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in collaboration with
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Mapping Italy: scenario and political risks

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Italian politics has always been an arcane subject. A handful of specialists and enthusiasts love to talk of its Machiavellian intricacies for hours on end, but most people, especially north of the Alps, not only do not understand it, but see no reason why they should bother to understand it. Today there are at least three reasons why they should. First, in Italy the crisis of the political establishment that is now evident in many advanced democracies began a quarter century ago. This means that the country is further down the road of the democratic malaise – it is a laboratory and a bellwether. Second, Italy is the first country from within the historical core of the European community to be governed by anti-establishment parties. Third, its politics represent the greatest threat to the stability, or possibly even the existence, of the common European currency.

Founded in 2010 in a University that has a very strong international vocation, the Luiss School of Government aims to facilitate the connection between Italy and the world outside of it. It aims to prepare the future Italian public elite for the complexities of an ever more integrated planet, and to provide first-class education to non-Italian students in Italy's capital city. SoG professors have often helped non-Italian journalists and newspaper readers understand Italian politics. Thus, it seems only natural to me that the Luiss SoG should offer a monthly report on Italy that provides an interpretation of the country's recent political events, and makes an educated guess about what happens next.

Giovanni Orsina

Director, Luiss School of Government

1.Scenario and risks

1.1. Politics

Conte's great centralisation. The figure of the Prime Minister is monopolising political attention. Conte has exploited the pandemic not only to centralise decision-making at his office in Palazzo Chigi, but also to strengthen his political centrality. The Prime Minister has surrounded himself with task forces, committees and technicians. In these weeks he has received from Vittorio Colao, a former top manager he appointed as special economic advisor, a wide-ranging programme the Government should implement. Moreover, he summoned social actors (unions and business associations) to the "Estates General for the Economy", in order to share proposals and policies with representatives of such bodies and workers. Through his action, the Prime Minister is overshadowing his ministers and, above all, the parties of the governing majority. Conte's strategy is clear: to entirely occupy the centre of the political scene, sharing responsibilities with non-political actors (technocrats, associations and unions) and becoming essential for the majority. He wants to avoid any temptation by the political leaders of the coalition to get rid of him should the economic crisis worsen.

PD nervousness. The Partito Democratico (PD), and particularly the Secretary of the party Nicola Zingaretti, is becoming impatient with the Prime Minister. Last summer, Zingaretti unwillingly accepted to form a coalition with the Five Star Movement and to confirm Conte as Prime Minister only because he thought he could control Conte in political terms and exploit the new majority to relaunching the PD. However, today the party is stuck around 20%, without significant growth and the Prime Minister has become the leading light. PD and its ministers are less central in the media and in the government process than they were a few months ago. The pandemic helped Conte, who is playing his own game and personally managing all the initiatives. Moreover, Conte was launched by the Five Star Movement as a technical figure and the Prime Minister still pays attention to the requests of Di Maio's party, particularly on some crucial policies such as asking for access to the ESM (the Five Star Movement is against, PD is in favour, Conte is flip-flopping). Since the beginning, the strategy of the PD has been to bring Conte into its orbit, sanitise him from the Five Star's influence and transform him into a reliable, democratic-area Prime Minister. But now Conte is moving ever more independently from the parties. Rumours are increasing in Rome about the possibility that the Prime Minister will form his own party, which would be a problem for the PD in electoral terms. Probably, Conte is still undecided, but he is feeding the rumours and using them to pressure the majority. TINA (There

Is No Alternative) is Conte's silent slogan to keep his post, but the parties are increasingly disenchanted.

Politicised magistracy. A new scandal is undermining Italian institutions. An investigation, with the use of tape recordings, into some public prosecutors and judges is revealing the politicisation of the Italian magistracy in terms of appointments and careers and the use of criminal investigations as a political tool (in this case against the League leader Salvini in the period he was in government). Magistrates are organised into a number of associations which represent the various political inclinations within the profession. However, the level of partisanship within the judiciary is very high and consequently the competition for power to reach the upper echelons of the institution is very fierce. In the wake of this scandal, many politicians (particularly in the opposition) and opinion makers are calling for reform (and even dissolution) of the *Consiglio Superiore della Magistratura* (CSM), the supreme independent governing body of the judiciary. The CSM is formally chaired by the President of the Republic Sergio Mattarella, who has suggested an initiative by Parliament to reform the judiciary and reduce the level of politicisation. However, this seems very difficult to realise and the government does not seem interested in substantially reforming the magistracy. In this scenario, the politicisation of the judiciary remains a factor of instability for Italian politics and the public administration.

