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The Crisis in the Government Coalition in Italy after the European Elections

Maciej Pawłowski

The Italian political spectrum has been destabilised by the European election results. The huge win for the League and the poor result of the Five Star Movement (M5S) has led to conflict within the coalition. The League's leader, Matteo Salvini, is trying to impose his party's programme on the government. However, its proposals run counter to the European Commission's (EC) expectations. The EC has warned Italy it may enact the excessive deficit procedure (EDP) to hold the country's budget in line. Salvini's hardline position, though, increases the risk of a government collapse and early parliamentary elections.

In the European elections, the League won 34% of the votes, the centre-left Democratic Party (PD) 23%, M5S 17%, the centre-right Forza Italia (FI) 9%, and the conservative Fratelli d'Italia (Fdi) 6.5%. Since parliamentary elections in 2018, the League's support has doubled and M5S has been cut in half. The opposition parties PD, FI, and Fdi have started to recover their electorate after months of losses. The election results indicate an increasing division among voters between the Eurosceptic right and pro-European left. This polarisation is not good for the M5S, which is ambivalent toward the EU. It also must choose whether it prefers to be dependent on the League, which has led the coalition into conflict with European institutions, or to lose power.

The Conflict Inside the Coalition. The League promises to keep supporting the government if it implements the party's demands. The most significant are tax reductions, an increase in parliament's influence over the judiciary, liberalisation of the public procurement law, an increase in regional autonomy, and construction of a high-speed rail tunnel in the Alps. The party has been unable to force the government to pick up these projects because of the League's weaker position in the coalition (123 MP's compared to 219 for M5S) and their concentration on migration policy. But M5S doesn't have a chance to form an alternative coalition with PD and the League has the FI's and Fdi's support for some of its agenda. Moreover, migration has become a less important issue in the public debate. The number of migrants coming to Europe from the central Mediterranean route dropped from 119,000 in 2017 to 23,500 in 2018. In public opinion polls, Italians indicate unemployment, high taxes, and the poor economy as the top issues.

M5S's poor election result has led to conflict in the coalition. On 27 May, the party's board blamed leader Luigi Di Maio for the defeat and suggested replacing him with Roberto Fico, the speaker of the lower chamber of parliament. They decided to hold a formal vote on Di Maio on the M5S supporters' internet platform. On 30 May, 80% of the platform users decided he should remain as leader. However, the maintenance of power in the country will require concessions to the coalition partner, which may deepen the internal M5S crisis.

On 3 June, during a press conference, PM Giuseppe Conte threatened to resign if the coalition crisis continued. He assured he would remain independent, although his position is based on M5S's nomination.

In response to the PM's ultimatum, Salvini and Di Maio started to negotiate a resolution to the crisis. Salvini declared he will not force a change of government if it implements the League's programme. Di Maio said he is ready to talk about a reduction in some taxes.

Excessive Deficit Procedure Warning. On 5 June, the EC recommended the EU Council implement the procedure against Italy but they also gave time for the Conte government to negotiate. The EC indicated that the debt forecast for Italy is 133.7% of GDP in 2019 and 135.2% in 2020 and the budget deficit forecast is 2.5% of GDP in 2019 and 3.5% in 2020. This violates an agreement between the EC and Italy reached in December 2018 that assumes a maximum 2019 deficit of 2.04% of GDP. The differences between the assumptions and reality have been caused by the failure of the government's expectations of stimulating economic growth through public expenditure. The final decision on the establishment of the EDP will be made by the EU Council on 7 July at the earliest. As long as it remains in the EDP, Italy faces a fine of 0.2% of GDP and potentially a loss of access to EU structural and/or investment funds. The penalties could also roil financial markets and increase debt service costs. The EU Council, though, must factor in that overly restrictive sanctions could instead deepen the crisis in the Italian economy and increase the risk for the entire eurozone, especially if the difference in interest rates between Italian and German treasury bonds (the spread) remains above 300 basis points for a long period.

Conte announced that his government will do everything it can to avoid the EDP. However, the M5S and the League leaders are against austerity policy. They argue that in the past it only decreased Italians' standard of living without decreasing public debt. Di Maio, who is deputy PM and minister of economic development, ruled out withdrawing from the €780 guaranteed income established in April or a reduction in the retirement age. Salvini's recipe for a public debt reduction is economic growth stimulation through a reduction of taxes. He also would like to introduce "mini-BOTs"—treasury-issued bonds and legal tender independent of the European Central Bank that could replace the euro in the future. But the realization of this concept would be incompatible with Community law. Moreover, the minister of finance, Giovanni Tria, is against it.

The Opposition. PD has become the main opposition thanks to its support of the EC and criticizing government economic policy. The new party leader, Nicola Zingaretti, elected in March, announced on 15 May that PD is preparing an alternative economic plan for Italy. However, its initial assumptions don't contain any budget-cut proposals. Zingaretti's solutions to fight the deficit is improving tax enforcement by advancing digitalisation payments and stimulating economic growth by reducing the personal income tax.

FI and FdI want early elections and the establishment of a centre-right government. In 2018, they participated in an election coalition with the League and still govern with the party in 11 of 20 regions. The obstacle in cooperation on the national level is Salvini's aversion to FI's leader Silvio Berlusconi. The FdI's leader, Giorgia Meloni, declares that she's ready to govern with the League without FI. That will be possible if the current polls hold. The decision to call for early elections belongs to President Sergio Mattarella. The premise for it is the loss of parliamentary confidence in the government, followed by the president trying to establish a new government that achieves this confidence.

Conclusions. Since the European elections, the League is trying to dominate the government. The high support for Salvini's party makes him fight to be the main decision-maker in the country. If he cannot achieve it in coalition with M5S, he will lead the collapse of the government. The M5S is under pressure from the League on one side and from the EC on the other. The implementation of the League's proposals for a tax reduction threatens penalties within the EDP and a negative reaction from financial markets. But, concessions to the EC could be an excuse for the League to leave the government. That probably will lead to early parliamentary elections in autumn 2019 or spring 2020. Meanwhile, President Mattarella may try to establish a government of experts or a coalition government between M5S and PD. However, his attempts may only delay elections and lead to a further increase in the League's support.

Conte's government will try to extend the negotiations to avoid implementation of the EDP with the current EC. His government would make some concessions only if the spread exceeds 300 bps. This large difference between the interest rates of Italian and German treasury bonds increases debt service costs and threatens to deepen the economic crisis. Simultaneously, Italy will support only a candidate for the EC presidency who is not against the liberalisation of the EDP criteria. The current government is not trying to leave the eurozone but that position may change after early elections, which are more probable, and the establishment of a League-led government. The destabilisation of the eurozone could have a negative influence on the Polish economy because of the strong links between them.