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## **ITALY, EUROPE AND THE EUROPEAN PRESIDENCY OF 2003**

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## FOREWORD

I am especially grateful to Roberto Di Quirico for having accepted to analyse for us the perspectives of the Italian Presidency of the European Union and their determining factors as it is a particularly difficult task. As far as politics is concerned, whether national or European, the Italian response is never easy to predict, and indeed this is one of its many charms. This is also true of the subject we wish to treat here, the political orientations of its Presidency. It becomes even more difficult given the attitude of the Italian authorities which combines an unusual discretion over their intentions, an often puzzling style of international relations and a cooler and more hesitant European commitment than in the past, on the surface at least.

Roberto Di Quirico explains that this new positioning and the difficulty in explaining it derives from a tense internal situation where divisions are exacerbated, the political system which followed the 'First Republic' is unstable and there is a fear of an economic, social and moral 'decline' in the country. The European theme, which has always been at the centre of the Italian debate, finds itself eclipsed by internal concerns and used in response to these concerns. Even if experience has taught us that Italy generally copes with this type of situation, without the anticipated dramatic consequences, the current scenario appears more serious than usual. This explains why our author has found himself compelled to depart from the usual academic neutrality and has provided us with a study which is more 'committed' than the others in this series have tended to be.

The legacy which each Presidency leaves for the history of European integration relates less to its intentions and more to the constraints of its agenda. The second semester of 2003, between enlargement, deepening and the planning of budgetary resources and policies, will be particularly demanding for the Italian Presidency. This will be in some senses a hazardous period, as the Union will have to resolve questions which are vital for its future, while it is currently more divided than ever. In such a context, the role of the Presidency will be less that of proposing initiatives than that of forging consensus. Among other advantages it possesses which should aid in this task, Italy also holds the functions of the Presidency of the European Council, the Presidency of the Commission and the Vice-Presidency of the Convention, which is not too bad for a country supposedly on the verge of decline. It is up to Italy to add up these potential strengths rather than using them as a further instrument of division. They will be necessary to meet the strict deadlines that the calendar has laid down.

Jacques Delors



## CONTENTS

<b>INTRODUCTION</b>	<b>1</b>
<b>I - THE HISTORICAL DEVELOPMENT OF RELATIONS BETWEEN ITALY AND THE EUROPEAN INSTITUTIONS</b>	<b>5</b>
1. Italy as founder member, 1950-1973	6
2. Birth and consolidation of the post-war patronage system in Italy	9
3. Italy on the margins: 1973-1992	11
4. Resisting marginalisation : Italy and the adoption of the euro	15
<b>II - THE INTERNAL DEBATE ON EUROPE</b>	<b>18</b>
1. The position of government parties	19
2. the position of the opposition parties	23
3. Minor parties, movements and pressure groups	26
<b>III – THE INTERNAL DETERMINING FACTORS FOR ITALY’S EUROPEAN POLICY</b>	<b>28</b>
1. The government and the restrictions deriving from EU rules	28
2. Internal problems and Atlanticism	29
3. The stirrings of Italian federalism and the European Constitution	31
4. The problem of the economic and social decline of Italy and the consequences for the country’s attitudes to Europe	33
<b>IV – THE FUTURE OF ITALIAN PRESIDENCY</b>	<b>35</b>
1. The Greco-Italian programme and crucial events during Italian Presidency	35
2. The aims of the Italian Presidency	38
3. Italian action during the Presidency : some hypotheses	39
<b>V – CONCLUSIONS</b>	<b>42</b>
<b>BIBLIOGRAPHY</b>	<b>44</b>
<b>WEB SITES CONSULTED</b>	<b>47</b>
<b>STATISTICAL APPENDIX</b>	<b>48</b>





## **INTRODUCTION**

On July 1<sup>st</sup> 2003, Italy will assume the Presidency of the European Union, following Greece. During its Presidency, Greece had to cope with a number of serious incidents linked to the war in Iraq, which seriously damaged the cohesion of the Union. Member States were split between those which supported and those which opposed the military intervention in Iraq. Moreover, many of the accession countries clearly demonstrated their pro-NATO and therefore pro-intervention stance, which placed them in opposition with some of the current Member States which opposed the intervention.

An already difficult situation was further aggravated by the failure of key countries, such as France and Germany, to stick to some parameters of the Stability Pact which binds the euro-zone countries. This development, while apparently less dramatic than tensions over the Middle Eastern conflict, is nonetheless likely to have dangerous repercussions on stability within the European Union. This first breach of financial discipline risks undermining the willingness of other countries to maintain their commitments, and to encourage the adoption of less stringent budgetary policies by countries which have so far succeeded in respecting the Stability Pact by adopting one-off measures which are inadequate to the task of providing structural solutions to the internal economic problems.

Another aspect of concern is the process of drafting the European "Constitution", which is a crucial step if the existing institutions of the Union are to be adapted to the new circumstances arising from the forthcoming accession of new Member States from among the former Communist countries. At present the Convention on the Future of Europe responsible for drafting this Constitution is in danger of getting bogged down in declarations of principle which are more appropriate for describing an ideal Europe than for proposing an institutional structure capable of meeting the challenges of enlargement and redefining the philosophy behind the European integration process. The hypothesis of an international confederation, which would allow national states to seize back some of the powers previously delegated to the European institutions, poses the question of the role which the different Member States would adopt in the new European Union, and the kind of relationships which would develop with the Franco-German axis which is now central, and perhaps dominant vis-à-vis the other Members. Problems of this kind have already arisen over the Iraq issue, and the Member States find themselves facing a growing divergence between Franco-German foreign policy and an "Atlantic" or NATO policy.

The Greek Presidency found itself in an awkward position with regards to Italy, the country which was to succeed it as the next President of the Union, with whom a joint programme for 2003 had already been agreed. The Italian government was one of the

sponsors of the famous letter to the US President in which some Member States and various applicant countries declared their support for the American policy on Iraq, to the vexation of Member States opposing the policy, and particularly Greece, the current holder of the Presidency, which saw itself pushed aside and marginalized from an initiative in which it should have played a leading role. Italy has thus been very exposed recently, assuming sometimes extreme positions which are inappropriate for a country due to take up such an important role in the European Union as the Presidency. This has certainly encouraged speculation as to the part which the forthcoming Italian Presidency will play in areas as crucial as relations with the United States, internal cohesion and the institutional reorganisation of the Union. Simultaneously, fears are starting to be expressed in Italy that the six months' Italian Presidency could be a failure, fears which are stoked by the obvious isolation of Prime Minister Berlusconi on some occasions, and the clear limits which have emerged as to his ability to act internationally.

The Italian position and its recent European policy choices may perhaps be explained by the historical development of relations between Italy and the European Union, and some particular features of the existing government coalition in Italy. Italy was one of the founder members of the original European institutions, but over time it has appeared increasingly unable to keep pace with other Member States and the country has been increasingly marginalized. This was dramatically demonstrated during the period from 1992 to 1998, when the ability of Italy to take part from the start in the final stages of monetary union was in doubt, both in Italy and in the other Member States. The remarkable effort by the Italian government during those years, supported – albeit in a lukewarm fashion – by the opposition parties, enabled Italy to enter monetary union from the outset, but it also played its part in strengthening the opposing political groups which see the relationship with Europe differently. For one side of the divide, European integration offered a way of forcing Italy to accept a modernisation process which would have been difficult to impose solely on the basis of internal reasons; for the other, it created highly restrictive constraints on national policy which hindered the reintroduction of the system of patronage traditionally underlying the relationship between political parties and the electorate. It is thus clear that the Italian attitude to Europe cannot be divorced from the nature of the ruling coalition government, and the way in which the parties in government regard the effect of the country's European commitments on their margin for manoeuvre in national politics.

Nor could Italy and its government ignore the long-term development trends in the Union and the consequences which this would have for Italy. The emerging impression of a Europe centred on a close Franco-German partnership, in which the needs of French international policy and the German economy take precedence over those of countries on the margins of this "heart of Europe", prompted Italy to strengthen its links with other Member States such as Spain and the United Kingdom, and especially with its traditional

ally, the United States, to ensure that it could continue to play a part in international affairs. The manifest weakness of the process of consolidating and strengthening the European political institutions might be another factor in encouraging Italy to adopt a policy more focused on foreseeable short-term internal problems, for which it could not rely on Union support to solve. Italy has already complained of the scant support from its European partners in stemming the flow of illegal immigrants arriving in the country. In a possible future scenario characterised by disputes between the European Union and the United States, and with no reliable European defence system, Italy could find itself alone with the problem of defending the central and eastern Mediterranean, and thus forced to cope with huge and currently unavailable military expenditure.

Finally, there have been clear signs of economic and cultural decline in Italian society, as well as a prevailing political culture diverging from the typical model in other Member States. This is not a new experience for Italy, which underwent something similar during the final years of the European Monetary System. Its roots lie in the difficulty of adapting the economic system and political representation in Italy to European models, and in the conditions arising from the acceptance of the constraints imposed by participation in the economic and political integration process. This has provoked unappeased ambitions to by-pass some of these constraints, particularly those relating to the budget, to enable national political forces to seize back their traditional room for manoeuvre in the economic field and in their relationships with the electoral base. These ambitions will certainly be encouraged by the recently opened cracks in the Stability Pact, and it may reasonably be supposed that the current Italian government will try to formalise such opportunities to deviate from the constraints of the Stability Pact, or to make them more flexible. At the same time, it is essential for Italy to exploit to the maximum the possible advantages of economic integration to improve conditions in its own economy and to regain lost ground in sectors such as research, where the signs of decline are now all too evident.

There is thus an obvious internal lobby which brings much influence to bear on the attitude of various sections of society and the Italian political world vis-à-vis the European Union. Similarly, we may suppose that these internal priorities will also influence the way in which the country acts on the European stage during the period of its Presidency, encouraging or at least supporting more wholeheartedly those initiatives which correspond to the aspirations and needs not just of the country but also of the ruling coalition.

To shed light on the origins and basis of the current Italian position, we shall look back at the history of Italy's attitude to Europe and the relationship between the internal situation and the Italian position in Europe. We will then analyse the different positions adopted towards Europe by the main government and opposition parties, some minor parties and

movements, and the main pressure groups. We shall also closely examine the topics which now appear as the most important for the forthcoming European Presidency, illustrating the ways in which the internal Italian situation may influence the attitude of the Italian Presidency in these areas. Finally, we shall examine the Greco-Italian programme, in an attempt to identify the areas in which the Italian Presidency's actions may be more incisive or more problematic.

Written during the period from the eve of the attack on Iraq to the end of May 2003, this paper cannot but reflect the uncertainties and the bitter internal and international controversy of the time. Inter alia, the events preceding the outbreak of war and during the period immediately after the end of hostilities have contributed to rendering both the programme for the Italian Presidency, and the aims it had put forward, obsolete. All this makes it very difficult to hazard any forecasts for the immediate future, and thus for the possible developments during the Italian Presidency, though the underlying reasons which are likely to inform the Italian action remain valid. These reasons will be explored exhaustively in this paper.

## **I - THE HISTORICAL DEVELOPMENT OF RELATIONS BETWEEN ITALY AND THE EUROPEAN INSTITUTIONS**

One of the most obvious features of the relations between Italy and the European institutions is the gradual marginalisation of the country during the course of European integration. Until this process was resolved in proposals and diplomatic moves directed at policies for integration, Italy and its political leaders were able to play a leading and constructive role. However, when the constraints involved in participation in the initiatives for European integration and coordination became more stringent, shifting from declarations of support to ongoing policies, the limits of Italy's European commitment and its political and economic structure became very clear. From 1970s, in a period of deep economic crisis and while the European partners' initiatives were focused on the creation of defensive institutions in the economic field, such as the monetary snake and later the European Monetary System (EMS), Italy appeared increasingly less fit to "stay in Europe", unable to sustain the efforts demanded by coordinated economic policies of this kind or even to adapt its own internal structure to a more "European" model, in the sense of a system more able to withstand the adoption of policies coordinated at the European level and the sustained presence of the country in the new institutions created to tackle the crisis. In other words, the Italy of the 1970s showed itself incapable of "becoming European" and became increasingly marginalised, because of its obvious inability to respect precise undertakings like those of the EMS, and the consequent damage to its reputation in the eyes of its European partners.

In the period between the second half of the 1980s and 1992, attempts at internal reform made it clear that the link with Europe was an essential element, both in restoring international credibility and, in particular, for imposing internally the reforms which had been obstructed by the crisis, now irreversible (though this had not yet been recognised), in the Christian Democrat power system. The relationship between internal reform and the link with Europe, described as an "external constraint" inasmuch as there was an attempt to impose internal reforms while presenting them as an obligation deriving from European commitments, was taken up again energetically in the mid-1990s, concurrently with the efforts to meet the conditions for entry into the third phase of monetary union and, in consequence, for "entering the euro". This catch-up policy vis-à-vis Europe seemed to have run its course, or at least to have weakened significantly, with the completion of monetary union.<sup>1</sup> It greatly resembles other typically Italian stop-go policies, particularly in the economic field, which tend to alternate very dynamic periods

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<sup>1</sup> V. Dyson, Kenneth – Featherstone, Kevin, *The Road to Maastricht. Negotiating Economic and Monetary Union*, Oxford, Oxford University Press, 1999, pp. 452-533.

with long pauses to recover from the effort expended to achieve aims which habitually end by being challenged during the pause following their achievement.

### **1 – Italy as founder member, 1950-73**

The first stage of Italy's participation in the European integration process and the part played by the country and its political leaders in supporting and encouraging the process must be considered and analysed in its historical context, the "rescue of the nation-state"<sup>2</sup> and the economic and political reconstruction of post-war Europe. Italy, like several other European countries, had a desperate need to integrate into the European framework in order to take part in a process of rebuilding and consolidation, both political and economic, which it could never have achieved as a single State. In that period, involvement in European initiatives such as the European Payments Union or the European Coal and Steel Community entailed compliance with rules and agreements, but strengthened the economic situation in Italy, which in turn made such compliance possible. Furthermore, the internal political system in the youthful republic, though destined to deteriorate rapidly because of the flaws inherited from earlier times, the structural limitations of the economy and the political culture established over centuries of history, was still sufficiently flexible for the requirements of membership of the first European institutions.

The historic victory of De Gasperi's Christian Democrats in the 1948 elections, structural under-employment due to a combination of a large population and a level of industrialisation which failed to match it, the repressive tradition inherited from the preceding regimes - particularly from Fascism - and finally the military presence and influence of the United States on internal politics, all allowed the Italian government to pursue an active policy of European integration. Indeed, once the difficult immediate post-war period was past, when the Communist Party's actual aims were unclear, and particularly in view of the balance of power internally, De Gasperi's Christian Democratic-dominated governments were able to consolidate their power, countering the parties on the left by suppressing street demonstrations, leading to some deaths among working-class demonstrators, or by relying on the business classes who viewed structural unemployment as a valuable tool for containing wage demands and imposing work-place

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<sup>2</sup> V. Alan, S. Milward, *The European Rescue of the Nation State*, London, Routledge, 2000

discipline,<sup>3</sup> as well as a means of applying pressure to obtain favours and help from the government through the so-called "employment blackmail"<sup>4</sup>.

The stabilisation of society and the consolidation of a manufacturing structure based on low wages,<sup>5</sup> enabled Italy to enter the first stages of European economic integration as the supplier of some industrial products and foodstuffs and also of labour, which was abundant in Italy but scarce in countries such as Belgium and Germany and in certain key economic sectors such as mining. Furthermore, the particular situation of Italy and the opportunity to impose deflationary policies unpopular with the labouring classes precisely because they were excluded from government through the marginalisation of the parties which represented them made it possible to implement a process of financial stabilisation through a deflationary policy, in contrast to what was happening in other European countries. Italy was thus in a position to increase its monetary reserves and to regain margins of manoeuvre and international credibility, in part due to the stability of the lira. The conditions were thus set for active Italian participation in the economic and political European integration process; and in these difficult times Italy was able to play a constructive part.

At the same time, the need for economic reconstruction made European integration something of a forced choice. In reality, the choice - suggested by some - between opening up the economy to export trade, or maintain a strongly protected internal market on which to focus for economic recovery simply did not exist. Only a collective solution, at the European level, could satisfy the Italian economy's crucial needs, such as the guaranteed access to moderately priced industrial scrap on which the Italian steel production was based, or the mass emigration of labourers unable to find work at home and whose presence constituted a potential source of internal political instability. Many of the available opportunities for growth in national industry also consisted of entering industrial sectors, such as light engineering, with internal European trade based on the mutual exchange of manufactured goods. Finally, Italian agriculture could find opportunities to expand the markets for its own produce mainly in internal European trade. Just as some industrial products were welcomed in the rest of western Europe, agricultural produce could be marketed because, particularly after the creation of the

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<sup>3</sup>On the repression of demonstrations, the deaths and arrests of workers and trade unionists, and the dismissal policy adopted after 1948 see Camillo Daneo, *La politica economica della ricostruzione 1945-1949*, Torino, Einaudi, 1975, pp. 282-92.

<sup>4</sup>"Employment blackmail" had been a widespread practice in Italy since before WWI, and consisted of threatening to close down plants and dismiss large numbers of workers unless entrepreneurs received various kinds of State aid. This system allowed uncompetitive businesses to survive for long periods, and was abandoned only on the introduction of European regulations on state aid.

<sup>5</sup>For the "low-consumption equilibrium" and the importance of this strategy in Italian development, see Franco Bonelli, "Il capitalismo italiano. Linee generali d'interpretazione", in *Storia d'Italia, Annali*, vol. 1, *Dal feudalesimo al capitalismo*, Torino, Einaudi, 1978, pp. 1195-1255.

European Payments Union, it was unnecessary to pay for such goods in dollars, as would have been the case if industrial and agricultural products were imported outside continental Europe.

On the other hand, other politically important reasons existed alongside the economic motives. As one of the countries defeated in WWII, Italy had every reason to support a policy of European integration which would lead to its own re-integration into the European context. Furthermore, Italian foreign policy at that time was closely monitored by the Americans, who were the main promoters of the first phase of European integration, at least until the failure of the European Defence Community (EDC). So the enthusiasm for Europe shown by Italy's political leaders in the years before the late 1960s should come as no surprise; and nor should the important role of Italian diplomacy in the negotiations which led to the Treaty of Rome and the creation of the European Economic Community. Against this historical background, there was no conflict between Atlantic loyalties and European commitments, nor were these commitments such as to prejudice the consolidation in Italy of Christian Democrat power and an economic model under strong State control and patronage which would become problematic at later stages in the European integration process.

With the creation of the Common Market, and the failure of the federalist political integration process, followed in the 1960s by the confrontation between De Gaulle's France and the United States, the European integration process appeared to have come to a halt, except in some very specific sectors such as agriculture, where the launch of the Common Agricultural Policy (CAP) confirmed the protectionist approach already present in outline in the creation of the European Common Market. Such developments were a foreseeable result when the reasons which had induced the major European countries to go along with US pressure for European integration ceased to apply. Now the nation states were safe, growing internal prosperity had appeased the revolutionary threat of the immediate post-war period, and the return to convertible currencies under the Bretton Woods agreement guaranteed relatively stable conditions in the internal economic system. At such a time there did not seem to be any need for "more Europe"; what there was, was enough, and there were no reasons to surrender any more national sovereignty.

In Italy, the early 1960s saw an economic boom which ended around 1963-4, leading to a crisis which required the injection of foreign capital. At the same time, Italy was committed to pursuing a coordinated policy in foreign relations, including monetary policy, where it seemed clear that the US position and the status of the dollar as the key currency in the entire international payments system were weakening.<sup>6</sup> In this area too, Italian activism concealed the country's strong interest in maintaining a situation of

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<sup>6</sup>V. Charles A. Coombs, *The Arena of International Finance*, New York, John Wiley & Sons, 1967



relative stability, which was of great value to a country dependent on international collaboration for the resources to create the internal stability which would otherwise have been unachievable, as became evident when the 1970s crisis erupted, bringing catastrophic repercussions in Italy.

## **2 – Birth and consolidation of the post-war patronage system in Italy.**

During the years between the founding of the Republic of Italy and the crisis of the 1970s, the Italian socio-political structure and its particular economy gave rise to a development model which was quite specific and unlike those which appeared in other countries in the European Community. During and immediately after the war, the sole credible mediator in Italy vis-à-vis the Americans appeared to be the Vatican, and, in consequence, its associated political party which, having disappeared during the fascist period, had been reformed after the war under the name Christian Democracy. This party therefore became the political referent for the Americans in a State which, as has often and rightly been pointed out, held only "limited sovereignty" in many fields. Further, the electoral strength and popular support for the parties with a Marxist tradition (the Partito Socialista Italiano or PSI and the Partito Comunista Italiano or PCI) and their revolutionary stance which excluded them de facto from the democratic sphere made Christian Democrat predominance inevitable. The Christian Democracy party thus came to constitute the nucleus of Italian democracy, in the sense that it commanded the consent of a large majority of voters who identified themselves with very general values such as Catholicism and anti-communism, but who also had particular interests and demands to mediate within the party and the emerging power system. In this way, Christian Democracy offered itself mainly as a party of government which identified with no ideology, social class or particular political project (like other Italian parties in the post-war years) but which aimed to create approval by adapting itself to different local needs and situations and drawing from this the electoral support necessary to control the government and the management of the system of patronage on which the consensus depended. The powerful State presence in the national economy was one of the foundations of the patronage system created in Italy by the coalition governments led by the Christian Democrats. This presence, a survivor from the fascist period,<sup>7</sup> was used in the Republic first as a tool for reconstruction and support for economic growth, and then as the main means of attaining and maintaining the consensus, via policies for planned (and sometime ephemeral) industrialisation in electorally significant regions where those in power wanted to reward voters for their support with jobs and opportunities for social and economic advancement.

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<sup>7</sup>The Institute for Industrial Reconstruction (IRI), the main State holding organisation for the control of industrial shares, was established in 1933 to cope with the effects of the international crisis on Italy.

Italian structural unemployment, together with the traditional divide between the industrialised North and the depressed South, meant that jobs and career prospects were identified as the main currency for buying electoral support. This kind of policy, made possible by the fact that the State controlled around one third of major industries, went hand in hand with a similar policy of over-manning in the public administration, in this case pursued impartially by both government and opposition parties where they happened to hold local authority control. Finally, there developed a curious Italian-style welfare state system, which aimed at alleviating economic disadvantage and structural unemployment through mechanisms which maintained the logic of privilege linked to electoral support and party affiliation. That was how many of the long-term unemployed in Italy claimed to be disabled and claimed a State pension granted not because of their unemployed status and irrespective of their political affiliation (as ought to be the case) but on the basis of an overtly illegal allocation procedure. This process began rather gradually, and then appeared more openly with the rise in unemployment due to the international crisis. In short, the creation of the Christian Democrat consensus system ended by seriously compromising the efficiency of the State and publicly owned industry, undermining the financial basis of the first and the competitiveness of the second. In addition to policies of this kind, there was a benign neglect of the fight against tax evasion which enabled government coalitions to obtain the support of traders and businessmen who benefited, at least in the medium term, from a taxation system which weighed solely on employees - through deductions at source - and consumers through taxes on consumption. In the long term such policies proved counter-productive even for the initial beneficiaries. Heavy taxation on the wages of employees were counterbalanced until the end of the 1960s by low wage levels. However, when the trade union struggle, erupting violently in 1968-9 and worsening in the 1970s partly in response to growing inflation, achieved a widespread and continuous increase in wages, the heavy tax deductions on employees' income began to have a damaging impact on the competitiveness of Italian goods.

In the Italian government the Christian Democrats were allied with some minor parties such as the Partito Socialista Democratico Italiano, the liberals and republicans. From 1963, the Christian Democrats were also supported by the Italian Socialist Party, who had broken with the communists but were gradually weakening, and who had little option but to integrate into the Christian Democrat power system and, in time, reproduce its mechanisms for gaining consensus. The entry of the socialists in the government accentuated State control of the economy, and thus also increased the scope for patronage-based negotiation. Further, the pervasive nature of the State's presence in the Italian economic system was highlighted by the almost complete control of some crucial sectors, such as the banking system and the electricity sector, which was nationalised

when the socialists entered government.<sup>8</sup> The system of relationships developed between the State and major private groups placed the State and its financial support at the heart of the Italian economic system and directed its choices, encouraging large groups in the internal market through subsidies and incentives and by development strategies and economic policies which fostered the activities of major private groups, which were vital to ensuring employment and well aware of the power they derived from "employment blackmail".<sup>9</sup> A clear demonstration of the close relationship between the interests of major industries and national policies came with the gradual abandonment, during the 1960s, of the public transport policy in favour of private transport which increased the market for the Italian motor industry. Unfortunately the cars ran on petrol, and Italy was wholly dependent on oil imports which had to be paid for in valuable currency. This fact, which was originally not considered to be a serious problem, had a dramatic impact after 1973.

### **3 – Italy on the margins, 1973-92**

The particular nature of the Christian Democrats' system of mediating interests and the structural weakness of the Italian economy were such as to bring about a crisis sooner or later even without the external shocks of the early 1970s. In any event, the suspension of dollar convertibility and, above all, the impact of the oil shock and the dizzying rise in the price of crude exaggerated the crisis conditions existing in Italy in the mid-1970s, setting in train a process of restructuring the Italian economy which undermined the foundations of the Christian Democrats' consensus system until it ultimately collapsed in the early 1990s.

The crisis in the 1970s also introduced a new phase in European integration, as the countries of western Europe found themselves faced by an international crisis of unforeseeable proportions which had the effect of accentuating the economic divergence and differences between strong and weak countries. This was the starting point for a re-launch of the European integration process, which subsequently led to monetary union. In this new phase Italy could no longer play a role in championing integration as it had in the 1950s. This was in part because of the economic crisis which prevented it from keeping pace with other European countries, and from complying with stringent requirements such as maintaining exchange rate stability, and partly because to play a full part in Europe it would have had to dismantle or reorganise a political and economic system on which Christian Democrat power, and subsequently that of the other

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<sup>8</sup>V. Eugenio Scalfari,– Giuseppe Turani, *Razza padrona. Storia della borghesia di stato e del capitalismo italiano 1962-1974*, Milano, Feltrinelli, 1974

<sup>9</sup>V. Augusto Graziani, , *Lo sviluppo dell'economia italiana. Dalla ricostruzione alla moneta unica*, Torino, Bollati Boringhieri, 2000

government parties, was based. Dismantling the system of patronage and public intervention was probably unthinkable for the political leaders of the time, and was in any event not a solution which could be achieved rapidly. The only available solution was to deal with the crisis in state finances and the economy, accepting high levels of inflation incompatible with exchange rate stability and, as a result, using competitive devaluation to recover the export ground lost through the inflation differential vis-à-vis other European countries. Italy thus became an unreliable partner with little credibility in Europe, and finished by depending on the economic support of Germany, from whom it obtained significant loans.<sup>10</sup>

The crucial role of the German economy and finance in supporting Italy finally found concrete expression with Italy's entry into the European Monetary System and the de facto acceptance of a European economic policy based on the economic policy of Germany and the role of the Deutschmark. This relationship made it possible to regain ground internally, where the aim was to contain the effects of the crisis while shoring up the patronage-based consensus which had by now been widely adopted by other parties in the ruling coalition. The patronage triangle linking the private sector with the parties and the State, through which the parties acted as intermediaries in the allocation of major State commissions to a narrow circle of private companies, was actually strengthened to meet the financial needs of the parties, which were expanding their bureaucracy while their revenues were shrinking during the 1980s as external sources of funding dried up and the crisis hit traditional internal sources of finance.

The 1970s were characterised by clear signs of an internal crisis, of which the terrorist phenomenon, and the dramatic events which led to the abduction and murder of the Christian Democrat leader Aldo Moro were only the most prominent aspects. The first major political corruption scandals, the collapse of local finance, the electoral advances made by the Italian Communist party and the new political direction introduced in the Socialist party with the arrival of Craxi all flowed from a multiplicity of circumstances in which the common denominator was the crisis in the Christian Democrat power system created during the 1950s. Against this background there emerged the first dramatic disputes within the Italian ruling elite, with politicians trying to rescue the patronage system and some elements in the technocratic elite (in particular the Banca d'Italia) pushing for a drastic restructuring of the entire system and for an end to the collusive relationship between the powers of the State and certain unreliable individuals in the narrow but powerful private banking sector.<sup>11</sup> This clash was to be repeated at other

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<sup>10</sup>V. M. Guglielmina Tenaglia Ambrosini, *La moneta e l'Europa da Bretton Woods a Maastricht e oltre*, Torino, Giappichelli, 1996; Paul Ginsborg, , *L'Italia del tempo presente. Famiglia, società civile, Stato 1980-1996*, Torino, Einaudi, 1998.

<sup>11</sup>The conflict between the Banca d'Italia and the group which gravitated around the financier Michele Sindona and his private bank remains one of the most obscure episodes in the history of the Italian

stages of Italian political and economic history and played a crucial part in the successive developments in Italy's relationship with Europe, particularly through the critical role played by men such as Carli and Ciampi in the various phases of negotiation and membership of the European Monetary Union. It seemed possible to force the restructuring process through a policy of "tying one's hands" (or "external constraints"), which had remained in the memory of some of the key players as the most effective method for bypassing the insurmountable obstacles to the modernisation of the country erected by the political class. This modernisation would entail the dismantling of the State economic structures set up under fascism during the 1930s and transformed by post-war governments into a tool for political mediation which met their own electoral needs, but also the pursuit of a policy of partnership with trade unions and the Communist Party which based its consensus on the existence of a large and organised working class. Such a system had represented one of the many ad hoc solutions in Italy's history, which nevertheless had led the Italian economy in a different direction from that chosen by the other continental economies with which it had to integrate and towards which it would be vital to converge.

The attempt to stabilise the internal situation in Italy during the 1980s took the form of short-term support policies which made it possible to maintain the existing structure whilst further eroding its basis by attempting to remain coupled to the European integration process in the hope that it would once again salvage the Italian national State (in the sense of rescuing the nation-state as proposed by Milward for the first stage of European integration). The aim was to recover competitiveness through a process of industrial restructuring which would increase the technological level of Italian business while exploiting to the full the resulting rise in unemployment to keep real wages low (even for highly specialised workers) and to reduce the bargaining power of trade unions and parties on the left. A policy of growing internal debt was adopted at the same time, based on the marked tendency of Italian families to save and an increase in the pressure of indirect taxation. A series of attempts to restructure the system of State holdings and to reorganise the tax system failed completely. This option would have seriously impaired both the party funding system and the system for attracting and maintaining consensus, alienating from the ruling cliques those classes and groups which had kept them in power in exchange for continuing privileges.

Meanwhile in Europe great progress had been made in relaunching the integration project, particularly in the economic field. The Single European Act and the decision to move towards the creation of a single, integrated and competitive Europe-wide market by 1992 signed the death warrant for the Italian model of a mixed State and private economy

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Republic. Political factions anxious to support Sindona took action against the directors of the Banca d'Italia, leading to the arrest of Governor Baffi and the Director General Sarcinelli. Subsequently Sindona and his ally Calvi of the Banco Ambrosiano both died under mysterious circumstances (they were almost certainly murdered).

which was totally incompatible with the regulations governing the emerging single market. De-coupling from the economic integration process was not an option because of the role and magnitude of capital flows and inter-European trading relations in sustaining the Italian economy. Remaining in the European Monetary System and taking part in the single market and monetary union was thus a forced choice for Italy, despite the growing opposition from major sectors in the Italian economic world. This opposition grew substantially in the early 1990s when internal stagnation came together with the effects of the German high interest rate policy necessary to fund reunification. This also forced other countries in the EMS to gradually adapt their interest rates to German levels to avoid an outflow of capital and exchange rate crises, with the obvious result that the deflationary effects of German monetary policy were felt by all the countries in the European Monetary System.

The mix of internal developments and the changing situation in the European Community proved lethal, and brought about the collapse of the First Republic. The different sections of Italian society which had supported the Christian Democrat power system throughout the First Republic now gradually dissociated themselves from it as the system became increasingly unable to guarantee the protection and equilibrium which it had built up. Small traders, the traditional electoral base of Christian Democracy, were hard hit by the widespread economic crisis and the diminished purchasing power of part of the population caused by high unemployment and rising indirect taxation. Furthermore, the government, to try to control inflation and to implement European legislation, had had to abandon its traditionally hostile policy towards the retailing and distribution industry. Supermarkets and huge shopping centres thus arrived very belatedly but emphatically in the Italian distribution sector, causing the collapse of many small traders and the closure of large numbers of businesses. At the same time the impact of taxation on the cost of labour, which could no longer be compensated by the flow of subsidies and State aid which had de facto reduced the burden, became increasingly intolerable for employers. In northern Italy they began to turn away from the Christian Democrats or its traditional allies towards alternative forms of political representation, and were attracted in particular to the Lega Nord. This party also drew the votes of large sections of the working class in the north, which regarded the now blatant corruption of the "Roman" political class and the disorderly influx of immigrants (many illegal) as the main causes of their troubles and the problems of the state.

Meanwhile European monetary policy played its part in the worsening Italian crisis. While convergence towards the single market restricted State aid for business, the rise in interest rates following German reunification had a damaging impact on the Italian national budget which was now dependent on borrowing. This could not but increase the budget deficit and worsen the problem of the availability of resources. In fact the impracticality and the political unsustainability of adapting the tax system (with particular

reference to the system of controls and sanctions) and of reshaping the bureaucracy made it impossible to carry out the only reforms which could have had any immediate effect in checking a situation which was coming to a head.

Into this already disturbing situation there now erupted a series of corruption scandals in which all the government parties and their leaders were gradually implicated and which are usually collectively referred to as "Tangentopoli". At the same time a series of very serious terrorist attacks organised by the Sicilian mafia but which extended to the rest of Italy aggravated social tensions, and a spontaneous movement of revolt spread across broad sections of the population, overcoming traditional class and party divisions and preventing the weak and disjointed efforts of the government class to tackle what was now clearly an unstoppable political collapse. The sequence of investigations opened on prominent Italian political figures which sometimes led to arrests and remarkable convictions but above all the clear evidence of rampant corruption emerging from the investigations and in the media totally discredited the government coalition and brought about the fragmentation or dissolution of the main Italian ruling parties, the Christian Democrats and the Socialist Party, while strengthening the Lega Nord and the traditional opposition parties on both left and right.

#### **4 – Resisting marginalisation: Italy and the adoption of the Euro**

The crisis in the European Monetary System which began in September 1992 gave a further blow to the moribund First Republic when the Italian lira and the pound sterling crashed out of the exchange rate agreement. In actual fact this crisis provided the conditions for a rapid lessening of the Italian economic crisis and facilitated the re-entry policy of the governments which followed. Initially, however, it was rightly seen as yet one more aspect of the political, economic and social collapse of the First Republic.

The collapse of the First Republic had two direct consequences. Firstly, it brought about the rising importance of the technocracy and its leading figures, who began to play a crucial role in putting together policies to rescue the State and to assume significant positions in the political and institutional fields. The most symbolic example of this is the case of Ciampi, who left his position as Governor of the Banca d'Italia to lead a government which remained in power from April 1993 to May 1994, and under which the historic agreement between the government and social partners was signed in July 1993. The agreement brought to an end the sliding scale system and indexation of wages and introduced planned inflation rates as a benchmark for the renewal of contracts. This innovation proved to be of vital importance in implementing the anti-inflationary policies which made it possible for the Italian economy to move once more towards convergence with its European partners, but it was also the first tangible result of the alliance which had been established between the centre-left parties and the modernising technocracy.

The July 1993 agreement was possible only thanks to the backing of the PDS (the former Communist Party) which was the party associated with the main trade union confederation, the CGIL. This alliance gave modernising technocracy the power to introduce those reforms which were necessary for economic recovery while the left acquired the legitimacy to assume the government of the country, as in fact happened in 1996 under Prodi.