The uncertain political future of Salvini. The latest polls show a significant decline in support for the League. Salvini's party remains the largest, but now is polling constantly below 30% and the competitor, Giorgia Meloni's Brothers of Italy, is gaining ground (polling around 15%). Salvini is trapped between his two identities: on one side, the pragmatic approach of his main advisor Giancarlo Giorgetti and the Northern Region Governors, who seem more open to an eventual deal for a government of national unity which would maintain a moderate level of euro-scepticism; on the other side, the new League, rooted in the South and in Parliament, based on a no-euro programme and a more radical approach to politics. This faction would hardly tolerate cooperation for a government of national unity in the case of an economic emergency. Salvini has proven unable to choose between these two souls and this indecisiveness is weighing on his approval rating and his party's support. The risk for the leader is to be considered too moderate by disappointed voters (particularly former Five Star euro-sceptical and nationalist supporters) and too extremist and politically burnt by classical right-wing moderate voters. Moreover, the League's leader is still paying for the collapse of the League-Five Star government last summer, when he lost out to Giuseppe Conte and did not obtain snap elections, thus ending up in opposition. Salvini is perceived as unreliable by part of the right-wing voters, who prefer Giorgia Meloni. The leader of the Brothers of Italy, always in opposition since the birth of the party, is considered coherent and decisive. Two years ago she refused a coalition with the Five Star Movement, she has never campaigned to leave the eurozone, she has remained loyal to her national conservatism approach. This implies that, in the future, the League will remain the main party of the right-wing coalition, but it could be forced to share more leadership with Meloni. Moreover, as the case of Renzi shows, when a leader has lost his magic touch, the downward slide can be very fast. For these reasons, the Salvini's future is bleak.

1.2. Scenario

Apparently the political scenario is set to immobility, at least throughout the summer, but various cracks are already noticeable. We know that, or so it seems, there is no alternative to the Conte government, or at least to the Prime Minister. However, in Italy governments often fall without anyone having clear ideas about the future. It is clear that Giuseppe Conte, a skilled navigator, needs three conditions to maintain his position. First, that the fundamental alliance on which this government rests, that between PD and M5S, continues. Second, that the consensus enjoyed by Conte in the months of the lockdown with public opinion in search of security is prolonged as much as possible: now that we are emerging from the emergency, the polls show the inexorable decline in popularity. Third, that the best, and not the worst, perspective on the economic recovery is realised. The manufacturing world is showing concern and has launched accusations about the inefficiency and slowness of politics. The Prime Minister knows that the resources of the Recovery Fund will not arrive for a few months yet, when it may be too late. For this reason, we cannot rule out a quick return to the ESM, to buffer the difficulties of the government's budget.

And here all the fragility and unreliability that characterizes the majority can emerge. The representatives of the PD are asking for a climate of collaboration from all political forces. A sort of broad-spectrum "parliamentary pact" to connect with a "social pact", made with business associations and unions. Not an articulated agreement for a government of national unity, but an agreement of good intentions. A proposal which is perhaps too weak to engage the opposition. On the other hand, this design to use all the European tools and funds available seems too complex to entrust its realisation to the current premier and to a majority in which the weight of the Five Star Movement is preponderant, both due its parliamentary numbers and due to its original populist and Eurosceptic ethos. Luigi Di Maio and his faction are still opposing the possible conditionality around the reforms that might arrive with the funding from the ESM. As long as Di Maio, and a large portion of Five Star MPs, remain sceptical towards EU solutions, tensions are destined to continue and, probably, to grow.

These are the cracks in the majority. The mixture between the feared social upheaval and the timing of the European response is still to be defined. As soon as the proportions of the economic and social crisis are clear, the scenario will become easier to decipher. This development will also decide who will rule in Rome in the near future.

1.3. Forecasts

Probability of snap elections:

Elections within 2020: **5%**

Elections within Q1 2021: **20%**

Elections after 2022: **75%**

An early election in 2020 is implausible at this point. A snap election in 2021 is not likely. By July 2021 the constitutional “white semester” starts, which forbids general elections in the six months before the parliamentary election of the new President of the Republic, which will occur in Q1 2022. For these reasons, it seems very likely that the legislature will arrive at least to 2022. But under this scenario, there is no guarantee the government (and the majority) won’t change.

