



Italy after the election: From partner to problem?

by Luigi Scazzieri

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Italy's 4th March election is likely to be less consequential than many assume. But it will highlight the urgency of reforming the eurozone and better managing migration.

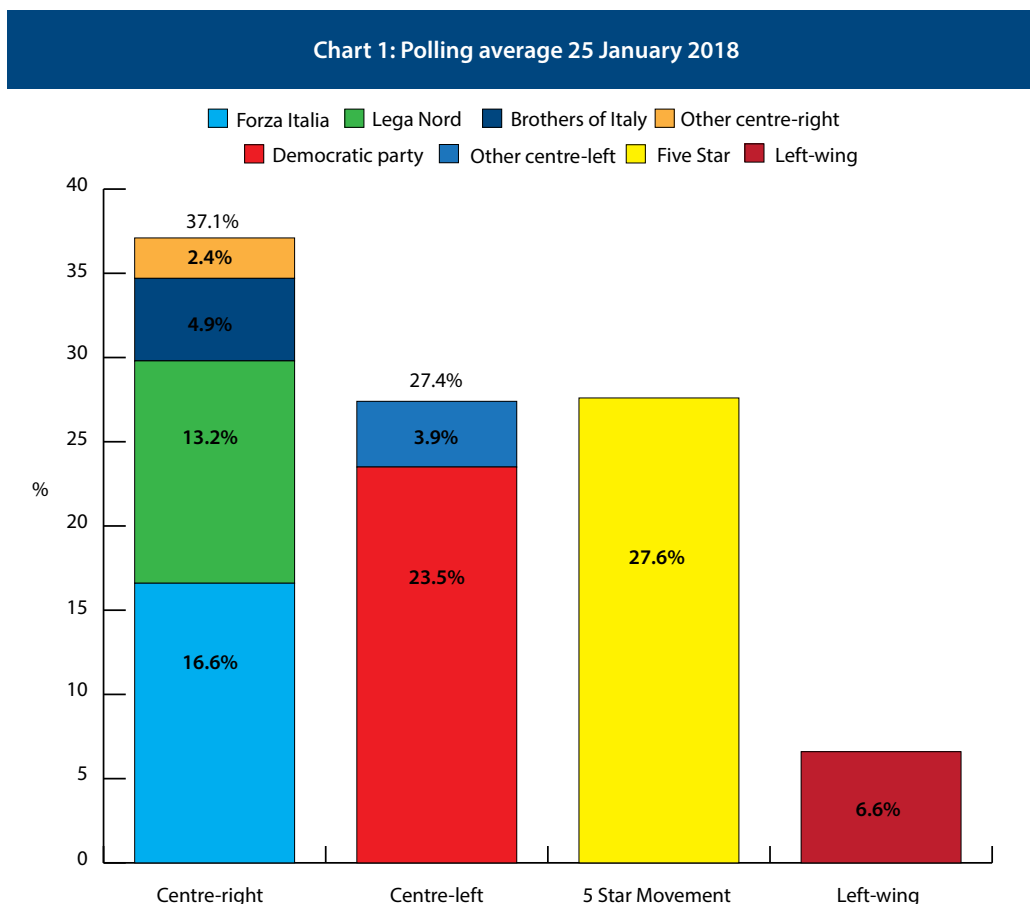
Italy's election comes at a crucial time for the EU. In 2017, President Emmanuel Macron's victory in France fuelled hopes of a relaunch of the EU with a new pact for the eurozone, and more co-operation on security and migration. But the reality was more mixed: eurosceptic forces performed well in the Austrian and German elections. Meanwhile, Poland and Hungary remain openly opposed to Brussels and separatism in Catalonia poses a challenge to Madrid. Some observers worry that Italy's election may lead to the rise to power of the eurosceptic Five Star Movement. This outcome will probably be avoided. But the strong showing of eurosceptic forces, in particular amongst the young, should be a wake up call to the EU.

Three main political forces will contest the election: a centre-left coalition formed of Matteo Renzi's Democratic Party and some smaller allies; a centre-right coalition formed by former Prime Minister Silvio Berlusconi's Forza Italia, the anti-immigration, eurosceptic Northern League, the nationalist Brothers of Italy, and smaller allies; the anti-establishment and eurosceptic Five Star Movement.