Secondly, the old political system and the old parties were now replaced by new ones which tried to occupy the ground left open by the disappearance of the historical parties and to rebuild a system of social alliances no longer based on ideological or class differences but on the type of policies and reforms to be effected to strengthen the State and overcome the crisis of the system. The Christian Democrats and the Italian Socialist Party disappeared, while the old Communist Party, which had already split into the PDS and the Rifondazione Comunista, continued to move closer to the government attracting elements from the abolished parties and in particular creating a solid link with the so-called Christian Democrat left, which subsequently merged with the PDS to form the DS. The Christian Democrat right was drawn instead towards the Movimento Sociale Italiano, now in the process of transformation into the Alleanza Nazionale. In time the Lega Lombarda merged with other regional movements to form the Lega Nord. Finally, there appeared Berlusconi's party, Forza Italia.

During this period the old idea of "external constraints", now impracticable given the crisis and the failure of policies designed to keep Italy in the EMS, was replaced by the idea of "staying in Europe" as a way of resolving the dramatic internal crisis and thus launching a modernisation process throughout the Italian system. This development, seemingly superficial, in fact hid a crucial change in the entire Italian political system and in the approach of the different political forces. Whereas during the 1980s the "external constraint" strategy had had its champions in men such as Guido Carli and Giulio Andreotti, men deeply rooted in the Christian Democrat establishment who sought to use this strategy to consolidate and revitalise the existing state of affairs, after the crisis of the early 1990s and the collapse of the First Republic the need to "stay in Europe" and the Europeanising ideology in general representing the point of convergence between the modernising technocracy linked to the Banca d'Italia and the rising centre-left which was preparing to rule the country. "Staying in Europe" thus became the slogan of the former opposition forces, those which had challenged the Christian Democrat system and who wanted to build a new and different order. For this reason, and because of the strong emotional impact which the obvious marginalisation of Italy in Europe had on the population,<sup>12</sup> Europeanism and membership of the European Monetary Union in particular became a symbol of renewal and a goal to be achieved at any cost. This

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<sup>12</sup>V. Federico Rampini, "L'Italia svalutata" in *Il Mulino Europa*, XLIV, 1, 1995, pp.92-102



objective was achieved by the centre-left government under Romano Prodi, who was able to make Italians accept a rigorous policy of economic restraint and increased tax pressure, both by new forms of taxation and by a determined attack on tax evasion which was staunchly resisted but which significantly increased the tax take and improved the budget of the State, lowering the cost of servicing the debt. However, this success was to a great extent conditioned by the economic situation of Italy in the second half of the 1990s. The advantages of the devaluation of the lira came at a particularly favourable moment for Italy due to the coexistence of a weak dollar and a strong Deutschmark. This was of great benefit to Italian industry, which imported in dollars and sold in what was then a Deutschmark area. The favourable economic circumstances, together with the relaxation of the strict convergence criteria set by the Maastricht Treaty, made it possible to achieve what even in 1993-4 had seemed unthinkable: the entry of Italy into the European Monetary System from its inception. This genuine miracle was made possible mainly by economic circumstances backed up by a rigorous internal policy. This policy has not introduced and consolidated structural reforms such as to guarantee Italy's position in the European scene, or even respect for the Stability Pact criteria and the ability to adapt the Italian economic structure to the requirements of the Union. As in the past, Italy has once again made a great leap forward in Europe during a fleeting moment of favourable conditions, but there are reasons to doubt its ability to keep pace with its European partners.

## II -THE INTERNAL DEBATE ON EUROPE

With the collapse of the First Republic the old system of party and electoral identification based on social class and post-war ideologies also came to an end. This system entailed the contrast between communists on the one hand and the liberal-democratic parties, which were also split on mainly ideological lines between Christian Democrat and socialist or liberal lay parties, on the other. With the birth of the Second Republic, the relationship with Europe became a critical factor in defining the reconstruction model for the Italian political system, and one of the main contrasts was that between the Euro-enthusiasts of the centre-left coalition and the Euro-scepticism of the rival centre-right coalition. This contrast was, and continues to be, based on reasons of internal politics and concerning the political and economic model to be adopted in Italy. In other words, it was a matter of deciding whether to reintroduce a patronage-style system based on the role of public spending and state support to stimulate the internal economy, or to model the Italian system on the basis of European rules and dictates, relying on development based on competitiveness. In the first case, however, the Christian Democrat systems could not be rebuilt as it had been before the crisis, because the scarcity of resources and the still-high public deficit would, for long periods, prevent the recovery of the old system based on the evasion or avoidance of tax pressure and support for economic activities through state spending. It would therefore be necessary to find a way to cut other types of expenditure to direct more resources to funding State spending. In the second case, it would be necessary to dismantle the remains of the old system and adapt the Italian economic structure to European models very quickly, a difficult and painful exercise in view of the accumulated development lag and the structural limitations of the economy.

These imperatives obviously contributed to determining the type of support which went to one coalition or the other, depending on the position of the electors who might be benefited or disadvantaged by the kind of economic policy adopted. Since 1994 the two centre-right and centre-left coalitions have alternated in government, with alternating fortunes. After the victory of the centre-right (also known as the Polo delle Libertà or Polo del buon governo, the coalition of freedom or sound government) in the 1994 election there followed the collapse of the coalition and the fall of the first Berlusconi government. In 1996 the victory of the "Ulivo" centre-left coalition opened the way for the governments of first Romano Prodi, then Massimo d'Alema, and finally Giuliano Amato who succeeded in dragging the now battered coalition to the end of its term. Finally, in 2001 the centre-right won a decisive electoral victory which enabled Berlusconi to establish his second government, which remains in power today.<sup>13</sup>

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<sup>13</sup> see. Gianfranco Pasquino (ed.), *Dall'Ulivo al governo Berlusconi : le elezioni del 13 maggio 2001 e il sistema politico italiano*, Bologna, Il Mulino, 2002

## **1 – The position of government parties**

The current government coalition, which will certainly steer Italy through its six months holding the Presidency of the European Union, consists of three main parties and the Biancofiore, a federation of small parties and movements which are Catholic in their outlook and which developed out of the fragmentation of the old Christian Democracy party. The present government coalition is practically the same as that which supported the first Berlusconi government in 1994, but there have been significant internal changes in both party structures and the aims and importance of its various components. The Euroscepticism which characterised a part of the coalition during the period in power and immediately after was subsequently tempered during the period of strongest enthusiasm for entry into European Monetary Union, when some of the parties in the current government coalition, then in opposition, recognised the need for Italy not to be marginalised in Europe and supported the Prodi government through some important periods when it risked losing the external support of the neo-communists which enabled the government to remain in power.

The position of Berlusconi's two main allies has also changed, contributing to a more stable and reliable picture. The composition of the coalition which supported the first Berlusconi government caused the prime minister serious embarrassment. One of his main allies was the MSI (Movimento Sociale Italiano), an avowedly neo-fascist party which, though it was in the process of modernisation thanks to a generation of leaders who were not directly compromised by the fascist regime, had not broken the ideological link with fascism and Mussolini. This fact exposed the Berlusconi government to the hostility of all the antifascist fringes in the other groupings, as well as the unusual coldness of the European partners. Further, the presence of neo-fascists in the coalition precluded the possibility of forming broader alliances with moderate forces which were determined not to be compromised. This persuaded the leaders of the MSI to abandon the weighty neo-fascist heritage and transform the MSI into a conservative party of a neo-Gaullist and democratic stamp, named the Alleanza Nazionale. This operation succeeded thanks to the breakaway of the most extremist and avowedly fascist wing of the old MSI which formed a movement called Fiamma Tricolore, but mainly because of the presence in the party of a young leadership attracted to the possibility of coming to power.

The other main party allied to Berlusconi is the Lega Nord. This party represents one of the most widely discussed peculiarities of the Italian political system and played a major role in the transition between the First and Second republics, proposing an entirely new model, at least in the Italian republican system, of electoral relationships based not on class but on the cross-class community of interests emerging in the North of the country and cemented by the widespread hostility to the government methods of the Christian Democrat system. Born from the merger of the powerful Lega Lombarda and the various

other minor regional parties linked by a marked local dimension, the Lega Nord represented, and continues to represent, a crucial factor in the Italian political scene. Its electoral base, which is made up of small businessmen and workers in the North, makes it a somewhat unlikely element in a firmly anti-populist centre-right coalition. Furthermore, the secessionist ambitions of the Lega, which has openly called for the North to break away from the rest of Italy, has created much embarrassment both to the Berlusconi government and in relations with the other government allies. Among the coalition parties the Lega is the one which has expressed the strongest European sympathies, although these sympathies have now given way to hostility towards "interference from Brussels". While Forza Italia sees Europe as an obstacle to restoring the Christian Democrat economic model, and the MSI - later the Alleanza Nazionale or AN - was led by traditional nationalism and hostility to the European partners to keep its distance from the European project, the Lega had developed a rather interesting vision of a Europe of the regions, in which nation states (including the Italian state) would dissolve, leaving the task of local administration to European macro-regions. This interpretation, developed after the end of the experience of government in 1994 and at a time when the Lega was looking for openings to develop its own secessionist policy, came up against the reality of European relations and caused the leadership to change its position drastically in the direction of anti-Europeanism. However, there remains a strong perception of a possible link between reducing dependency on Rome and a reform of the European institutional structure which would extend regional independence. Representatives of the regions in Italy and other European countries also applied pressure for such reforms at the European Convention. In any event, the Lega's withdrawal of its enthusiasm for Europe was followed by a temporary abandonment of the secession project. During the Ulivo governments the government established an ambiguous relationship with the Lega, satisfying its aspirations to independence through a federalist reform of the Italian State which seems in reality to have mainly been a political operation to strengthen local autonomy through a model favoured by the left rather than the Lega. Recently the secessionist project which contributed to isolating and weakening the Lega has given way to "devolution" which implies the transfer of important powers from the central State to local administrations. The introduction of devolution is likely, however, to weaken the central State considerably, and to widen the gap between the rich regions of the North and the more disadvantaged regions in the South. The idea of devolution seems to have been the key to the renewed alliance between Forza Italia and the Lega which subsequently led to the electoral victory of 2001.<sup>14</sup> What devolution means for the country and whether it will ever really happen remains, at present, one of the most disquieting questions for Italy and for the stability of the ruling coalition.

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<sup>14</sup>V. Luciano Vandelli, *Devolution e altre storie. Paradossi, ambiguità e rischi di un progetto politico*, Bologna, Il Mulino, 2002

The main government party is now Forza Italia, which is the party of the President of the Council, Silvio Berlusconi. This party, formed in 1994 immediately after the elections of that year, initially attracted to its ranks many “new men”, in the sense of figures not directly involved in the old system of government or the old parties. Many of these new men nevertheless had a clear political identity which could be traced back to Christian Democracy and the socialist parties of the First Republic (the Partito Socialista Italiano and the Partito Socialista Democratico Italiano). Forza Italia erupted on the Italian political stage with an ultra-liberal programme, very hostile to the then-existing social security system and social services. The tone of the party propaganda was characterised by a ferocious and now out-of-date anti-communism, and by the attempt to present Forza Italia as a kind of new Christian Democracy which could defend freedom in Italy against the rise of the left. In the economic field, the recipe proposed by Forza Italia consisted of the liberalisation of business and the labour market, and tax reductions to increase consumption and reduce the tax burden on business. Berlusconi's electoral promise to create a million new jobs was famous. The Thatcherite liberalism offered by Forza Italia and its leader was however mainly directed against certain social classes and against a series of guarantees and services which these classes enjoyed at public expense, but it avoided tackling thorny questions such as the reform of the bureaucracy or the fight against tax evasion, which were obviously crucial problems for the country. Berlusconi thus attracted very strong hostility from the trade unions and the working class, who succeeded in setting up a series of major demonstrations such as had probably never been seen in Italy, and which played their part in accelerating the fall of his government.

The failure of the first experience of Forza Italia in power, the strongly centralising character of its leader and the legal problems which dogged it during its first period in office persuaded some of the major figures in the party to distance themselves, while others re-considered the party's approach to its electors and allies. In fact it was the collapse of the difficult balance created by Berlusconi in building a system of alliances which precipitated the fall of his government. However, there were significant changes in terms of electoral support too, particularly in relations with industrialists and in the regionalisation of the vote. The system of alliances which supported the first Berlusconi government represented an extremely hazardous political balance. Forza Italia operated on a vision not of a single alliance, but of a dual alliance linking it in the North with the Lega Nord (the "Polo della libertà") and in the South with the MSI ("Polo del buon governo" or coalition for sound government). This was because the Lega Nord was very unpopular with electors in the south for its anti-southern programme, while the MSI could not be promoted in the North which had lived through the fight for liberation against Nazi and fascist troops. Forza Italia thus ran alongside the MSI in the South, while in the North it presented itself together with the Lega Nord. In this way the two alliances, separate but both based on Forza Italia, obtained barely enough deputies to form a parliamentary majority, provided that they could cooperate, which appeared to be

impossible after a first brief period. Relations with industrialists and other category associations which could provide electoral support was initially based on Berlusconi's past experience as an entrepreneur and on general support for liberal ideas from businessmen. In reality, while Berlusconi's party received enthusiastic consent from small and medium entrepreneurs whose business strategy was often based on containing labour costs, leading figures from major industries and finance were much more lukewarm towards Berlusconi's political programme which did not resolve the structural problems and which risked reducing Italian credibility still further in the financial markets. Other category associations which traditionally supported the Christian democrat system, such as traders, also could not help but notice that a policy aimed at squeezing salaries and reducing services would have drastic consequences on the willingness of families to consume. The first Berlusconi government thus failed in its most ambitious aim, which was to put itself forward as the heir to Christian Democracy and to re-incorporate the different segments of the electorate which had formed the basis of the previous system of power.

During its years in opposition the political programme of Forza Italia underwent some important changes. Some are the result of the legal problems of its leader, who has been investigated in a number of trials which could result in guilty verdicts so serious as to make his status incompatible with the role he has now resumed if not actually such as to finish his political career entirely. This has made justice one of the main themes of the current ruling coalition's programme. Plans to reform the judiciary have been put forward which restrict its independence and a series of laws have been proposed which seem to have raised further barriers to the operation of the already problematic Italian system of justice. In the view of the opposition and of many observers outside the political contest, these laws seem to be specifically designed to slow or block the legal proceedings in which Berlusconi and his close collaborator and former defence minister Cesare Previti are involved. Recent differences with the European partners on the coordination of justice and the so-called European arrest warrant appear to share this motivation. Even more obvious is the abandonment of the unchecked liberalism of 1994 and the attention now focused on the "major projects" (such as the bridge over the Medina Straits) with which Berlusconi aims to relaunch the economy, and which must have appeared very credible to the Sicilian electorate and those who have always played an important part in dominating this electorate, given that in the 2001 elections the coalition under Berlusconi had unprecedented success in Sicily.

Berlusconi's return to power has also been marked by a series of conflicts and misunderstandings with other Member States of the European Union. The regulations introduced by the Berlusconi just before the final introduction of the euro for the re-importation of illegally exported capital created bad feeling because of the risk that the European underworld would take advantage of an opportunity to launder capital from

doubtful sources. Similarly, the conflicts regarding the European arrest warrant, which the Italian government attempted to restrict to a few crimes excluding exactly those which might cause serious embarrassment to the Italian prime minister, and the withdrawal from the Airbus A 400 programme have contributed to isolating Italy in Europe. Finally, the recent Italian blocking of some important decisions relating to tax harmonisation in exchange for which Italy demanded the maintenance of the relief for Italian carriers and concessions regarding the fines imposed on some Italian producers for exceeding milk production quotas in recent years, have raised once more the problem of the manner in which the Berlusconi government handles its relations with Europe. These events clearly reveal the close link which exists between internal problems and the European policy of the current Italian government, and the amateurishness with which these issues are handled in a difficult area such as European negotiations. The Airbus problems are most probably due to the fact that the Italian aeronautical industry has ties with the Americans, and is not keen to become involved with the European consortium, while in the milk quota case there is an obvious connection between the electoral support which the Lega derives from the producers in ferment and the desperate attempt to find them a way out of payment of the fines. There remains, however, the problem of the total subordination of major European decisions to minor national interests by a government which is preparing to play a crucial part in the coordination of European policy.

That the ruling coalition and the prime minister himself lack sufficient experience and professionalism in international relations in general, and European relations in particular, was obvious even before the repeated disputes and gaffes on the international stage posed the problem. This must have been why, when the second Berlusconi administration was initially formed, it included Mr Ruggiero, a figure of great experience and international stature, as Minister for Foreign Affairs. However, he resigned when the extent to which the actions of the remaining members of the government and the prime minister would restrict his scope for action and, in particular, his credibility, became clear.

## **2 –The position of the opposition parties**

The current opposition is mainly composed of the parties which supported Romano Prodi's coalition government. The Ulivo made "staying in Europe" the symbolic aim of its political programme. Behind this objective there lay an attempt to modernise Italy, which remained largely uncompleted, in terms of both solutions to the structural problems and real renewal and convergence with European models. This relative failure, only partly obscured by the striking but temporary success of entry in Monetary Union, may be ascribed in part to the conflicts and fragility of the coalition which supported the Prodi government, a coalition based on the Partito Democratico della Sinistra (PDS), the direct heir of the powerful Italian communist party, with a series of minor lay/socialist

parties and the so-called Christian Democrat Left. In practice the government was able to stay in power only with the external support of the neo-communists (Rifondazione comunista), and when this party withdrew its support the government fell. Following various disagreements regarding the attitude to adopt to the centre-left government, a section of Rifondazione Comunista formed an independent party called the Partito dei Comunisti Italiani (PdCI), offering a model of neo-communism more alive to the internal political situation and less influenced by extreme leftist movements and leanings.

Today, the main opposition parties are the Democratici di Sinistra (DS), a merger between the old PDS and some minor parties from the old Christian Democrat left and the disbanded Partito Socialista Italiano, and the Margherita, a federation of parties with non-marxist origins which has acquired a degree of importance in recent elections, partly due to the fact that their leader, Rutelli, was also the centre-left coalition's candidate for the post of Prime Minister. The Margherita, which also includes the Democratic movement which linked with Romano Prodi during the successful election campaign of 1996, and on which the Ulivo coalition hinged, has acquired strong European associations, making the "European dimension", seen as the future level of government, one of the main planks of its political programme. In the Margherita programme, structural reform of Italian institutions is linked to changes in the structure of the Union itself, focusing on enhancing the role of local authorities by applying the subsidiarity principle, and thus via interaction with the European level of government. The programme also makes room for subjects such as the creation of a federal Europe, and the reform of the universities with a view to "Europeanising" the Italian system by involvement in European university networks.

The image projected by the main opposition coalition (which is still formally identified with the Ulivo) to the Berlusconi government, however, remains that of the last centre-left government in the previous parliament: a divided coalition with an ill-defined programme, big on ideals but lacking practicality. Further, one of the main sources of division came from the role of the main coalition party, the DS. Its partners were fearful of its domination, while sections of the party or elements and associations traditionally close to it denounced the crisis of ideals and policies. In any event, Europe represents one of those big ideas often used by coalition party leaders as a substitute for a political programme which they seem unable to define. There remains the essential notion of the link to Europe as a vital tool for modernisation, and for bringing normality to an abnormal country.<sup>15</sup>

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<sup>15</sup> "Un paese normale" was the title of a book published by the former prime minister Massimo D'Alema, in which the author sets out the political objective of making Italy a modern country, free of the many anomalies which characterise it.



Other parties and movements, outside the Ulivo but converging with it, can be found on the margins of this coalition. These include the Di Pietro list <sup>16</sup>and the Partito dei Comunisti Italiani, the PdCI. These two organisations are at one with the main opposition coalition in denouncing the dangers and limits of the Berlusconi administration, in which they detect the representation of patronage interests on the margins of legality, and potential threats to the stability and progress of the country. Some form of cooperation between these groupings and the Ulivo is therefore likely in conducting opposition to the government in power. Less clear is the relationship with the Rifondazione Comunista, which, while fiercely opposed to the current ruling coalition, seems unable to find enough points of contact with the Ulivo to be able to guarantee an electoral alliance or the launch of joint initiatives.

At the moment, a change in the ruling parties seems unlikely in the near future. However, the opposition coalition is preparing for the 2006 elections, trying to regroup and to find an authoritative leader able to stand against Berlusconi. It is thought that this leader might once again be Romano Prodi, and this hypothesis has been strengthened recently by rumours that he will not stand for re-election at the end of his term as President of the European Commission. In this event the pro-European leanings of the coalition, already considerable, will receive a further boost. This pro-European position is emerging in the programmes and documents of a large proportion of the opposition parties in the Ulivo camp, and has recently enabled the Partito dei Comunisti Italiani come to an agreement with European Federalist Movement to campaign for Convention on the Future of Europe to draft a constitution to be submitted to a European referendum. This would make it possible to remove the authority to approve the constitution from the Intergovernmental Conference, which, in the absence of agreement, could bury the entire constituent process. In any event, the PdCI (together with the Movimento Federalista Europeo) and Margherita seem to have found a benchmark shared value in the "European social model", that is, the system of protection from the major life risks (illness, accident, old age and unemployment) which is a feature of social legislation in most of the Member States of the European Union. The idea of incorporating the European social model in the future constitutional treaty, and to extend this system of guarantees to the newly admitted countries, seems to be the common feature which unites the European policy of the Ulivo, the Italian parties of the left and the main trade union confederations.

Recently the opposition has also been drawing attention to Europe and the responsibility of the Berlusconi government in the recent arguments and splits caused in Europe by the Anglo-American intervention in Iraq. Here again, hostility to the Berlusconi government and its policies, and the firmly pacifist stance of the Italian left and the Catholic

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<sup>16</sup> Antonio Di Pietro, Milanese judge and leading figure in the Tangentopoli investigations, entered politics after resigning from the judiciary, served very briefly as a minister, and subsequently founded a movement known as Italia dei Valori.

groupings come together to identify with the European Union position, particularly that of the Franco-German axis. This convergence between Catholic and leftist voters could become the key to the electoral policy pursued by the centre-left, which tends to identify pacifism with Europeanism, and will certainly force the Berlusconi government to move more cautiously, particularly in respect of the pacifist movement and the European Union.

### **3 – Minor parties, movements and pressure groups**

Opposition to the Berlusconi government is not restricted to the centre-left coalition, but also involves other minor parties such as the extreme left represented by Rifondazione Comunista and the extreme right of the Fiamma Tricolore, which hold different positions vis-à-vis Europe and the relationship to be established between internal and European policies. The Movimento Fiamma Tricolore states that it is favour of "strengthening the geopolitical role of Europe and Italy" and "European geostrategic independence" in the sense of European political and military coordination capable of safeguarding vital interests (in energy, economics, security and military terms) and of freeing Europe from dependence on NATO. However, this particular interpretation of European policy is balanced by a complete rejection of economic and financial integration or the relocation of industries outside national boundaries. For the Movimento Fiamma Tricolore Europe appears mainly to represent a military alliance, rather than State or supranational body. Rifondazione Comunista, on the other hand, appears to take a critical but constructive line on a united Europe which it regards as a potential method of upholding the ideals of social justice which the party holds dear.

A separate case is the so-called Pannella-Bonino List (in practice, the old Partito Radicale), with its links with the former Radical leader Marco Pannella and the former Commissioner Emma Bonino. This list, which has benefited electorally from Bonino's popularity during her term in Brussels, has included a series of proposals for Europe in its electoral programme, focusing on a federalist Europe with strengthened institutions. The Bonino-Pannella list suggests a revision of the institutional shape of the European Union, including the direct election of the President of the Commission, a clear-cut division between the Commission's executive powers and the legislative powers of the European Parliament, a transparent allocation of powers between national States and European institutions, and the transformation of the Council into a Federal Senate.

As well as the Italian political parties, there are also movements such as the pacifist movement, and the "girotondo" or "ring-o-roses" movement, both of which are critical or openly hostile to the Berlusconi government and its decisions, particularly in European and foreign policy. The Girotondi per la Democrazia movement has emerged recently,

not least due to the efforts of the film director Nanni Moretti and a group of university professors. The movement is avowedly anti-Berlusconi, and has taken the lead in organising pacifist demonstrations in the form of round dances ("girotondi") to defend those institutions which most often come under attack from Council President Berlusconi, including the courts and the State television network. However, it also represents an element of friction within the centre-left coalition itself because of its very critical attitude towards the DS leadership and the emerging convergence with the internal opposition within the DS (the "correntone" movement).

It is more difficult to interpret the position of the various interest or pressure groups which can be identified in the economic field and in the public administration. It nevertheless seems clear that both employers' groups and trade unions have a positive attitude to the European Union. Trade unions see Europe as a body which can offer them opportunities and solutions which cannot be realised at national level, whether for encouraging economic growth or for the defence and consolidation of the social achievements of workers and the welfare system. Employers' groups, on the other hand, regard Europe as a coordinating and rationalising force in nation economic policy. Recently Confindustria, the organising representing Italian industrialists, has focused much attention on the infrastructure problems of the transport sector and the possible impact of the backward, over-burdened Italian transport system, particularly the railway network, on relations with the new markets in eastern Europe. It seems no accident that this subject has recurred insistently in the Italian Presidency programme for the second half of 2003.

### **III - THE INTERNAL DETERMINING FACTORS FOR ITALY'S EUROPEAN POLICY**

As has been shown by the brief historical reconstruction of relations between Italy and the European institutions in the first part of this paper, the Italian internal situation and internal political considerations have always had a significant influence on Italian activities in Europe and the way in which Italian representatives have acted (or have avoided acting). It thus seems plausible to suppose that the major themes which will attract the attention of the Italian presidency in the second half of 2003 will be those with the closest links with internal matters and Italian national interests. Prominent among these are the consolidation of relationships between EU Member States following the recent tensions over the war in Iraq and developments in the reform process for the European institutions in connection with the enlargement process and the preparation of a European constitution. To these will probably be added the matter of the failure on the part of certain countries to respect the parameters of the stability pact and the risk (or opportunity) that other countries may be able to ignore such restrictions in the future. All three of these matters are interwoven with issues in Italian politics and may have a significant impact in terms of determining the current government's room for manoeuvre in internal policy making. There are also a number of other themes which, despite appearing less significant, are of great importance for the future of the Italian economy, where the activities of the Italian presidency will certainly not lack dynamism.

#### **1 – The government and the restrictions deriving from EU rules**

The issue of the limits set by the stability pact on the Italian government's economic policy has become particularly pressing as a result of the concomitant policy of lightening tax burdens and the difficulties in containing spending encountered by the Berlusconi government soon after it took office.

The measures taken by the government to tackle the budgetary problem and respect the stability pact criteria have largely been defined as non-structural measures which are likely to provide only a temporary respite from the problem. Indeed, being based on one-off operations such as amnesties for outstanding taxes, these solutions may at best allow the government to meet the stability pact targets for next year, but certainly do not constitute the basis for a suitable longer term stability plan. Furthermore the electoral support for the current coalition government owes a great deal to promises and expectations of reductions in the tax burden and an increase in public investment as a flywheel of the economy. In certain cases these investments are required to ensure the operation of structures and infrastructure which are vital to the country and for which

maintenance and upgrading has too long been held back in order to tackle the budgetary requirements of the previous governments. In other cases public spending serves to revitalise electoral support mechanisms which have fallen into disuse as investigations progressed during the Tangentopoli era and during the periods of crisis and budgetary restraint which followed between the mid-1990s and the adoption of the euro.

This model of relationships with the electorate has many echoes of that used by the Christian Democrats and goes hand in hand with a policy of softening tax pressures via various amnesties and simplifications which seem to encourage evasion and avoidance just as happened during the first republic. The growth of Forza Italia in terms of electoral support, inter alia at the expense of its own allies, seems to bear witness how a part of the Italian electorate has welcomed a return to the Christian Democrat model, which may allow Berlusconi's party to succeed where it had failed previously, i.e. in establishing itself as the direct heirs to the Christian Democrats, reproducing their methods of government and recapturing its electoral support.

Unlike 1994, the state of the national budget would now make it possible to implement a more sustained spending policy, at least for brief periods, via increased debt and holding down tax pressures. The main obstacle comes from Europe itself and from the stability pact, which sets drastic limits on the government's room for manoeuvre and thus threatens to prevent the implementation of the project for a Christian Democrat restoration on which the real pact between Berlusconi and his electors relies. Only an easing of the stability pact or the acceptance of broad exemptions to it in favour of Italy will make it possible to combine the policy of reducing the tax burden as well as funding major projects (and hence the large contracts used to distribute money and work to its own electoral base). It does not thus seem a matter of chance that Economy Minister Tremonti should at the end of 2002 have proposed to reinterpret the stability pact by excluding funds intended for infrastructure, defence, structural reform and foreign aid from the calculation of the budget deficit. This type of reinterpretation, which is wholly at variance with the spirit of the stability pact, would make it possible for the Berlusconi government to implement its promised policy for major projects without contravening the agreements entered into at European level.

## **2 - Internal problems and Atlanticism**

At present the most problematic aspect of the forthcoming term of the Italian presidency is, at it has been during the current Greek term, the profound confrontation which emerged within the EU between the countries that supported the Anglo-American intervention in Iraq and those that opposed it. Clearly the main front here is relations between the UK and France, the former being committed alongside the USA in Iraq in

open contrast to the Franco-German position and somewhat isolated within the EU, although some other Member States, most prominently Spain and Italy, and several of the accession countries came out in favour of the American operation and provided support for it in various ways.

Italy, and prime minister Berlusconi, have so far played a part of some importance as regards the crisis in the EU, fuelling it by taking a stand very firmly in support of the UK and the USA and providing direct military support, albeit with a much lower profile than that of the UK. The Italian government sent a contingent of its best troops to Afghanistan, allowing the Americans to free up an equivalent force to send to the Gulf. This contingent is now operating under American command in an area which can be considered to all intents and purposes as a war zone and thus constitutes military support for the whole operation of political and military restructuring in central and western Asia which was launched by the Bush administration with the invasion of Afghanistan. Indeed, should operations in the Middle East extend to other countries or turn out to be longer and more difficult than anticipated, it cannot be ruled out that the Italian contingent in Afghanistan may be strengthened, freeing up more British and American troops for the Iraqi front. While the Italian constitution represents an almost insurmountable obstacle to direct intervention in the Gulf, particularly in the absence of a UN resolution, the operation in Afghanistan can be represented as an operation with humanitarian ends and, should British or American troops need to be replaced, the sending of Italian forces can be justified as vital to the maintenance of peace or for the safety of the contingent already present. The Italian army and government are thus providing active support for the intervention in the Middle East via a policy of replacing the British and American forces in less problematic theatres of operations. Latterly, soon after the fall of Baghdad the Italian Parliament approved the dispatch of around 3000 men to Iraq to maintain public order and to allow the transport of aid which the British and Americans would have found it difficult to escort because of the lack of manpower. This contingent will be operating under British and American command and it is not clear what will happen in the event of attacks or a guerrilla situation involving the area in which Italian troops are deployed.

Clearly this operation has its economic and political costs. Any attack on Italian troops or a substantial reinforcement of the contingent would have major repercussions at home where the departure of the first contingent for Afghanistan led to sharp dissent and part of the opposition voting against it in parliament. It would thus be of primary interest to the Italian government to soften the opposition from other European countries to the British and American initiative and to involve them in the policy of indirect support and replacement on other fronts. In various recent interviews the prime minister has on several occasions reaffirmed the need to strengthen military cooperation at European level and criticised the position taken by France, who by threatening to use their veto prevented the approval of the UN resolution that would have authorised intervention in

Iraq. Had that happened, it would have provided Italy with a constitutional basis (inter alia thanks to the earlier participation in the first Gulf War) for sending troops and equipment directly to fight alongside the British and American forces.

### **3 – The stirrings of Italian federalism and the European Constitution**

A pivotal issue for the future of the Italian government and its relations with the European institutions is the institutional reform of the European Union and the adoption of a European constitution redefining not just the powers of the EU but also those of the nation states and, indirectly, of sub-national entities. The specific link between this process and the internal dynamics of Italian politics lies in the fact that a redefinition of the powers of various levels of government that returns powers and spending capacity to nation states or delegates them to the regions could simultaneously resolve both the internal problems of the coalition, by encouraging the devolution which the Lega Nord is seeking and the specific problems of electoral support for the entire coalition and Forza Italia in particular. Were the government to reacquire room for initiative in certain sectors of economic policy or to recover resources previously managed by Community institutions, it would be able to go ahead with the expansion in governmental spending with which it attracted the attention and the votes of a broad swathe of its electorate, without necessarily needing to circumvent the restrictions imposed by the stability pact. It would also be able to extend the powers and the autonomy of the regions, thus meeting the aspirations of the Lega Nord.

This fact could be one of the aspects which has led the Italian delegate to the European Convention, Gianfranco Fini, to a somewhat flamboyant opposition to the creation of a federal Europe, as can be seen from the amendments proposed to various articles of the first draft of the constitutional treaty proposed by the European convention. Fini, deputy prime minister, leader of the Alleanza Nazionale and main ally of Berlusconi and his party, introduced a series of amendments which can be considered as a clear expression of the approach taken by the Italian government to the future of the European political integration process. These amendments aim at safeguarding the sovereignty of national states both by avoiding the use of the word "federal" and by limiting the number of cases and ways in which the European institutions could impose their decisions on nation states. This type of approach springs from the fundamentally anti-European nature of the governing coalition where the Lega already sees Europe as an obstacle to its ambitions for independence for the north of the country, the Alleanza Nazionale is reverting to its nationalist traditions and Forza Italia is seeking to expand its room for manoeuvre in order to be able to fulfil its electoral promises and establish a new consensus. Fini's amendment to Article 11 is also worthy of note; he proposes restricting the freedom of movement in Europe by replacing the references to the free movement "of persons" with the phrase "of citizens of the Union". This would establish a constitutional basis for

limiting the right of movement within the EU for citizens of other countries, particularly migrants and refugees, who are already subject to severe restrictions in Italy under the "Bossi-Fini" law. Furthermore in an amendment to article 10 Fini, in line with Berlusconi's repeated statements following the outbreak of the war in Iraq, strengthens a proposal which speaks of "the progressive definition of a common defence policy", giving a clear impression that it favours accelerating efforts towards integration in this area. Lastly the Italian representative lines up with those who wish to see a clear reference to the Christian roots of the values which inspire the European Union inserted into the European constitutional charter, consistent with the clear nationalist principles which have inspired the other amendments but in a way which conflicts with the fervent pro-Atlanticism and the emphasis on the question of common defence, since the Christian-centric position taken by the amendment would represent an obstacle to the admission of Turkey into the EU. The echoes of recent events and the Italian government's aims for a more aggressive European foreign policy emerge once again from the amendment presented, again, by Fini to article 3 in which the entire point which sets one of the objectives of the EU as "promoting peace, its values and the well-being of its peoples" would be replaced by a passage proposing "the rigorous observance of international law as a basis for peace between States and peoples". Here again the proposal seems consistent with the pressure from the Italian government for Europe to take on a more active international role, inter alia in military terms alongside the USA, but runs counter to the principle of safeguarding and respecting the institutions and political orders of the nation states proposed in other amendments, since the Italian constitution itself sets out that "Italy repudiates war as an instrument of offence against the liberty of other peoples and as a means of resolving international disputes; accepts, on the condition of equality with the other States, the limitations on sovereignty required for an order which ensures peace and justice between Nations; promotes and encourages the international organisations established with that end".<sup>17</sup> In this sense the Fini amendment would be less consistent with the Italian Constitution insofar as that was not the text amended. It could however be hypothesised that the pressure from the Italian government for the establishment of a common defence policy is intended to create the conditions to bypass the limits set by the Italian constitution and allow greater Italian involvement (inter alia military) at international level.

