

The Coming Storm: Italy Under An All-Populist Government And EU's Impasse



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A clear pattern has emerged in European societies since the outbreak of the euro crisis in 2010. Voters across the socioeconomic spectrum are casting their votes in support of populist, anti-establishment movements and parties whose leaders offer an inward vision of the future combined with a strong dislike for the political culture of liberal democracy and the values professed by the European Union, including overt skepticism over the single currency, the euro.

However, as yet, it is only in Italy that the political pendulum moved so far to the right that an all-populist government was eventually allowed, after Italian president Mattarella blocked the nomination of Eurosceptic economist Savano for the position of the Ministry of Finance, to be formed under the leadership of a nonelected prime minister, an unknown law professor, Giuseppe Conte, whose academic credentials, as stated in his professional CV, appear to lack truthfulness.

But this is a hardly a consolation to Brussels for there is probably no more problematic country in all of western Europe today, save Greece, for undergoing such epigenetic political changes.

Sure enough, the fact that the anti-establishment Five Star Movement, founded in 2009 by the comedian Beppe Grillo and the ingenious blogger Gianroberto Casaleggio, and the reactionary Northern League (il Carroccio), founded in 1991 with the principal aim of advancing a system of fiscal federalism in order to halt the flow of resources from the northern to the southern regions of Italy, managed to pull jointly a majority of the votes in the March elections and thereby sweep away the mainstream but otherwise dysfunctional political establishment of the postwar era bodes well neither for Italy nor for the EU.

Given Italy's fiscal and overall economic state of affairs, it is actually through sheer luck that a full-blown financial crisis has not actually erupted in the eurozone's third largest economy, and eighth largest in the world by nominal GDP. The country's public debt to GDP ratio stands currently at 131.80%, which is the highest level since unification in 1861, and the fifth largest worldwide. Such high levels of public debt to GDP ratio are simply prohibited under the Frankenstein-like creation of the European Monetary Union, where a single currency zone exists among scores of highly diverse economies and political cultures but without a fiscal union or fiscal transfer mechanisms to address competitiveness imbalances, which are quite severe between North and South.

Lest we forget, the Greek debt crisis exploded in early 2010, with the private international credit markets sending borrowing costs to stratospheric levels, when the country's public debt to GDP ratio was believed to have been around 128%. The fact that about 60% of Italian debt is held by residents has provided indeed something of a safety cushion against a yield market backlash, but this is unlikely to continue indefinitely given the shaky standing of the country's banks, which hold more than 75% of the debt owned by residents — a concern which will be magnified now that a quacky populist government will be in charge of Italy's public finances.

Indeed, markets have already shown increased nervousness to the formation of an all-populist government cabinet. The gap between Italian and German government 10-year bond yields has grown significantly lately (by more than 75 basis points between April to May), and the gap will surely grow if the economic policies advocated by the leaders of the Five Star Movement and the Northern League, respectively, are adopted by prime minister Giuseppe Conte.

Both the Five Star Movement and the Northern League advocate a potpourri economic agenda which appears attractive to rich and poor alike, such as sharp tax cuts (both parties favor a flat 25% tax rate) and welfare handouts while promising at the same time to get rid of illegal immigrants and curb further immigration.

If implemented, the tax cuts will worsen significantly the country's fiscal condition as less revenues will pour into public coffers and lead to further inequality and popular discontent not simply with regards to the condition of the national economy but also over the euro and the draconian fiscal adjustment

measures that the all-populist government will be forced to implement under pressure from Brussels, Berlin, and the bond markets.

The political situation inside Italy is also quite precarious, leaving little room for dramatic policy decisions, such as an exit from the eurozone.

While a significant portion of the Italian population is quite skeptical if not outright against the single currency, the majority of citizens continue to support the euro and would oppose withdrawal from the eurozone. It is precisely because of this reality that the anti-euro rhetoric was significantly toned down by both the First Star Movement and the Northern League during the campaign prior to the March elections. And the original selection of Savano for the position of the Ministry of Finance was clearly not part of some planned strategy aiming to release Italy from the straightjacket of the single currency regime but, rather, a move designed to counter the weight of Germany with regards to eurozone fiscal and economic policies, with the threat of a withdrawal from the euro to be used as a potential negotiation tool, a diplomatic leverage.

In this context, it is clear that the all-populist government of Giuseppe Conte is caught between a rock and a hard place: whatever policies will seek to implement will face challenges and resistance both inside Italy and on the international front, mainly from Brussels and Berlin, but with the international credit markets also acting as a deterrent to extreme and unfriendly policies to the economic universe in which Italy finds itself at the present historical juncture.

However, it is almost a given that the all-populist government in Rome will soon find out that it's incoherent economic agenda (and we should not forget that while the Five Star Movement draws its support primarily from the poor and working segments of Italian society, the Northern League enjoys support primarily among the rich in the Northern regions) will be extremely difficult to implement. And, if it does manage, somehow, to turn it into actual policy, it is also certain that it will generate mass discontent inside the country by virtue of increasing the gap between haves and have-nots, while leaving intact the deep and structural problems facing Italian economy, with unemployment being the most serious one for the well-being of the nation, while creating at the same time bigger deficits and heavier public debt levels. In either case, ("business as usual" or the enforcement of an incoherent economic agenda), Eurocrats will surely begin to lose a lot of sleep from now on over the disturbing political and economic developments in Italy that will surely follow under the Giuseppe

Conte government.

Having said that, it should be stated in no uncertain terms that the coming of extreme populism in Italy to age is a natural and expected outcome, whose root cause lies with the EU itself. Indeed, given the inability or unwillingness of the EU to proceed with the kind of meaningful and necessary reforms that would allow the largest economic block in the world to function in a way whereby monetary stability does not hinder economic growth and the interests of the European corporate and financial world do not override the interests of the general population, the surge of extreme political movements that tap into popular discontent should be seen as neither a surprising or irrational development

Indeed, as long as the EU continues with its long-standing state of impasse over architectural reforms in the European Monetary regime, extreme populism in western Europe will find fertile ground for spreading nationistic, xenophobic and even racist ideas. And extreme populist movements and leaders also know that the only way to make inroads into mainstream society is by combining their nationalist, xenophobic and racist rhetoric with a catch-all economic agenda. And they do so in full recognition of the fact that if they implement their economic agenda in the event they come to power, they will actually make things far worse than they already are, especially for already heavily indebted countries such as those in southern Europe whose economies are in dire need of sustainable development, job creation programs, progressive (instead of regressive) tax systems, and higher wages.

Suffice to say, these goals for countries inside the eurozone can be attained only under the economic vision of a Social, rather than a Neoliberal Europe. Yet, the real power brokers in the EU, with Germany as the head of the fiscally reactionary club of northern euro member states, have opposed all along an alternative path to European economic and political integration, a development which has been instrumental in itself in contributing to the rise and spread of extreme populism and anti-EU sentiments throughout the continent.

But who knows? Perhaps the coming storm in the Euroland, which will surely come when the all-populist government in Rome will discover that having the cake and eating it at the same time is a recipe for economic and political disaster, and which will undoubtedly make the Eurocrisis of 2010-2011 look like a garden party, will finally force Berlin and Brussels to join the right side of history. If not,

the vision of European integration will turn in due time into a political nightmare that will bring back memories of pre-World War II conditions.

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