The centre-right has the momentum, even though the coalition has no leader (Berlusconi is barred from standing for election because of his conviction for tax fraud in 2013). Italy's mild economic recovery, with growth of around 1.5 per cent in 2017, has not benefited the incumbent centre-left government led by Paolo Gentiloni. Unemployment remains the [issue of greatest concern](#) to Italians. Moreover, the centre-right has been able to ride a wave of discontent over the migration crisis: Italy has taken in 624,000 migrants arriving by boat from North Africa in the past four years. Migration remains the [second greatest concern](#) for the public, which perceives the government's record in reducing migration to be poor, even though a series of controversial deals with Libya succeeded in reducing arrivals from 180,000 in 2016 to 120,000 in 2017.

The centre-right has also benefited from a growing perception that other EU member-states have not come to Italy's aid over the course of the migration and euro crises. According to the latest Eurobarometer, only [37 per cent of Italians](#) have a positive view of the EU and [80 per cent](#) disapprove of its handling of migration. Many believe more European integration would not benefit Italy, but would result in France and Germany controlling EU decision-making to Italy's detriment. Macron's standing in Rome has been damaged by his decision to nationalise the STX France shipyards in July, in order to prevent the Italian company Fincantieri from buying it (a compromise was thrashed out in September, in which Fincantieri took control of the shipyard in exchange for close oversight by the French government). Macron also alienated Italy's foreign policy establishment when, without involving Rome, he brokered a meeting between the head of the UN-backed Libyan government (which had co-operated with Italy on migration) and its rival, the military strongman Khalifa Haftar.

On March 4th, Italians will vote under a new electoral system, with around two-thirds of seats distributed via proportional representation and one third via first past the post. Polls suggest only the centre-right stands a real chance of winning enough seats to form a government, with close to 40 per cent. The centre-left, weakened by several splits, is polling below 30 per cent, as is Five Star. If the centre-right obtains around 40 per cent of the vote, it will probably gain an overwhelming share of MPs in first past the post constituencies, making it best placed to form a government. Polling suggests neither the centre-left or the Five Star will be able to pick up many MPs in the first past the post section of the vote: there are relatively few constituencies in which either is stronger than the centre-right.



Source: YouTrend.it

However, while the right-wing coalition is very likely to be the largest in parliament, it could still have too few seats to form a government. If this is the case, coalition negotiations would start while the current government remains in power.

The centre-left and centre-right coalitions are relatively loose arrangements, which could break up, allowing an alternative majority to form. The centre-right could poach some MPs elected in the centre-left coalition. Alternatively, two broader realignments are possible. The first is a 'centrist' coalition of the Democratic Party, Forza Italia and minor centrist forces. The second is a 'populist' coalition of the Five Star Movement, the Northern League and Brothers of Italy. The latter would require a large political realignment. The Five Star Movement would find it difficult to enter any coalition because of its aversion to establishment politics. And the League's leadership would be reluctant to play a subordinate role to the Five Star. Other theoretically possible coalitions, such as Five Star Movement joining the centre-left or the centre-right, or the Northern League joining a 'centrist' coalition, would probably be too difficult to sell to these parties' anti-establishment supporters.

For practical and constitutional reasons it would be months before a new election could be held. Fears of political instability would lead to rising yields on sovereign bonds – increasing the pressure to reach a coalition agreement, or to support a so-called 'technical' government of non-politicians. If the parliamentary arithmetic makes any coalition truly impossible, this would mean new elections. These would dramatically increase the chance of a compromise – as Italy would be under increasing financial pressure.

Any future Italian government is likely to have a moderate eurosceptic hue. All parties are critical of the EU's handling of the eurozone and the migration crisis, and are at best guarded about grand schemes for further European integration of the kind [endorsed by Germany's SPD leader, Martin Schulz](#). A centre-left government or a centrist coalition would broadly continue the policies of the current government. It would seek to relax the fiscal constraints of the European Stability and Growth Pact and be supportive of efforts to reform the eurozone. It would be generally supportive of integration initiatives, especially in migration, where it would try to bring about greater burden sharing in the EU while also acting unilaterally to stem flows. It would make incremental progress in tackling Italy's economic challenges, such as reducing non-performing loans held by banks, which are one of the main challenges in setting up a banking union. Under this scenario Rome would be a key player in horse-trading at the EU level, but hopes that Italy could be the third engine of a Franco-German partnership to renew the EU are probably mistaken.