The strong divergence between the Government positions set out by Fini and those of other delegates such as Spini and Paciotti, who we can assume to be the closest to those of the opposition in Italy, should come as no surprise. In the amendments proposed jointly or individually by Spini and Paciotti, there is in fact a tendency to increase the powers of the EU, putting it in a stronger position vis-à-vis the nation states and broadening the range of areas in which the EU would have sole jurisdiction (foreign and

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<sup>17</sup> Article 11 of the Constitution of the Republic of Italy



security policy in the proposed amendment to article 11) or in which it should have a role (social protection and quality of work, the fight against poverty and social exclusion). There is in addition an explicit proposal that the EU should adopt the federal model. In the field of immigration policies and the right of asylum the Paciotti-Spini amendments introduce the possibility of granting European citizenship to citizens of countries which are not members of the Union and stateless people "who have lived legally within the EU for more than five years and share its values". Their position on the role of the EU in keeping the peace is in total contrast with Fini's amendment. Here Paciotti and Spini propose taking up almost in full the opening passage of article 11 of the Italian constitution in an amendment to article 3 of the draft Convention to which they propose adding the passage "The Union shall repudiate war as an instrument of offence against the liberty of other peoples and as a means of resolving international disputes" with the addition of a clear reference to respect for the United Nations charter. The differing visions of Europe that characterise the opposing coalitions in Italy are thus clearly demonstrated within the Convention.

#### **4 – The problem of the economic and social decline of Italy and the consequences for the country's attitudes to Europe**

There has of late been much discussion on the problem of Italy's industrial, and more generally, socio-economic, decline. The signs of a decline are very clear in some sectors and comparisons with other Member States seem to highlight still further the crisis which Italy is undergoing. The most striking event has undoubtedly been the recent serious difficulties which have struck the country's leading car manufacturer, FIAT, which has had to suspend production at some plants and temporarily lay off a large number of staff. The severity of the crisis at FIAT lies not merely in the danger that the flagship company for Italian industrial capitalism may collapse, but also in the repercussions in the secondary sector, all those small industries which operate primarily or exclusively to supply parts or services to FIAT and which have thus automatically been dragged into the car manufacturer's problems. Even for those unaffected by the FIAT crisis, the problems of large-scale industry in Turin have created an image of an Italian industrial system, and more generally a capitalist system, that is of a low standard and unable to withstand the competition from more advanced and better structured capitalist systems. Long-standing and never silenced accusations against the Italian entrepreneurial class - that they are able to survive only by virtue of state aid, reluctant to modernise or invest in research and that their only industrial strategy is to put pressure on pay, have once again surfaced in the light of the experience of recent years. Indeed, the crisis at FIAT has been merely the latest in a series of industrial restructurings and downsizings which have stripped Italy of large-scale companies capable of leading the way in their sectors. From the 1970s onwards the major industries - steel, construction, chemicals, electronics and now

mechanical engineering - have one by one gone into crisis and shown themselves incapable of handling international competition and competing in foreign markets, or even local ones when they are opened up to foreign competition. There is this a clear perception that Italy is in industrial decline which seems as though it could be connected with the contemporary social decline shown by the illegal relationships between companies and politics which emerged during the Tangentopoli enquiries, and by the decline in university education and above all scientific research. Recent governments have taken steps to stem the "brain drain" of researchers who move to the USA or other European countries in order to be able to make use of skills which they are unable to do in Italy, because of the shortage of infrastructure but also and primarily because of the lack of investment in the research sector and the patronage-based and completely incoherent handling of assessments of scientific ability in the allocation of university posts.

Industrial decline and the decline of research and university structures thus represent an important aspect of today's Italian society and lead Europe to be seen as an element in reform and modernisation which many now despair of finding within the country. As Diamanti quite correctly underlines, Italians look to Europe and support it not so much because of deep-rooted pro-Europeanism, but out of mistrust of the State and the Italian political system.<sup>18</sup> It is also true, however, that everyone supports "their own Europe", and that thus the Europe which they would like or which they believe they see is not Europe as it really is. This goes for individuals and political parties alike. In Italy no party has declared itself as anti-European, but all are in favour of a Europe which privileges and supports certain values and certain policies which are in turn those proposed by the party in question. In the same way, the industry confederations and the trade unions are in favour of Europe, but the Europe they want is not that desired by their adversaries.

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<sup>18</sup>V. Ilvo Diamanti, *Gli italiani di fronte all'Unione Europea: il governo cambia, la fiducia resta*, Paris, Notre Europe, 2002, p.5.

## **IV - THE FUTURE ITALIAN PRESIDENCY**

At the end of 2002 Greece and Italy presented a joint programme for their respective presidencies in the first and second halves of 2003, setting out the main objectives and events of major importance which would take place during the year. Obviously, at the time when the programme was drafted it was not possible to predict the international developments caused by the Iraq crisis or the repercussions this would have on political cohesion within the European Union. Probably this programme will be laboriously incorporated in the field of political coordination between Member States and some of its main themes will be demoted to make space for more urgent necessities.<sup>19</sup>

In any event, the Greco-Italian programme remains the principal policy document for analysis if we are to understand the main focus of Italian action during the Presidency, or at least to understand how such action was planned and what were regarded as the priority questions before recent international developments introduced other variables.

### **1 – The Greco-Italian programme and crucial events during the Italian Presidency.**

The programme for the two Presidencies puts the emphasis on some major themes such as the enlargement and reform of the European Union and simultaneously indicates other areas of focus for the coordinating role played by the rotating Presidency. The programme makes no clear distinction between the activities of the two Presidencies in the sense that in general it does not allocate precise tasks to one Presidency or the other. Such a division may, however, emerge from the timetabling of the various aims and the main events to be organised which, depending under which Presidency they fall, end up becoming the responsibility of either the Greek or the Italian Presidency.

The main theme in the programme is the enlargement of the European Union and structural reform. The two Presidencies proposed to prepare the accession treaty for future Member States, which was in fact signed within the proposed time; to move ahead with the accession negotiations with Bulgaria and Romania; and to strengthen cooperation with countries in the western Balkan region and Turkey. It will fall to the Italian Presidency to organise the Intergovernmental Conference which will consider the draft constitutional treaty under preparation by the European Convention

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<sup>19</sup>In a televised interview on 23 March, the Foreign Minister Frattini explicitly stated that the resolution of conflicts within the Union and the consolidation of relations with the US would be of key importance for Italy during the period of the Italian presidency.

Another important area will be the coordination of economic and employment policies. The two Presidencies proposed to redefine the employment strategy and the rules for the coordination of social security systems. In particular, it was planned to select a particular topic for in-depth analysis during the second half of the year, focusing on pensions systems and the requirements for the minimum pension age. This is an especially important subject in Italy, where labour market and pension scheme reforms have been and remain an area of bitter political conflict. The allocation of this topic during the Italian Presidency, and its prominence, do not seem to be a matter of chance, given that for the current government a Europe-wide redrafting of pensions schemes criteria could provide the key to implementing a historic internal reform which has never previously succeeded because of very strong popular opposition and the united veto of various social groups and their representatives. It thus seems plausible that the government is attempting to use the "external constraint" strategy during the Italian Presidency to introduce pensions reforms which it would not be strong enough to impose alone.

Still on the subject of economic coordination, the Greco-Italian programme also proposes to simplify the regulatory environment for business, to prepare a Green Paper on the entrepreneurial culture and to draft a European Charter for small businesses. By the end of the year the Erasmus-World programme should also be running. This is a support programme for post-university preparation via the creation of European Masters courses with financial support to attract students from countries outside the European Union to universities in the Member States. The programme also mentions the debate on the proposed review of the "Television without frontiers" Directive and the boosting of measures intended to improve the quality of interactive media, measures which will be promoted by the Italian Presidency and which will probably re-formulate at European level the issue - much discussed in Italy - of prime minister Berlusconi's conflict of interests, since as well as being head of the government he is also a leading entrepreneur in the Italian media industry and one of the most important in Europe as a whole.

The programme also tackles the subject of sustainable transport and the creation of efficient infrastructure connecting the Union with the Mediterranean area, the accession states and the Balkans. The transport question, while it is of undoubted relevance for the economy throughout the Union, is of particular importance in Italy. The relatively peripheral position of the Italian peninsula brings with it the risk of remaining excluded from the major trade developing or which will in future develop in the areas about to join the Union. In fact the weakness of Italian infrastructure, and the disputes with Switzerland and Austria regarding the regulation of road transport from Italy, are likely to greatly limit access to the new markets opening in the east, both because of the high costs facing Italians, and because of the traffic restrictions which may be imposed in the absence of European regulation. The problem of transport to the east is of historical significance for the Italian economy; it arose in the immediate post-war years, but lost its

importance with the relative closure of central and eastern markets following Soviet expansion. The accession of the former communist countries to the European Union re-opens the question of international transport in the same terms as in the past. What attracts the interest of western European industries is not just possible new markets but, above all, the opportunity to relocate some manufacturing activities, particularly those using significant amounts of unskilled labour which is abundant and cheap in most parts of eastern Europe. It therefore becomes necessary to be able to despatch semi-finished goods east for finishing, or to be returned to Italy for more complex processing, at reasonable cost. Only an efficient transport system can keep costs down and increase the competitiveness of Italian products in the European market. There is also the risk that the French and Germans will take control of transport routes to eastern Europe and the Balkans, which would marginalise Italian exports in that direction, to the benefit of ports in the south of France and Spain for trading between Mediterranean countries and the Balkan-Danube regions.

Equally important for the economic future of Europe is the question of energy exchanges with Russia, which is given considerable attention in the detailed explanations in the programme. Here again, the creation of the proposed trans-European energy networks and the linking of Italian structures to these networks could usher in a new era in resolving the traditional problems of the Italian economy, even though in this case the presence of strong competition between Member States is less obvious, and their common interest in developing an efficient energy distribution network in Europe is more pronounced.

A third major theme in the programme for the two Presidencies is the "European area of freedom, security and justice". Two particular subjects fall under this heading, the coordination of the fight against crime and terrorism, and asylum and immigration policies. After the 11 September attacks, and given the current situation in the Gulf, the importance of an effective coordinated security policy is obvious, and represents an aspiration in the common interest of all the Member States. In the case of immigration policy, its particular interest for Italy has been further strengthened by two important internal factors. Firstly, the geography of Italy and the length of the coastline to be controlled make the country particularly exposed to influxes of illegal immigrants and refugees, some coming from very distant parts of Africa and Asia. For this reason the need for a European immigration policy is felt particularly acutely in Italy. Such a policy should encourage opposition to illegal immigration and coordinated diplomatic measures vis-à-vis the countries of origin, particularly countries on the Mediterranean coast of Africa, to persuade them to block illegal emigration or to accept back illegal immigrants expelled from the Union. Secondly, the political programme of the Lega Nord, one of the main ruling coalition parties, has historically focused on the fight against illegal immigration as a key aspect of ensuring internal security. This is without doubt the main

area of agreement between the Lega and Berlusconi's other main ally, the Alleanza Nazionale, which projects itself as the party of public order; and in fact the new immigration law introduced by the present government bears the name of the leaders of the two parties, Bossi and Fini. There are therefore convergent interests in the ruling coalition which are encouraging Italy to focus on the Europeanisation of immigration and asylum policies, with particular emphasis on the fight against illegal immigration.

The final major topic tackled by the Greco-Italian programme is probably the one likely to receive most attention in the wake of recent international events. This is the question of the European Union's external relations. In this case the main focus is firstly the consolidation and strengthening of relations with the Balkan countries, Russia and the Mediterranean region, and secondly the development of a defence and security policy aimed at providing Europe with its own independent military capacity, but integrated into NATO structures. In the days before and after the attack on Iraq prime minister Berlusconi frequently returned to two subjects which are evidently close to his heart: the creation of a European military force, primarily conceived as a support for American military policy, and the desirability of enlarging the European Union to include Russia which, above all, would make it possible to include Russian military strength in the proposed European military force. There are, therefore, significant indications that this last point in the Greco-Italian programme, European military policy and relations with Russia, will assume priority during the Italian Presidency. These issues are closely linked to what under normal conditions would have been the most important event of the Italian Presidency, namely discussion of the draft constitutional treaty at the Intergovernmental Conference.

## **2 – The aims of the Italian Presidency**

The analysis of the programme document presented by Greece and Italy for 2003 is certainly not enough to enable us to understand what will be the main aims of the Italian Presidency, for two reasons. The first is that, leaving aside declarations of principle, it is very likely that the attention of the Italian presidency will focus on areas of particular interest to Italy itself, given that the six months' Presidency may help to direct the Union's decisions towards the solutions which would be most welcome to the Italian government. The second reason is that the changing international situation has overtaken the background against which the Greco-Italian programme was planned. This will probably have a profound influence on the priorities and time scales for achieving the objectives set out in the programme, and particular attention may well be paid to other subjects which were either little highlighted or left out entirely.

What is certain is that the review of pension and employment policies, the issue of goods and energy transport infrastructure, and immigration policy all have considerable importance for the internal situation in Italy, its economy and the prospects for the ruling coalition to consolidate its own position, gaining consensus and, above all, room to manoeuvre to acquire or recover financial resources and electoral approval. A fresh and restrictive approach to European immigration policy would strengthen the Italian ruling coalition, because it would enable it to implement more effectively one of the main expectations of the electorate, i.e. a policy for fighting illegal immigration and controlling the immigrants who are generally blamed for the rise in illegal activities and petty crime which have become endemic in Italy during the last decade. These expectations derive directly from the programmes and electoral promises of the Lega and the Alleanza Nazionale. In the same way, the framing of a European model for pensions policy would enable the government to use the external constraint method once again to introduce that reform of the social security system which is greatly desired by the government coalition but which aroused such opposition in 1994 that it contributed to the fall of the first Berlusconi government. A favourable approach to transport policy and infrastructure at the European level would enable the Berlusconi government to sustain the policy of public works on which it has based part of its electoral campaign. Further, the transport infrastructure policy is of great concern in industrial circles because of its obvious impact on the competitiveness of Italian industry.

### **3 – Italian action during the Presidency: some hypotheses**

Formulating a well-founded hypothesis about what the Italian Presidency may do is certainly a very risky exercise, but it is also the main expectation of readers of this paper. We shall therefore try to set out what actions might reasonably be expected of the Italian Presidency, based on some elements which may give us some indications, and on a number of hypotheses. These elements are the experience of previous occasions on which Italy has held the Presidency, the most recent statements from main government spokesmen, and the background to the internal and international relations of the European Union and its Member States, a background which, however, is constantly changing. Among the hypotheses, the most important are the assumption that the Italian government's behaviour in Europe will be predominantly influenced by the interests of the country, that aspects of internal politics will play an important part in setting priorities, and that the needs of the ruling coalition will carry significant weight in directing the actions of the Italian Presidency.

In the recent past the Italian Presidency has always been characterised by the priority aim of implementing and then directing the process of European monetary union. During the Presidencies of 1985 and 1990, the Italians, backed by France and Germany, supported

the decision-making process which led to Maastricht, and clashed in a rather striking fashion with the United Kingdom, particularly with Prime Minister Thatcher who was opposed to monetary union. In 1985 the then prime minister Bettino Craxi took the initiative of calling a majority vote to convene the Intergovernmental Conference proposed by Kohl which subsequently laid the foundations for the Single Act and the subsequent developments in the economic integration process. Again in 1990 Thatcher found herself completely isolated by Andreotti's initiative which made it possible to set the start of the second phase of monetary union for January 1994 and to call the Intergovernmental Conference which later produced the Maastricht Treaty.<sup>20</sup> In 1996, however, the attention of the Italian Presidency focused mainly on the process of entry into monetary union, and particularly the admission rules which seemed likely to exclude Italy.<sup>21</sup>

The most recent statement by major government figures, and by prime minister Berlusconi in particular, seem to identify the strengthening of the relationship between Europe and the United States and the involvement of Russia in the enlargement process as the fundamental aspects of the Italian policy towards Europe, and this is probably the area in which the Presidency will most concentrate its efforts during the second half of 2003. It might therefore be supposed that the issue of external relations and the European Union's joint defence policy will replace or take equal prominence with the question of institutional reforms, linked to the conclusion of the European Convention, on which it will be very difficult to make any significant progress in view of the marked differences of opinion which have recently emerged between Member States in the European Union. We may therefore imagine an Italian Presidency mainly committed to rebuilding internal relations within the Union with a pro-American bias, and which will either accept a slowdown in the momentum towards constitutional reforms or attempt to exploit the concurrent crisis in relations between France and the United Kingdom, backed up by the United Kingdom and Spain. Berlusconi's emphasis on joint European defence and relations with Russia seems indeed to be extraneous, or at least marginal, to the complex of Italian or coalition interests. A suspicious mind might think that so much attention has been suggested by others with the obvious aim of diluting French influence in the European Union by introducing a new major partner - such as Russia - which would thus be definitively linked to the West, creating the conditions for a rapid economic recovery via the mutual trade in Russian energy and Western manufactured goods. The possibility of Russian membership of the European Union (or even the mere prospect of its inclusion within a reasonable time) would draw Moscow closer to the American and British position on geopolitical alignment in some areas which are crucial for the stabilisation of the world order. The possible establishment of a European army would enable the

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<sup>20</sup> V. Dyson – Featherstone, *The Road to Maastricht*, op. cit.; Ginsborg, *L'Italia del tempo presente*, op.cit.

<sup>21</sup> V. Luigi Vittorio Ferraris, "Il Semestre italiano di Presidenza dell'Unione Europea" in *La comunità internazionale*, vol. LI, n.2, 1996 pp. 179-215



Americans to rely on those military forces for which they appear to have a desperate need in order to act on more than one front simultaneously at sustainable cost to US taxpayers. Whereas today the military support of European allies depends on internal political considerations and the constraints of different national constitutions, since the military forces concerned are national armies, any European force would have greater freedom of action and, above all, would answer to European institutions in which pro-American elements were numerically better represented.

For its part the Berlusconi government, faced with the problem of Italian marginalisation by the Franco-German axis, may have developed an Atlantic European policy which would enable Italy to assume a constructive role in Europe, not as an ally of France and Germany as happened in 1985 and 1990, but by aligning itself with the United Kingdom and Spain in pursuit of a policy supported externally by the United States and profiting from the delicate international situation to regain a role and the initiative in European politics. The prospects for success for this policy will depend a good deal on the events of the next few weeks, and at the moment it would be most hazardous to make any further predictions about so uncertain a future.

## V - CONCLUSIONS

The forthcoming Italian Presidency of the European Union seems destined to be one of the stormiest periods in the history of the Union, and a critical moment for the future of the European integration process. In this context, the plans and programmes formulated just a few months ago are rapidly becoming obsolete and being overtaken by events. Today it seems very unlikely that the bitter confrontations and divisions which opened up in Europe when the Iraq war broke out can be overcome quickly enough to allow the drafting and approval of the European constitutional treaty which should have been the key event in the six months of the Italian Presidency. So demanding a step in such an unstable situation could result in forcing the pace of integration in a way which would be unacceptable for some Member States or, more probably, in eviscerating the treaty in such a way as to rob it of significance and reduce it to a mere statement of general principles.

Against this background, the attitude of the Italian government to the war and its obvious stance in favour of the Anglo-American policy, in opposition to the views of other major Member States such as France and Germany, introduces yet another element of friction which will probably slow down the process of institutional reform just in order to prevent the Italian government from taking the opportunity of the Presidency to direct the integration process in directions which would not be welcomed by some Member States. Further, the fact that the Berlusconi government has taken so decisive a position, scarcely appropriate when the mediating powers of the European Presidency are critically important, may make some Member States reluctant to grant the current Italian leadership the prestige would it would enjoy if a historic treaty founding a united Europe were to be signed in Italy.

Berlusconi appears to be depending a good deal on international prestige to dispel thoughts of the shadows which loom over his government and him personally at home because of the very embarrassing legal proceedings which are now close to reaching their uncertain conclusion. An Atlantic policy, however, seems more likely than a pro-European position to satisfy the current government's need for international prestige because Europe has always been a cause supported by the political adversaries of Berlusconi and his government. Relations with President Ciampi, a convinced European and possible mentor of the government during the Presidency, also seem to be in crisis after recent differences of opinion regarding the Italian position on the Iraq war and President Ciampi's reluctance to swallow legislative reforms which seem rather designed to resolve Berlusconi's legal difficulties than to modernise the Italian judicial system. There is thus the risk that both the sole mediating influence between government and opposition positions on Europe and the link between the Italian government and European institutions will be alienated. For while it is true that the Italians are very well

represented in Europe, with Prodi heading the Commission and Amato as Vice-President of the Convention, it is also true that relations between Prodi and Amato on the one hand and Berlusconi on the other are not good. The fact that the Italian Presidency of the Union and the Commission and Vice-Presidency of the Convention have come at the same time - which under other circumstances could have fostered cooperation and the achievement of objectives of critical importance to the Union - seems instead likely to transfer to the European stage the frosty atmosphere and climate of hatred which exists in Italy between the Berlusconi government and the centre-left coalition with which Prodi and Amato identify themselves, not least with a view to the forthcoming elections.

Finally, Berlusconi appears as skilful in imposing his own particular style of government in an atypical country like Italy as he is inexperienced and clumsy in international affairs, where he does not seem to enjoy sufficient authority and prestige to persuade other Member States to accept the major compromises necessary in difficult circumstances and at times of pivotal change. The combination of difficult circumstances (because of the differences over Iraq), pivotal changes (the European Convention) and the weakness of Berlusconi's leadership is therefore likely to paralyse the Union and worsen the existing problems.

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## Statistical Appendix

**Table 1. Changes in public administration spending (billion lire)**

Year	Total expenditure	Including interest payments	% of GDP
1981	214 795	28 583	46.3
1982	264 100	38 857	48.4
1983	316 973	47 320	50.0
1984	363 898	58 113	50.1
1985	416 915	65 069	51.4
1986	460 922	76 370	51.2
1987	498 575	76 197	50.7
1988	554 682	86 550	50.9
1989	617 624	104 404	51.8
1990	705 253	124 143	53.8
1991	769 487	144 978	53.9
1992	842 547	172 622	56.1
1993	896 373	187 800	57.8
1994	898 962	179 927	54.9
1995	950 164	205 991	53.2
1996	1 006 120	218 701	52.9
1997	1 008 019	186 086	50.7
1998	1 023 797	166 541	49.3
1999	1 038 964	144 899	48.4
2000	1 047 311	145 733	46.4
2001	1 113 001	149 308	47.2

**SOURCE:** CENSIS, *Rapporto sulla situazione sociale del paese*, Milano, Franco Angeli, 1999, p.580 and 2002, p.582



**Table 2. Calculation of public debt (billion lire)**

	Current values	Constant values (Lire 1995)	% GDP
1990	1 284 403	1 631 608	97.2
1991	1 448 956	1 711 022	100.6
1992	1 633 900	1 845 514	107.7
1993	1 846 453	2 006 769	118.1
1994	2 047 247	2 150 145	123.8
1995	2 212 746	2 212 746	123.8
1996	2 333 964	2 216 841	122.7
1997	2 388 743	2 215 956	120.2
1998	2.417.374	2 183 325	116.4
1999	2 458 276	2 183 440	114.5
2000	2 493 127	2 167 853	110.5
2001	2 576 605	2 183 367	109.4

**SOURCE:** CENSIS, *Rapporto sulla situazione sociale del paese*, Milano, Franco Angeli, 2000, p.506 and 2002, p.518

**Table 3. Summary of the distribution of seats in the 2001 elections**

	Chamber of Deputies		Senate	
	<i>Seats</i>	<i>%</i>	<i>Seats</i>	<i>%</i>
Casa delle libertà	368	58.4	176	55.9
Ulivo	247	39.2	128	40.6
Rifondazione Comunista	11	1.7	4	1.3
Di Pietro List		0.0	1	0.3
Democrazia Europea		0.0	2	0.6
Pannella-Bonino List		0.0		0.0
Fiamma Tricolore		0,0		0,0
Others	4	0.6	4	1.3
<b>TOTAL</b>	<b>630</b>	<b>100</b>	<b>315</b>	<b>100</b>

**SOURCE:** Compiled by Roberto D'Alimonte – Stefano Bartolini (ed.), *Maggioritario finalmente? La transizione elettorale 1994-2001*, Bologna, Il Mulino, 2002, p.200, 394-6.

**Table 4. Results of the 2001 elections, majority votes and seats**

	Chamber of Deputies					Senate			
	<i>Votes</i>	<i>%</i>	<i>Seats</i>	<i>%</i>		<i>Votes</i>	<i>%</i>	<i>Seats</i>	<i>%</i>
Casa delle libertà	16 918 020	45	282	59		14 381 007	43	152	66
Ulivo	16 315 355	44	189	40		13 260 249	39	77	33
Rifondazione Comunista		0				1 705 733	5		0
Di Pietro List	1 496 110	4				1 138 553	3		0
Democrazia Europea	1 314 950	4				1 144 200	3		0
Pannella-Bonino List	462 863	1				676 472	2		0
Fiamma Tricolore	141 298	0				339 911	1		0
Others	635 494	2	4	1		1 172 618	3	3	1
<b>TOTAL</b>	<b>37 284 090</b>	<b>100</b>	<b>475</b>	<b>100</b>		<b>33 818 743</b>	<b>100</b>	<b>232</b>	<b>100</b>

**SOURCE:** Roberto D'Alimonte – Stefano Bartolini (a cura di), *Maggioritario finalmente? La transizione elettorale 1994-2001*, Bologna, Il Mulino, 2002, p.200.

**Table 5. Results of the 2001 elections, proportional votes and seats**

	Chamber of Deputies				Senate	
	<i>Votes</i>	<i>%</i>	<i>Seats</i>	<i>%</i>	<i>Seats</i>	<i>%</i>
Forza Italia	10 923 146	29.4	62	40.0		0.0
Alleanza Nazionale	4 459 397	12.0	24	15.5		0.0
CCD-CDU	1 193 643	3.2		0.0		0.0
Nuovo Partito socialista it.	352 853	1.0		0.0		0.0
Lega Nord	1 461 854	3.9		0.0		0.0
<b>Casa delle libertà total</b>	<b>18 390 893</b>	<b>49.6</b>	<b>86</b>	<b>55.5</b>	<b>24</b>	<b>28.9</b>
Democratici di Sinistra	6 147 624	16.6	31	20.0		0.0
Margherita	5 386 950	14.5	27	17.4		0,0
Girasole	804 488	2.2		0.0		0.0
Partito dei Comunisti Italiani	619 912	1.7		0.0		0.0
<b>Ulivo Total</b>	<b>12 958 974</b>	<b>34.9</b>	<b>58</b>	<b>37.4</b>	<b>51</b>	<b>61.4</b>
Rifondazione Comunista	1 868 113	5.0	11	7.1	4	4.8
Di Pietro List	1 443 271	3.9		0.0	1	1.2
Democrazia Europea	887 037	2.4		0.0	2	2.4
Pannella-Bonino List	831 199	2.2		0.0		0.0
Fiamma Tricolore	142 894	0.4		0.0		0.0
Others	578 443	1.6		0.0	1	1.2
<b>Total</b>	<b>37 100 824</b>	<b>100</b>	<b>155</b>	<b>100</b>	<b>83</b>	<b>100</b>

*Source:* Roberto D'Alimonte – Stefano Bartolini (ed.), *Maggioritario finalmente?*, cit. pp.394-6.

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## Italy and the Global Economic Crisis

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*Abstract: Global crisis in Italy has impacted on a system that had deteriorated after twenty years of political instability and economic decline. Since 2000 coalitions of both the Right and Left have been in office in Italy and neither has proved capable of solving Italy's problems. When the global economic crisis hit the country, Berlusconi's government confronted it in two main ways: supporting banks and big firms, and cutting public expenditure. This policy had also been recognised as the correct one by the Opposition but the way in which the Government put it into practice was contested – mainly on grounds of a lack of transparency, inefficiency and inequity. The global crisis has also shaped the political balance in Italy. The Lega Nord's predominance in the Government and the evident shift in Government policy towards the Lega's aims, have created political space for internal and external opposition to Berlusconi's coalition.*

Keywords: Italy, economic crisis, Berlusconi, Italian government

The global economic crisis has without doubt been the most important international event of the last three years and it will profoundly shape the future of the European Union as well as that of the EU's member states. Each of them has been affected in different ways and is confronting the crisis with policies that vary according to their domestic circumstances. The impact of the crisis on EU member states has come about in two phases. Initially, it endangered the stability of banking systems. In that phase the impact and reactions of EU governments depended on the structure and the sizes of the national or international banks they hosted. In general, governments supported or saved banks by granting them liquidity. However, for certain banks the scale of the financial crisis was so huge that it has required more detailed intervention on the part of governments. Banking systems responded to the crisis with traditional solutions, namely credit restrictions and increases in liquidity, mainly on the part of national central banks and governments. National governments needed funds to support banks and to offset the fall in tax revenues induced by the growing economic crisis – which triggered the second phase of the crisis. In fact, bankruptcies, cuts in banking credit, huge losses in the financial markets, growing budget deficits which drew funds from the capital market, and

other outcomes of the financial crisis dramatically reduced economic activity, bringing company closures and job losses.

Notwithstanding the transmission mechanisms of the financial crisis and the fact that its initial impact was similar to that of the 1930s, there are at least two specific characteristics of the current crisis that have dramatically increased its impact on states. First, during the 1930s the main victims of the crisis were banks and firms. Secondly, governments did not intervene in the economy during the early phases of the financial collapse. In contrast, in the recent financial crisis, governments immediately supported banks to avoid collapse of the whole economy. However, this policy moved the risks associated with bankruptcy from banks to governments. This is one of the main characteristics of the global crisis.

As happened in the 1930s, the crisis has not been confined to the economic field. Its impact on politics and society is as relevant as its impact on the economy; and of course, its implications for nation states have depended on the specifics of their domestic situations. In this article, we will discuss the impact on Italy and its possible outcomes – outcomes that will shape Italian politics for the foreseeable future. Attention will be focused mainly on politics and society, although we will often refer to the economy to explain political and social developments.

### **Italy before the crisis**

In 2008, when Prodi's government collapsed and Berlusconi and the Right regained power in Italy (Pasquino, 2008; idem, 2009b), the global crisis was just kicking in. This led the Berlusconi-led coalition to offer an election manifesto inspired by principles of austerity and financial stability, which was unusual for a coalition that had previously supported expansion and very expensive infrastructural projects such as the road bridge between Calabria and Sicily.

The main supporter of Berlusconi's 'New Deal' was the minister for the economy, Giulio Tremonti. The economic policy of the Right thus contrasted with that of previous Berlusconi governments (Vassallo, 2007). In fact, an Italian peculiarity since the 1990s is that the Left has supported financial stability and reductions in public debt and the budget deficit, while the Right has not hesitated to increase public debt and the budget deficit in order to support spending or to mask the problem of tax evasion. In other words, Left and Right in Italy have adopted economic policies that are the opposite of those of traditional European parties of the Left and Right.

The reasons for Berlusconi's and Tremonti's New Deal have to do with political opportunism. The developing financial crisis of 2008 crushed hopes of economic growth in subsequent years. So, an election manifesto based on expansive economic policies was not credible. The change in the



Right's economic policy was also influenced by such political considerations as the growth in electoral support for the Northern League and its pivotal position in the construction of parliamentary majorities.

During the first decade of the new millennium coalitions of both the Right and the Left held office in Italy, and none proved capable of solving the country's economic problems. Growth and, most important, long-term growth prospects remained limited. Employment policies based on expansion in the proportion of temporary positions resulted in low wages and restrictions of the rights of workers, mainly the younger ones. This reduced long-term family investment in houses, and savings, and discouraged marriage and child-bearing.<sup>1</sup> In the meantime, the quality of educational provision, from the primary through to the university sectors, worsened because of budget cuts, unsuccessful reforms, and a decline in the minimum standards required of students; while the devolution of certain welfare services induced regional governors, aiming for re-election, to cut, fully or in part, prescription charges and citizens' contributions to the costs of hospital treatment and other health services. Thus the costs of public welfare provision increased.<sup>2</sup>

The devolution of health services to regions was part of a general process of devolution started by the Left in the late 1990s and continued by the Right from 2001 under pressure from the League. This process shifted the management of crucial services such as hospital and health assistance to a level of government that is closer to citizens and thus more sensitive to electoral pressures and short-term considerations. The result was an increase in the costs of public administration and larger qualitative and quantitative disparities between northern and southern regions. The former are richer and so they have larger tax bases and are able to offer more services to their citizens. Until the crisis, disparities were compensated in part by state fund transfers but this policy is now under revision. In fact one of the main political aims of the League is the introduction of so-called fiscal federalism. This means transferring to regions not only power over specific policy areas, but also control of the fiscal resources collected within their administrative boundaries. In other words, fiscal federalism implies a reduction of fund transfers to the central state, a process that reduces the latter's ability to redistribute funds to poorer regions from the richer ones. So, regionalism in Italy risks dividing the state instead of reforming it.

Electoral power explains the influence of the League on the economic policy of Berlusconi and Tremonti. Both of the previous Berlusconi governments had problems of stability because of conflict among the parties belonging to the ruling coalition. However, as the Prodi government collapsed in 2008, Berlusconi succeeded in merging his party (Forza Italia) with the National Alliance (Alleanza Nazionale, AN) the party of his main ally, Gianfranco Fini. A new party called the People of Freedom (Popolo della libertà, PdL) emerged, led by Berlusconi. Due to the

defection of the Catholic Union of the Centre (Unione di Centro, UDC) the new coalition of the Right for the 2008 election was composed of the PdL and the League (Pasquino, 2008; idem 2009b). By contrast, the previous coalition led by Prodi disbanded and its main components ran separately. This was a consequence of the creation of the Democratic Party (Partito Democratico, PD), a new formation bringing together parties of the Left but excluding the more radical members of the Prodi coalition, while claiming for itself a position as the leading party of the Left (Pasquino, 2009a).

The 2008 national elections were a tremendous success for the Right, which gained the largest parliamentary majority in twenty years.<sup>3</sup> However, this success consolidated the League's pivotal role in the coalition. It greatly empowered Tremonti, the main link between the League and the PdL. Moreover, Berlusconi's judicial problems increased his dependency on the League – thanks to his need for its support to approve laws designed to 'protect' him from the judges.<sup>4</sup> Also, it was evident that within the coalition of the Right electoral support for the League was growing and that survival of the coalition in the long term would be increasingly dependent on it.

### **Economic impact of the crisis**

The Lehman Brothers collapse in September 2008 revealed the seriousness of the crisis and it represents the starting point of the economic emergency for Italy. Until then, during the early phases of the financial collapse, Italian banks and investors had suffered little. The problems of the American housing market had not affected Italy. Italian financial institutions did not own a large quantity of sub-prime bonds. There were problems with derivatives stipulated in Italy by some of the larger banks with local administrations that faced bankruptcy when the crisis arrived, but the state imposed a solution on the banks.

The Lehman Brothers collapse initiated the most dramatic phase of the crisis by bringing about a contraction in the interbank loan market. Banks refused to lend money to each other because of a lack of liquidity and uncertainty about the financial soundness of borrowers. The liquidity crisis induced governments to support national banks with loans, and the European Central Bank cut the discount rate. However, banks reduced the availability of credit to clients to regain liquidity. This was the phase in which the Italian economy joined the international crisis. In Italy there are a few large banks and many small and medium-sized banks operating on a regional scale. The crisis touched the larger banks, which lost funds as a result of the Lehman Brothers crash, or found their assets devalued by the stock-market collapse. However, Italian banks were not very heavily involved in highly speculative sectors. The main problem for Italian banks, apart from the reduction in liquidity, came from links with Central and

Eastern European countries. In fact, from the 1990s some Italian banks, and in particular Unicredit, had extended their network of branches and affiliated banks to the then candidate countries, now members, of the European Union, and to Ukraine. There was a risk of the collapse or illiquidity of this part of the network. So Unicredit shares lost value because there were doubts about its financial solidity. However, the support of the Government enabled a banking crisis to be avoided.<sup>5</sup>

Small and medium-sized banks instead reacted to the liquidity crisis by reducing credit to clients and consumers and raising the amount of collateral required for new loans. This policy reduced investment in machinery and houses and threatened the viability of small and medium-sized firms in various sectors, in particular the more obsolete or export-oriented of them. Moreover, credit restrictions and pessimistic outlooks deterred consumers from spending. So, sectors such as real estate, house-building and cars collapsed.<sup>6</sup> Industries reacted in various ways. First, they reduced profit margins and costs. Second, they reduced the number of full-time, permanent jobs on offer. While growing unemployment mainly affected young and low-paid workers, dismissal of higher-paid permanent staff was rare (Bugamelli et al., 2009: 20), at least in large and medium-sized firms. Larger firms internalised part or almost all of the production process. In this way they passed some of their problems on to sub-contractors. Finally, larger firms delayed payments to their suppliers and negotiated lower prices. In this way too therefore, did medium and small-sized firms bear the costs of the crisis (Bugamelli et al., 2009: 7).

