

# LAW AND LIBERTY

## Populist Experiment in Italy

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Italy's new government, formed at last—after elections that were held way back in March—is an experiment worth watching. For the first time, “populist” parties are at the helm of a major European country, the third largest economy in the Eurozone, the ninth in the world.

“Populist” is an ambiguous word that most of the time simply means somebody who won an election, but whom the writer doesn't like. Let's try to understand what we mean by this term in the Italian context. The two parties in the governmental majority have set themselves against what they consider to be the Italian establishment: that is, those political groups that were in power for the last seven years.

The Northern League, which gained 17 percent of the vote as a member of a center-right coalition, is now the oldest Italian party, having run its first elections in 1991. It was then a federation of different secessionist groups. It was in government from 2001 to 2006 and from 2008 to 2011, as a junior partner of Silvio Berlusconi's Forza Italia. Now known simply as the League, it represents the most affluent and enterprising regions of the country, but has long abandoned the separatist dream.

Under the leadership of its current secretary, Matteo Salvini, the League went from federalist to nationalist, adopting a rhetoric similar to Marine Le Pen's National Front in France. Its core priorities are tax cuts (it embraced a very low, financially unviable, flat tax rate), lowering the retirement age, and closing borders to immigrants. In spite of having much watered down its secessionist wine, the League is still eminently strong in its own traditional territory—though under Mr. Salvini's leadership it reached further south than ever.

The Five Star movement is, on the other hand, almost hegemonic in the south of Italy. In some regions (like Naples) it won close to 50 percent of the vote. Its major electoral promise was a basic income for everybody, estimated at 780 euros per person (\$910), which is not far from the average salary in some southern regions. The Five Star movement was born during the Berlusconi years, as a reaction against the alleged cronyism of a government majority that included the Northern League at the time. It has campaigned for transparency and entertained the dream of an austere, almost Franciscan, political style, which nonetheless does not translate into parsimonious public spending.

This is a party whose members are fascinated by the theories of economists such as Marianna Mazzucato (about whom I [wrote](#) for *Law and Liberty* last year); who envision a bigger role for the state; who campaigned against the outsourcing of water services; and who flirt with catchwords like “happy degrowth.” The movement's founder, Beppe Grillo, is one of Italy's

most successful entertainers and, thanks to a lively blog, has grown a movement that now accounts for one third of the electorate. A fair share of its political officers come from the Left.

### **Vagaries of Proportional Representation**

A certain number of Italians are likely to have voted for the League in the north as a counterweight to the profligacy of southern-backed Five Star. It is likewise probable that a good number of Five Star's voters consider the League's supporters to be despicable right-wingers. And yet the two parties reached an agreement, and are developing a *modus vivendi*, as jointly opposed to their predecessors. They share a taste for rumbustious jeremiads, for forceful denunciation of the status quo. Using the typical jargon of nationalists, both parties say they love "the people," uphold "national sovereignty," and are striking back against "unelected officials," including professors called to public office in the last few years. In their rhetoric, the members of Five Star do not leave any role for expertise in government. What matters is truly and fully representing the ideas and the whims of the people.

Their true common ground is thus their reliance on scapegoating, which British politician Daniel Hannan has identified as a standard feature of "petty" populist movements. Such groups tend to "attribut[e] every misfortune to a privileged or powerful minority," whether it be bankers, the Brussels technocrats, or even "financial markets"—which can't defend themselves from such labelling.

The League and Five Star emerged as (relative) winners in a race held under a pure proportional representation system, though one intertwined with some elements of first-past-the-post. This system of electoral law was a contrivance of two previous leaders, Silvio Berlusconi and Matteo Renzi, who wanted an arrangement capable of fostering a grand coalition. It did, but instead of a grand coalition of centrists, Italy now has a grand coalition of extremists.

As mentioned, it took 80 days for the two parties to reach an agreement. A "government contract" was drafted, trying to put together an agenda for future action. As is the case with all such documents, it should not be taken literally but it should be taken seriously.

