the League-Five Star coalition or that of a League-led government. Crucially, neither of the new governing parties is as close to Russia as the League, removing the risk of a pro-Kremlin slant in one of the EU's largest member states and reducing tensions with the US. And, while Five Star leader Luigi di Maio is foreign minister, the Democratic Party's inclusion in the government means that Rome will probably be more cautious about dealing with China, reducing friction between Italy and Washington on Beijing's Belt and Road Initiative, which Italy joined earlier this year.

While Italy's new government will improve the mood between the EU and Rome, there's little room for pro-Europeans to be complacent. First of all, the new government may not last long. The Five Star Movement and Democratic Party have spent the past few years attacking each other and it will be difficult to establish trust. Moreover there will be tension between the parties both in terms of policies and personalities.

The government also faces a range of challenges. The Italian economy is in a fragile condition, with no growth in the 2nd quarter of 2019 and a debt to GDP ratio of 132 per cent. The slowdown in the European and global economy will worsen Italy's predicament. The government quickly needs to agree on the way forward for the 2020 budget, which has to be sent to the European Commission by mid-October. Rome needs to find €30 billion if it wants to avoid VAT increases which would otherwise kick in in January, harming the economy and making the government highly unpopular. More broadly, the Five Star Movement-Democratic Party coalition will find it very challenging to agree on meaningful reforms of Italy's stagnating economy.

At the same time, the new government is likely to face stiff opposition from Salvini and the League. Polls suggest the League's popularity has suffered a slight hit since his botched move to engineer an election. But it is a mistake to think that he will not recover. He has already condemned the coalition as an establishment stitch-up. If the number of migrants landing in Italy increases, perhaps as a result of increasing violence in Libya, he will try to exploit this. And Salvini will be quick to blame the new government's policies for the country's economic woes. In opposition, his rhetoric will be even sharper than it was in government, and the League will become even more radical and eurosceptic. The dwindling popularity of former prime minister Silvio Berlusconi's Forza Italia party will also entrench Salvini's dominance over the right. The risk, then, is that the Five Star Movement – Democratic Party coalition could be just a brief interlude before the League returns to power at the head of a right-wing coalition that puts Italy on a collision course with Brussels.

The EU should seize the chance to stop Italy's drift towards Euroscepticism and minimise the risk of a League-led government coming to power in Rome. In the immediate term, providing Italy with some flexibility when enforcing the eurozone's fiscal rules will make it easier for the new coalition to draft a budget that avoids recession – and a backlash against the government parties. Showing the new government solidarity in managing migrations flows will also be essential. Member-states should formalise existing arrangements to take in a share of the migrants landing in Italy. If they don't, Salvini will be able to claim that his refusal to let ships dock is the only way Italy can force other member-states to help it.

Giving Italy leeway on its budget and helping it manage migration will not only steal the League's thunder, but it could also foster a more pro-European outlook within the Five Star Movement. The party is changing, and could well evolve into a somewhat eurosceptic but moderate force. More broadly, by helping Italy in such a highly visible way, the EU could help improve Italian citizens' attitudes towards the union. Italians have become more eurosceptic in recent years due to a perceived lack of European solidarity during and after the eurozone and migration crisis. However, if the EU fails to support the new government in a tangible manner, it is likely that Italian public support for the EU will fall even further. That may mean it is only a matter of time before the EU has to deal with a League-led government that will take a much more confrontational stance towards Brussels.

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