Of course, the economic crisis also involved public finance. The reduction in economic activity cut the amount of tax collected, and anti-crisis policies increased expenditure. This resulted in dramatic increases in the budget deficit and public debt.<sup>7</sup> Also, the reduction in GDP increased the ratios of debt and deficit to GDP, which meant breaching the parameters of the Growth and Stability Pact stipulated as part of European Monetary Union.<sup>8</sup> As a consequence, Italy is today in excess of the Pact's parameters and risks triggering the excessive deficit procedure of the EU Commission.

Reducing debt and the deficit is difficult for various reasons. Some of them are obvious, like the reduction in tax receipts or the costs of anti-crisis measures and are common to other EU member states; others are specifically Italian. One of the latter is the difficulty in controlling the spending of local administrations and independent bodies such as universities. Local administrations in Italy are structurally predisposed to financial instability. In fact, their duties and their financial resources are dependent on central-government decisions and national legislation. Changes in both of them often create serious financial stress and shortages of money for local administrations because new duties are not always matched by new funds. Moreover, some wage increases of local

administrative staff are automatic. On the other hand, some local taxes have remained unchanged for a long time. This is a long-standing problem for the budgets of local authorities, and the abolition of such important taxes as the local property tax (Imposta Comunale sugli Immobili, ICI) has worsened the problem.<sup>9</sup> Past administrative shortcomings have required government intervention so that funds have needed to be transferred from the state budget to provide basic services which local administrations have, thanks to their failures, been unable to provide themselves.<sup>10</sup> In 1999 an Internal Stability Pact was introduced in an attempt to bring local finance under control,<sup>11</sup> especially in sectors such as health services, which today represent the largest item in the regions' budgets. However, conflicts have arisen between government and local administrations, mainly regions, about the costs declared for basic health services and the southern regions' capacities to acquire and use European funds (*la Repubblica*, 3 July 2010).

Universities and university reform are another chronic problem that government has tried to solve since the start of the millennium. University policy until the end of the 1990s dramatically increased the number of professors and lecturers and, as a consequence, universities' costs. In spite of increases in the then very low fees paid by students, universities' budgets worsened and risks of bankruptcy became real. Moreover, automatic wage increases every two years and the low thresholds for career advancement of many lecturers and professors made the budget more rigid and difficult to cut.<sup>12</sup>

### **Government policies against the crisis**

Berlusconi's government dealt with the crisis in two main ways: supporting banks and large firms, and cutting public spending. At first glance, this kind of policy seems correct. Supporting banks avoided the domino effect of their fall; support for large firms allowed them to retain their employees. Cuts in public expenditure rather than tax increases avoided negative impacts on investment and consumers' expectations.

This policy had also been recognised as the correct one by the Opposition. However, the way in which the Government put it into practice is more questionable, and it was criticised for a lack of transparency (support to banks), inefficiency (support to firms) and inequity (cuts). In particular, cuts were not distributed among different social groups but concentrated mainly on the public sector and the pay of public employees.<sup>13</sup> Also, cuts in the funding of public-sector agencies were not accompanied by any real changes in their responsibilities or structures. Government simply cut state transfers and payments, dismissing criticisms of them with arguments which the Opposition claimed were ideological and designed merely to justify reducing services and dismantling the

public sector. In other words, Berlusconi's government confronted the crisis with a correct view of economic policy but without a correct strategy.

Regions, universities and public employees were the main victims of the cuts and it is impossible to deny that ministers and newspapers fought a long propaganda campaign against these sectors. Regions and public administrations, particularly those in the South, were depicted as inefficient and badly managed while public employees were portrayed as idlers. The minister for the public administration, Renato Brunetta, initiated a campaign to increase productivity and punish employees who failed to perform their duties adequately or were guilty of indiscipline. Finally, newspapers portrayed universities as centres of corruption, nepotism and non-meritocratic career advancement. So, when the Government announced cuts, restrictive policies and reforms in these sectors it relied on the approbation of the majority of electors.

The criticisms of local administrations, public employees and universities are not totally unfounded and some of the Government's reforms may as a result be useful. However, they have two limitations. First, they do not consider the reasons for the existing situation. If they are carried out, the lack of impact of government policy on the problems that need solving should be evident. During the so-called First Republic and later, the Italian government regarded public administration as a kind of tool against unemployment and as an electoral reserve (Bull and Newell, 2006; Cotta and Verzichelli, 2007). Efficiency and meritocracy were sacrificed to the creation of a large number of low-paid jobs, and assurances that employees would not be fired. So, today the problem is not that public employees do not work enough; the problem is that there are too many of them. Second, the origin of the attacks is mainly political. People employed in the public administration and universities vote mainly for the opposition parties of the centre left. So, penalising them does not erode the electoral base of Berlusconi's government. Also, the image of public employees and the public administration as corrupt, oppressive, inefficient and expensive is the same as the one that has been asserted by the League since the early phase of its rise. So, the ideological and political reasons for choosing the sectors to bear the costs of budget cuts are evident. Berlusconi's interests in the financial sector are the explanation critics give for his lack of transparency in the state's support for banks. Berlusconi's opposition to rules to limit the financial operations of banks and financial intermediaries carried on in the European Council and G8/G20 meetings increased suspicions that he had personal interests in the matter. However, critics of the ways in which governments have supported banks are common all around the world. In Italy too critics have focused on the lack of new rules against speculation, the huge bonus payments made to managers and the non-repayable financial support that has been given to banks.

Finally, Berlusconi's industrial policy for combating the crisis displays all the traditional limitations of Italian industrial policy. Italian industry consists mainly of large numbers of small and medium-sized enterprises (SMEs) and a few large firms such as Fiat. The post-war model of Italian development was based on an export-oriented economy and the autonomous ability of SMEs to create jobs and growth, while the state supported larger firms with funds and other kinds of aid. Moreover, many of the larger firms were controlled by the state through the Institute for Industrial Reconstruction (Istituto per la Ricostruzione Industriale, IRI) or the Ministry for State Shareholdings (Ministero delle Partecipazioni Statali).<sup>14</sup> Both kinds of firm had a political function in providing a reservoir of electoral and financial support to the ruling parties. This model of development reached a crisis point approximately twenty years ago when privatisation started and the financial needs of the state required higher taxation of small firms. Also, many of these firms were obsolete or involved in production in low-wage sectors.

The growth of foreign competition in Asian and East European countries where wages were much lower than in Italy and where workers' rights were absent destroyed the basis of the Italian growth model. Some Italian firms transferred their production facilities to underdeveloped countries; other firms closed, and some of the remaining ones decided to modernise. Although governments of the early 1990s was conscious of the unsustainability of the traditional model and of the need to move towards high-tech production, the dramatic political crisis of the time and the near bankruptcy of the Italian state blocked attempts to define a new model of development.

Since then no government has been able to define such a model either, and consequently growth rates have declined.<sup>15</sup> In certain sectors such as metallurgy or cheap textiles, the number of factories and employees and the scale of production have fallen dramatically, while some of the sectors identified since the 1960s as the drivers of growth (e.g. chemicals) have been beset by crisis after crisis with many large firms such as Ilva, Montedison and Parmalat losing their leading role in the Italian economy. Today, there are almost no large firms in Italy apart from Fiat. Instead, certain medium-sized firms, such as Ferrero, Iacuzzi and Ducati, have gained an international reputation while certain smaller firms have gained leading positions internationally in niche markets as the manufacturers of machinery for very specific production processes. While they represent examples of the definition of new models of development this has not been sufficient to compensate for the unemployment and reduction in growth caused by the crisis of the early 1990s and the absence of reform of Italy's industrial structure.

The current crisis will probably be an opportunity for defining a new model of development in Italy. However, it is essential to solve some

critical problems. One of them is the lack of any strong connection between research and production. It is impossible to move towards a high-tech economy without a solid background of knowledge and the potential to apply research results to production. In Italy few industries fund university research and few industries or institutions have their own research sections. Usually, Italian firms drain technicians and administrators from universities and train them in-house for their specific functions. However, research is of poor quality in small and medium-sized firms, apart from those already involved in high-tech production. Also, several Italian firms work with foreign patents and rely on foreign research activities.

The distortions in the Italian university system, and the tradition of Italian firms of seeking to offload costs onto the state, explain the situation in part. However, the lack of laboratories and university infrastructures, the inability of Italian universities to attract foreign researchers, poor investments in R&D activities and the almost bankrupt position of many universities, make the problem worse. Until the early 1990s the gap had been compensated for by the high standard of scientists and technicians produced by universities, but reforms in the late 1990s reduced this standard, and new graduates are not as well educated as the older ones. Berlusconi's government is trying to reform the university system through the so-called Gelmini Reform, which provides for the introduction of meritocratic criteria for the funding of universities.<sup>16</sup> The reform introduces new forms of governance and evaluation of research and teaching. A small part of state finance to universities will depend on the results of this evaluation. In the meantime, professors' and researchers' salaries will be more closely tied to their performance and automatic pay increases will be limited. Unfortunately some aspects of the reforms such as the absence of more investment, and their timing, suggest that their main goal is simply cutting the costs of public institutions.

Other problems are the costs of politics, and relations between enterprises and the public administration. Italian administrative structures suffer from a superimposition of levels of governance due to the incomplete substitution of provinces by regions in the late 1970s. Provinces continue to exist and this adds to administrative and employment costs and the costs of elections. The Italian parliament, thanks to a so-called redundant bicameralism giving Chamber and Senate the same functions (Cotta and Verzichelli, 2007) is in a similar situation. Proposals for abolishing the provinces have been blocked by the League which controls many provincial administrations in Northern Italy. A proposal to reduce dramatically the number of deputies and senators has not been carried through. All these costs fall on the state budget and sustain high taxation while reducing the funds available for investment. Red tape creates for firms and entrepreneurs large numbers of administrative obligations many of which are very expensive in terms of time and the fees of legal and

administrative consultants. Many of the attempts to speed up the bureaucratic procedures associated with the creation of new companies have been unsuccessful – though the attempts are almost useless anyway if other bureaucratic procedures and restrictions continue to obstruct company operations. Last but not least, corruption and clientelism have quickly reappeared since the late 1990s and have distorted competition. Besides, complex bureaucratic procedures create opportunities for extortion by public officials at the expense of entrepreneurs.

Finally, an essential requirement for the reorganisation of small and medium-sized enterprises and their shift to high-tech production is a move away from owner supervision to the supervision of skilled managers. Italy is paying the costs of its initial model of growth. Many SMEs are too small or under-capitalised to compete and produce efficiently. If not managed by the children of their founders, they continue to be managed by their founders – who were able to establish and consolidate the firms at a time when hard-working entrepreneurs were able to manage businesses notwithstanding their poor education. However, they do not have the skills for managing the transition to medium and large-sized industries or to high-tech production; and personal management obstructs company mergers because of the resistance of founders who fear being marginalised or excluded in the process.

Reorganising the SME sector could be the basis for starting a new phase of development and for increasing employment. However, such reorganisation requires a well-planned and efficient industrial policy which governments hitherto have never had.

Berlusconi's government declared that it would pursue various objectives to address some of the problems described above. However it has performed poorly in this area. Institutional and administrative reforms have been delayed and obstructed by opposition within the ruling coalition; and agreement on specific reforms with the opposition parties has been made impossible by these parties' lack of trust of Berlusconi. Reform of universities and the public administration seems mainly to have been oriented towards cutting costs rather than supporting efficiency and innovation; and there has been no innovation in government industrial policy.<sup>17</sup> Finally, the Government has devoted so much time to legislation designed to protect specific interests (mainly Berlusconi's) that it has had little attention or time left to devote to initiating structural reforms.<sup>18</sup>

### **Social and political impact of the crisis and government policies**

Both economic turmoil and government policies have shaped the reaction of Italian society to the crisis. This reaction has influenced social behaviour as well as electoral choices.



Job losses have obviously been the most significant social impact of the crisis. The unemployment rate remained almost stable during the initial period of the downturn but increased dramatically in 2009, with further increases expected in 2010 (see Table 1). In the meantime, inactivity rates have increased, probably because of discouragement, and the disincentives on the long-term unemployed to search for jobs. Although unemployment in Italy is concentrated in the South, the reduction in employment has mainly affected the northern regions (ISTAT, 2010b: 101). Moreover, the rise in unemployment has been concentrated in certain categories (younger people) in specific sectors (hotels, restaurants, construction, certain industrial sectors) in specific types of employment (involving consultancy and short-term contracts)<sup>19</sup> and among small-scale entrepreneurs (small-business owners, craftsmen and the self-employed). In the latter case, small entrepreneurs employing fewer than ten workers have often dismissed some or all of them and continued their activity alone (ISTAT, 2010b: 111). Finally, the crisis has caused a rise in part-time employment accepted by workers seeking to keep their jobs despite falls in production (ISTAT, 2010b: 114).

**Table 1: Main economic indicators**

	2006	2007	2008	2009
GDP <sup>1</sup>	1,429	1,485	1,544	1,572
Deficit <sup>4</sup>	49,403	23,191	42,575	80,800
Public debt <sup>3</sup>	1,559	1,590	1,644	1,729
Deficit/GDP (%)	3.6	1.5	2.7	5.3
Debt/GDP (%)	106.5	103.5	106.1	115.8
Industrial Production <sup>2</sup>	100.5	105.2	107.4	86.3

Notes: 1. Billions of euros; 2. January data; index numbers; 2005=100; 3. End of the year; billions of euros; 4 End of the year; millions of euros

Sources: [www.istat.it/grafici\\_ra/crisi/pilue.html](http://www.istat.it/grafici_ra/crisi/pilue.html); [www.istat.it/grafici\\_ra/crisi/produzioneindustriale.html](http://www.istat.it/grafici_ra/crisi/produzioneindustriale.html); [www.istat.it/dati/catalogo/20100315\\_00/](http://www.istat.it/dati/catalogo/20100315_00/); ISTAT (2010), *Contabilità nazionale: Conti economici nazionali 1970-2008*; Eurostat (2010), *News Release Euroindicators*, 55, <http://ec.europa.eu/eurosta/euroindicators>; Banca d'Italia, *Base informativa pubblica*, <http://bip.bancaditalia.it/4972unix/homebipita.htm> (all the web sources accessed 1 September 2010).

Poor employment prospects and prospects of future insecurity have increased the marginalisation of certain social groups such as young people in search of jobs or career opportunities. Young people are the main victims of the rise in unemployment, which has increased continuously since 2007 (see Table 2). In fact, a large number of short-term workers and collaborators, i.e. the categories most affected by the crisis, are young. They

are also the main component contributing to the rise in the inactivity rate.<sup>20</sup> We must also bear in mind that the category of active people includes students, who are also of course mainly young. The crisis has dramatically worsened their prospects of finding employment once they graduate. Prospects have also worsened for those who have already graduated.

**Table 2: Rates of unemployment (%)**

<i>Year</i>	<i>Total</i> <sup>1</sup>	<i>Annual variation</i>	<i>Juvenile</i> <sup>2</sup>	<i>Annual variation</i>
2004	7.9		23.7	
2005	7.6	-0.3	23.6	-0.1
2006	6.2	-1.4	20.0	-3.6
2007	6.7	0.3	21.1	1.1
2008	6.8	0.1	22.8	1.7
2009	8.5	1.7	26.9	4.3
2010 <sup>3</sup>	8.7	0.2	29.2	2.3

Notes: 1. Figures for December; 2. 15–24 years old; 3. Figures for May (provisional)

Sources: ISTAT, [www.istat.it/salastampa/comunicati/in\\_calendario/occprov/2010\\_0702\\_00/](http://www.istat.it/salastampa/comunicati/in_calendario/occprov/2010_0702_00/) (accessed 1 September 2010)

This is an outcome of the crisis only in part. The reduction in teaching quality, mainly at universities, and the illusion that economic growth can be supported by increasing the number of graduates, has induced governments, in the last ten to fifteen years, to ‘dumb down’ instruction and lower the standard of graduates. This, through the simplification of exams, has resulted in grade inflation so that young graduates in Italy today have fewer critical capacities and fewer skills, but higher grades, than older graduates. However, many employers have stopped considering final grades as reliable indicators of personal qualities and find it difficult to choose among first-level graduates coming onto the labour market. So, the most brilliant students have fewer job opportunities; many first-level graduates continue their studies simply in order to gain more prestigious qualifications, and many graduates find themselves in jobs for which they are over-qualified. The result is discouragement and disappointment for young people with a reduction, in the last few years, in enrolment in universities.

Notwithstanding the concentration of unemployment among younger workers, older workers have not been unaffected by the crisis. In fact, if most of them have permanent positions, the threat of closure of their

factories leaves them facing the possibility of being driven back into a labour market where their prospects of competing are poor. Well-qualified managers and white collar workers, if older than 40, have extreme difficulty in finding alternative jobs.

Immigration and high birth rates among immigrants have reduced the demographic impact of the crisis. Unfortunately, the large number of legal and illegal immigrants in Italy has accentuated, among native Italians, the traditional growth of xenophobia that takes place in times of crisis.

Rising unemployment and the Government's inability to develop new policies to tackle it, apart from the traditional industrial subsidies aimed at keeping employees in work, have also shaped the development of negotiations between employers and trade unions. Fiat, the main car producer in Italy, recently promised to move production of a new model from Poland to Pomigliano d'Arco, but asked the trade unions to agree to changes in the rules governing workers' obligations and strikes. The main trade union in the car sector (FIOM/CGIL) opposed the request, fearful that accepting the proposed new terms of employment could open the door to a redefinition of labour relations generally in Italy.

Fiat and the trade union which accepted the car maker's proposal invited workers to participate in a referendum on the matter, but Fiat insisted that the vote in favour would have to be overwhelming if it were to keep its promise. Only 63 percent of workers voted in favour of the agreement and this represented an unsatisfactory result as far as Fiat was concerned.<sup>21</sup> The firm's decision to move production from low-wage countries like Poland to higher wage areas like Italy apparently seems economically irrational. However, Fiat relies on the support of the Italian government to keep people in work in the high-unemployment area of Pomigliano, and more stringent contractual conditions may be sufficient to cover the gap between staff costs in Poland and in Italy. So, the principal ingredients of industrial strategy seem the same as those of fifty years ago: low wages; limited rights for workers; state subsidies.

Global crisis has also shaped the political balance in Italy. High levels of criminality attributed to immigrants; accusations that the central administration is corrupt and inefficient; high levels of taxation: all these have contributed to a growth in electoral support for the League. On the other hand, the League's prominent role in government and the evident shift in government priorities towards policies the League champions create political space for internal and external opposition to Berlusconi's coalition.

This seems the case with Fini, Berlusconi's main ally until a year ago. After the 2008 elections he became president of the Chamber of Deputies and started to criticise Berlusconi and his government, mainly for its policies on justice. It seems that Fini, frequently described as the natural successor to Berlusconi, was intolerant of Berlusconi's prominence in the

new party into which Fini had driven the party he led (the National Alliance). On the other hand, the electoral base of AN was located in southern Italy so Fini could not accept dismantling of the central state of the kind the League was seeking to achieve. The emergence, within the PdL, of a faction led by Fini (Futuro e libertà), and the subsequent split, has undermined the stability of Berlusconi's government and immeasurably increased its dependence on the support of the League. Consequently, the crisis has empowered the League and weakened Berlusconi's government at the same time.

### **Conclusion: global crisis in Italy, a lost opportunity?**

In Italy, the global crisis has impacted on a system that had deteriorated following twenty years of political instability and economic decline. So, it has only worsened conditions in a country already in crisis. The circumstances responsible for Italy's decline and the avoidance of structural reforms have also prevented attempts to use the global crisis as a stimulus for rescuing the country and reforming the system. These circumstances are the long-term effects of the early 1990s collapse; of widespread corruption (which blocks the application of meritocratic criteria and adds to business costs); the absence of any new project for economic growth, and, more generally, the lack of a governing class able to spearhead thoroughgoing reform.

Berlusconi is part of the problem, not the whole problem. His leadership is almost exhausted, and sexual scandals and long-standing judicial problems make him a problem for his own party. His ambition to create a hegemonic party, as the Christian Democrats had been in the past, has failed and has resulted in a continuation of Italy's decline instead of the 'new Italian miracle' he promised in the early years of his political career. Moreover, the electoral coalition that gave him victory in 1994, 2001 and 2008 has disintegrated. It was based on a twin alliance with the League in the North and AN in the South. The irreconcilable differences in the interests of the electoral bases of the two allies made it difficult to balance their influence but gave Berlusconi a pivotal role in the coalition. The League's growing influence in government undermined southern-based parties and factions, such as Fini's, or the Movimento per le Autonomie, a small party influential in Sicily.

Unfortunately, the opposition parties seem unable to offer a potential alternative government of high calibre or a new project for Italy, either. Conflicts within the largest of the opposition parties (the PD) and the decline in its voting support; irreconcilable policy differences between the PD and the parties of the radical Left; the lack of innovative political and economic ideas: all these render the Opposition weak, severely undermining its capacity to compete with Berlusconi. The current

government may therefore fall as a result of an internal collapse, but it seems unlikely that it would in that case be replaced by any worthwhile alternative.

In conclusion, therefore, the global crisis will almost certainly turn out to have been a lost opportunity for Italy to reverse its economic and political decline.

## Notes

<sup>1</sup> Marriages declined almost constantly from the 1970s and the trend has continued since 2000, declining especially sharply between 2000 and 2004. The proportion of marriages involving a foreign partner increased constantly during the period from 2004 to 2008 (see ISTAT, <http://demo.istat.it/altridati/matrimoni/>). Births of Italian children declined almost constantly after 2000 while foreign childbirths (declared) in Italy increased from 20,339 to 72,472 amounting to 94 percent of the total increase in births in Italy during the period from 1999 to 2008 (see <http://demo.istat.it/altridati/IscrittiNascita/index.html>). All web sources accessed 1 September 2010.

<sup>2</sup> Public health expenditure increased from €66,543 million to €106,505 million during the period 2000 to 2008 (see [www.istat.it/sanita/sociosan/](http://www.istat.it/sanita/sociosan/), accessed 1 September 2010).

<sup>3</sup> The coalition of the Right (PdL and Lega) won 344 seats of the 630 seats in the Chamber of Deputies and 174 seats of the 315 in the Senate.

<sup>4</sup> The Government proposed at least two *ad personam* laws designed to enable Berlusconi to solve his judicial problems. The first was the so-called Lodo Alfano proposed by the minister of justice, Angelino Alfano. The law granted immunity from prosecution to people in prominent positions, such as the President of the Republic and the Prime Minister himself. This law was then declared invalid by the Constitutional Court. Another attempt to help Berlusconi was the so-called *legittimo impedimento* (legitimate impediment). This law allows prominent politicians (mainly ministers and the Prime Minister) under investigation to delay court appearances if they clash with official commitments. In this way trials are drawn out and thus more likely to have to be abandoned thanks to the statute of limitations.

<sup>5</sup> The Government responded to the risk of banking crisis by introducing law no. 190 of 4 December 2008, and law no. 2 of 28 January 2009. These provided that the Government would guarantee bank deposits to a maximum of €103,000 in the event of a bankruptcy and that it would assure the payment of banks' debts.

<sup>6</sup> Bugamelli, Cristadoro and Zevi (2009: 11) estimate that in the period from January 2008 to June 2009 production fell by more than 35 percent in sectors such as electrical machinery, metallurgy, and cars.

<sup>7</sup> During the period from 31 December 2006 to 31 December 2009 Italian public debt increased from €1,559 billion to €1,729 billion. In the same period the deficit rose from approximately €49 billion to €81 billion (see Banca d'Italia, *Base informativa pubblica*).

<sup>8</sup> In 2009 the ratio of the budget deficit to GDP was 5.3 percent rather than the 3 percent maximum provided for by the Stability and Growth Pact. The debt-to-GDP ratio increased dramatically from 106.1 percent in 2008 to 115.8 percent in 2009 (Eurostat, *News Release Euroindicators*, 55 (2010), <http://ec.europa.eu/eurostat/euroindicators> (accessed 1 September 2010)).

<sup>9</sup> ICI (Imposta comunale sugli immobili) is a tax paid by householders to their municipalities. The tax was introduced in 1992 and partially abolished in 2008.

<sup>10</sup> This was the case of Catania's city administration and Campania's regional administration – where the Government had to intervene to deal with an emergency in the waste collection service when the local administration proved financially and logistically incapable of fulfilling their duties.

<sup>11</sup> Article 28, law no. 448, 1998.

<sup>12</sup> During the period from 1997 to 2008, the numbers of academic staff in Italian universities grew from 49,187 to 62,768. In 2009 the number fell by approximately 2,000 due to the retirement of full professors. In 2009 there were 17,880 full professors, 17,567 associate professors (senior lecturers) and 25,435 lecturers (data from the Ministero dell'istruzione, università e ricerca). This is an abnormal distribution of academic positions, with an unusually large proportion of full professors.

<sup>13</sup> After debate in Parliament and protest by diplomats and judges, cuts were rescinded for all but academics.

<sup>14</sup> IRI (Institute for Industrial Reconstruction), established in 1933, and the Ministero per le partecipazioni statali (Ministry for State Shareholdings), established in 1956, were the main institutions managing the processes of state intervention in the Italian economy. The Ministero per le partecipazioni statali was abolished in 1993; IRI ceased to exist in 2002.

<sup>15</sup> In 2002, 2003 and 2005 Italy's GDP growth was lower than 0.3 percent.

<sup>16</sup> Maria Stella Gelmini is the minister for education, universities and research.

<sup>17</sup> Following Minister Scaiola's resignation in May 2010 Berlusconi added to his duties as Prime Minister, those of minister for economic development ad interim. This reduced dramatically the efficiency effectiveness of the ministry's operations.

<sup>18</sup> From May to July 2010 political debate was monopolised by the so-called *legge bavaglio* (gagging law) which proposed limits on what newspapers were allowed to publish about the contents of police telephonic interceptions. This problem affects various members of the Berlusconi government (and some members of previous governments) whose telephone conversations, including discussion of sexual and other personal affairs, had been intercepted.

<sup>19</sup> 63 percent of the total rise in unemployment is accounted for by job losses among collaborators and temporary employees (see ISTAT, 2010b: 107).

<sup>20</sup> In particular the rise in inactivity includes those under 30 who live with their parents (ISTAT, 2010b: 121).

<sup>21</sup> In late July 2010, Fiat announced its intention to abandon its investment plans for Pomigliano d'Arco in favour of new plants in Serbia. It also created a new company, the Fabbrica Italia Pomigliano, and separated the Pomigliano factory from its Fiat Group Automobili. The new firm will not be a member of the Italian association of industrialists (Confindustria), which means that labour contracts will

be not regulated by the national contracts for mechanical workers. Fiat too plans to leave the association (*la repubblica.it*, 29 July 2010) .

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# Italy and the Eurozone Crisis

## Abstract

In 2008–13 Italy suffered a double crisis of long-term economic decline and short-term credibility, amplified by the international situation that endangered the stability of the whole Eurozone. Italian public debt and bonds were the pivotal elements of the Italian crisis and the crucial connection between it and the Eurozone crisis. Thanks to the ECB action, the Italian crisis was contained but not resolved.

The international financial crisis that started in the USA with the fall of Lehman Brothers touched Europe and the EU through banking channels. Many European banks were involved in the derivatives business and at risk of collapse. Meanwhile, in some countries, a housing bubble similar to the American one put at risk the stability of all financial institutes, including those not involved in the derivatives market. So, the international crisis manifested itself in the EU in the first phase in which the banking and financial sector was the most endangered. In fact, the troubles that arrived from the USA were worsened by the transformation in the inter-EU financial relations generated during the 2000s due to the Economic and Monetary Union and the introduction of the euro. Interconnections between the EU national financial systems and money transfer from Central European countries (mainly Germany) to peripheral countries (primarily the Mediterranean ones) increased dramatically during the 2000s and made the system more subject to liquidity crisis. So, when the international crisis arrived, the whole system was affected independently by the involvement of national financial entities in the derivatives market and the housing bubble.

European governments had clearly in their minds the lesson of the 1930s crisis and supported their banks with public money. However, some countries had a fragile budgetary equilibrium that came to be in danger under the pressure of the public support of the banking system and the reduction of fiscal entries. This situation was more problematic in those countries with high public debt. So, doubts about the sustainability of some EU countries' public debts emerged, particularly when Greece was revealed to be close to default. This generated a new phase of the EU crisis sometimes called Sovereign Debt Crisis as part of a more general Eurozone Crisis.

The Greek crisis dismantled the basic assumption that boosted the Europeanization of the national financial markets in the 2000s when investors and banks considered the risk of default almost non-existent in the Eurozone countries, and the bonds of Eurozone countries almost trustable as the German ones. So, a limited premium in the interest paid on non-German bonds was sufficient to attract investors. The Greek crisis revealed that this assumption was not valid and that bonds issued by highly indebted countries were much more exposed to default than



expected. The EU was then ready to enter the second phase of the international crisis, those in which governments that saved their banks from bankruptcy became themselves at risk of default. This possibility was more evident for a group of countries originally denominated PIGS (Portugal, Ireland, Greece, Spain). Italy joined the club quickly, and the potential impact of an Italian default made the country the core of the mounting Eurozone crisis.

Italy was the third largest economy in the Eurozone and its public debt was the largest one in a nominal term in the area. So, an eventual default or just the collapse of Italian bond prices was not simple to manage either for the EU institutions or for other member states who were involved in its rescue. Moreover, the Italian economy suffered a decline that had started decades earlier and was exacerbated by the national currency's abandonment of joining the euro. Finally, the rise in power of the Berlusconi government undermined Italy's credibility on the main financial markets. The government was internationally discredited by Berlusconi's style of government and the long list of scandals and judicial procedure against him when the new government entered in charge. The previous Berlusconi governments were remembered as Eurosceptic and poorly compliant with the EMU rules and duties, particularly fiscal and budgetary aspects. So, skepticism arose on international financial markets about the capability of the new Italian government to solve the Italian problems and reduce public debt as required by the EU. Doubts emerged about the sustainability of Italian public debt in the long term. Summarizing, Italy suffered a double crisis of long-term economic decline and short-term credibility amplified by the international situation, which endangered the stability of the whole Eurozone.

During the initial phase of the Eurozone crisis, when banks were mainly affected, Italy benefited from the marginal position of its leading banks in the Eurozone financial system. Italian banks' involvement in the derivatives business was limited, and their main problems regarded liquidity reduction and the affiliated banks in Central-Eastern Europe. However, the most dangerous menace to Italian banks' stability came from their portfolios and the considerable quantity of Italian government bonds contained therein.

The composition of Italian banks portfolios was not surprising. Government bonds were considered the surest investments because of the supposed impossibility of an EMU member state default. So, they were a very convenient tool for gaining interest in reserves and short-term funds. Besides, many clients of the Italian banks invested their savings in government bonds. So, banks managed bonds for their clients and acted as intermediaries between clients and the secondary markets. However, the relevance of Italian bonds in banks' portfolios made their balance sheets and liquidity strictly dependent on the bond price on the secondary market.

Consequently, a fall in Italian bonds price on the secondary market could endanger banks' liquidity and their reliability as debtor in the inter-banks' capital market. So, depreciations of Italian bonds could embitter the credit crunch still at work in Italy because of the liquidity reduction caused by the American crisis. Finally, during the 2000s, non-Italian banks in the Eurozone (mainly the French ones) invested in Italian bonds because of the attractive interest rates and accumulated substantial amounts of Italian bonds in their portfolios.<sup>1</sup> So, French and German banks were affected when doubts emerged about the sustainability of

Italian public debt and the Italian bonds' prices declined on the secondary market. The problems of Italy endangered the stability of the whole European financial system.

The primary signal of the falling trust for Italian bonds was the spread on the secondary market between the prices of Italian 10-year bonds and their German equivalent. The spread enlargement demonstrated a diverging attitude of the investors toward the Italian and German bonds. German bonds were considered safer and more reliable. So, the amplification of the spread indicated the continuous reduction of trust in Italian bonds and led further depreciation of them on the market.<sup>2</sup> This amplified the difficulties of Italian banks and, consequently, those of the Italian firms in finding credits (both at home and abroad) at a price that did not reduce their competitiveness. At the same time, the Italian budget was endangered by a double challenge. The tax collection decreased because of the economic crisis, while the government had to pay more to support the banking system. When increasing public debt became difficult due to the Eurozone crisis and the reduced affordability of Italian bonds, a complex budgetary and balance of payment crisis emerged in Italy due to the joining of pre-crisis weaknesses of the Italian economy and the new financial problems that arose.

Italian public debt and bonds were the pivotal elements of the Italian crisis and the crucial connection between it and the Eurozone crisis. Reducing public debt and regaining credibility was a difficult job. In spite of the resignation of the Berlusconi government in November 2011 and the call to former EU commissioner Mario Monti to create a new government, there was a lack of trust in Italian bonds and in the possibility of recovery. Also, public debt reduction was not a credible option in the middle of a crisis. In fact, it appeared evident that a reduction in public spending could generate a negative multiplier that would reduce tax revenues more than public debt. So, acting on bonds prices and allocation was the only strategy that could enable results. This was the strategy adopted by the European Central Bank in the early phase of the Eurozone crisis, resulting in a partially hidden renationalization of Italian public debt.<sup>3</sup>

The ECB action to save the Eurozone (and Italy in particular) was based on collecting bonds on the secondary market. The fall of their prices was partly due to the needs of investors to regain liquidity and partly to doubts about Italy's ability to pay its debts. Collecting bonds on the secondary market ensured that they were still sellable and avoided a run to dismiss them from investors' portfolios. The evidence that the ECB supported the Italian bonds markets also reassured non-Italian investors about the saleability of these bonds. The combined effect of collection and reassurance finally permitted the Italian bond prices to stabilize. However, this was feasible only by freezing bonds in "friendly" portfolios. Initially, the ECB granted funds to non-ECB financial actors to do it, in particular to Italian banks that were financed to renationalize bonds of their government. Later, the European Stability Mechanism (ESM) was created to help EMU members purchase their bonds.<sup>4</sup> Finally, the launch of the ECB Quantitative Easing program permitted the ECB to accumulate government bonds of the EMU member states, buying them on the secondary market.

The European Central Bank also permitted neutralization of the mounting balance of payments crisis that Italy was suffering due to the retirement of short-term loans and investments mainly by German investors. The crucial instrument

the ECB used for sterilizing hot-money outflows was the TARGET2 system.<sup>5</sup> This system permitted the balancing of debts and credits the European Monetary Union members had with the ECB. Since 2011 enormous amount of money had accumulated in the TARGET2 balances representing a massive retirement of funds from Italy and Spain and an equivalent return of funds into German accounts. However, the official creditor of Italy was the ECB, while the German creditors of the ECB maintained the balances on the TARGET2 system granted by the ECB. So, credits retired by non-Italian investors from Italian banks and firms became credits toward the ECB for the foreign investors and debts with the ECB for the Italians.