### **The Parties' Most Meaningful Commonality: A Pentant for Big Spending**

Both parties envision a country with higher public spending and a growing budget deficit. In Italy, public spending is already 50 percent of Gross Domestic Product and the public debt is 132 percent of GDP. But apparently this is not enough. Both parties agree on lighter taxation, but aim to finance that with a budget deficit. Both want to lower the retirement age; this would reverse the beneficial effects of the so-called Fornero Law, which in 2011 enabled Italy to restore its international reputation by raising the retirement age to 67.

A not inconsequential problem is that, according to the government's own predictions based on demographic trends, the share of GDP taken up with funding public pensions—the 2011 reform's purpose was to freeze this share—is set to increase up to the year 2040, when it is forecast to be 3 percent higher than today. The new estimates reflect low growth expectations but also smaller influxes of immigrants (200,000 instead of 300,000 on a yearly basis) than expected.

How can political parties that want both a lower retirement age and as little immigration as possible square the circle?

Paradoxically enough, the leader of the first League-Five Star government is one of those unelected professors, Giuseppe Conte, a lawyer from Florence. This after their first attempt to form a government was thwarted, on May 27, by head of state Sergio Mattarella, precisely because they wished to appoint an unelected official, Professor Paolo Savona, as head of the Treasury. Professor Savona is hardly a *homo novus*: at age 82, he has been an academic, think tank analyst, and banker. He served in some of the country's most prestigious institutions and can legitimately be seen as a card-carrying member of its "establishment." And yet he publicly fantasized about the need for a "secret" plan to have Italy, without democratic approval, quit the euro.

President Mattarella, reasoning that a man who entertained schemes such as these was hardly the best auctioneer for the Italian public debt, vetoed Savona's appointment. In announcing that the planned government was not to come to life, President Mattarella explained that any decision to leave the Eurozone had to emerge from an open, democratic debate; he thereby charted the battlefield of the next Italian elections. This move was within the President's constitutional powers, but was certainly controversial.

The day after, markets reacted strongly, trying to anticipate the cost of a future "Italexit." The spread between Italian and German government bonds, which was already widening since early 2018, got much bigger. Markets were down and the yield on the main 10-year Italian government bond rose to as much as 2.69 percent, its highest in years.

But the President's gamble ended well. A couple of days later, the League and Five Star decided to resume negotiations on forming a government. They moved Savona first to the Ministry of Foreign Affairs and then to a less central ministerial post, European Affairs, which is a junior position as compared to the Foreign Office. In the latter they appointed a Europhile professor, Enzo Moavero Milanesi. Theoretically, given that the out-of-power parties are weak, it would behoove both the League and Five Star to schedule the next elections for the very near future. And yet this entailed too high a risk, in the midst of a financial storm. One could put this down to a sense of responsibility. Or perhaps it was their sense of self-preservation: the Italian electorate is at the moment nothing if not highly volatile.

### **Investors Prefer Bad to Catastrophic**

Forecasting what will happen in the next few months in Italy is not easy. Besides their rhetorical affinities, it makes sense for the League and for Five Star to jointly downsize their unattainable electoral promises. Whoever is in government is likely to do that, but if both the "overpromisers" were to share in the disciplining of the message, this might help to minimize any electoral harms to them of a return to reality.

If we look at the new government's economic agenda, on the other hand, there's not much there that will foster Italy's growth. The Italian economy grew by 1.7 percent in 2017; not much, but at least positive growth. Lowering the retirement age, reintroducing labor-market restrictions,

“punishing” businesses that move abroad (a recent proposal by Five Star’s Luigi Di Maio) will not help wealth-creation. But Italians are used to bad government, and bad government may look good to markets and foreign investors if everybody is taking it as preferable to catastrophic government (quitting the euro, bank runs, bank nationalizations, capital controls).

Perhaps the saddest part of this picture is that Italy would need some sort of a credible alternative—and it has none. The “moderate” parties are still in shambles, the political leaders of the immediate past aren’t credible, newcomers on the scene seem to believe they can win votes by acting like more presentable alternatives to populists, but without challenging their own ideas. This was, in a way, the game played by Renzi, of the Democratic Party, who inadvertently legitimized the anti-European rhetoric of his opponents as he entered into fights with Brussels to be allowed to increase deficit spending.

Now the electorate has opted for the real thing. Italy is going to be the first major Western country to be governed by populists not because its populists are better or smarter than France’s or Spain’s, but because its establishment is worse.

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