Conte is taking risks, pushing a new centralism founded on the Prime Minister’s Office. He is governing as if he was in a presidential republic, but he is not. Italy is an unstable parliamentary republic and we have to take this into account in formulating our scenarios.

In this context, one might wonder how much going forward the central role of the Prime Minister can be tolerated by social actors and political parties. In this context, the Estates General risk being nebulous, producing an avalanche of micro-policies without an overall plan and without actually involving associations and unions at the decision-making level.

At the same time, economic and social conditions could worsen in the coming months: the Italian state is malfunctioning (government grants and loans are arriving late), European funds will arrive deferred over the years, unemployment is rising rapidly, there is an ever-increasing separation between those whose livelihoods are guaranteed by the government and those who are not. If the picture deteriorates rapidly, Conte's command may not be so solid in the autumn. The precariousness of the majority ensures immobility, but also great potential volatility. The lack of alternatives, in a political system that tends to fracture and is increasingly at the mercy of external shocks, is often the twin of *trasformismo*. A way to vary the parliamentary geometries is always found when there is an emergency manoeuvre to be carried out in a very gloomy economic scenario. At that point there would be only one certainty: Giuseppe Conte, who became indispensable to this majority, would not survive with a different one.

Our baseline scenario is that the government easily reaches the autumn. Then, the economic context, the slowness of the European policies and the balance of power among the parties will decide the future of the Conte 2 Government. If the economic recovery is decent, the government accepts the ESM loan and the Five Star Movement doesn’t split up over internal political frictions, Conte has a good chance of making it through to 2021.

Moreover, in the worst-case scenario, we don’t see new elections if the Conte 2 majority collapses, but a new government is formed, with a new majority (involving the right-wing coalition) and a different prime minister.

1.4. Mapping risks

There are three major risks at this moment concerning the Italian political system:

- **Coronavirus and recession.** In the coming months, the price of COVID-19 will become clear, both in political and economic terms. This summer we will have a clearer scenario on the decline in GDP and the consequential shortfall in the government budget. A harsh socio-economic scenario might become fatal for the Prime Minister, who will pay the price

for the failure of the recovery and for the unpopular policies that government would be forced to adopt in the case of severe economic decline.

- **The presidentialisation of the government.** The overwhelming centrality of Giuseppe Conte might become a problem for political stability in the long term. The Five Star Movement is divided between different factions and they are debating their future. For the party Conte has been a resource for now, his role covered the weaknesses and divisions of the MPs. However, sooner or later the Five Star Movement must decide if their leadership should be assigned to Conte or to a new political leader. In the next few months, this problem will come to the fore, exacerbated by the Prime Minister's activism. Meanwhile, Renzi and part of the PD are showing signs of nervousness in respect to the centralisation carried on by Giuseppe Conte. The greater the centrality of the Prime Minister, the higher possibility of the "blame game" being played by political forces against him. All future problems will be dumped by the parties on Conte. In a parliamentary system, it does not seem a wise strategy to allow such communicative centrality to a Prime Minister who is not a political leader with his own party.

2. Public Opinion trends

2.1. Polls

Electoral data of the last week of June substantially confirm the trends that we had already recorded last month (Figure 1). The League continues to fall in the polls and today stops, on average, at 26.5%, well below the 30% threshold that Matteo Salvini's party had passed and maintained for more than a year. In addition, the gap with the main centre-left party, the Democratic Party (PD), is now reduced to 6 percentage points (although the PD has lost one percentage point compared to last month and today it polls around 20.3%). In line with previous months, Brothers of Italy (Fdi), the party led by Giorgia Meloni, is instead still growing. The party, heir to the country's right-wing political tradition, now reaches 14.6% of valid votes, with a gap of less than one percentage point with the Five Star Movement, which now polls around 15.7%.