The combined action of bonds purchases and debt sterilization in the TARGET2 system allowed a crisis to be kept under control that risked destroying the whole EMU. However, these solutions were temporary, while solving the crisis required a more incisive arrangement. Again, it was the ECB action that was to be crucial in containing the Italian crisis. The “whatever it takes” speech by Mario Draghi revealed the adamant determination of the ECB governor to defend the EMU and stop the Eurozone crisis. Then, the core of the problem remained: to keep the Italian bonds market stable, to contain the spread, and to ensure that Italian banks remained solvent. This was possible thanks to the Quantitative Easing program. At the same time, the TARGET2 system continued to act as a buffer for funds retirement from Italy.<sup>6</sup>

Thanks to the ECB action, the Italian crisis was contained but not resolved. Italian debtor balances in the TARGET2 system continued to grow for years, and the spread never returned to the pre-crisis minimum. Besides, the governments that followed Berlusconi’s could not solve the structural problems that curbed the Italian economy’s competitiveness and were the main reason for the Italian crisis. In particular, the obsolescence of Italian production, the technological gap, and the fragility of the Italian banking system continued to prevent the Italian economy from being competitive. At the same time, public debt remained very high and the fiscal policies adopted to reduce it were poorly effective and mainly centered on cuts to the expenses instead of reforms and reorganization of the budget as required by the European Commission.

### **SUGGESTED READINGS**

About the unbalances and the pre-crisis problems of Italian economy, an important explanation comes from S. Blavoukos and G. Pagoulatos G., “The Limits of EMU Conditionality: Fiscal Adjustment in Southern Europe,” *Journal of Public Policy* 28, no. 2 (2008): 229–253; R. Di Quirico (2010), “Italy and the Global Economic Crisis,” *Bulletin of Italian Politics* 2, no. 2 (2010): 3–19.

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Other relevant data about the financial flows that characterized the Eurozone crisis are in A. Hobza and S. Zeugner, “The ‘Imbalanced Balance’ and Its Unravelling: Current Accounts and Bilateral Financial Flows in the Eurozone,” *Economic Papers* 520 (July 2014), Brussels: European Commission.

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<sup>1</sup> Referring to the Bank of International Settlements, the *New York Times* in May 2010 estimated Italian debts toward France as 511 billion US dollars while the debt toward Germany was 190 billion US dollars (*New York Times*, “Europe’s Web of debts”, May 1, 2010). Probably a large part of the French assets were government bonds, while the German credits were short-term funds and commercial credits.

<sup>2</sup> The spread between the 10-year Italian bonds and the equivalent German bonds was usually lower than 100 points before the 2008 crisis. Later it increased but remained under 200 points until June 2011, when it skyrocketed to more than 500 points due to the dramatic situation that culminated with the resignation of Berlusconi’s government. See Zoli (2013).

<sup>3</sup> On the renationalization of Italian public debt, see Minenna et al. (2016), 142–150.

<sup>4</sup> The European Stability Mechanism (ESM) was decided in 2011 and created with a Treaty in early 2012. It is a financial entity funded by the ECB. Among its functions is collecting public bonds of the EMU member states on the secondary market.

<sup>5</sup> The Trans-European Automated Real-Time Gross Settlement Express Transfer System 2 (TARGET2) is the system used by the ECB and the national central banks to manage the intra-EU money transfer.

<sup>6</sup> Italy’s TARGET2 balances moved from a credit of 3.4 billion euros at the end of 2010 to a debt of 191 billion euros at the end of 2011 and remained between 200 and 250 billion euros during 2012–15. Later Italy’s debtor balances almost doubled to 491 billion euros in 2018. This demonstrates that the Italian structural crisis was not resolved by the end of the Eurozone crisis. See ECB Statistical Data Warehouse.



## Challenging the Euro: The politics of anti-Euro parties in Italy during the first Conte government

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## Challenging the Euro: The politics of anti-Euro parties in Italy during the first Conte government

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### ABSTRACT

The first Conte government, which led Italy from 2018 until early September 2019, was the first government in the EU to express a negative attitude to the Euro. Both parties that formed the government (the Lega and the Movimento 5 Stelle) opposed the Eurozone and the common currency and repeatedly proposed to take Italy out of the Euro or at least to consult Italian citizens about this possibility. Although anti-Euro proposals disappeared from the Government's programme, EU institutions and the financial markets perceived a concrete risk of Italexit. The fear of Italexit and the confrontational approach to the EU institutions adopted by the new government generated financial tension and a rise in the spread on Italian government bonds, thereby contributing to internal conflict within the Italian government and its final collapse. This article analyses the rise of anti-Euro sentiments in Italy, their role in shaping the European policy of the first Conte government, and the reasons for the changing attitudes of the Movimento 5 Stelle to the Euro and Italexit during its period in office. This article also demonstrates the relevance of external constraints and the prudent but firm negotiation style adopted by the EU Commission to frustrate the ambitions of radical anti-Euro campaigners. Finally, the article considers the implications the Italian experience will have in the event that other anti-Euro governments take office in Italy or in other Eurozone member states, in particular in those countries where support for anti-Euro parties is growing quickly.

### KEYWORDS

Euro; political parties; European Union; populism; euroscepticism

### Introduction

The Eurozone crisis facilitated the rise of new parties or a drastic transformation of old minority parties, which adapted their electoral programmes to the new policy issues, the crisis having proved crucial for many electors. These issues, the policies proposed by these new or reformed parties, and the communication strategies they adopted to promote their proposals, influenced the terms that scholars used to identify them. Categories such as 'anti-system', 'populist' and 'sovereignist' were used to describe these parties. None of these categories covers the whole set of new parties, even though the general label 'populist' is widely used to distinguish them from the traditional (or mainstream) parties that have ruled the EU countries up to the present time.

While the populist label derives from the ideological and communicative schemes adopted by the parties, other definitions stress the core political attitudes or the main political proposals advanced by them. The anti-system label emphasizes the declared aims of certain parties to remove from office mainstream parties and overhaul their styles of government. Sovereignism, instead, is a self-assigned definition of certain parties, mainly originating from former right and far-right parties, which identify re-nationalization of politics as the means to solve the many problems they attribute to the supra-nationalization of European politics (De Spiegeleire, Skinner, and Sweijts 2017; Basile and Mazzoleni 2020).

The relevance of these new parties has increased quickly, and some of them have gained power in certain Eurozone countries such as Greece, Spain and Italy, while in other countries they have become the main opponents of the governments in power, as has happened in France and Germany.

This article focuses on those new parties in the Eurozone that share a declared hostility towards the Euro. This specific attitude is particularly relevant for European politics and the Eurozone's internal equilibria. In fact, the rise in power of anti-Euro parties in Eurozone countries could shape these countries' European policies and generate systemic risks for the whole European architecture. This is the case in Italy, where a coalition of two anti-Euro parties – the Movimento 5 Stelle (Five-star Movement, M5 s) and the Lega (League) – formed a government in 2018 that made opposition to the Eurozone rules an essential element of its political programme and a crucial communicative topic in the search for popular support. This coalition collapsed in September 2019 when the M5 s formed a new government with the Partito Democratico (Democratic Party, PD) and Liberi e Uguali (Free and Equal, LeU), while the League became the main opposition party. Then, the M5 s adopted a pro-European position while the League maintained its anti-European attitude, mainly centred on opposition to the Euro.

This article presents the initial results of a broader research project on anti-Euro parties in the Eurozone and their influence on the EU and the member states' European policies. Because of this research perspective, parties have been studied here in an unconventional way, at least when compared with traditional studies of party politics. Such elements as party organization and the characteristics of the parties' electors have only a marginal role here with the main focus being on the construction, communication and application of an ideological framework centred on the Euro and its consequences. What matters here is not the electoral impact and performance of anti-Euro parties in Italy, but their impact on Italian politics and on the troubled relationship with the EU institutions that resulted from the assumption of power by the M5 s–League government.

Analysis of the M5 s–League government is crucial to understanding how anti-Euro parties, when in power, influence the European policy of a Eurozone member country and the reactions of both EU institutions and other Eurozone members to that country. During the last few years, many books and articles have been published on the rise and transformation of both the M5 s and the League (Gualmini and Corbetta 2013; Lanzone and Woods 2015; Passarelli and Tuorto 2018; Bordignon and Ceccarini 2013; Biorcio and Natale 2013). However, almost all these works focus on the rise, electoral results or internal organization of these parties. Insufficient attention has yet been paid to the impact of anti-Euro attitudes on Italy's European policy during the M5 s–League government. Yet that experience is a significant example of what happens when an anti-Euro



government gains power in a Eurozone member state, something that has so far only happened in Italy.

## The international crisis and the politicization of the Euro

Europe is witnessing a surge in populism as a consequence of both widespread popular discontent with mainstream political parties and economic crisis. Demand-side explanations for the rise of populism abound (Kriesi 2014; Inglehart and Norris 2016). However, it has been widely argued that economic crises facilitate populism (Kriesi and Pappas 2015; Stavrakakis 2014; Morlino and Raniolo 2017). Such events have ‘catalysing effects’ that intensify long-standing problems. Such are the long-term trends of increasing economic inequality and social exclusion that have accompanied technological displacement; profound changes in the world of work and welfare, and the adoption of neoliberal economic policies. Peripheral and disparate anti-establishment actors have recently received sizable electoral support in some Eurozone countries. In Italy, the M5s and the League won the 2018 elections and came together to form a government (D’Alimonte 2019). In France, growing support for the Rassemblement National (National Rally, RN) resulted in Marie Le Pen coming second in the 2017 Presidential election, while in Spain, the new party Podemos was for a while the most popular party in the country (Ivaldi, Lanzone, and Woods 2017). In Greece, SYRIZA gained power in January 2015 and kept it until the 2019 elections (Spourdalakis 2014; Stravakakis and Katsambekis 2014). In Austria, the migrant emergency and the refugee crisis favoured the far-right Freiheitliche Partei Österreichs (Freedom Party of Austria, FPÖ) (Heinisch 2016; Moreau 2018), while in Germany the success of Alternative für Deutschland (Alternative for Germany, AfD) is changing the national political framework (Grimm 2015; Reher 2017). In Finland, too, similar parties are gaining support (Hattaka, 2017).

Almost all the parties cited above are usually classified as populist parties and analysed according to schemes developed to study these kinds of parties. The populist label is probably misleading in describing so many different parties and in understanding their policy choices. This label derives mainly from the communication style and rhetoric adopted by these parties but barely covers their policy proposals and their attitudes towards specific issues. The Euro is one of these issues and an example of the different and sometimes conflicting views that characterize the various parties simplistically labelled as populist. In fact, not all populist parties share anti-Euro attitudes. In some relevant cases like Podemos and SYRIZA, critical attitudes towards the EU have not evolved into anti-Euro positions. Consequently, in this article we will disregard the widespread tendency to study the M5s and the League as populist parties and will focus instead on other specific aspects of their political programme, namely their anti-system attitudes and hostility to the Euro.

Since the early 2000s, discontent arising from the consequences of the introduction of the Euro has fed anti-EU forces.<sup>1</sup> Thus, the Euro became one of the preferred targets in their political discourse and electoral programmes (Serricchio, Tsakatika, and Quaglia 2013; Hobolt and Wratil 2015). Many of these forces share hostile attitudes to the common currency and propose (sometimes vehemently) to leave the Eurozone. Therefore, a common target, the Euro, and a shared hostility to the EU institutions



have become the *trait d'union* among a varied group of political actors including the League in Italy, the RN in France and AfD in Germany.

The politicization of such a technical issue as the Euro and its impact on Eurozone countries' national policies is due to many factors. One of these is the pivotal role of the Eurozone rules in frustrating demands for radical change in the economic policies of the most troubled countries. Parties that gained support because of the economic crisis needed to offer their supporters an economic programme capable of solving the main problems they face – problems like growing unemployment, welfare cuts, rising taxation and, more generally, the consequences of austerity policies. The solutions offered by these parties have not been as innovative as their proponents believe. They mainly support deficit-spending policies to create jobs and infrastructure and to pay subsidies to unemployed persons and firms. Unfortunately, these measures collide with Eurozone rules and mechanisms and this has made the Euro the main obstacle to the economic policy proposals presented by these new parties. Therefore, abandonment of the Euro has become a crucial policy issue in the attempt to make their economic programmes appear credible and feasible.

Moreover, the Euro represents the most important result of European integration in the last thirty years. It is therefore understandable that it has become the preferred target of anti-EU forces, most of them located on the right and far right of the political spectrum. Right-wing and far-right parties, traditionally hostile to European integration and the supra-nationalization of politics, have used the Euro from the beginning as an example of how European pervasiveness in domestic policies has acted against 'the will of the people' and the 'nation'. In the meantime, far-left parties have seen in the Euro crucial evidence of the neo-liberal nature of European integration and an example of the financial capitalism they fiercely oppose (Calossi 2016). These parties have thus developed anti-Euro attitudes similar to those of the far-right parties, in spite of their diametrically opposed political positions.

Finally, the patterns of diffusion and the ideological nature of anti-Euro attitudes are crucial to understanding their success. Widespread hostility to the Euro has been facilitated by the new and central role of individuals and social media in elaborating and transmitting the anti-Euro message (Aalberg et al. 2016) and creating an anti-Euro ideology. Social media communication and ideology construction are the primary connectors between new technologies, hostility to the Euro and the changing hierarchy of political participation in which individual and distant participation have gained relevance. The rise of new modes of political participation, communication, socialization and the autonomous collection of information have changed the traditional pattern of ideology building. It has marginalized the party as a channel for the transmission of political proposals. Thus, mental processes of logical systems construction and concept re-elaboration, as well as how external stimuli (speeches, scientific theories, and media messages) are perceived, determine in part the political behaviour of politically active Web users. The Euro represents a perfect link that could easily connect the unsatisfactory economic situation that frustrates anti-system parties' supporters and the construction of an ideological framework capable of justifying the parties' policy proposals.

## Hostility to the Euro in Italy and its ideologists

The ideological self-construction process emerges clearly from our case study of the anti-Euro parties. In fact, anti-Euro arguments need specific knowledge of monetary economics, international political economy and EU law that those hostile to the Euro for the most part lack. Thus, they search the Web for the necessary knowledge, information and literature, which they adapt to their mental and cultural outlooks and use this information (in many cases fake news or misleading explanations) to rationalize their political reasoning. On the Web, they have found websites and blogs created by activists and opinion leaders that offer their readers a simple and (apparently) coherent theoretical framework to justify their anti-Euro attitudes.

Economists voiced criticism of the introduction of the Euro and warned of the perils of a common currency for so many different countries applying for Eurozone membership, in the 1990 s. Thus, cultural hostility to the Euro already existed before the introduction of the currency and was influential in countries like Italy with a long tradition of extremist parties inherited from the Fascist period and widespread support for the Communist Party.

The rise and diffusion of anti-Euro attitudes in Italy was a multi-layered process where new forms of hostility joined and overlapped the older ones. We can distinguish three phases of the process. The first was the adoption of anti-Euro attitudes by the far-right and far-left parties in the 1990 s. Far-right parties opposed the common currency as a logical consequence of their anti-integration attitudes, while far-left parties saw monetary integration as a neo-liberal manoeuvre to curb welfare and workers' rights. The second wave of anti-Euro sentiment started after the introduction of the common currency. In Italy and other countries, mainly in Southern Europe, the early months of the Euro's circulation resulted in an increase in prices that affected consumers and strongly irritated the middle classes and pensioners. This made hostility to the Euro a communication tool for those parties remote from power and in search of issues powerful in mobilizing votes. Finally, hostility to the Euro spread widely and dramatically during the economic crisis, in particular, during the sovereign debt crisis. At that point, hostility to the Euro became an anti-system policy proposal that attracted both extremists and supporters of the new anti-system parties. This process emerges clearly from the Eurobarometer surveys of popular attitudes towards the Euro. During the period from 2013 to 2019, significant proportions of Italian citizens were hostile to the Euro, while anti-Euro parties gained increasing electoral support (Table 1).

**Table 1.** Answers to the Eurobarometer question, 'Is having the Euro a good or bad thing for your country?', and votes for anti-Euro parties in Italy.

	2013	2014	2015	2016	2017	2018	2019
Good	52	43	49	41	45	57	55
Bad	38	47	41	47	40	30	36
Rank among the 19 Eurozone countries:							
Good	17	18	19	18	18	17	19
Bad	1	1	1	1	2	4	2
Votes for anti-Euro parties (%) <sup>a</sup>	31.96	35.00	-	-	-	57.30	60.47

a. National elections (2013 and 2018) and European elections (2014–19) Source: European Parliament, *European Elections National Results*, <https://www.Europarl.europa.eu/election-results-2019/en/national-results-overview/>; NSD – Norwegian Centre for Research Data, *European Election Database*, [http://eed.nsd.uib.no/webview/index.jsp?study=http://129.177.90.166:80/obj/fStudy/ATEP2009\\_Display&node=0&mode=cube&v=2&cube=http://129.177.90.166:80/obj/fCube/ATEP2009\\_Display\\_C1&top=yes](http://eed.nsd.uib.no/webview/index.jsp?study=http://129.177.90.166:80/obj/fStudy/ATEP2009_Display&node=0&mode=cube&v=2&cube=http://129.177.90.166:80/obj/fCube/ATEP2009_Display_C1&top=yes); European Commission, *Flash Eurobarometer*, n. 386, 405, 429, 446, 458, 473, 481.

It was in particular during the most recent upsurge of anti-Euro sentiment that a number of intellectuals and professionals proposed an apparently coherent justification of it by pointing to the single currency as an explanation for the crisis and Italy's economic decline. Their interpretation mainly centred on the damage created by membership of the Eurozone. The most influential 'intellectual fathers' of Italian anti-Euro sentiments were economists inside or outside the academic world. The most important were Alberto Bagnai, Paolo Savona, Antonio Maria Rinaldi and Claudio Borghi. The relevance of many of these 'anti-Euro intellectuals' was not a reflection of their academic influence or scientific excellence. Bagnai is an associate professor with a low ranking among Italian economists, while Borghi is a former financial trader and bank manager who once gave a small number of university courses. Neither is Rinaldi a prominent academic. He was a manager in the banking sector who offered classes in a number of Italian universities as a non-tenured professor. Only Savona is a famous economist and a high-ranking politician, having been a minister in the Ciampi government during the early 1990 s. Instead of academic channels, almost all of them have used non-academic publications, TV talk shows and blogs to spread their visions of the Euro and to establish a direct linkage with anti-Euro campaigners.

It was Alberto Bagnai who proposed the best-structured version of the case against the Euro in Italy, both in his book, *Il tramonto dell'Euro* (The Euro sunset), which became the bible of anti-Euro campaigners in Italy, and through the blog Goofynomics ([goofynomics.blogspot.com](http://goofynomics.blogspot.com)), which he created and manages. The key points in the anti-Euro ideology, as well as some crucial policy proposals, emerge from Bagnai's books (Bagnai 2012, 2014). He saw the end of public debt monetization in 1981 (the so-called divorce between the Bank of Italy and the Italian Treasury) and capital liberalization as the real cause of the dramatic increase in the Italian public debt, and saw the adoption of the Euro as a sort of German and French plot against Italian industry and its competitiveness. He also tried to demonstrate the unsustainability of the Euro, using the Frenkel cycle model, which explains the mechanisms underlying the Asian financial crisis at the end of the 1990 s (Bagnai 2012, 134–64). Finally, he proposed a strategy for exiting the Euro based on the unilateral withdrawal of Italy and the introduction of a national currency without prior agreement with the Eurozone partners.

Savona is a more cautious opponent of the Euro and demonstrates a realistic perception of the risk for the Italian economy in leaving the Euro (sometimes called Italexit). Although he has expressed criticism of the Eurozone in several authored and edited books, sometimes cooperating with Rinaldi, the most politically relevant contribution of Savona comes from the so-called 'Plan B', a study on Italexit prepared by a group that included Paolo Savona.<sup>2</sup> 'Plan B' is probably the most sound plan for an Italian exit from the Eurozone. It is also the most realistic in describing the problems and consequences of Italexit, especially if it is not agreed with the other Eurozone partners. So, Savona saw Italexit as the least-best option for responding to the Italian crisis in the Eurozone if no changes came about, in contrast to the more aggressive solutions proposed by the other anti-Euro intellectuals.

The main contribution from Borghi to the anti-Euro debate derives from a booklet in which he answered a number of general questions concerning an Italian exit from the Eurozone. However, many other contributions to the Italian anti-Euro ideology came from blogs and websites such as Goofynomics, Scenarieconomici.it, the fiercely anti-Euro stopEuro.news, and most importantly, from the M5 s leader's blog, [www.beppegrillo.it](http://www.beppegrillo.it).

What makes the anti-Euro intellectuals' activity relevant is its role in creating and disseminating an anti-Euro ideology based on controversial ideas and distorted or simplistic representations of economic mechanisms. This activity is crucial in winning support for anti-Euro parties. The Web and blogs have been revealed as formidable tools for anti-Euro ideology building and dissemination. It was mainly through blog debates involving direct participation by electors that anti-Euro sentiments became a crucial topic in populist discussions of the economic crisis in Italy and how to overcome it.

Anti-Euro intellectuals also influenced public discussion (mainly from the League side) of monetary affairs. In fact, the anti-Euro debate shaped the strategies of anti-Euro parties when they gained power. The parties that lacked an anti-system intelligentsia then tried to put into practice the main ideas and plans proposed by the anti-Euro '*mâitres à penser*'. The most important and influential of them joined the League or indirectly supported it.<sup>3</sup> This choice made hostility to the Euro a pivotal issue in the League's political programme while it is probably one of the reasons for the Five-star Movement's abandonment of its hostility following the end of its alliance with the League.

#### **Hostility to the Euro and the political programme of the League and the M5 s**

There are various anti-Euro parties in Italy. Some of them, like the League, the M5 s and Fratelli d'Italia (Brothers of Italy, FdI), have seats in Parliament. Others, like the far-right parties, Forza Nuova and Casapound, participated in the last parliamentary elections but did not gain parliamentary representation. In this article, attention is almost wholly devoted to the M5 s and the League because they formed a government. Until today, it has been the only example of an anti-Euro government in the Eurozone. This anti-Euro stance generated concern both in the EU institutions and in the Eurozone member states, prompting a reaction.

One of the most important research questions we face in studying the two main Italian anti-Euro parties is what explains the different trajectories taken by their hostility to the Euro. While the League was fiercely hostile to the Euro and made such hostility a core element of its electoral and government programme before, during and after its period in office (Ivaldi, Lanzone Woods, 2017),<sup>4</sup> the M5 s toned down its hostility to the Euro after it gained power, and later wholly abandoned it.

The different attitudes of the League and the M5 s to the Euro have various and in some respects complementary explanations. First, the origins of hostility to the Euro in the two parties are different. The League opposed the Euro from the late 1990s because it represented a threat to the competitiveness of northern Italian industry (Huyseune 2010), which was the core electoral base for the League at that time.<sup>5</sup> In the early 2000s, the League used anger at the increase in the prices of consumer goods that followed the introduction of the single currency to mobilize electoral support. So, when the international financial crisis broke, resulting in the Italian economy slowing down for several years, the League had all the political and rhetorical capital required to argue that Italy's problems were a consequence of the introduction of the Euro. Consequently, hostility to the Euro became the one-size-

fits-all solution in the League's economic policy, making the party the main anti-Euro formation in Italy.

The Five-star Movement's path to hostility to the Euro was different. Created in 2009 as a movement that refused to call itself a party, the Movement's political programme shifted from a focus on a small number of points mainly concerning environmental issues, to a broader focus covering a range of topics suggested by the dramatic economic crisis. It was mainly the rhetoric of M5 s guru, Beppe Grillo, which was responsible for introducing a critical attitude towards the European Union, its policies and its neoliberal soul.<sup>6</sup> Consequently, M5 s hostility to the Euro was mainly a result of both its leader's critical attitude and the need to present a coherent political programme to M5 s supporters.

Second, the function of hostility to the Euro in the political programmes of the League and the M5 s is different. Initially, the League adopted hostility to the Euro as a powerful means of spearheading discontent and mobilizing new voters. Later, hostility to the Euro helped the League to redefine its political programme and its main goals. It faced an existential crisis during the early 2010s because of financial irregularities and corrupt management of the party by the League's founder and historic leader, Umberto Bossi. In 2013 Matteo Salvini became the new leader of the party. He reversed the regionalist nature of the League, renouncing separatism and its anti-centralist goals (Albertazzi, Giovannini and Seddone, 2018). Meanwhile, he realigned the League towards anti-immigration and anti-European positions, recovering and emphasizing hostility to the Euro as part of a general overhaul of the party's ideology and political programme. In contrast, the M5 s used hostility to the Euro as a component of its anti-system attitude. Mainstream Italian parties and almost all the parties that had governed the country in the previous decades were pro-European and, in some cases made European integration a key element of their political platforms. Consequently, for the M5 s, fighting the system and contesting the traditional pillars of Italian politics implied also contesting European integration. When, after it joined government, the M5 s became part of the system, anti-Europeanism was no longer a tactical need, nor was it crucial to attracting electoral support due to the confluence of many former left-wing voters, traditionally in favour of European integration, in the M5 s electoral basin. When the M5 s-League coalition took office, the new government was accused of wanting to lead Italy out of the Eurozone. To counter these accusations, the M5 s attenuated its hostility to the Euro while the League merely hid it. Later, when the League-M5 s government fell, and a new government was created by the M5 s and the pro-European parties, the PD, LeU and Italia Viva,<sup>7</sup> hostility to the Euro was no longer useful for government economic policy or for sustaining an economic ideology that the M5 s was not capable of implementing by itself.

This last circumstance is closely linked to the third explanation for the diverging anti-Euro attitudes of the League and the M5 s. The M5 s draws most of its anti-Euro ideology from sources external to the party, such as the so-called 'anti-Euro intellectuals', or from adapting to its political programme statements from internationally prominent economists like Stiglitz and Krugman.<sup>8</sup> Instead, the League recruited to its ranks the main Italian anti-Euro ideologists and assigned them relevant positions in the party and the government. Notwithstanding the

appreciation demonstrated by supporters of the M5 s and other political forces close to them for the anti-Euro arguments of Bagnai,<sup>9</sup> there were some points of friction between the M5 s political narrative and leading anti-Euro intellectuals. In the Five-star Movement's explanation of Italy's crisis and decline, corruption and clientelist deficit spending policies play a central role. M5 s leaders justified their anti-system approach as the fight of citizens against the '*casta*' (caste) which includes mainstream parties and part of the administrative structure. During the early years of the Five-star Movement's existence, its members made honesty, good governance and abolition of privileges the core of their political programme and their primary strategy for dealing with the country's problems. Unfortunately, this explanation clashed with the leading explanation offered by Bagnai, Borghi and other anti-Euro intellectuals who undervalued or denied the role of corruption and bad governance in Italy's decline. Instead, they insisted on a proudly nationalistic view of the crisis in which external constraints (the Eurozone rules and the Euro in particular) played the most critical role.<sup>10</sup> Thus, a fundamental contradiction emerged between hostility to the Euro and anti-system politics in the Movement's ideology. This contradiction and the traditional tendency of M5 s supporters to 'follow the leader', Grillo, in his U-turn revisions of party strategies, facilitated the abandonment of hostility to the Euro by the M5 s when the alliance with the League was broken, and government responsibilities required a more collaborative approach to European institutions.<sup>11</sup> Then, Grillo himself abandoned harsh criticism of the PD and the Euro to support the creation of the new government based on the M5 s–PD alliance. However, not all M5 s supporters accepted the new course charted by Grillo and the M5 s. Anti-Euro sentiments survived in the ranks of the M5 s and this probably helped to move votes from the M5 s to the League.<sup>12</sup>

### **Hostility to the Euro in power and the dilemma of government**

The case of Italian anti-Euro parties is such a relevant one because two of these parties have had governing responsibility in one of the main Eurozone countries. This was a severe test for their economic ideologies and created tensions between the Italian government and the EU with negative consequences for the stability of the Eurozone as a whole.

When the 2018 election in Italy resulted in victory for the M5 s, a great success for the League and a dramatic defeat for the mainstream parties, the PD and Forza Italia (FI), forming a new government proved to be an exceptionally complicated puzzle.<sup>13</sup> The M5 s participated in the electoral competition without joining a coalition or anticipating alliances with other parties. In contrast, the League formed part of a centre–right coalition with Berlusconi's party, FI, and FdI. This coalition gained more seats than their competitors, but it failed to win sufficient seats to sustain a government in office.

Due to the hostility between the M5 s and FI, and the opposition within the PD to an agreement with the M5 s, the only governing solution possible was an alliance between the M5 s and the League. Such an arrangement required tortuous negotiations regarding both the choice of Prime Minister, and the government programme. Finally, a '*contratto di governo*' (government contract) was signed by the M5 s and the League,<sup>14</sup> and Professor Giuseppe Conte became Prime Minister with the leaders of the M5 s and the League (respectively Luigi Di Maio and Matteo Salvini) both becoming deputy Prime Ministers. However, tensions emerged between the



government leaders and the President of the Republic, Sergio Mattarella, concerning the members of the Cabinet, in particular, the proposed Finance Minister, Paolo Savona, who was known for his hostility to the Euro and his support for Italexit. Savona's anti-Euro attitude confirmed the anti-Euro and pro-Italexit stances of the new government, which President Mattarella could not accept. In the end, a new list of ministers was proposed with Savona as Minister for European Affairs and Giovanni Tria as Finance Minister.<sup>15</sup>

Due to the M5 s-League government's weak foundations, the '*contratto di governo*' became the key programmatic document sustaining it. In the final version of the document, there are no direct references to anti-Euro policies. However, some of its provisions suggest that the Government's hostility to Europe was merely kept hidden for reasons of expedience.<sup>16</sup>

The European policy of the M5 s-League government and, more generally, its relationship with the EU institutions and the EU partners, were among the most problematic issues the Government had to face. While the Italian government and the Minister of the Interior, Salvini, directly challenged both the European Commission and other EU countries over the immigration issue and the problem of the redistribution of refugees among EU member states, conflict in economic matters and the Eurozone rules was softer because of the mediation role played by Tria. However, these conflicts were more dangerous for the structural integrity of the Eurozone area. Hence, concern for the Italian government's attitudes towards the Eurozone rose and placed in danger Italy's financial stability. Italian fiscal and budgetary policy, in particular, became a battlefield between the Italian government and the EU institutions as well as an element of division within the Italian government itself. An expansive budgetary policy and a deficit spending strategy were the obvious consequences of the economic programme of the M5 s-League government. The three main economic proposals of the M5 s and League, the '*reddito di cittadinanza*',<sup>17</sup> the 'quota 100',<sup>18</sup> and the 'flat tax' (15%), were expensive measures that could not be financed via an increase in tax revenues or by significant budget cuts, both of which were excluded by the M5 s and League electoral programmes. Hence, outflanking the Eurozone budget rules and increasing the deficit and public debt were the only possible ways to mobilize resources.

The 'battle for the budget' between the Italian government and the European Commission embroiled the M5 s-League coalition in an unpropitious contest. Since the 2018 general elections, it had been apparent that there was widespread international discomfort with the political situation in Italy and with the new government coalition. International public opinion depicted the M5 s-League government negatively and began to debate the risks for Italian financial stability. Meanwhile, tension was mounting in the financial markets, resulting in an increase in the spread on Italian and German government bonds.<sup>19</sup> While this increase had an impact on the Italian economic policy debate, creating concern among the public and reinforcing hostility to the M5 s-League government on the part of its opponents, the increase in interest rates endangered the sustainability of both the Italian public debt and the Italian banking system. In fact, as a consequence of the Italian sovereign debt crisis in the early 2010 s, Italian banks had large numbers of Italian bonds in their portfolios. This made these banks sensitive to the bonds' depreciation because of the effect on their asset values and the solidity of their

budgets, as well as the negative influence on interest rates payable on loans from foreign banks.

On the public debt side, soon after the start of the new government's term of office it became evident that the increased spread had annulled the effects of the measures to increase revenue to fund the new government's policy initiatives. This problem became much more evident when conflicts with the European Commission arose concerning the Italian budget. The spread increased with every further step in the Government's fight against the European Commission. Meanwhile, the evident embarrassment and hostility to the Government's anti-EU policy of Finance Minister, Tria, and the growing uncertainty of Prime Minister, Conte, was accompanied by the feeling on the part of many M5 s parliamentarians, ministers and supporters that it was ineffective.

Conflict emerged between the M5 s and the League about the negotiation strategy with the EU. The League and its anti-Euro experts supported a sort of blackmail strategy based on fear of the impact of Italian bankruptcy on the Eurozone as a whole. This strategy reflected the belief of anti-Euro theorists supporting Italexit that Italy could leave the Eurozone with limited damage. In their view, only a drastic shift in the costs and benefits involved in membership of the Eurozone could justify the continued renunciation of monetary sovereignty. In addition, the critical role assumed by hostility to the Euro in League propaganda meant that such a strategy represented a consistent application of League electoral promises.

In contrast, diminished hostility to the Euro, and concern over the growing stature of the League in government decisions and in voting intentions polls, made the M5 s reluctant to follow the League on the anti-Euro path.<sup>20</sup> In fact, a sound public budget was crucial to funding the Movement's expensive welfare measures and it became clear to the M5 s that the increase in interest payments on the public debt made their objectives financially unsustainable. The League did not have this problem because the decrease in revenue due to the flat tax it supported could be covered by cuts in other sectors, welfare included.

A final contrast between League hostility to the Euro and the more cautious attitudes of the M5 s arose with the so-called '*minibots*'<sup>21</sup> issue. The issue emerged during the final months of the M5 s–League government and created concern at international level and tensions inside the government. The League (Borghi in particular) suggested issuing low-denomination bonds (*minibots*) paying no interest, to be used for paying government debts with commercial suppliers. The wide circulation of *minibots* would in effect create a parallel currency potentially useful as a substitute for the Euro in the event of an Italexit (The *Economist*, 2019). An acrimonious debate began, involving the leaders and a number of influential members of both the League and the M5 s (including Di Maio, Salvini, Giorgetti and Di Battista) who defended the *minibot* plan, and leading economists who opposed *minibots*. They included Tria; Bank of Italy governor, Ignazio Visco; the President of the Italian Banking Association, Antonio Patuelli, and European Central Bank president, Mario Draghi (the *Economist*, 2019; la Repubblica 2019a, 2019b, 2019c, 2019d). In the end, *minibots* were not introduced, falling victim to the political crisis that led to the collapse of the M5 s–League government.

Economic matters played a role in this crisis. The agreement between the Italian government and the EU Commission did not allow for the enlarged deficit that had been planned.<sup>22</sup> It therefore became difficult to cover the cost of the expensive flagship policies pursued by the M5 s and the League. While the M5 s saw its flagship policies (*reddito di cittadinanza* and *quota 100*) restricted but approved, the



League saw its crucial electoral promise (the flat tax) placed in danger. The latter was crucial to the League's attempts to attract votes from professionals and drain support from FI, then the League's main competitor for leadership of the centre right. For Salvini, capturing leadership of the coalition held out the prospect of his becoming the fulcrum of Italian politics with the option of forming a government with the M5 s as a minority partner or a centre-right government under his leadership. In August 2019, he attempted to bring down the Government and force the holding of fresh elections. However, the M5 s and the PD reached agreement on the formation of a new government under the continued leadership of Giuseppe Conte, thus relegating Salvini and the League to the opposition.

### **Conclusion**

The experience of the M5 s–League government represents the failure of a policy of hostility to the Euro and, more generally, proof of the difficulty involved in attempting to outflank the constraints of the Eurozone either by ignoring them or by contesting them. Losing the 'battle for the budget' against the Commission, and pressed by financial markets, the M5 s and the League were forced to acknowledge that their economic policy was unsustainable or merely a bluff. However, external and internal institutional action played a determining role in emasculating the policy of hostility to the Euro. The open opposition of President Mattarella to the policy, and the patience and inexorability with which the Commission diverted the Italian government from the path of blackmail to one of negotiation, dismantled the anti-Euro design. However, the risk of Italexit was concrete and remains a policy option if a centre–right coalition under League leadership regains power.