A centre-right government would not pursue a radically different path. Its exact makeup, and its prime minister, would depend on the relative strength of the different parties within the coalition. But the Northern League and Brothers of Italy are not political unknowns: the League has long governed Italy's wealthy Lombardy and Veneto regions, and Berlusconi has always governed with the help of the nationalist right. Even if the League performs very well in the election, a centre-right government would not lead to a shift in the substance of Italy's European and foreign policy: the League has softened its opposition to the euro. Rome would be less sympathetic towards initiatives seen as increasing European integration for its own sake, and it would be more strident in asking for more emphasis on growth and employment in the eurozone. It might further soften Italy's stance towards Russia. But its priorities on eurozone reform and migration would be very similar to those of a centrist coalition. In terms of fiscal policy, it may be able to tinker at the margins of the tax and pension systems, but any substantial fiscal

loosening will founder on the rocks of the EU's fiscal compact and the reaction of the markets (Italy's debt-to-GDP ratio is 130 per cent). Consequently, the government would find itself unable to implement its electoral promises such as lowering taxes or repealing a controversial 2011 reform that put Italy's pension system on a sustainable footing.

A government led by the Five Star Movement, perhaps in coalition with the Northern League remains the least likely outcome: it is doubtful whether the two parties could work together even if they gain enough seats to form a government. Such a government would lead to a substantial shift in rhetoric from Rome, and there would be friction with the EU as it adjusted to power. However, Italy would come to resemble Sebastian Kurz's Austria rather than Poland or Hungary. A populist government would not question Italy's membership in the EU and the euro. Neither advocates a withdrawal from the EU, and both have climbed down from their opposition to the euro, as [59 per cent of Italians](#) still support membership of the single currency. Luigi di Maio, the Five Star Movement's soft-spoken candidate for prime minister has even recently stated that he would [abide by the eurozone 3 per cent budget deficit limit](#). In practice, any deviation from this limit is difficult as the financing of public debt imposes considerable constraints on fiscal policy. Reforming the eurozone would become more challenging than it already is, as Paris and Berlin would not trust Rome to clean up Italy's banks – a necessary precondition for common deposit insurance or a larger fiscal backstop at the level of the EU. The prospect of reform should not be written off, but any reforms would be small and incremental rather than transformational.

While the Five Star Movement and the Northern League are critical of NATO and make pro-Russia noises, their participation in government would not lead to a substantial change in Italian foreign policy. Di Maio has recently been on a visit to Washington [to reassure American allies](#). Italy might make noises about easing sanctions on Russia, strike high-profile business deals with Moscow and perhaps be more transactional in its NATO membership. However, as long as the US remains committed to sanctions on Russia, Rome is unlikely to substantially shift its stance. Any major policy shifts will also be constrained by its membership in the eurozone, the EU and NATO.

Even if Italy's election delivers a shock on March 4th, a renewed eurozone crisis is unlikely. Italy's ability to tread water is notorious and the international economic context remains favourable. The real challenges lie in the medium term. Any Italian government that eventually emerges will lack the political capital to reform the economy sufficiently to face the next recession from a position of strength. According to the government's own projections, [public debt will still be above 120 per cent of GDP in 2020, with unemployment at almost 10 per cent](#). Meanwhile, as jobs remain scarce and migration flows remain high by historical standards, Italians might become even more eurosceptic. In the coming election over 40 per cent are set to vote for eurosceptic parties. Crucially, many of them will be young. A [recent survey](#) highlighted how in a hypothetical referendum on EU membership, 51 per cent of people under the age of 45 would vote to leave, as opposed to only 26 per cent of the over-45s.

These trends should be a wake up call to the EU. Without more focus on growth and investment, and an ambitious European approach towards better managing migration in partnership with third countries, euroscepticism will become increasingly embedded in Italian politics – even if the Five Star Movement never forms a government.

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