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WHY THE NEW ITALIAN GOVERNMENT PUTS THE EU REFORM AT RISK

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Movimento 5 Stelle (M5S) and Lega have finally managed to form a government led by Prime Minister Conte. They have needed several months trying to reconcile two contradictory political programmes within a **coalition contract** and to overcome the political turmoil exacerbated by President Mattarella's refusal to appoint as minister of Economy Paolo Savona, perceived by many as too Eurosceptic. While markets seem to have responded positively to the new government and the political crisis, which risked spreading contagion through the Eurozone, things are not going to be easy for the next government when it comes to implement the reforms of the so-called yellow-green programme.

Reflecting a very heterogeneous electorate, generally formed by northern Italians who voted Lega to have fewer taxes and southerners who voted M5S to have access to welfare schemes, the new government can hardly have it both ways. The coalition government has suggested a flat tax of 15 - 20 percent, which could reduce tax evasion but also decrease state revenues while increase inequality. Its cost has been estimated at up to 63 billion euro. Simultaneously, the coalition contract promises a minimum income scheme, which would cost 17 billion euro. It is not evident whether another promise of the coalition - the fight against corruption- would be enough to cover such commitments.

When it comes to the labour market, the two parties had very different ideas on the future of the Jobs Act. Introduced by former Prime Minister Renzi in 2015, the Act aimed at revamping Italian employment levels by boosting flexibility and competitiveness at the expense of some guarantees against dismissals. Originally, the M5S was in favour of reintroducing these guarantees, embedded in Art.18 of the Italian Worker's Statute. Yet, such a plan has disappeared from the coalition agreement and been replaced by minimum income schemes and the development of more effective employment centres. On the contrary, the idea of tax reliefs for companies hiring young workers, as proposed by Lega, has been kept. Conflicting visions on how to boost employment and enforce these plans might arise in the near future, especially since Di Maio, the M5S leader, is **supposed to become** the minister of Economic Labour and Industry.

Even on issues where both parties have apparently found common ground, divergences might emerge. On migration, for instance, despite akin discourses and a

common agreement (on massive returns, stricter control of religious centres and a EU quota system) discrepancy might emerge. Lega holds a more aggressive and xenophobic rhetoric based on the idea of "Italians first". M5S mimicked such rhetoric in the electoral campaign but its actual stand on the issue is still difficult to grasp. If this could scarcely result in different positions when it comes to manage migration policies, it could still raise some conflicts between the parties, especially since Salvini, the leader of the League, could become the minister of Interior.

Despite the divergences in their proposed economic policies, M5S and Lega (and their voters to a large extent) have found some solid common ground in their Euroscepticism. Since the crisis, Italy is the country that has seen the level of citizens' engagement and views on the EU **fall most sharply** after Greece. Also, Italy is where the favourable views on the EU have remained at a lowest level when Brexit has instead **boosted public support** for the EU across European countries. While all eyes were put on the French, Dutch and German elections, the most salient undercurrent of Euroscepticism was to be found in Italy, so it is not surprising that a Eurosceptic movement has reached the government.

M5S and Lega share similar views on several EU related issues. Having so far abandoned the idea of Italy exiting the Eurozone, both advocate for putting an end to the 3% deficit threshold and increase public spending, which contravenes the budgetary rules of the Eurozone. On Russia, both are convinced that a privileged partnership with Moscow would benefit the EU, so sanctions against the Kremlin must be lifted (running the risk of enmities with Baltic and eastern European countries). And both claim that the EU has become increasingly undemocratic, so more powers should be given to the European Parliament –when not devolved to the member states.

The most salient contradiction is however that the coalition government claims solidarity from European partners, as for the reform of the Dublin system, while simultaneously pulls out from European consensus and does not promise to build the necessary bridges to make change in Europe possible. On its anti-austerity policies, for example, it puts forward the willingness to advance the economic union but advocates for the non-fulfilment of the commitments of the monetary union.

From being a follower of Germany and France when it came to define the EU policies, Italy has indeed the capacity to adopt a more critical position in the EU scene: it is one of the funding member states, the third biggest EU country after Brexit and the third Eurozone economy. Yet, its lack of political reliability, huge debt and uneasy financial conditions make it less powerful than it should be and unable to lead the EU reform process. The fear of more instability could even result in the country being more politically isolated. Much will depend on how the new ministers perform vis-à-vis the current EU political statu quo.

The newly appointed minister of Economy, Giovanni Tria, is not Eurosceptic, but he is quite critical of austerity and believes that EU member states with a significant account surplus, such as Germany, should stimulate internal demand with more investments in order to encourage economic convergence, yet keeping in line with the EU's fiscal and budgetary rules. On the other hand, the contested Paolo Savona will hold the ministry of European Affairs. On its relations with Brussels, the Italian government might turn out to be, from time to time, more moderate or more radical than expected, adopting a schizophrenic approach, which will favour none. In the light of the EU's complex system of multilevel governance, radical changes are unlikely to happen without solid alliances. Varoufakis suffered from isolation in the Eurogroup despite solid claims on the need to rebalance austerity policies with solidarity. The new Italian coalition might end up on a similar course at a time when a window of opportunity for EU reform has opened with Macron and ahead of the 2019 European elections.