The vicissitudes of Italy's anti-Euro parties and the M5 s–League government suggest three main conclusions. First, hostility to the Euro involves resistance to external constraints. However, this depends on the financial situation of the country concerned and the possibility of funding expansive economic policies. Anti-Euro governments in financially sound countries may be able to avoid external constraints on their budgetary policies. Hostility to the Euro is less attractive in financially sound countries because Eurozone rules do not prevent moderately expansive economic policies. Therefore, if anti-Euro parties gain power in Germany or Finland, it is probable that hostility to the Euro will lose relevance in their economic policy.

Second, the political relevance of hostility to the Euro resides mainly in its ideological function. Thus, hostility to the Euro may play a more critical role in the electoral programmes and communication patterns of anti-Euro parties than in their economic policies. This means that if anti-Euro parties gain power in other Eurozone countries, their commitment to implementing their electoral and ideological plans may outweigh the economic convenience of adopting anti-Euro policies. Thus, exiting the Euro remains a possibility for all those countries where anti-Euro parties could gain power in the future.

Third, the role of EU institutions in resisting hostility to the Euro is crucial, but its impact is felt mainly on the political side and by informal governance strategies. The rejection of the Italian budget proposal by the Commission was essential in confronting the Italian anti-Euro challenge, but its effectiveness lay not in EU economic governance tools or European semester procedures. The link between the EU institutions and international markets was what made M5 s–League anti-EU policy economically unsound. Seemingly, the positive attitude of the Commission to the second Conte government (or the M5 s–PD–LeU government)

has strengthened internal political cohesion and marginalized anti-Euro campaigners. In other words, the political action of EU institutions and its impact on financial markets was what facilitated the abandonment of hostility to the Euro by the M5 s, and the collapse of the M5 s–League government. This strategy could be much less effective if applied to countries less dependent on international financial markets.

## Notes

1. The term ‘anti-EU’ used in this article fits better with the vehement hostility to the EU shown by some political parties than does the traditional term, ‘Euroscepticism’. In fact, Euroscepticism refers to a negative attitude towards further integration, not to open opposition to the EU with the (declared or implicit) aim of dismantling it, as in the case of many anti-Euro parties.
2. See Savona (2015) and the slides with the Plan B explanation at <https://scenarieconomici.it/il-piano-b-per-litalia-nella-sua-interrezza/> (consulted 19 October 2019).
3. Bagnai, Borghi and Rinaldi were elected to Parliament in 2018 as League candidates. Bagnai became the president of the Senate Finance Committee while Borghi was elected president of the Chamber of Deputies’ Committee for the Budget, the Treasury and Economic Planning. Borghi is also the League’s spokesperson for the economy.
4. In November and December 2019 the League attacked the new Conte government for its support for revision of the European Stability Mechanism (ESM), accusing it of being subservient to EU powers, even though League leader, Matteo Salvini was deputy Prime Minister when discussion of the revision started and a basic agreement was found at intergovernmental level. This attack and the subsequent acrimonious debate in Parliament show that hostility to the Euro remains a key weapon used by the League to gain power and divide its opponents, mainly because of its appeal to those M5 s parliamentarians who share the League’s anti-Euro ideology.
5. For decades, the League was a regionalist party with an electoral base almost exclusively centred in Northern Italy. Independence for Padania (a mythical nation the League identifies with the population of northern Italy) was its main political objective. It was only with the rise of Matteo Salvini as party leader that the League abandoned regionalism and gained a nation-wide electoral base.
6. Since before its rise to power, M5 s hostility to the Euro was less vehement than the League’s. The main demonstration of hostility to the Euro by the M5 s was the proposal for a consultative referendum on leaving the Euro advanced in 2014 by Grillo who repeatedly expressed his hostility to the common currency and Eurozone rules (Franzosi, Marone, and Salvati 2015: 113–15; Garcia Lupato and Tronconi 2016). Other anti-Eurozone proposals had been included in the M5 s electoral programme for the 2014 European election entitled ‘Seven Points for Europe’ (Franzosi, Marone, and Salvati 2015, 113–14).
7. Italia Viva is a party created in September 2019 by the former Prime Minister, Matteo Renzi, who left the PD with approximately 35 other PD parliamentarians.
8. Grillo frequently refers to Stiglitz and other internationally known economists like Krugman and Fitoussi as intellectual referees for the M5 s. In 2013 there were ambiguous statements (which it seems were not true) by Grillo concerning his collaboration with Stiglitz in writing the M5 s economic programme. The three economists are frequently cited on Grillo’s blog (<http://www.beppegrillo.it>), and some of their articles have been published (in Italian) there.
9. This was the case of Italia dei Valori (Italy of Values, IdV), a party founded by the well-known public prosecutor, Antonio Di Pietro. Due to mismanagement, the party lost most of its supporters to the M5 s. Although the new IdV secretary, Ignazio Messina, was hostile to

the M5 s, he and the IdV executive committee saw Bagnai and his theories as being the main point of reference for IdV's economic and European programme .

10. It was Bagnai, in particular, who stressed this point, rejecting corruption and bad governance in the previous decades as an explanation for Italy's economic decline. Instead, he stressed the hegemonic role of Germany and its ability to bend EU policies and the Eurozone architecture to German interests (Bagnai 2012, 2014).
11. An example of the change in M5 s attitudes to the EU and its institutions was the Movement's support in the European Parliament for Ursula von der Leyen as the new President of the European Commission. On that occasion, the M5 s MEPs voted together with the PD and against the League MEPs even though they were allied in the Italian government.
12. This was the case of Senator Gianluigi Paragone, who abandoned the M5 s and immediately after resumed his promotion of anti-Euro sentiments.
13. At the 2018 Italian general election, the League won 125 seats in the Chamber of Deputies and 58 seats in the Senate as part of the centre-right coalition whose constituent parties had a combined total of 265 deputies and 137 senators. The M5 s won 227 deputies and 112 senators. The results meant that the M5 s was the winning party and the centre right the winning coalition (D'Alimonte 2019, 116).
14. See the final version of the contract at <https://bit.ly/2rWVt6v> (consulted 19 October 2019).
15. Tria is a pro-EU academic and a supporter neither of the League nor the M5 s. His appointment was designed to provide the reassurances, demanded by Mattarella, of the Government's adherence to the Eurozone rules, and to calm the nerves of the international financial markets and Italy's Eurozone partners.
16. In an earlier draft of the document, the anti-Euro nature of the policy programme is more accentuated. In the section devoted to the European Union (p.35) the anti-Euro attitude of the new government is clearly depicted. In fact, the contract states: 'The framework of European economic governance (the Stability and Growth Pact, Fiscal Compact, EMS and so on) based on market predominance and the respect of stringent, economically and socially unwarranted and unsustainable constraints, must be radically changed. Meantime, in order to allow member states to initiate procedures leading to an agreed exit [from the Eurozone] in the event of a clear popular desire to leave, specific economic and juridical technical procedures must be introduced to allow member states to withdraw from the monetary union and so regain their monetary sovereignty, or to stay out [of the Eurozone] by means of a permanent opt-out clause' (author's translation). See Huffington Post, 2018 'Un Comitato di conciliazione (parallelo al Consiglio dei ministri)', 15 May 2018, <https://bit.ly/2k3bCmx> (consulted, 19 October 2019).
17. The '*reddito di cittadinanza*' (citizens' income) is a subsidy to citizens on low incomes and sits alongside the '*pensione di cittadinanza*' (citizens' pension) for the elderly. Both subsidies are designed to increase the total incomes of the beneficiaries to €780 per month.
18. '*Quota 100*' concerns a reform of the pension system that allows workers with global seniority (the sum of their age and the years of paid contributions) of 100 (e.g. workers of 62 years of age who have paid social security contributions for 38 years) to retire.
19. The spread rose dramatically from May 2018 to November 2018, initially as a consequence of the markets' fear that the new M5 s-League government might take Italy out of the Eurozone, and later because of the rejection of the Italian budget by the European Commission. Starting from approximately 130 basis points immediately after the 2018 elections, the spread touched 326 points at the end of November 2018. Later, it declined mainly because tensions between the M5 s-League government and the Commission softened, and an agreement on the Italian budget was reached.
20. Surveys that suggested a dramatic increase in electoral support for the League and a drastic decline in votes for the M5 s were confirmed by the 2019 European election results when the League won 38% of the votes and the M5 s only 17.1%.
21. The acronym 'BOT', stands for *buoni ordinari del Tesoro*, or Treasury bills. The best translation of '*minibots*' is, therefore, 'low denomination government bonds'.

22. The Italian government accepted a reduction of the planned deficit from the proposed 2.4% of GDP to 2.04%. It also agreed to significant increases in VAT rates if the budget provisions were not respected.

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# *Fake News, Economic Ideologies and the Rise of Anti-Euro Parties*

Roberto Di Quirico

## **1. Introduction**

Politics in the European Union during the 2010s was shaped by the consequences of the international economic crisis and the rise of populism. These events changed politics and electoral competition in the EU member states. While the economic crisis delegitimized mainstream parties and favoured the rise of new ones, the rise of populism transformed political competition from intra-systemic to pro vs anti-systemic<sup>1</sup>. In other words, many of the new parties that appeared in the 2010s or were reinvigorated by the economic crisis and by popular discontent proposed themselves as anti-system parties, contesting the whole system and offering themselves as alternatives to the parties in governments and their choices.

Moving to anti-system positions means delegitimizing the existing system and proposing to change it dramatically. A working strategy for anti-system parties, which had already been tested in the 1930s and the 1970s, is to depict the nature of the existing system as the main cause of its crisis. As happened in the past with communist and fascist parties, contesting the system needs to propose an alternative and better system as a substitute. The necessity to do so made new policy aims, political beliefs and a systemic critique indispensable. In other words, anti-system parties had to create a new ideology apparently coherent for capturing and convincing new supporters. In the 2010s, they took advantage of the impressive expansion in online political participation and the latest social media role in shaping political preferences.

The rise of populism and the transformation in European party politics advanced with the politicization of new issues previously neglected, and became relevant because of the crisis. This was the case with European monetary integration and its most important symbol: the euro. The euro issue became an essential element in the construction of an anti-system ideology

1. Cfr. H. Kriesi, *The Populist Challenge*, in «East European Politics», vol. 37, n. 2, 2014, pp. 361-378.



in many Economic and Monetary Union (EMU) countries and inspired the political programme of important parties that gained growing consensus during the 2010s. Such relevance of the euro and monetary policy added to the crucial issue of the Eurozone crisis and the strategies for economic recovery that were central in the political programmes of the populist parties and in their political communication. So, economics became crucial in proposing a new ideology to attract supporters. However, alternative economics (or populist economic ideology) is required to appear coherent to be credible and applicable for supporting populist policy proposals.

The need for coherence also permitted to amplify the effect of the “echo chambers” that characterizes the populist debates online. A network of hyperlinks connecting blogs and papers created a loop in which online activists navigate in a self-assessing context. Each post or article confirms the conclusions of the others that are parts of the network while dissenting and critical texts are marginalized or excluded by the debate.

The specific case of anti-euro parties and the construction of their economic ideologies is relevant to study the complexity of populism diffusion in the 2010s. Two essential elements emerge from this case. First, it is crucial distinguishing the cultural background of populists. Often, populists are pictured as illiterate or poorly educated persons who support simplistic political proposals, sometimes misled by fake news and propaganda. Instead, the case of anti-euro parties and the construction of economic ideologies show how educated persons had been attracted by populism and contributed to creating and reinforcing complex economic ideologies. Second, this case study suggests distinguishing between “fake news” and “fake economics” when studying populism. While fake news usually deal with a specific event or persons, “fake economics” is much more complex because it is the attempt to create a (looks like) coherent network of fake news or misleading analysis. Also, while in many cases fake news are made deliberately as fake and later diffused by believers, fake economics results from a complex interaction in which scientific and non-scientific pieces of evidence are connected by many actors and adapted to support political proposals. So, the main aim of the creators and contributors of fake economics is not the diffusion of fake news to cheat naïve persons but instead the creation of a coherent set of views to amplify the echo chambers effect for educated persons, particularly those educated in disciplines other than social sciences. This strategy worked for both populist and traditional anti-EU parties

This chapter illustrates the early results of broader research on anti-euro parties in EMU countries. The term “anti-eurist” for opponents of the EMU and supporters of the anti-euro parties is preferred to the more intuitive ‘anti-euro’ to avoid confusion between specific hostility against the common currency and the more generic opposition to the EU or other euro-level activities. Similarly, the term “anti” has been preferred to the more ambiguous



term “sceptic” (e.g. anti-EU instead of Eurosceptic) to stress a considerable opposition against the EU, the EMU and European integration.

The main ambition of this chapter is explaining the connection between new forms of political participation and the diffusion of anti-euro parties during the 2010s. We suggest here that the main step in establishing this connection was the creation of an ideology capable to offer an apparently coherent framework where populists and other opponents of the euro can justify their policy proposals. The construction of this ideology will be analyzed in section 2. A clear definition of anti-eurism and its different levels is required to study these parties, and it will be proposed in the section 3. This definition allows in section 4 creating a list of anti-euro parties in the EMU that will help study their main characteristics, potentialities, and relevance in their country's politics and the European Parliament. Despite the scarcity of literature on the anti-euro parties as a category<sup>2</sup>, in section 5, a first attempt to understand the relevance of anti-eurism and explain its rise will be proposed in a comparative perspective.

## **2. The economics of anti-eurism: explaining the Eurozone crisis to “digital” citizens**

The international economic crisis started in the USA in 2008 with the collapse of Lehman Brothers, and the following Eurozone crisis were the main engines of populism widespread in the EU. Still, the international economic crisis and its impact on the EU member states focalized political tensions in the economic side of policy and boosted anti-systemic attitudes of electors. This process created electoral space for new parties capable of proposing themselves as an alternative to mainstream parties and the political establishment. However, other reasons, as the crisis of mainstream parties and the invasiveness of EU governance, help to explain the rise and diffusion of populism.

The economic crisis in Greece and the dramatic impact of the Troika measures and rescue plans widespread concern about the economic future in the EU and the soundness of economic policies carried on by the governments in power. Many populist leaders saw the rise of Syriza in Greece and the fight against the Troika as a sign of a mounting “anti-EU revolution”<sup>3</sup>. Later, when

2. In contrast, there is extensive literature on the single anti-euro parties, particularly the most successful ones like the German Alternative für Deutschland, the Italian Lega and the French Rassemblement National. Also, the political relevance of “concern about the euro” has been debated in the literature. Cfr. A. Chadi, *Concerns about the Euro and Happiness in Germany during Times of Crisis*, in «European Journal of Political Economy», vol. 40, 2015, pp. 126-146.

3. The Greek crisis had a relevant impact on anti-Europeanism and anti-eurism. It appeared in the eyes of EU citizens as a demonstration of the EMU failure and the unacceptable cost

the crisis became a general European crisis that put at risk the existence of the whole Eurozone, fears about an economic collapse widespread in the EU and added to the high levels of unemployment in feeding dissatisfaction against governments in charge and, more generally, on the economic policies in the EU, both those carried on by member states governments and those supported by the EU. So, new and vast political space opened for those new parties capable of offering alternative visions of the economics and new economic policies to solve the problems of the Eurozone, at least those problems perceived by the electors as affecting their lives negatively.

The Eurozone crisis also favoured the diffusion of anti-Europeanism that already mounted in the early 2000s, in particular after the introduction of the euro. The moving from “permissive consensus” to “constraining dissensus” originated in part from the growing pervasiveness of EU governance and rules in member states policies<sup>4</sup>, in particular in the fields of economics and

of the euro for democracy and freedom. Also, citizens in other troubled EU countries saw the Greece situation as their possible future if the EU policies were applied to all debtor countries. On the other hand, citizens in the creditor countries saw at the protest and claims of the Greece government a demonstration of the costs that can come for creditor countries due to the poor budget policies and corruption in Southern Europe. For an overview of the Greek crisis and its impact on the EU public opinion, cfr.: G. Pagoulatos, C. Triantopoulos, *The Return of the Greek Patient: Greece and the 2008 Global Financial Crisis*, in «South European Society and Politics», vol. 14, n. 1, 2009, pp. 35-54; K. Featherstone, *The Greek Sovereign Debt Crisis and EMU: A Failing State in a Skewed Regime*, in «Journal of Common Market Studies», vol. 49, n. 2, 2011, pp. 193-217; M. Mitsopoulos, T. Pelagidis, *Understanding the Crisis in Greece: From Boom to Bust*, Palgrave Macmillan, New York, 2012; D. Debomy, *EU no, Euro yes? European public opinions facing the crisis (2007-2012)*, Policy paper n. 90, Notre Europe – Jacques Delors Institute, Paris, 2013; B. Clements, K. Nanou, S. Verney, “*We No Longer Love You, but We Don’t Want To Leave You*”: *The Eurozone Crisis and Popular Euroscepticism in Greece*, in «Journal of European Integration», vol. 36, n. 3, 2014, pp. 247-265; M. Spourdalakis, *The Miraculous Rise of the “Phenomenon Syriza”*, in «International Critical Thought», vol. 4, n. 3, 2014, pp. 354-366; Y. Stavrakakis, G. Katsambekis, *Left-wing Populism in the European Periphery: The Case of Syriza*, in «Journal of Political Ideologies», vol. 19 n. 2, 2014, pp. 119-142; R. Di Quirico, *A Europe Apart. History and Politics of European Monetary Integration*, European Press Academic Publishing, Firenze, 2020.

4. *Permissive Consensus* and *Constraining Dissensus* are the two concepts introduced in the 2000s to explain the shift from Europeanism to Euroscepticism in the EU and the limits this shift imposed to EU policies and further integration. Accordingly with the leading proponents of this theory, permissive consensus facilitated integration for the early decades of the process. When European citizens were not touched too much by the consequences of the European Economic Community policies. This permitted the governments to go ahead toward further integration without having to face popular opposition. All changed when the Maastricht Treaty and the rise of the EMU made the communitarian policies more pervasive and EU-related issues entered the domestic political debate. Then, the widespread Euroscepticism demonstrated by the failure of the French referendum on the so-called European Constitution constrained the EU member states government to avoid further steps toward deeper integration because of the popular dissensus. Cfr. L. Hooghe, G. Marks, *A Postfunctionalist Theory of European Integration: From Permissive Consensus to Constraining Dissensus*, in «British Journal of Political Science», vol. 39, n. 1, 2009, pp. 1-23.

welfare. This transformation in the citizens' attitudes toward the EU and European integration helped populists convey the general dissatisfaction of European citizens to criticism against the main economic result of European integration; it means the euro. So, monetary integration became crucial to explain the economic crisis in the EU and the specific problems of some member states.

The crucial dichotomy that resumes the political use of anti-eurism in the 2010s is the contrast between the so-called "Northern Saints" and "Southern Sinners"<sup>5</sup>. This dichotomy derives from the North-South divide that emerged in economic performances and debtors/creditors positions being how this divide has become a politicized issue, particularly in the creditor countries. In many representations, in particular the public opinion of Germany and other creditor countries, Northern Saints are those countries that work well in the EMU and that financially supported the Southern Sinners; it means those countries that renounced to keep in line their budget and economic policies to fit with the EMU rules. So, the sins of the Southern EMU member states could result in financial costs for the good citizens in the Northern (Saints) countries.

The same divide seen by the Southern perspective looks like a "Northern Exploiters" and "Southern Victims" contrast. Creditor countries are accused of being the engineers of an exploitation system that aims to cut the Southern countries economic competitiveness and create the condition for worsening their debtor position. So, the EMU appears as an exploitation tool for financially enslaving Southern countries and curbing permanently their possibility of recovering and becoming competitive in intra-EU trade<sup>6</sup>. So both for Northern Saints and Southern Sinners, the euro is the problem.

Due to such diverging interpretation of the EMU and the euro role in causing and feeding the Eurozone crisis, anti-eurism has been adopted by parties with opposite aims. In Southern Europe, anti-eurists criticize the EMU as the reason for economic troubles and loss of competitiveness. Most importantly, euro and EMU are presented as the primary tools Germany used to gain economic and financial predominance in Europe and curb the competitiveness of the other economies. Instead, in Germany and other "Northern Saints", anti-eurists saw the euro as the link between virtuous and vicious countries and the channel by which citizens' money could flow from virtuous to vicious countries.

These rough and simplistic pictures of the economic and financial relationship inside the EMU derive from more sophisticated analyses

5. Cfr. M. Matthisjs, K. McNamara, *The Euro Crisis' Theory Effect: Northern Saints, Southern Sinners and the Demise of Eurobond*, in «Journal of European Integration», vol. 37, n. 2, 2015, pp. 229-245.

6. This is a rough description of the different positions adopted by anti-eurists regarding the role of the EMU in generating and feeding the North-South divide. Also, it is essential to keep in mind the difference between media and populists in picturing the matter and the different impacts on public opinion.

proposed by academics who saw mainly the economic side of the problem to offer political solutions that attracted anti-eurists. So, their work was crucial to build the anti-eurist ideology and to spread it on the media.

The “academic fathers” of anti-eurism include economists who criticized the EMU for scientific purposes only, and other scholars who emphasized the EU monetary integration’s distortions and weakness deliberately, and aiming to propose policy solutions. It is essential to keep in mind that the anti-eurist implications of economists’ criticism of the EMU were not stressed by the economists themselves in many cases. Instead, the intermediation of other actors was crucial, mainly opinion leaders, bloggers, and politicians who referred to famous economists to give scientific legitimacy to their political proposals. World-renowned academics like Stiglitz and Krugman, who criticized the working of the EMU and stressed the problems created by the euro to some countries in crisis (e.g. Greece), had been cited frequently by anti-eurist leaders and echoes of their theories can be found in the anti-eurist literature<sup>7</sup>. However, their analysis is usually oversimplified or distorted by anti-eurists or not coherently connected with the anti-eurists policy proposals.

On the other hand, some academics can be considered anti-eurists because they added to their scientific analysis some policy proposals that have an anti-eurist nature. Among these academics, Hans Werner Sinn is the most important both as scientist and contributor to the anti-eurist literature. In his writings<sup>8</sup>, Sinn explains who the EMU really works in technical terms and suggests that these technicalities are critical. In particular, Sinn said that the TARGET2 system for inter-EMU payments is the channel through which debtors countries impose to Germany to lend them its money<sup>9</sup>. This is a

7. On Stiglitz and Krugman criticism to the EMU, cfr. P.R. Krugman, *Ending Greece’s Bleeding*, available at: [www.nytimes.com/2015/07/06/opinion/paul-krugman-ending-greeces-bleeding.html](http://www.nytimes.com/2015/07/06/opinion/paul-krugman-ending-greeces-bleeding.html) (last accessed September 1, 2021); Id., *Europe’s Impossible Dream*, available at: [www.nytimes.com/2015/07/20/opinion/paul-krugman-europes-impossible-dream.html](http://www.nytimes.com/2015/07/20/opinion/paul-krugman-europes-impossible-dream.html) (last accessed September 1, 2021); Id., *Annoying Euro Apologetics*, available at: [krugman.blogs.nytimes.com/2015/07/22/annoying-euro-apologetics/](http://krugman.blogs.nytimes.com/2015/07/22/annoying-euro-apologetics/) (last accessed September 1, 2021); J.E. Stiglitz, *The Euro: How a Common Currency Threatens the Future of Europe*, W.W. Norton & Company, New York, 2017.

8. H.W. Sinn, *Farewell to the Euro?*, available at: [www.project-syndicate.org/commentary/farewell-to-the-euro](http://www.project-syndicate.org/commentary/farewell-to-the-euro), 30-6-2011 (last accessed September 1, 2021); Id., *Should Germany Exit the Euro?*, available at: [www.project-syndicate.org/commentary/should-germany-exit-the-euro-by-hans-werner-sinn?barrier=accesspaylog](http://www.project-syndicate.org/commentary/should-germany-exit-the-euro-by-hans-werner-sinn?barrier=accesspaylog), 23-4-2013 (last accessed September 1, 2021); Id., *The Euro Trap. On Bursting Bubbles, Budgets, and Beliefs*, Oxford University Press, Oxford, 2014.

9. The Trans-European Automated Real-Time Gross Settlement Express Transfer System 2 (Target2) is the system used by the ECB and the national central banks to manage the intra-EU money transfer. Debts and credits of each central bank toward other central banks of the EMU are charged by the ECB and transformed into debts or credits of the central banks toward the ECB. So, the idea proposed by Sinn that the massive debts of Italy and Spain inside the TARGET2 system are the equivalent of the massive German credit (so a debt Italy and Spain have with Germany) is not technically correct.

crucial contribution to the Northern Saints vs Southern Sinners controversy because it offered a helpful technical insight to validate a feeling deeply rooted in the public opinion since the early days of the EMU and that saw at the EMU as a risk for German citizens' savings. Also, the scientific contribution of Sinn suggests the EMU impossibility to work as it is and the difficulties to reform it.

Sinn is not a political activist and his personal contribution remains confined to the scientific debate. However, Sinn is just the best-known example of widespread opposition to the euro in the German academy<sup>10</sup>. From this sector of German economics, Bernd Lucke emerged to create Alternative für Deutschland, the main anti-eurist party in Europe in the early 2010s.

In Italy, anti-eurism draws most of its theoretical bases from the work of Alberto Bagnai. He proposed an interpretation of Italian economic history in which the Italian economic decline is explained by the damages and constraints imposed by the euro. Bagnai defines the Italian membership in the EMU as a trap organized by Italy's main competitors (mainly Germany) to curb Italian economic competitiveness. Also, Bagnai suggests that EMU membership is a self-powered mechanism that increasingly and irreversibly reduces Italy's competition capability<sup>11</sup>. So, the only possibility to save the country from inexorable stagnation and debt slavery is leaving the euro. A large part of Bagnai's argumentation does not survive a scientific reading by experts. However, the narrative style adopted by Bagnai, his work and success as a blogger, and the need anti-system parties had to give scientific legitimacy to their economic policy proposals made of Bagnai the leading theoretician of anti-eurism in Italy and the referee for both the two main anti-eurist parties in Italy during the 2010s; it means the Lega and the M5S.

In the case of Greece, academic contribution to anti-eurism was

10. However, opposition to the euro in Germany originated many years before. Since 1992 a group of German economists publicly distrusted the Maastricht plan for monetary integration, and in 1998 160 German economists signed a declaration expressing concern about the introduction of the euro. Such rooted support for opposition against the euro granted the initial backing of some academics and industrialists to Alternative für Deutschland. Cfr. S. Reher, *German Euroscepticism: Alternative für Deutschland in 2014*, in M. Franklin, J.H. Nielsen (eds.), *The Eurosceptic 2014 European Parliament Elections*, Palgrave Macmillan, London, 2017, pp. 37-56; J. Kim, *The Radical Market-oriented Policies of the Alternative for Germany (AfD) and Support from Non-beneficiary Groups: Discrepancies between the Party's Policies and Its Supporters*, in «Asian Journal of German and European Studies», vol. 3, n. 6, 2018, pp. 1-24 (in particular p. 12); P. Moreau, *Le national-populisme en Autriche et en Allemagne: approche comparative de l'AfD et du FPÖ*, in «Revue d'Allemagne et des pays de langue allemande», vol. 50, n. 1, 2018, pp. 159-182; L. Rensmann, *Radical Right-Wing Populists in Parliament. Examining the Alternative for Germany in European Context*, in «German Politics and Society», issue 128, vol. 36, n. 3, 2018, pp. 41-73.

11. A. Bagnai, *Il tramonto dell'euro. Come e perché la fine della moneta unica salverebbe democrazia e benessere in Europa*, Imprimatur, Reggio Emilia, 2012.

anomalous. The country was a laboratory for both anti-eurism and anti-Europeanism. However, the debate on the problems of the EMU and the contribution to anti-eurism mainly came in Greece from abroad and moved from Greece to the rest of the Eurozone, instead of contributing to creating a robust anti-euro movement in the country. The main contributor to the debate on the Greek crisis and the euro was the Greek economist and former Finance Minister Yanis Varoufakis, who acted as the primary economic expert for Syriza and joined the government when the party gained power and its leader Tsipras became Prime Minister. The contribution of Varoufakis to the widespread of anti-eurism is not inspired by a deliberate rejection of the common currency as in Bagnai. Instead, Varoufakis emphasize the limits of the EMU and its political consequences. Also, his contribution is mainly devoted to search for arrangements that can solve the Greek and the Eurozone crisis<sup>12</sup>. However, the Greek crisis's enormous echo in the EU public opinion and the visibility offered by Varoufakis proposals to non-orthodox economists as James Kenneth Galbraith and new economic theories about monetary economics and budget policies resulted in the widespread of some elements of the Greek debate to the anti-eurist literature.

### 3. Defining anti-eurism and identifying anti-euro parties

A crucial problem in this study is defining what anti-eurism means and what criteria may be used to distinguish between anti-eurist and non-anti-eurist parties.

Anti-eurism is here defined as a negative attitude towards the Economic and Monetary Union and, more specifically, the euro. The intensity of this attitude became the most important discriminant to identify and classify anti-euro parties. Many parties criticize monetary integration and the introduction of a common currency for so many countries with different economic structures. These critics can be vehement and harsh, but it does not mean that all these parties propose dismantling the EMU or abandoning the euro. So, a definition of anti-euro parties can be centred on the level of opposition to the euro and the party's political proposals on the topic. A classification inspired by the system proposed by Taggart and Szczerbiak for Euroscepticism follows<sup>13</sup>.

12. Cfr. Y. Varoufakis, S. Holland, J.K. Galbraith, *Modeste proposition pour résoudre la crise de la zone euro*, Les Petit Matins, Paris 2014; Y. Varoufakis, *Adults in The Room: My Battle with Europe's Deep Establishment*, Bodley Head, London, 2017.

13. Cfr. P. Taggart, A. Szczerbiak, *Opposing Europe? The Comparative Party Politics of Euroscepticism*, Oxford University Press, Oxford, 2008.



*Table 1: Classification criteria for the levels of anti-eurism in political parties' programmes*

<i>Level of anti-eurism</i>	<i>Abb.</i>	<i>Description</i>
Light	L	These parties ask for reorganizing the euro area and to change the Maastricht parameters to make EMU rules less stringent.
Medium	M	These parties propose conceding an opting-out option for those EMU member-states that ask to exit the euro. However, this option should be regulated by EU treaties (to be reformed) and do not imply dismantling the EMU or the abandonment or permanent exclusion of the exiting countries from the EU and the EMU.
Medium-High	M-H	These parties propose the abandonment of the EMU by their countries with or without the approbation of the other member states explicitly.
High	H	These parties propose dismantling the EMU and, in many cases, the EU too.

Following the classification proposed above, a party is here considered anti-eurist when its level of anti-eurism is classified as medium-high to high; this means that its political proposals about EMU reform or abandonment is not constrained in the EU treaties framework<sup>14</sup>.

This classification, to be applicable, needs identifying affordable indicators of the anti-eurist nature of the party political proposals. While public speeches and law proposals can reveal the anti-eurist nature of a party, the most affordable documents for classification are electoral programmes and, occasionally, government programmes when released. Also, electoral programmes are collectively agreed upon by the party leaders and are specifically written to send electors clear messages and political proposals. Finally, electoral programmes also indicate the timing of the proposals and their significance at the time.

Timing is another essential element to consider for a working identification of the anti-euro parties. Many parties gain consensus thanks to specific issues that characterize them for a certain period. However, it is possible that the same issue changes its relevance to the party programme and loses or gains importance over a while. This is the case for some parties that explicitly declared their hostility or harsh criticism against the EMU and later softened their negative feeling for convenience or political programme redefinition<sup>15</sup>. In

14. The two categories had been kept separated because this solution permits to trace better oscillations in the anti-eurist level of parties' programmes that could change to fit better with the party's priorities of the moment.

15. This is the case for the Italian Movimento 5 Stelle (Five Star Movement or M5S), which could be considered an anti-euro party until the aftermath of its rise in power in Italy in 2018. However, having to face governmental duties and the ineffectiveness of anti-euro policies, the M5S softened its anti-euro attitudes drastically. Cfr. P. Franzosi, F. Marone, E. Salvati, *Populism*

addition, various anti-euro parties emerged after the start of the international crisis and collapsed a few years later<sup>16</sup>. Therefore it is essential to distinguish between existing anti-euro parties and defunct anti-euro parties. The former can still influence politics, while it is helpful to know about the latter in analyzing political choices in the recent past.

For the reasons given above, in this chapter, the anti-eurism level of a party has been evaluated referring to electoral programmes (2013-2019), recent elections (2014-19) and only for parties still at work in January 2019. Recent data of the Manifesto Project database and the 1999-2014 Chapel Hill Expert Survey has been used for preparing a list of potentially anti-euro parties<sup>17</sup>. For each of these parties, electoral programmes (particularly those for the 2014 and 2019 European elections) have been analyzed to determine the anti-eurism level of the party. Only those with an anti-eurist grade of M-H and H have been included in the final list of truly anti-euro parties in the EMU countries (*Table 2*). However, light and a medium level of anti-eurism can indicate a potential evolution towards a more radical anti-eurism in the future.

Of course, classifying anti-euro parties requires a certain level of discretion. Some parties explicitly declare their attitudes toward the euro. Still, in many other cases, this attitude must be inferred by more general declarations or as a consequence of different political positions more clearly exposed. The latter is the case for many far-left wing parties that oppose the whole capitalist system without declaring a specific position about the euro. However, not all far-left parties are explicitly proposing the abandonment of the euro and cannot be considered anti-eurist by default. Some of these parties saw a critical acceptance of the EMU as a tactical and temporary approach to the matter. They were resistant to the idea of proposing a radical transformation of the existing economic structure in the short term. Consequently, there are far-left wing parties considered soft-anti-eurist or not anti-eurist at all.

Another element that makes it challenging to prepare an exhaustive list of anti-euro parties in the EMU countries depends on the parties' evolution.

*and Euroscepticism in the Italian Five Star Movement*, in «The International Spectator: Italian Journal of International Affairs», vol. 50, n. 2, 2015, pp. 109-124 (in particular pp. 113-114).

16. A relevant example is the Team Stronach für Österreich, an Austrian party created in 2012 by the businessman Frank Stronach and dissolved in 2017. The party fit the characteristic of an anti-euro party and gained 11 deputies in the Austrian legislative elections in 2013. Cfr. J. Schärdel, P. König, *Professors, Comedians and Billionaires: An Empirical Analysis of Newspaper Coverage of New Eurosceptic Parties in Three 2013 National Elections*, in «Comparative European Politics», vol. 15, n. 2, 2017, pp. 310-335.

17. The list includes parties with a value <3 of the indicator 'Position' in the Chapel Hill dataset and a value >3 of the indicator 'per 110' in the Manifesto Project dataset. Few other parties suggested by the literature have been added to the list. Cfr. R. Bakker, E. Edwards, L. Hooghe, S. Jolly, G. Marks, J. Polk, J. Rovny, M. Steenbergen, M. Vachudova, *2014 Chapel Hill Expert Survey version 2015.1*, available at: [www.chesdata.eu](http://www.chesdata.eu) (last accessed September 1, 2021); Id., *Measuring Party Positions in Europe: The Chapel Hill Expert Survey Trend File, 1999-2010*, in «Party Politics», vol. 21, n. 1, 2015, pp. 143-152.



Although this research is confined to the 2010s, during this period many parties changed their names, joined with other parties in new parties or federations, or simply disappeared. Some of them interrupted their activities, while others changed from party to non-electoral associations<sup>18</sup>. *Table 2* and *Table 3* only include parties still existing on 1<sup>st</sup> January 2019. However, some anti-euro parties disappeared during 2019. Others started to act as political movements or proto-parties still in the organization phase, making the parties' list need a continuous upgrade<sup>19</sup>.

#### 4. Describing anti-euro parties

The most important anti-euro parties are not issue-led parties, and anti-eurism is just one of their anti-systemic attitudes. The main exception is the German party Alternative für Deutschland (AfD)<sup>20</sup>, which was created as an issue party devoted to contesting German membership in the European monetary union. However, after its initial success, the party moved toward a more complex and far-right oriented political programme, and anti-eurism became just one of the core political proposals<sup>21</sup>.

Notwithstanding the concomitance of the anti-eurism flame and the diffusion of populist parties, anti-euro parties are not exclusively populist parties. Most of them came from the traditional left-right axis and integrated their political programmes with populist issues and communication methods. So, we must keep in mind that distinguishing between populist and non-populist parties is not essential for the study of anti-eurism. In fact, notwithstanding the emphasis proposed in the academic literature on the transformation of the European party system due to the rise of populism, the latter is much more a characteristic of political programmes than a distinguished character of the party<sup>22</sup>. Instead, it

18. This is the case of the Italian far-right party CasaPound that changed its nature from party to movement after discouraging electoral results in the 2019 European elections.

19. An example is the Italian proto-party Vox Italia, led by the anti-euro philosopher Diego Fusaro, which is attracting members from other far-right parties. Another Italian anti-euro party was founded in July 2020 by former M5S senator Paragone. After his expulsion from the M5S he created a party named *No Europa per l'Italia – ItalExit con Paragone*, which deliberately aims to drive Italy out of the EU and the euro.

20. Alternative für Deutschland was created in 2012 as Wahlalternative 2013 (Electoral Alternative 2013). It changed its name to Alternative für Deutschland in 2013. The economist Bern Lucke became the leader of the party. Cfr. N. Berbuir, M. Lewandowsky, J. Siri, *The AfD and Its Sympathizers: Finally a Right-Wing Populist Movement in Germany?*, in «German Politics», vol. 24, n. 2, 2015, pp. 154-178.

21. Cfr. R. Grimm, *The Rise of the German Eurosceptic Party Alternative für Deutschland*, in «International Political Science Review», vol. 36, n. 3, 2015, pp. 264-278; R. Schmitt-Beck, *The "Alternative für Deutschland in the Electorate": Between Single-Issue and Right-Wing Populist Party*, in «German Politics», vol. 26, n. 1, 2017, pp. 124-148; L. Rensmann, *Radical Right-Wing Populists in Parliament*, cit.

22. Many of the larger parties defined as populist in the EU are pre-existent parties that

could be helpful to classify populist parties (or former parties now become populist) as right-wing and left-wing populists accordingly to their history or the main issue they deal with in their political programmes. Also, it is essential to distinguish the traditional far-right parties from the new European far-right. The latter arose from established parties' transformation and reorganization processes and was mainly activated by the economic crisis. These processes favoured the transition of some former traditional far-right parties to a new strategy of communication of their political proposals and to hidden neo-fascist origins. Meanwhile, other parties that were not originally neo-fascist moved towards far-right positions, attracted by the opportunity to gain electoral support. However, it seems that the fake economic we described in the previous sections is mainly a characteristic of populist parties later accepted and used by traditional parties that moved toward populism<sup>23</sup>.

The list of anti-euro parties proposed in *Table 2* allows us to understand better the nature of these parties and, in part, the origins of their anti-euro attitudes. Most of them can be classified according to their position on the right-left axis. Numerically and in terms of electoral results, the most relevant anti-euro parties belong to the right and far-right wings. Left and far-left wing parties constitute the second group, while the remaining few are from the centre and centre-right wing. Almost all the major anti-euro parties (*Table 3*) come from the right/far-right side<sup>24</sup>, with the relevant exception of the Akel party of Cyprus and Cdu in Portugal. Instead, many anti-euro parties from the centre to the far-left wing are small and unable to gain a significant share of votes (here considered at least 1 per cent) and seats in the Parliament (both national and European parliaments).

The predominance of right and far-right wing parties among the anti-euro category is not surprising. Euroscepticism and anti-Europeanism had been widely diffused in that faction for decades. Also, most of the new wave of populism that rose in the 2010s favoured parties that used popular dissatisfaction regarding the economic crisis to reinforce their political programmes. However, being a far-right party does not mean being anti-euro by default. There are relevant cases of far-rightist parties that declare to be Europeanist or not anti-Europeanist and do not claim anti-euro proposals<sup>25</sup>. Also, it is essential to note

elaborated their political programmes in a populist form. This is the case of the Italian Lega Nord that moved from regionalism to the far-right populist position or the Front National and Fratelli d'Italia, two former far-right parties that adopted elements of populism. Probably populist issues already existed in all these parties, and the situation in the 2010s just suggested recovering and redefining them for attracting new electors.

23. This hypothesis works for the main populist anti-euro parties but it is still in need of confirmation for extreme right and left parties.

24. The dimension of parties is evaluated using as an indicator the vote percentage gained by the party in domestic and European elections. Ten per cent is considered the limit to exceed to be regarded as a major party among the anti-euro ones.

25. This is the case for Vox, a Spanish party that gained broad electoral support during the late 2010s. The party supports strident nationalism and other ideas such as anti-Islamism tra-

that there is no complete equivalence between populism, anti-Europeanism and anti-eurism. Some important new political parties, such as Podemos in Spain, led their countries' governments and are considered populist, but not hard anti-eurist or anti-eurist at all. Besides, other parties such as Syriza in Greece had bitter conflicts with the EU without moving to hard anti-eurism.

Dis-homogeneity also emerges in the origins of the parties. While some of them had been founded decades ago (Akel in 1926 and the RN in 1972), others were born in the 2000s or later as AfD. Moreover, many of them have experienced in the last 20 years a reorganization that has involved political programmes and have included the adoption of anti-eurism<sup>26</sup>. In the case of left and far-left parties, anti-austerity arguments have reinforced anti-eurism attractiveness<sup>27</sup>.

Table 3 shows the major anti-euro parties in the EMU member states. Apart from the prevalence of the right to far-right parties, dis-homogeneity is the most relevant characteristic. Some parties experienced drastic changes in electoral results but in different directions. While the Italian Lega augmented its votes spectacularly, the PVV lost votes significantly in the 2019 European elections. Instead, the French RN shows a trend similar to the Italian Lega.

Electoral results for national and European elections (Tables 4 and 5) suggest different dynamics for anti-euro parties' results for different EMU member states, both in national and European elections. Hard anti-euro parties' shares of votes in national elections did not change dramatically during the period 2008-19, apart from the cases of Italy and Germany. In the European elections, anti-euro parties did not gain many votes during the period 2009-14. Sometimes, they lost a percentage of the votes, still with the relevant exception of Italy. Soft anti-euro parties too did not gain more support in the European Parliament elections during the same period, apart from Portugal, and in some cases, they lost support.

ditionally defended by far-rightist parties. However, the party programme explicitly affirms that the party is Europeanist, and anti-euro statements are entirely absent.

26. This is the case for the *Rassemblement National* in France and *Fratelli d'Italia* in Italy. The first changed its original name from *Front National* to the actual one in 2018 to complete a transition process from the old neo-fascist party led by Jean Marie Le Pen to the new far-rightist party of his daughter Marine. *Fratelli d'Italia* is an Italian party, which rose in 2012 as a successor of *Alleanza Nazionale*, a far-right party direct successor of the leading Italian neo-fascist party *Movimento sociale italiano destra nazionale (MSI/DN)*. Both parties reorganized their structure and adapted their political programmes to the new context determined by the crisis. They made anti-eurism and sovereignty two pillars of their political agenda. Cfr. G. Ivaldi, M.E. Lanzone, *From Jean-Marie to Marine Le Pen: Organizational Change and Adaptation in the French Front National*, in E. Heinisch, O. Mazzoleni (eds.), *Understanding Populist Party Organization: A Comparative Analysis*, Palgrave Macmillan, Basingstoke, 2016, pp. 131-158; G. Ivaldi, M.E. Lanzone, D. Woods, *Varieties of Populism across a Left-Right Spectrum: The Case of the Front National, the Northern League, Podemos and Five Star Movement*, in «Swiss Political Science Review», vol. 23, n. 4, 2017, pp. 354-376.

27. Cfr. E. Calossi, *Anti-austerity Left Parties in the European Union. Competition, Coordination and Integration*, Pisa University Press, Pisa, 2016.

Table 2: List of Hard Anti-euro Parties in the EMU Countries

Country	Acronym	Party name (in English)	Party name	Level <sup>28</sup>
Austria	FPO	Freedom Austrian Party	Freiheitliche Partei Österreichs	M
Austria	BZO	Alliance for the Future of Austria	Bündnis Zukunft Österreich	M-H
Austria	EUAUS	EU Exit Party for Austria	EU-Austrittspartei für Österreich	M-H
Austria	NFÖ	Neutral Free Austria Federation	Bündnis Neutrales Freies Österreich	H
Belgium	VB	Flemish Block	Vlaams Belang	H
Cyprus	AKEL	Progressive Party of Working People	Ανορθωτικό Κόμμα Εργαζόμενου Λαού	M-H
Estonia	EIP	Estonian Independence Party	Eesti Iseseisvuspartei	H
Finland	PS	True Finns Party	Perussuomalaiset	M-H
France	RN	National Rally	Rassemblement National (ex Front national)	M-H
France	PG	Left Party	Parti de Gauche	M-H
France	NPA	New Anticapitalist Party	Nouveau Parti anticapitaliste	H
France	DLF	France Arise	Debout la France	H
France	LO-LCR	Workers' Struggle – Revolutionary Communist League	Lutte Ouvrière/Ligue communiste révolutionnaire	H
France	FI	France insoumise	Unbowed France	M-H
Germany	NPD	National Democratic Party of Germany	Nationaldemokratische Partei Deutschlands	H
Germany	AFD	Alternative for Germany	Alternative für Deutschland	H
Germany	REP	The Republicans	Die Republikaner	M-H
Germany	LKR	Liberal Conservative Reformers	Liberal-Konservative Reformer (formerly Allianz für Fortschritt und Aufbruch, Alfa)	H

28. Level of anti-eurism: H= high; M-H= medium to high.

<i>Country</i>	<i>Acronym</i>	<i>Party name (in English)</i>	<i>Party name</i>	<i>Level<sup>28</sup></i>
Greece	KKE	Communist Party of Greece	Kommounistikó Kómma Elládas	H
Greece	XA	Golden Dawn	Laïkós Síndesmos – Chrysí Avgí	H
Greece	ANTARSYA	Front of the Greek Anticapitalist Left	Antikapitalistiki Aristeri Synergasia gia tin Anatropi	H
Greece	EPAM	United Popular Front	Ενιαίο Παλλαϊκό Μέτωπο	M-H
Greece	LAE	Popular Unity	Laïkí Enótita	H
Italy	LN	Northern League	Lega Nord	H
Italy		Casa Pound	Casa Pound	H
Italy	FN	New Force	Forza Nuova	H
Italy	PCL	Workers' Communist Party	Partito comunista dei lavoratori	H
Italy	PDCI/PCI	Party of Italian Communists (now Italian Communist Party)	Partito dei Comunisti Italiani (now Partito Comunista Italiano)	H
Italy	FDI	Brothers of Italy	Fratelli d'Italia	M-H
Italy	RC	Communist Refoundation Party	Partito della Rifondazione Comunista	H
Latvia	LSP	Socialist Party of Latvia	Latvijas Socialistiska partija	M-H
Luxembourg	KPL	Communist Party of Luxembourg	Kommunistesch Partei Lëtzebuerg	H
Netherlands	PVV	Party for Freedom	Partij voor de Vrijheid	H
Netherlands	FvD	Forum for Democracy	Forum voor Democratie	H
Netherlands	SP	Socialist Party	Socialistische Partij	H
Portugal	CDU	Unitary Democratic Coalition	Coligação Democrática Unitária	H
Portugal	PCTP/MRPP	Portuguese Workers' Communist Party/ Reorganized Movement of the Party of the Proletariat	Partido Comunista dos Trabalhadores Portugueses/ Movimento Reorganizativo do Partido do Proletariado	H
Slovakia	KSS	Communist Party of Slovakia	Komunistická strana Slovenska	H

Table 3: Selection of the Major Anti-euro Parties in the EMU Member States<sup>29</sup>

Country	Acronim	Party name	Position <sup>30</sup>	Votes in most recent national elections <sup>31</sup> (%)	Votes in European Election 2014 (% at national level)	Votes in European Election 2019 (% at national level)	Seats in the European Parliament (2019)
Belgium	VB	Flemish Block (Vlaams Belang)	FR	12.0	4.3	11.7	3
Cyprus	AKEL	Progressive Party of Working People (Anorthotikó Kómma Ergazómenou Laou)	FL	25.7	27.0	27.5	2
Finland	PS	True Finns Party (Perussuomalaiset)	R-FR	17.5	12.9	13.8	2
France	RN	National Rally (Rassemblement National)	R-FR	13.2	24.9	23.3	22
Germany	AfD	Alternative for Germany (Alternative für Deutschland)	R-FR	12.6	7.1	11.0	11
Italy	LN	Northern League (Lega Nord)	R-FR	17.4	6.2	34.3	28
Netherlands	PVV	Party for Freedom (Partij voor de Vrijheid)	R-FR	13.0	13.3	3.5	0
Portugal	CDU	Unitary Democratic Coalition (Coligação Democrática Unitária)	L-FL	6.3	13.7	7.41	2

29. Source: [www.europarl.europa.eu/election-results-2019/en](http://www.europarl.europa.eu/election-results-2019/en).

30. FR = Far Right; FL = Far Left; R-FR = Right to Far Right; L-FL = Left to Far-Left.

31. National elections held between 2015 and 2019.

Table 4: Electoral Results of the Anti-euro Parties in the EMU Member States: European Parliament<sup>32</sup>

	Hard anti-euro parties			Soft anti-euro parties		
	2019	2014	2009	2019	2014	2009
Austria	0.00	0.47	4.58	17.20	19.72	12.71
Belgium	11.68	4.26	9.85	5.57	2.47	0.43
Cyprus	27.49	26.98	34.90	0.00	0.00	0.00
Estonia	0.00	0.00	0.00	0.00	0.00	0.00
Finland	13.80	12.90	9.79	0.00	0.00	0.00
France	33.94	30.24	14.15	2.49	6.33	6.00
Germany	11.40	8.50	1.32	7.70	8.90	9.16
Greece	11.42	17.08	9.24	25.78	32.72	11.85
Ireland	0.00	0.00	0.00	0.00	1.81	2.76
Italy	43.81	13.85	16.30	17.06	21.15	0.00
Luxembourg	1.14	1.49	1.54	0.00	0.00	0.00
Netherlands	17.86	22.92	24.07	10.85	11.88	10.28
Portugal	8.23	15.38	11.84	15.80	7.03	12.22
Slovakia	0.00	1.51	1.65	0.00	0.00	0.00
Spain	0.00	0.00	0.00	10.07	9.99	3.71

Table 5: Electoral Results of the Hard Anti-euro Parties in the EMU Member States: National Parliaments<sup>33</sup>

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Austria	10.70	-	-	-	-	3.51	-	-	-	-	-	-
Belgium	-	-	7.80	-	-	-	3.70	-	-	-	-	12.00
Cyprus	-	-	-	32.70	-	-	-	-	25.70	-	-	-
Estonia	-	-	-	0.40	-	-	-	0.20	-	-	-	-
Finland	-	-	-	19.00	-	-	-	17.60	-	-	-	17.50
France	-	-	-	-	21.61	-	-	-	-	26.12	-	-
Germany	-	2.20	-	-	-	6.20	-	-	-	13.00	-	-
Greece	-	8.16	-	-	12.03	-	-	17.08	-	-	-	8.48
Ireland	-	-	-	-	-	-	-	-	-	-	-	-
Italy	8.60	-	-	-	-	6.36	-	-	-	-	24.60	-
Luxembourg	-	1.40	-	-	-	1.60	-	-	-	-	1.30	-
Netherlands	-	-	25.40	-	19.70	-	-	-	-	23.90	-	-
Portugal	-	7.90	-	7.90	-	-	-	8.30	-	-	-	6.30
Slovakia	-	-	0.80	-	0.70	-	-	0.00	0.62	-	-	-
Spain	-	-	-	-	-	-	-	-	-	-	-	-

32. Source: [www.europarl.europa.eu/election-results-2019/en/national-results-overview/](http://www.europarl.europa.eu/election-results-2019/en/national-results-overview/)

33. Source: [eed.nsd.uib.no/webview/index.jsp?study=http://129.177.90.166:80/obj/fStudy/ATEP2009\\_Display&node=0&mode=cube&v=2&cube=http://129.177.90.166:80/obj/fCube/ATEP2009\\_Display\\_C1&top=yes](http://eed.nsd.uib.no/webview/index.jsp?study=http://129.177.90.166:80/obj/fStudy/ATEP2009_Display&node=0&mode=cube&v=2&cube=http://129.177.90.166:80/obj/fCube/ATEP2009_Display_C1&top=yes)

## 5. Explaining the rise of anti-euro parties

Intuitively, the politicization of such a technical and financial issue as the euro suggests a strong relationship between the rise of anti-eurism and the economic crisis, a relation very similar to the ones suggested by many authors for the rise of populism and anti-Europeanism<sup>34</sup>.

Surprisingly, the severity of the economic crisis does not seem to be exhaustive in explaining the rise and consolidation of anti-euro parties. Apart from Italy, Cyprus and Portugal, in not one of the other countries most affected by the sovereign debt crisis or the austerity measures imposed by the Troika rescue plans, is there a powerful anti-euro party. In Greece, hard anti-euro parties did not gain such electoral strength as to create or joining a government. The far-right party Golden Dawn gained electoral consensus in Greece as a consequence of the crisis, but its success was not so spectacular as the rise of SYRIZA<sup>35</sup>. Golden Dawn it was never close to gaining power as happened for ANEL, a small soft anti-euro party that joined SYRIZA and the government after the first 2015 Greek elections. In Spain and Ireland, no hard anti-euro parties emerged, and anti-eurism did not gain relevant support in Spain despite many new parties appearing during the 2010s and won votes because of the crisis. Explaining the weakness or irrelevance of hard anti-euro parties in countries so dramatically touched by the crisis and austerity measures remains a relevant question for future studies on anti-eurism in Europe.

The strength of anti-euro parties in Cyprus and Portugal could appear an obvious consequence of the crisis. However, the two main anti-euro parties in those countries, AKEL and the CDU, are traditional parties established decades ago. Probably they adopted anti-eurism as part of an electoral programme updating strategy to fit better the new political context created by the crisis.

The case of Italy is particular. Although Italy never had to surrender to the Troika or ask for a rescue plan, the impact on the country of economic and sovereign debts crisis was devastating. It opened the doors to the spectacular electoral success of the Movimento 5 Stelle and the increase of votes for the Lega and Fratelli d'Italia, the two main anti-euro parties in the country at that

34. H. Kriesi, E. Grande, *The Euro Crisis: A Boost to the Politicization of European Integration*, in S. Hutter, E. Grande, H. Kriesi (eds.), *Politicizing Europe*, Cambridge University Press, Cambridge, 2016, pp. 240-276; L. Morlino, F. Raniolo, *The Impact of the Economic Crisis on South European Democracies*, Palgrave Macmillan, London, 2017.

35. G. Bistis, *Golden Dawn or Democratic Sunset? The Rise of Far Right in Greece*, in «Mediterranean Quarterly», vol. 24, n. 3, 2013, pp. 35-55; A.A. Ellinas, *The Rise of Golden Dawn: The New Face of the Far Right in Greece*, in «South European Society and Politics», vol. 18, n. 4, 2013, pp. 543-565; Id., *Neo-Nazism in an Established Democracy: The Persistence of Golden Dawn in Greece*, in «South European Society and Politics», vol. 20, n. 1, 2015, pp. 1-20; M. Spourdalakis, *The Miraculous Rise of the "Phenomenon Syriza"*, cit.; Y. Stavrakakis, G. Katsambekis, *Left-wing Populism in the European Periphery: The Case of Syriza*, cit.



time<sup>36</sup>. In 2019 European elections, the Lega duplicated its votes and became the larger party in Italy and the main anti-euro party in the EMU.

Italy's case is salient for another reason. In fact, Italy was the first and only EMU member-state that experienced an anti-euro government. In Greece, Syriza and ANEL, here classified as soft anti-euro parties, joined in a government that never proposed anti-euroism as an option and fought to avoid expulsion from the euro area. Instead, in 2018 in Italy, a coalition of two anti-euro parties (the Lega and the Movimento 5 Stelle) gained power. It established a government in which echoes of anti-euroism were relevant and inspired a challenging attitude against the EU<sup>37</sup>.

The case of "Nordic anti-euroism" also suggests that austerity policies and the reaction against Troika constraints cannot explain anti-euroism exhaustively. The Flemish Block, True Finns Party (Perussuomalaiset), Alternative for Germany, and the Party for Freedom (Partij voor de Vrijheid) gained relevant electoral consensus even though the crisis only had a limited impact on their countries in comparison with Southern Europe and recovery started earlier<sup>38</sup>. However, these parties adopted anti-euroism as a relevant point in their electoral programmes or, astonishingly, introducing for the first time the issue in EU politics as Alternative for Germany have done since 2013. Nordic anti-euroism may be interpreted as a mirroring of Southern European anti-euroism inspired by the so-called Northern Saints vs Southern Sinners contrast rooted in creditor countries' public opinion. So, the politicization of the euro in Northern Europe could be boosted by fears of having to pay for the other EMU members' crises. This fear made the euro and anti-euroism a sensitive political issue that populist parties emphasized to reinforce their political programmes and legitimize their anti-system attitude.

However, this explanation fits poorly with the case of Alternative for Germany. The party had a crucial role in diffusing anti-euroism and the German version of opposition to monetary integration in other EMU countries. Therefore, it was not an attempt to reinforce a populist political programme in attracting AfD towards anti-euroism. In fact, AfD was created as an issue party mainly concentrated on the euro and its problems. Instead, probably it was the success of Alternative for Germany in inducing populist

36. R. D'Alimonte, *How the Populists Won in Italy*, in «Journal of Democracy», vol. 30, n. 1, 2019, pp. 114-127.

37. The Movimento 5 Stelle was classified as a soft anti-euro party in 2019, but it has been a mid to highly anti-euro party since its rise in power. Later, the party abandoned anti-euro arguments to propose more moderate economic policy measures. Cfr. R. Di Quirico, *Challenging the Euro: The politics of anti-Euro parties in Italy during the first Conte government*, in «Contemporary Italian Politics», vol. 13, n. 1, 2021, pp. 64-80.

38. Cfr. N. Hatakka, *When Logics of Party Politics and Online Activism Collide: The Populist Finns Party's Identity under Negotiation*, in «New Media & Society», vol. 19, n. 12, 2017, pp. 1-17; R. Heinisch, O. Mazzoleni (eds.), *Understanding Populist Party Organisation*, cit., pp. 19-47.

parties in other Northern European countries to include explicit anti-eurist proposals in their political programmes.

The dichotomy between Southern and Northern anti-eurism suggests different economic rationales and different versions of economic ideologies for anti-euro parties in the two sides. While in Southern Europe, anti-eurism is a crucial passage to challenge fiscal constraints that block deficit spending policies usually proposed by anti-systemic parties to solve the economic crisis, in Central and Northern Europe, anti-eurism is part of a nationalist economic programme inspired by distrust toward “Southern Sinners” and the effectiveness of European economic governance in compelling them to respect the rules and avoiding discharging the costs of their poor fiscal discipline on the virtuous people of the North<sup>39</sup>.

A problem that remains unexplained by the North-South paradigm is the rise of anti-eurism in France. Neither the rescue plans and anti-austerity policies, nor the fear to be damaged as a creditor country, can explain anti-eurism in France and its political relevance. France’s financial position was more balanced than both the Southern EMU countries and the Northern ones. The country did not have to face any dramatic sovereign debt crisis or rescue plans. At the same time, there was no enthusiastic support among French people for austerity measures in the Southern EMU, probably because of the risk of having them extended to France in case of financial troubles. So, the Saints vs Sinners dichotomy works poorly in France. Probably, the RN adopted anti-eurism to integrate its anti-Europeanism in a more sophisticated electoral programme. Also, the RN alliance with the Lega made fierce anti-eurism a point of convergence for a shared platform for the possibly rising new European sovereignist far right. However, both the Lega, when in charge in the Italian government and the Front National (now RN) after Le Pen’s defeat in the 2017 French presidential elections, softened their anti-eurism. While in Italy, government responsibilities explain a more cautious approach of the Lega to the euro issue, in France, this change has been explained as a consequence of French savers’ hostility against policies that could endanger their savings<sup>40</sup>. Again, anti-eurism appears as a rhetorical tool used to attract voters and is dismissed when it contrasts with other party priorities or is unuseful for electoral aims.

39. It is curious to note that the same North-South paradigm based on the virtues of Northern people and the vicious way of life in the South was the core of the Lega Nord programme in the 1980s and 1990s.

40. In Italy, popular support for anti-eurism was hit severely by the failure of the Tsipras attempt to resist the Troika requests in summer 2015. The dramatic situation of Greek savers made Italians more cautious about the euro issue, and anti-euro leaders softened their tones on the matter for a couple of years. Cfr. S. Pattanaik, *French Savers Are Likely to Reject Le Pen’s Anti-Euro Message*, available at: [www.nytimes.com/2017/05/03/business/dealbook/marine-le-pen-france-euro.html](http://www.nytimes.com/2017/05/03/business/dealbook/marine-le-pen-france-euro.html) (last accessed September 1, 2021); R. Di Quirico, *Challenging the Euro*, cit.

Purely economic or geographical explanations do not permit an exhaustive explanation of the rise of anti-euro parties as a single phenomenon. They suggest common elements that can apply to some countries, but with different relevance for each of them and not for all those countries touched by the phenomenon of anti-eurism.

The same conclusion works for ideological roots. Anti-eurism can be explained as a consequence of nationalist or Marxist-Leninist ideology adopted by many anti-euro parties and confirmed by their distribution in the right/far-right and left/far-left wings. However, this is not a generally applicable explanation because some anti-euro parties, particularly those most recently created, adopted it when they were not ideologically well defined.

While there are various explanations for the rise of certain anti-euro parties and the adoption of anti-eurism by others, it seems there are no single explanations that work for all anti-euro parties. However, pieces of evidence suggest that the rise of anti-eurism can be explained as a process resulting from the interaction between other processes.

We hypothesize here that the redefinition of party programmes imposed by the impact of monetary integration and the resulting politicization of the monetary issue made latent anti-eurism already included in traditional extreme wings parties more salient. So, the rising hostility towards the pervasiveness of EMU rules and, later, the impact of the international crisis magnified the relevance of anti-eurism in the political programmes of those parties that already encapsulated other elements of anti-Europeanism.

The sovereign debt crisis and the enlargement of the ideological bases of anti-eurism to non-extreme wing parties, testified by the activities of various liberal economists and the rise of AfD, liberated anti-eurism from strict dependence on extreme parties and ideologies. This made anti-eurism acceptable and relevant for the new parties, which surged after the early 2010s crisis. Meanwhile, the solid arguments of early anti-eurism offered to former far-right parties elements to redraw their political programmes, redefining concepts and political proposals usually considered characteristic of the far-right parties in a more moderate version<sup>41</sup>. This permitted the recovery of elements of anti-Europeanism, reinforcing them with what looked like scientific arguments, in particular economic ideologies. In other words, anti-eurism contaminated various parties, all of which were in search of new political proposals to attack mainstream parties in government and eroding their electoral base.

41. An example of this conceptual redefinition is the adoption of sovereignist ideology that permits the new far-right to avoid using words and concepts like “nationalism” and “anti-Europeanism”, usually adopted by traditional far-right parties. This helps the new populist parties draw votes in the electoral basin of traditional far-right parties or attract support from people usually hostile to neo-fascist movements.

On the other hand, the prevalence of right/far-right parties among the major anti-euro parties does not depend only on the nature of anti-eurism. Both the case of AfD and the Lega show that these parties were dragged towards the far-right by their political success or internal reorganization dynamics<sup>42</sup>. Meanwhile, the decline or moderate relevance of anti-eurism in left and left-populist parties may be explained by the rise in power of the most important of them and their need to change their political approach from anti-systemic to intra-systemic, sometimes splitting from the extremist wings more prone to anti-eurism<sup>43</sup>. Thus, a transformation process interacted with anti-eurism diffusion as part of a general process of party reorganization. Besides, some anti-euro parties developed strict contacts and co-operated at the international level. Then, anti-eurism became a point of convergence that helped coordination and compatibility in political programmes. In particular, anti-eurism fitted well with sovereignism, a concept that became the ideological base of the new European far-right.

So, it could be hypothesized that it was the ideological versatility of anti-eurism and its fitting with the need of new populist parties and extreme-wing parties to consolidate the digital channel of political participation and consensus attraction to explain the success of anti-eurism and its adoption by many parties in many countries. As Marxist economics or neoliberalism were the ideological frameworks of so many parties in Europe in XX century, so the ideological framework of “fake economics” created by few influential authors permitted to adapt different forms of anti-Europeanism and further collective interests in other parts of the EU to a common strategy of attraction of digital citizens. The latter searched for an economic coherence capable of justifying new political proposals advanced by the new populist and anti-system parties. The block of anti-eurist fake economics offered a useful ideological framework for both populist and traditional anti-system parties.

42. Both the Lega Nord under the rule of its founder Bossi and AfD during the Lucke leadership kept their distance from the far-right even though they supported policy proposals similar to the far-rightists’ ones and attracted support from that electoral pool. It was prevalently under their successors (Matteo Salvini in Italy and Frauke Petry in Germany) that both parties moved towards declaring new far-right positions and won even larger support from traditional or ‘unconscious’ far rightists. Cfr. F. Decker, *The “Alternative for Germany”: Factors behind its Emergence and Profile of a New Right-Wing Populist Party*, in «German Politics and Society», vol. 34, n. 2, 2016, pp. 1-15; L. Rensmann, *Radical Right-Wing Populists in Parliament*, cit., pp. 53-57.

43. This was the case for the Greek party Popular Unity (Laïkí Enótitá) which in 2015 split from Syriza and adopted anti-eurism. In Germany, something similar happened where Lucke abandoned AfD in 2015 to create a new party named Liberal-Konservative Reformer. See L. Rensmann, *Radical Right-Wing Populists in Parliament*, cit., p. 46. In this case, the new party was a moderate one and the split also depended on the transition of AfD towards the far right. In France also, the anti-euro extremist wing of the then Front National led by Florian Philippot left the party. This suggests that the RN could soften its anti-eurism. Cfr. S. Bastow, *The Front National under Marine Le Pen: A Mainstream Political Party?*, in «French Politics», vol. 16, n. 1, 2018, pp. 19-37.

## 6. Conclusions

Anti-eurism and the fortune of anti-euro parties derived from the combination of 3 processes, all activated by the International crisis in general and the Eurozone crisis in particular. The “digitalization” of political participation and debates through social media and blogs involved electors in complex economic matters they poorly understand. This opened vast space for misleading personal interpretations (sometimes based on academic literature) and deliberate manipulation by opinion makers and political leaders. They built “economic ideologies” based on fake news, misleading and disorientating analysis, and simplistic policy proposals that attracted “digital electors” toward new or reorganized parties. The latter adopted many elements of the “fake economics” elaborated and diffused in the social media and blogs. Anti-eurism was one of the most successful among these rhetorical elements mainly because it was so flexible to adapt to opposite policy proposals depending on the party and the country where the proposal has to attract voters. As a rhetorical tool, anti-eurism was easily dismissed or softened when new issues or government duties required a more realistic and pragmatic approach to the EU and EMU.

The Covid-19 pandemic was a decisive element in dismissing anti-eurism in the EU countries, particularly those more touched by the economic slump caused by the pandemic. However, anti-eurism remains a powerful rhetorical tool for the future when the emergency will leave the room for restoring the EU economic governance and the Stability and Growth Pact, and rules derived by the Next Generation EU recovery plan will have to be respected.

# Economic reform strategies and recovery policies in Italy from Conte to Draghi

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## Abstract

Two main aims characterized the 2018-2022 Italian economic policy. The first was reforming the whole economic system to stop the so-called 'Italian decline' that eroded the competitiveness and growth of the Italian economy for decades. The second was recovering from an impressive sequence of crises (the Eurozone crisis, the Covid-19 pandemic and later the consequences of war in Ukraine) that endangered the Italian economic system and the sustainability of the Italian public debt. This paper analyses the crucial steps in the reform strategies and recovery policies carried out by the three governments that led Italy from 2018 to 2022, particularly emphasizing the oscillating relationship between the three Italian governments and the European Union. To this end, particular attention will be devoted to the Conte governments' economic reform proposals and the subsequent recovery strategies. These proposals will be drawn from some crucial documents: the Government contract for the first Conte government, the Colao plan, and the first draft of the Italian Recovery and Resilience Plan (PNRR) prepared during the last days of the second Conte government. These documents will be compared with the Piano Nazionale di Ripresa e Resilienza approved under the Draghi government. The paper will also discuss the role of the EU in addressing Italian economic and recovery policies.

## 1. Introduction

During the Italian XVIII Legislature, three different governments were in charge. Each of these governments had to face a dramatic challenge coming from outside the Italian system. The first Conte government (Conte I), created by the Movimento 5 Stelle (M5S) and the Lega, governed Italy from June 2018 to September 2019 and faced the consequences of the early 2010s Eurozone crisis and the never-solved problems caused to the Italian economy and society by the so-called Italian decline.<sup>1</sup> The second Conte government (Conte II), now based on the partnership of the M5S with the Partito Democratico (PD) and some minor parties, desperately fought against the Covid-19 pandemic that hit in Italy in early 2020. When the Conte II government collapsed in January 2021, a new government was formed under the leadership of the former Governor of the European Central Bank, Mario Draghi. It included all the parties in the Italian Parliament, except for Fratelli d'Italia and Comunisti Italiani. The Draghi government continued to face the impact of the pandemic until the war in Ukraine challenged the international political and economic order, imposing on it new policies and economic strategies.

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<sup>1</sup> On the Italian decline issue and its explanation, see Simoni (2020).



All three governments planned and tried to implement economic recovery policies. However, there were two kinds of recovery policies on their agenda inspired by two different recovery strategies. The first was a long-term recovery policy that aimed to address the Italian economy's structural problems by redefining the nature of Italian involvement in the Economic and Monetary Union. The second was a short-term recovery policy devoted to restarting the Italian economy after the pandemic. While the Conte I government mainly aimed to address the problem of the Italian decline and the impact of the 2010s crisis with a long-term recovery policy, the Conte II government mainly worked on recovery from the damages of the pandemic. The Draghi government had to adapt the two kinds of recovery policies to a new and confusing international context, while facing the consequences of the Covid-19 pandemic and using the opportunities offered by EU financial support.

The relationship between the Italian government and the EU changed from 2018 to 2022 according to the attitude and objectives of the government in charge and its economic and recovery policies. During the Conte I government, particularly in its first months in power, the EU was the primary target of criticism, as it was presented as an obstacle to the implementation of the populist economic programme of the government. After the start of the pandemic crisis, however, the European Union became a reference for defining a recovery strategy and inspiring economic reforms. The EU mobilized considerable economic resources, and ambitious plans for economic recovery were launched. Thus, the interaction of domestic and European activities and multi-level cooperation became crucial for Italian recovery, notwithstanding the controversial attitude of some of the main parties in power towards European integration and EU economic governance.

This article analyses the crucial steps in the economic recovery policies carried out by the three governments that led Italy from 2018 to 2022, particularly emphasizing the oscillating relationship between the governments and the European Union. To this end, particular attention will be devoted to the Conte governments' economic proposals and the subsequent recovery strategies. They were described in three crucial documents: the *Contratto di Governo*, the Colao plan, and the first draft of the Italian Recovery and Resilience Plan (PNRR) prepared during the last days of the second Conte government. These documents will be compared with the PNRR approved under the Draghi government, also considering the new needs that emerged due to the war in Ukraine and the downsizing of economic transactions with Russia. Of course, these documents do not include all the aims nor do they disclose all the three governments' ambitions. Other objectives had been proposed in crucial documents and electoral programmes.<sup>2</sup> However, the stringent needs imposed by the pandemic and the urgency in preparing, submitting and implementing the PNRR defined the priorities. Also, the sequence of the documents illustrates clearly the evolution of the recovery policies carried out by the three governments in charge during the legislature, which meant moving from long-term and very ambitious plans for long-term recovery to a more focussed and less

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<sup>2</sup> An example comes from Draghi's declaration to Parliament on 17 February 2021, in which many long-term objectives and reforms are mentioned. However, among these issues, only those included in the PNRR were carried out during the short period of Draghi's stay in power. See Senato della Repubblica (2021).



ambitious short- and mid-term objectives of the PNRR. This move is the core of the process-tracing exercise proposed in this article.

## 2. Challenging the EU. The first Conte government and the failure of the populist economic policy

The roots of the early proposal of economic reforms of the first Conte government are to be found in the debate that started in the 1990s about the reasons for the so-called Italian economic decline. After 2008 and particularly in the early 2010s, this debate became more confrontational due to the dramatic impact of the Eurozone crisis and the austerity policies implemented to prevent the dissolution of the Economic and Monetary Union (EMU). Also, the debate moved from academic and political milieus to the level of ordinary citizens and dramatically impacted electoral results, favouring the rise of populist parties in Italy, which proposed economic recovery strategies based on radical economic ideas and a fierce anti-EU attitude.<sup>3</sup> The two main Italian populist parties – the M5S and the Lega – won the 2018 elections and created the Conte I government. When in power, they tried to implement their economic ideas and policy proposals, but soon clashed with a much more complex reality than they had expected.

Explaining the reasons for the Italian decline or analysing the impact of the Eurozone crisis on the Italian economy is not among the aims of this essay. The explanations floated at the time profoundly influenced the ‘populist economic theory’, which inspired the economic recovery policy of the first Conte government and some economic policy choices during the Conte II government. Therefore, it is crucial to understand the genesis of particular policy choices and political behaviours that influenced the attitudes of parties in power towards recovery strategies.

Populists drew from the debate on the Italian decline some elements that addressed their political programmes toward anti-Europeanism and the rejection of monetary integration and the euro.<sup>4</sup> Inspired by the theories of a few thinkers and the re-elaboration of scientific literature, a kind of ‘populist economic theory’ emerged, explaining Italian decline and the persisting crisis as a consequence of European integration and the boundaries of the EMU and its rules (Di Quirico 2021a). Thus, the economic policy proposals advanced by the populists challenged the views adopted by the EU and suggested the dismantling of many constraints, primarily the euro. Consequently, the rejection of the EMU implied the rejection of austerity policies derived from the EMU governance framework and the limits to public debt.<sup>5</sup> In other words, the ‘populist economic theory’ suggested a return to the ‘golden age of the 1980s’ and the economic model of that time.<sup>6</sup>

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<sup>3</sup> Among these ideas there are marginal and contested monetary and economic theories such as chartism, economic sovereignty, and misleading interpretations of Italian economic history.

<sup>4</sup> The term ‘Anti-European/anti-Europeanism’ is preferred to the traditional term ‘Euroscepticism’ because the latter is a definition adopted in the past to define actors and concepts that opposed further integration. Today this term is inadequate to define parties, actors and concepts that reject the EU and integration as a whole and propose its dissolution.

<sup>5</sup> One of the main targets of populists and anti-euro activists was the debt-break rule (*principio del pareggio di bilancio*) inserted in the Italian constitution during the Eurozone crisis (Constitutional Law n. 1/2012). The rule limits the government’s power to deviate from the budget balance to specific cases such as deep economic depression, financial crisis, and natural disasters. See Sottillotta, (2020).

<sup>6</sup> Populists insisted on the crucial role of State intervention in the economy, salary indexing, and deficit spending budget policies such as those adopted in Italy during the late 1970s and 1980. See Bagnai (2012).



The M5S and the Lega elaborated these proposals differently in their political programmes. The M5S emphasized the anti-austerity proposals and paid attention to social issues such as poverty and unemployment. At the same time, the Lega recovered anti-Europeanism and the rejection of the euro from its 1990s programmes, proposing Italexit as the primary solution for the economic crisis (Di Quirico 2021b; Ivaldi, Lanzone Woods, 2017; Garcia Lupato and Tronconi 2016; Franzosi, Marone and Salvati 2015; Huysseune 2010). This partial convergence in economic proposals then facilitated the two parties' alliance after the elections. Meanwhile, the main obstacle to implementing their economic recovery programme came from the dramatic divergence of their economic policy proposals from the EU norms and the unavoidable clash that consequentially followed between the Italian government and the EU institutions.

Initially, negotiations between the M5S and the Lega were complicated by the two parties' different political backgrounds and policy aims. They finally created a government and introduced a new instrument for defining a joint political programme. The *Contratto per il governo del cambiamento* (Contract for the government of change) was an agreement which described the aims and the rationale of the activities to be realized by their coalition when in government. It included some specific innovations such as the *Reddito di cittadinanza*, *Quota 100*, and the Flat tax that became the flagship measures of the Conte I government.<sup>7</sup> There were other specific reform proposals, such as the introduction of a Ministry for Tourism, an increase in police officers, and some administrative reforms to accelerate and simplify investments, tax collection, and infrastructure building.

The Contract was a mix of the most important policy proposals by the parties now allied in the government. Among the three flagship measures, the *Reddito di cittadinanza* was the core of the M5S's social policy proposals,<sup>8</sup> while the Flat tax was the core of the Lega fiscal policy. *Quota 100* was coherent with both the M5S and the Lega criticism of the Fornero pension system reform,<sup>9</sup> which delayed the retirement of many workers. However, the mixed nature of the document is strident in the field of economic policy, where the ecologist approach of the M5S and the anti-European approach of the Lega merged.<sup>10</sup> The Contract sections regarding the economic issues and, in particular, the recovery strategies to be implemented, adopted the logic of the EU Green Deal,<sup>11</sup> and made the circular economy, decarbonization and renewable energy sources the core of

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<sup>7</sup> The 'reddito di cittadinanza' (citizens' income) is a subsidy to working-age citizens with a low income. Instead, the 'pensione di cittadinanza' (citizens' pension) aims to support the elderly and poor. Both subsidies increase the total incomes of the beneficiaries to €780 per month. The 'Quota 100' regards the pension system and aims to allow workers retirement if the sum of their age and the years of paid contributions reach 100 (e.g. 62 year-old workers who paid social security contributions for 38 years). Finally, the Flat Tax is a fiscal regime based on two fixed tax rates (15% and 20%). See Giugliano (2019), Monaco (2022, 10 and 12-13).

<sup>8</sup> In the Contract (p. 29), there is a reference to the 'salario minimo' (minimum salary) to establish a minimum threshold for workers' wages. This became an important issue for social policy in the Conte II and Draghi governments.

<sup>9</sup> The Fornero pension reform (Riforma Fornero) was introduced in December 2011 by the Minister Elsa Fornero as part of the law 214/ 2011 (the so-called Decreto salva Italia) adopted by the Monti government.

<sup>10</sup> The M5S was born as an ecologist movement which focused on 5 main policy issues (one for each of the five stars in its name). These issues were public water, environment, sustainable mobility, growth, and connectivity.

<sup>11</sup> On the EU Green Deal, see <https://www.consilium.europa.eu/en/policies/green-deal/>.

the transformation projects for the Italian economy and industrial growth (pp. 10-11). Meanwhile, contestation of the EU rules and proposals for a drastic change in multilevel governance and the distribution of powers between the member states and the EU were meant to gain the fiscal and operative latitude the government needed to support the recovery of traditional Italian economic sectors such as agriculture and export-oriented industries.

Fiscal and budgetary policies were the core matters in the Contract. Implementing the green transition to make the Italian economy more competitive, reducing raw material and energy imports, and innovating productions in new and technologically advanced sectors, which are other expensive aims of the Contract, needed money and state support. Lowering taxes and supporting infrastructure building also needed to be financed. Thus, the crucial problem of the Conte I economic and recovery plans was the impossibility of reconciling the long-term recovery policy with a necessarily constrained fiscal policy, particularly the fiscal policy required by the EMU governance and the Stability and Growth Pact. This contrast is particularly strident in the field of public debt reduction. With regard to this issue, the Contract (p. 17) explicitly rejected austerity measures and stated that debt reduction had to come from GDP growth. In practice, the Contract implied expansive economic and fiscal policies based on subsidies (*Reddito di cittadinanza*), fiscal incentives for the energetic requalification of public and private buildings and the support of firms involved in the circular economy, tax cuts (Flat tax and ‘friendly’ collection of fiscal credits), compensations for savers and shareholders damaged by the crisis and bankruptcy of some Italian banks, and public investments in infrastructures to be financed mainly with new public debt.<sup>12</sup> These policies were unfortunately irreconcilable with EMU rules. The only possibility to change this situation depicted in the Contract would have entailed ‘further discussion of the EU treaties and the European-level rules’ (p. 17). In the meantime, pressures have to be exerted to induce the European Commission to exclude the expenditure on public investments from the deficit calculation.

So, in the Contract, anti-Europeanism and disintegration were the fundamental strategies to gain operative space to finance long-term recovery. This also emerged in sector-specific strategies. In the agriculture and fishery section, the Contract proposed revising EU policies and empowering member states and parliaments to approve external trade agreements (p. 9). Besides, the Contract proposed the further discussion of EU rules for the fishery sector and the Basel rules on micro-enterprise rating to access banks’ credit (p. 15). Finally, the influence exercised by the EU on Italian fiscal and budgetary policy and its constraints would have to be diminished by abolishing the EU safeguard clauses which impose raising the VAT rates and other taxes in the event of non-fulfilment of deficit flexibility rules negotiated by the previous Italian governments.<sup>13</sup>

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<sup>12</sup> The Contract identifies some specific sources for funding the programme. Among them, there are savings obtained from waste costs reduction, an ambiguous and poorly defined ‘management of the debt’, and ‘a limited recourse to the deficit’ (p. 17). Savings and resources from the first two sources are not quantified and probably largely inadequate to the programme’s financial need.

<sup>13</sup> The safeguard clauses (*regole di salvaguardia*) were introduced during the last Berlusconi government in 2011 (law decree 98/2011) to obtain EU approval of the Italian budget. These clauses had been applied

The anti-EU nature of the Contract and the Conte I recovery strategy also emerge in the section dedicated specifically to the EU (pp. 53-55). The key aims here are reforming the EU economic governance framework and disempowering those supranational decision-makers with no democratic legitimization in favour of empowering the European Parliament. A critical attitude also emerges about some EU economic governance elements, such as the Fiscal Compact and the constitutionalization of the debt brake, the Stability and Growth Pact and the European Stability Mechanism (ESM)<sup>14</sup>. However, to understand the fundamental attitudes of the Conte I government toward the EU, it is helpful to consider the section about the EU in a previous draft of the Contract dated May 14 (Huffington Post 2018). In this draft, there is an explicit reference to reforming the EU treaties and introducing procedures to permit member states to exit or permanently opt out of the EMU (p. 35). The same document considers the possibility of freezing or writing off part of the Italian debt in bonds in the ECB's hands (p. 38). The Contract's final version then reformulated these statements toward less ambitious and disruptive proposals. However, the extreme anti-EU and anti-euro attitude of at least part of the government coalition and the influence of 'populist economic theory' survived inside the Conte I government. They sometimes re-emerged in the Conte II government, influencing its economic and European policy choices.

When the Conte I government initiated its work, the contradictions of its recovery and budgetary policies emerged as well as the contradictory attitudes of the government towards the EU. The problem was financing the expensive reforms programme while converging toward an economic model promoted by the EU. The solution adopted by Conte I was an 'outflanking and blackmailing' strategy based on the possibility of Italexit, which could damage and destabilize the whole EU economy.<sup>15</sup> The aim was to obtain at least broad flexibility regarding deficit and public debt reduction. A 'budget war' between the Italian government and the EU resulted in the abandonment of the anti-euro strategy and acceptance by the Conte government of the EU rules.<sup>16</sup> Consequently, the lack of funds and the budget constraints made the Contract plans for economic recovery unattainable, jeopardizing some flagship policies were in danger. This situation and the subsequent competition on the distribution of funds between the flagship measures undermined the government alliance well before Salvini's attempt to change the balance of power in the coalition drove the alliance to a stalemate and caused the government to fall.

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under the Monti government (law decree 201/2011) and renewed in various forms by subsequent Italian governments. The clauses were abrogated in 2020 (law decree 34/2020).

<sup>14</sup> The European Stability Mechanism (ESM) is a financial institution created in 2012 by the Eurozone member states. Its main function is mobilizing financial resources to support EMU member states in financial distress. Those states that ask for ESM aid are subject to stringent conditionality on their budget and fiscal policies. See Gocaj and Meunier (2013); Howarth and Spendzharova (2019).

<sup>15</sup> The opposition of President Mattarella to the appointment of the Italexit strategist Savona as Minister of Economic Affairs did not completely curb the possibility of Italy leaving the EMU. Other episodes such as the mini-bot issue, suggest that members of the government coalition continued to support Italexit plans. Also, the possibility of an Italian default because of a sovereign bonds crisis remained an option and could have caused Italy's abandonment of the EMU. See Di Quirico (2021b).

<sup>16</sup> About these events and the dismissing of the Italexit strategy, see Fabbrini and Zgaga (2019), Marzino (2020), Di Quirico (2021b), and Monaco (2022).

### 3. Begging the EU. The second Conte government and the pandemic crisis

Prime minister Conte resigned on August 20, 2019, due to the withdrawal of the Lega from the alliance. The risk of a landslide electoral victory for the Lega induced the M5S and some parties from the centre-left to agree on a new government pact. The Conte II cabinet entered office on September 5, 2019. A few months later, the Covid-19 pandemic overwhelmed Italy and caused a dramatic economic downfall. Recovering from the pandemic's economic impact added to the previous need for recovery from the Eurozone crisis and decades of economic decline, changing the nature of the Italian recovery policy. This situation required a new and ambitious policy and a solution to the budget and financial constraints that had made the Conte I recovery policy unachievable.

The pandemic emergency generated a U-turn in Italy's EU policy. The EU became the only institution capable of supporting the Italian economy in resisting the impact of the pandemic and lockdown, and this required a change in attitude on the part of the government. However, such a drastic turnaround of mind was unacceptable for parties and supporters who had spent years criticizing the invasiveness of EU economic governance and contesting the legitimacy of supranational actors. The most evident case regards the M5S and the European Stability Mechanism. Echoes of former anti-Europeanism emerged in December 2019 when a reform of the ESM had to be approved in the Italian Parliament, but it was not (Marzinotto 2020, 5-7).

Further opposition mounted when the EU proposed to use a reformed ESM to fund healthcare costs that had skyrocketed due to the pandemic. The Conte II government rejected the possibility of using such a financial instrument due to the conditionality and constraints the ESM funding could impose, mainly because they had abhorred these limitations for years in their political programmes (Bastasin 2021). However, the need to fund the post-pandemic economic emergency and recovery could not be ignored.

Soon after the onset of the pandemic, the EU had tried to tackle the emergency. However, the measures implemented were fragmented and addressed specific problems (e.g., the scarcity of sanitary products and masks) or keeping the EMU financial framework stable, notwithstanding the suspension of the Stability and Growth Pact (SGP). The main risk, in this respect, was a collapse of the bond market for the countries hardest hit by the pandemic. The ECB countered this risk by creating in March 2020 the Pandemic Emergency Purchase Programme (PEPP), an instrument funded with 750 (later augmented to 1,850) billion euros to buy assets on the secondary market.<sup>17</sup> Flexibility in EU rules and funds from the EU budget were also used to address the pandemic emergency. In addition, the EU established the Support to Mitigate Unemployment Risks in an Emergency (SURE), a temporary instrument to support member states' efforts to preserve employment.<sup>18</sup> The EU also recognized the impossibility of keeping in force many constraints imposed by EU economic governance in ordinary times, particularly those imposed by the Stability and Growth Pact, and suspended it on 23 March 2020.

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<sup>17</sup> The fund was increased to 1,850 billion euros between June and December 2020. <https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html>.

<sup>18</sup> The SURE establishment was proposed on 2 April 2020. However, it was activated only in late September 2020. [https://economy-finance.ec.europa.eu/eu-financial-assistance/sure\\_it](https://economy-finance.ec.europa.eu/eu-financial-assistance/sure_it).

While addressing the pandemic's immediate consequences, these measures were insufficient to support post-pandemic economic recovery. This applied particularly to countries like Italy and other Southern European member states that still had not recovered from the previous Eurozone crisis. On 17 March 2020, Conte himself urged EU partners to issue joint debt (the so-called Coronabonds) to tackle the financial needs of recovery. A few days later, Conte and other EU member states leaders sent a letter supporting the Coronabonds issue to the President of the European Council, Charles Michel.

The negotiation for a European recovery policy, specifically for funding it and issuing Coronabonds, was painful and generated harsh contrasts between groups of member states. Some member countries were sceptical about the convenience of subsidies and jointly issued debt in favour of the Southern European debtor states. Echoes of the 2010s debate about common debt issues (the so-called Eurobonds) re-emerged.<sup>19</sup> Conte's pressures for direct EU financial support for the Italian recovery became vehement, and tension emerged with the German Chancellor Merkel.<sup>20</sup>

The debate and negotiations that followed finally led to the creation of the Next Generation EU programme (NGEU) in July 2020.<sup>21</sup> The NGEU required Italy to prepare a national plan (later called *Piano Nazionale di Ripresa e Resilienza* or PNRR) to identify the specific activities to fund. These activities would have to lead Italy towards a general recovery which also included recovery from previous weakness and, in the Italian government's eyes, recovery from the thirty-year economic decline. Italy obtained almost 200 billion euros for funding its recovery plans. The main problem was then defining these plans in detail.

In April 2020, when Italy was still under a regime of maximum lockdown, the government established a committee led by the international manager Vittorio Colao to define a pandemic exit and recovery strategy for the Italian economy after lockdown. This committee produced a document dubbed the 'Colao plan'. This plan represents a link between the recovery strategy formulated in the Contract and the subsequent PNRR adopted by the Draghi government.

The Colao plan was admittedly less ambitious than the Contract or the PNRR. It aimed to advance proposals realizable within twelve months and did not consider most of the Italian economy's long-term problems that curbed its competitiveness and public debt sustainability. Thus, in the Colao plan, there was no space for institutional reform proposals or innovative strategies to challenge the Italian decline. Instead, most proposals aimed to relaunch economic activities and growth in the early post-pandemic years. The long-term perspective emerges only in the core proposals for economic and industrial recovery because they share the same aims of the EU (digitalization and the

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<sup>19</sup> About Eurobonds and the Italian pressures for their creation, see European Commission (2011), Reuters (2011).

<sup>20</sup> In an interview with the German newspaper *Sueddeutsche Zeitung*, Conte openly criticised Merkel. He had already done the same a few days before in another interview with the German ARD TV channel. Rumours surfaced that Merkel had accused Conte of being childish in his pretention to obtain all he asked. Finally, Conte remained isolated in proposing Coronabonds, which were dismissed as a solution for recovery. See (Bastasin 2021).

<sup>21</sup> In official documents, references to the need to establish a Recovery Fund have circulated since April 2020. See Council of the EU (2020).

transition to a green and circular economy). Also, infrastructures have a central role in that plan, despite the fact that only some of them are new projects.

The most surprising characteristic of the Colao plan is the scarce attention devoted to the financial coverage of the proposals. Some references regard private capital and incentives for attracting it or public-private partnerships in financing industrial innovation and infrastructures. However, it lacks an explicit budget to identify the sources for funding investments, subsidies and incentives. The Colao plan was probably prepared with the idea that the EU recovery funds would arrive soon to feed its expensive proposals. Arguably, the return of Colao as a minister in the Draghi cabinet suggests his proposals were not just the personal consideration of an insulated group of experts.

#### **4. Pleasing the EU. The PNRR from Conte II to Draghi government**

The success of Conte in securing funds in the framework of the NGEU plan urged the definition of an Italian plan for recovery to organize funding activities that fitted with the requirements and the guidelines established by the EU. This turned out to be a very challenging task. Collecting and coordinating coherent proposals from the different Italian administrations was complicated. However, it was still more difficult to reconcile the different requests for funds and power distribution in the PNRR from the parties in the Conte II cabinet. Finally, the Conte II government collapsed, handing the power to Mario Draghi, who led the country until September 2022.

The NGEU immediately appeared as a historical opportunity for Italy because it solved the crucial problem that made the Contract economic strategy unfeasible: lack of funds and budgetary flexibility. In the meantime, such an option provoked bitter political conflicts in the government over the distribution of funds and the power to manage them because of the electoral and clientelist opportunities generated by the PNRR. Preparing the PNRR was also tricky because of the short time at the government's disposal to define a complex strategy for solving structural problems and overcoming the backwardness problems accumulated by Italy in the previous decades.

Theoretically, the Colao plan was a blueprint for the PNRR, whose preparation was facilitated by the EU framework to address innovation and industrial transformation milestones. Green and circular economies and digitalization are at the core of this framework, while gender balance is a general criterion to consider. Also, the EU guidelines impose the dedication of a share of funds to the green economy transition. Thus, the budget structure was, in part, predetermined.

The passage from Conte II to the Draghi government is also the story of the PNRR preparation and implementation. Therefore, an analysis of the different drafts (the one presented at the end of Conte II and the final version sent to Brussels by Draghi) helps to understand the progress towards an Italian recovery strategy initially destined to shape the country's future for years, and later made partially obsolete by the consequences of war in Ukraine.

The first step in preparing the PNRR was defining the strategic vision. In June 2020, the conference *Progettiamo il rilancio* (Planning the Relaunch) was organized in

Rome with different stakeholders affected by PNRR aims.<sup>22</sup> Thus, when in September 2020 the EU published the guidelines for writing the PNRR, the Colao plan and the results of conference debates contributed to defining the priorities to pursue. The EU policies and their priorities also addressed the recovery strategy depicted in the PNRR. In mid-October 2020, the Italian Parliament issued an act for the government (*Atto d'indirizzo*) to identify the contents of the PNRR, and on 7 December 2020, a first draft of the PNRR was presented in the Italian Council of Ministers for discussion. A new draft (here called Conte PNRR), to be used for debating with Parliament and stakeholders in view of submitting the final draft to Brussels, was approved by the Council of Ministers on 12 January 2021, and presented in the Italian Parliament on January 15. Two weeks later, after the withdrawal of Matteo Renzi's new Italia Viva party from the government, Prime Minister Conte resigned. During the discussion of the plan, tensions emerged between the M5S and Renzi's party, eventually causing Conte's resignation. Renzi accused Conte of supporting a PNRR draft that concentrated too much power in his hands. However, the real reasons for this crisis did not lie with the PNRR. Indeed, a comparison of the Conte and Draghi PNRR versions demonstrates that the differences are minimal and that, in the case of PNRR governance, the Draghi PNRR concentrated more power in the government's hands than the Conte PNRR (Guidi and Moschella 2021, 422).

When, on 13 February 2021, Mario Draghi's government took office, preparing the PNRR was the most important and urgent mission for the new executive. However, the vast parliamentary majority that supported the government granted Draghi an almost free hand to adjust the PNRR (here called PNRR Draghi) and submit it to Brussels, despite the fact that some critical points that had emerged in PNRR Conte and been criticized by the EU Commission had not been solved.<sup>23</sup> The Draghi PNRR was submitted to Brussels on 30 April 2021, and approved on 13 July 2021.

The Italian recovery strategy then entirely concentrated on the PNRR and on obtaining the EU funds. The needs of the PNRR permeated Italian politics as a whole. Accomplishing the missions and respecting the roadmap indicated by the EU Commission for realizing reforms and implementing the PNRR became the core of Italian economic policy. Draghi became the *deus ex machina* of Italian politics and the most (maybe the only) point of reference for the EU institutions in guaranteeing Italian credibility and compliance with the agreements. When Russia invaded Ukraine in February 2022, Draghi was the most authoritative among European leaders and adopted a firm position against Russia, despite the risks for the Italian and European economies from the impact of sanctions and the Russian reaction in terms of gas supply cuts. When these consequences became evident to Italian voters, and some reforms carried out to fulfil the EU requests and implement the PNRR were relaxed or openly opposed by some majority parties, Draghi resigned.

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<sup>22</sup> An alternative translation could be Planning Economic Revitalisation due to the specific aims of the debate.

<sup>23</sup> These problems mainly regarded quantitative estimates of the impact the PNRR could have in the different sectors it affects.

## 5. The strategies for Italian recovery and the PNRR: comparing the plans

The Conte II and the Draghi PNRRs are very similar, despite the fact that the Draghi PNRR dedicated more attention than Conte to the reform issue. However, it must be kept in mind that the Conte PNRR was a preliminary draft of the final PNRR version prepared by the Draghi government. Thus, it was to be expected that the final version would be more detailed and pay more attention to those topics that the Commission was keener on.

The similarities between the two PNRRs also emerge from comparing the funds' distribution (Table 1). Differences are minimal, apart from a transfer from the budget item Green Revolution to the item Education and Research, and a redistribution of funds internal to the item Green Revolution from the sub-item Energy Efficiency and Building Requalification to the sub-item Energy Transition and Sustainable Local Mobility. This redistribution is coherent with the transition from the Conte government, which implemented a subsidy policy to finance the energy efficiency of buildings, to the Draghi government, which acknowledged the criticism against those norms regarding abuses and problematic implementation.

On the other hand, it is interesting to note some crucial differences between the Draghi and Conte PNRRs and the Colao plan. While the Colao plan shares the centrality of Green Transition and Digitalization issues with the PNRR plans, it also pays attention to the banking sector and credit problems and the fragmentation of Italian firms, which need instruments and funds for recapitalization and support for export. Also, the Colao plan considers the need to support Italian firms in taking advantage of post-pandemic reshoring opportunities that could be important for reorganizing the Italian industrial system and increasing jobs.<sup>24</sup> Finally, the Colao plan explicitly describes essential strategic criteria not revealed in the later PNRRs.

Despite the fact that the logic of the Colao plan and that of the PNRR are similar and mainly based on investment for short- and mid-term recovery and stimulating internal demand, the rationale for these investments is deeply influenced by specific internal problems that could limit the effectiveness of the PNRR in supporting mid-and-long-term growth. The Colao plan refers explicitly to infrastructures at the end of their lifecycle that need rebuilding. In reality, many infrastructures had been depleted by lack of maintenance and excessive usage because of predatory activities by private concessionaires and the corruption of controlling officers.<sup>25</sup> Many of these infrastructures are included in the PNRR. Other funds had been devoted to repairing school buildings and coastal infrastructures depleted by decades of neglect. Thus, part of the PNRR funds will not generate growth

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<sup>24</sup> Reshoring regards a return to the homeland of national industries and production formerly moved offshore to countries which offer opportunities to save taxes or pay lower wages. The pandemic shows how offshoring could create fragile supply chains and hinder the production of firms which use components produced abroad. The supply side problems also emerged in sanitary and other strategic supplies. The convenience of supporting and funding reshoring then became evident also for governments.

<sup>25</sup> The Morandi Bridge collapse is Italy's primary and dramatic example of an infrastructural crisis. After this tragedy, many infrastructures were discovered to be at risk, but there was no space in the Italian public budget for a national plan for infrastructural rebuilding. Also, Morandi's case nudged the Conte I government towards a punitive policy against private concessionaires, threatening to revoke concessions without compensation. However, the Conte I government had no time to carry this proposal to its conclusion. The fall of the Conte II government seemed to be in conjunction with a turning point in the concessions issue.



returns; they will just avoid the collapse of bridges and roads and allow us to keep today's infrastructures working. Repairing existing infrastructures will not change the Italian economy, offering new opportunities and creating new industrial sectors as new and modern infrastructures can. Thus, only that part of the PNRR funds devoted to new infrastructures can improve Italian industrial competitiveness and generate the GDP growth required to repay NGEU loans. This means that the PNRR's effectiveness in counteracting Italian decline by acting as a long-term recovery plan is limited.

Many criticisms emerged after the approval and the initial steps for implementing the PNRR. The excessive fragmentation noted in the Conte PNRR (Guidi and Moschella 2021, 408) was not solved by the Draghi PNRR. The problem of implementation planning detected by the Conte PNRR critics (Baratta 2021) emerged during the early implementation phase (Viesti 2022). Also, the poor involvement of Italian regions (Profeti e Baldi 2021) in PNRR definition reduced their role to competitors for funds. Failure to assign a coordination role to the regions, and the dramatic limits of the administrative capability of municipalities, will probably be a major problem in the next steps of PNRR implementation.

The relevance of the PNRR as a recovery policy is evident in its short-term recovery potential. Instead, its ability to tackle Italian economic decline is more doubtful. Investments will inject liquidity into the Italian economic system and will favour post-pandemic recovery in those sectors affected by the plan. It will probably help relaunch the economy through the infrastructural expenditures, acting as a driving force, and support new startups with subsidies and, less certainly, with a reorganization of taxes and bureaucratic dues.

However, some other crucial problems remain poorly considered or wholly unaddressed. The PNRR assigns a relevant role to advanced training and research to support industrial renewal and long-term growth. However, no appropriate reforms are planned for the university nor has the creation of an efficient link between universities and industries been defined. The aim of attracting PhD holders and skilled technicians to the public administration is bound to fail due to the unattractiveness of the jobs offered. This puts at risk the full implementation of the plan, also considering the short time provided for its implementation (2026). Thus, while expenses could support the post-pandemic recovery anyway, the risk is that long-term recovery will be undermined by the likely partial failure of PNRR implementation. On the other hand, some crucial measures for solving the Italian decline problem are not eligible for PNRR funds. The reorganization of the financial and banking sector, a general institutional reform, and all of the problems of Italy's re-insertion into the EMU governance framework when the SGP is re-activated remain unsolved and unaffected by a recovery policy based on the PNRR.

The impact of the war in Ukraine could dramatically change the effectiveness of the PNRR, creating shortage-based inflation, the closure of export markets, and turbulence in European macroeconomic and financial dynamics. The first effects of war inflation have already emerged to hinder the allocation of PNRR funds because of rising costs that have made signing contracts problematic. On the other hand, the turn towards green energy is unavoidable today due to the suspension of economic relations with the EU's leading energy supplier. This could help to avoid the obsolescence of PNRR strategies.

**Table 1.** Comparison between the budget of the PNRR as defined by the Conte II and Draghi Governments

	Nominal Values (billions of euros)			%		
	Conte	Draghi	Balance	Conte	Draghi	Balance
<b>Digitalization, Innovation, Competitiveness and Culture</b>	<b>46.3</b>	<b>50.07</b>	<b>3.77</b>	<b>20.68</b>	<b>21.29</b>	<b>0.62</b>
Digitization, innovation and security in Public Administration	11.75	10.95	-0.80	5.25	4.66	-0.59
Digitization, innovation and competitiveness of the production system	26.55	30.98	4.43	11.86	13.18	1.32
Tourism and Culture 4.0	8.00	8.13	0.13	3.57	3.46	-0.12
<b>Green Revolution and Ecological Transition</b>	<b>69.8</b>	<b>69.96</b>	<b>0.16</b>	<b>31.17</b>	<b>29.75</b>	<b>-1.42</b>
Green Business and Circular Economy	7.00	6.97	-0.03	3.13	2.96	-0.16
Energy transition and sustainable local mobility	18.22	25.36	7.14	8.14	10.79	2.65
Energy efficiency and building requalification	29.55	22.26	-7.29	13.20	9.47	-3.73
Protection and enhancement of land and water resources	15.03	15.37	0.34	6.71	6.54	-0.18
<b>Infrastructure for Sustainability Mobility</b>	<b>31.98</b>	<b>31.46</b>	<b>-0.52</b>	<b>14.28</b>	<b>13.38</b>	<b>-0.90</b>
High-speed railway and road maintenance	28.30	27.97	-0.33	12.64	11.90	-0.74
Intermodality and integrated logistics	3.68	3.49	-0.19	1.64	1.48	-0.16
<b>Education and Research</b>	<b>28.49</b>	<b>33.81</b>	<b>5.32</b>	<b>12.72</b>	<b>14.38</b>	<b>1.66</b>
Skills enhancement and study support	16.72	20.89	4.17	7.47	8.88	1.42
From research to business	11.77	12.92	1.15	5.26	5.49	0.24
<b>Inclusion and Cohesion</b>	<b>27.63</b>	<b>29.62</b>	<b>1.99</b>	<b>12.34</b>	<b>12.60</b>	<b>0.26</b>
Employment policies	12.62	12.63	0.01	5.64	5.37	-0.26
Social infrastructure, families, communities and the voluntary sector	10.83	12.58	1.75	4.84	5.35	0.51
Special geographical cohesion measures	4.18	4.41	0.23	1.87	1.88	0.01
<b>Healthcare</b>	<b>19.72</b>	<b>20.22</b>	<b>0.50</b>	<b>8.81</b>	<b>8.60</b>	<b>-0.21</b>
Community-based care and telemedicine	7.90	9.00	1.10	3.53	3.83	0.30
Innovation, research and digitization of healthcare	11.82	11.22	-0.60	5.28	4.77	-0.51
<b>TOTAL</b>	<b>223.92</b>	<b>235.14</b>	<b>11.22</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>

Sources: Camera dei Deputati, *Proposta di Piano Nazionale di Ripresa e Resilienza presentata dal Presidente del Consiglio dei Ministri*, January 15 2021, (PNRR Conte), p. 22; *Piano Nazionale di Ripresa e Resilienza #Next Generation Italia*, final version (PNRR Draghi). P. 22.

## 6. Conclusions

During the XVIII Italian legislature, three different governments alternated in power. Each of them proposed recovery policies that combined in different ways solutions proposed to solve the crucial short-term and long-term problems of the Italian economy. The main differences between these recovery policies regarded the nature of the problems and the role of the EU in solving them. The Conte I recovery policy mainly targeted long-term economic decline and the competitiveness gap that Italy had accumulated in previous decades. Instead, the Conte II and the Draghi governments mainly focused on the pandemic's consequences and the need for post-pandemic recovery, leaving aside some structural problems previously addressed in the Colao plan and the populist economic programmes. The first Conte government combined a European-like plan in the industrial policy field centred on a green and circular economy and an anti-EU attitude that contemplated exiting the EMU and abandoning the euro, at least as last-resort option. The core of the Conte I recovery policy failed because of its inconsistency, budget narrowness, and the impossibility of mobilizing additional financial resources over the limits imposed by the EU. When the pandemic made the Italian situation desperate, the NGEU allowed the Italian government to fund part of the previous recovery policy, privileging those items that fitted EU requirements. However, the long-term objectives of the Conte I government had to be redefined and restricted to be coherent with the PNRR. Thus, under the Draghi government, the PNRR became the primary (if not the only) plan for recovery and attention was concentrated entirely on its implementation, while other crucial weaknesses of the Italian economic system remained unchallenged. In particular, the Italian position in the EMU governance framework when the Stability and Growth Pact is reactivated remains problematic. Defining a long-term recovery strategy for Italy remains crucial for tackling Italian economic decline and the impact of the Eurozone crisis and the pandemic on the Italian economy. The limits of the PNRR in this field – its implementation problems, the lack of political projects in tackling the political and institutional ineffectiveness of the country, and the economic and electoral consequences of the war in Ukraine – suggest that the mission will be particularly challenging.

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