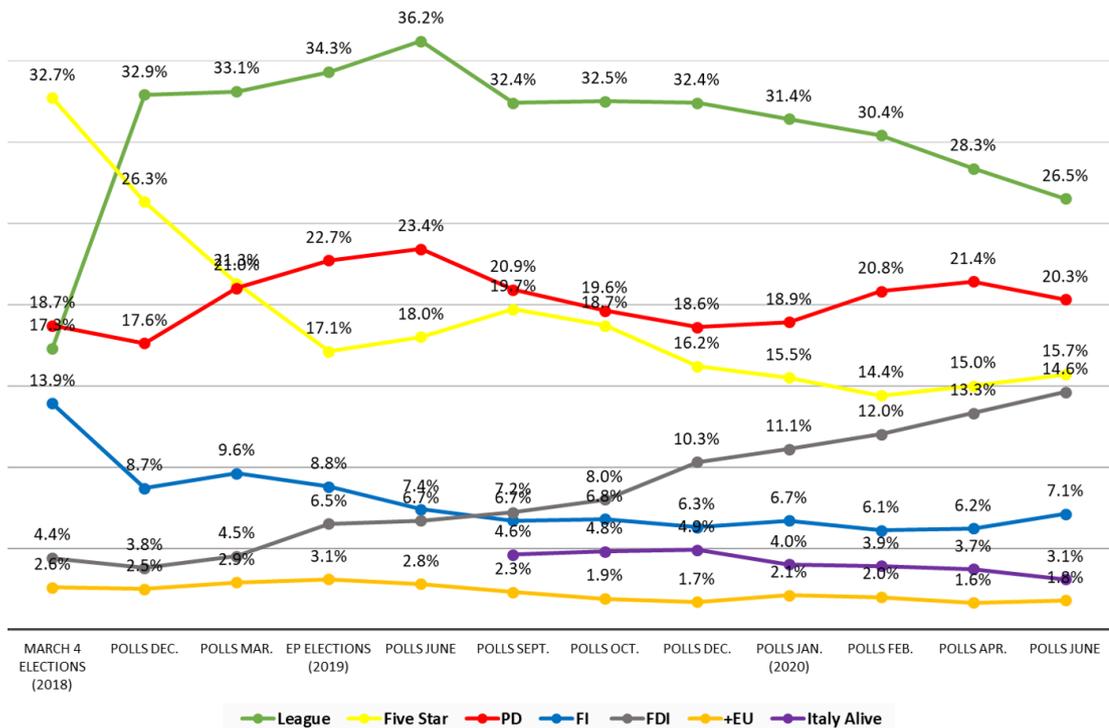


Figure 1: Electoral trends in recent surveys

If we look at the data by aggregating governing and opposition parties, the picture we get is more insightful. The League and FdI together get 41.1% of the votes. If we add Go Italy's (FI) votes to this, the centre-right coalition would get 48.2% of the votes, a more than sufficient share to form a single-coloured government with the current electoral law in the case of snap elections. It is interesting to note that, compared to April, the overall proportion of the centre-right votes has basically remained the same: in the previous months the centre-right coalition obtained roughly the same votes as today (47.8% of the valid votes). This means that FdI's growth is taking place almost entirely to the detriment of the League, whose voters with more traditionally right-wing orientations are moving towards Brothers of Italy. Said differently, as long as the space on the right was occupied by Go Italy (FI) and the League, the voters who were once linked to traditional parties of the Italian right (such as National Alliance, from which Brothers of Italy was then born) have mainly taken the League as their best electoral option. Today those voters have a new point of reference in Giorgia Meloni, who is gradually recovering her electorate. The race for the centre-right leadership is far from over.

On the opposite side, considering also the Five Star Movement, the centre-left would get 41.5% of the votes in case of general elections. The gap with the centre-right is not huge and, in principle, it could be easily bridged. The problem is all in the fragmented nature of the field of the left: not only as regards the relations between the PD and the Five Star Movement (M5S) (historically two parties very distant from each other), but also as regards the relations of PD with Italy Alive (the party of Matteo Renzi) and with the parties on its left, with whom the Democrats are not always in perfect harmony.

2.2. The Italian government and the priorities of Italian citizens

After the peak of the pandemic emergency that has swept Italy in recent months, the management of public health is gradually giving way to problems connected with an economic crisis that promises to be dramatic. In the most acute phase of the pandemic, health protection emerged as a fundamental priority for all Italians. Now that the health emergency seems to have loosened its grip, the economic and political consequences of the choices made in the past three months are driving the political agenda. From this point of view, it is not surprising that an absolute majority of Italians seem to be more concerned, today, with restarting the economy rather than with health protection (Figure 2). According to the data collected by Winpoll-II Sole 24 Ore (end of May 2020), 54% of Italians think this way, against 46% who instead deem it preferable to favour health over the economy. The data is even more interesting if we read it in the light of the survey data collected by the same research institute a few weeks ago (end of April 2020). At the end of April, the situation was completely reversed: 56% of those interviewed on that occasion sided in favour of greater health protection, even at the cost of stopping the economy.

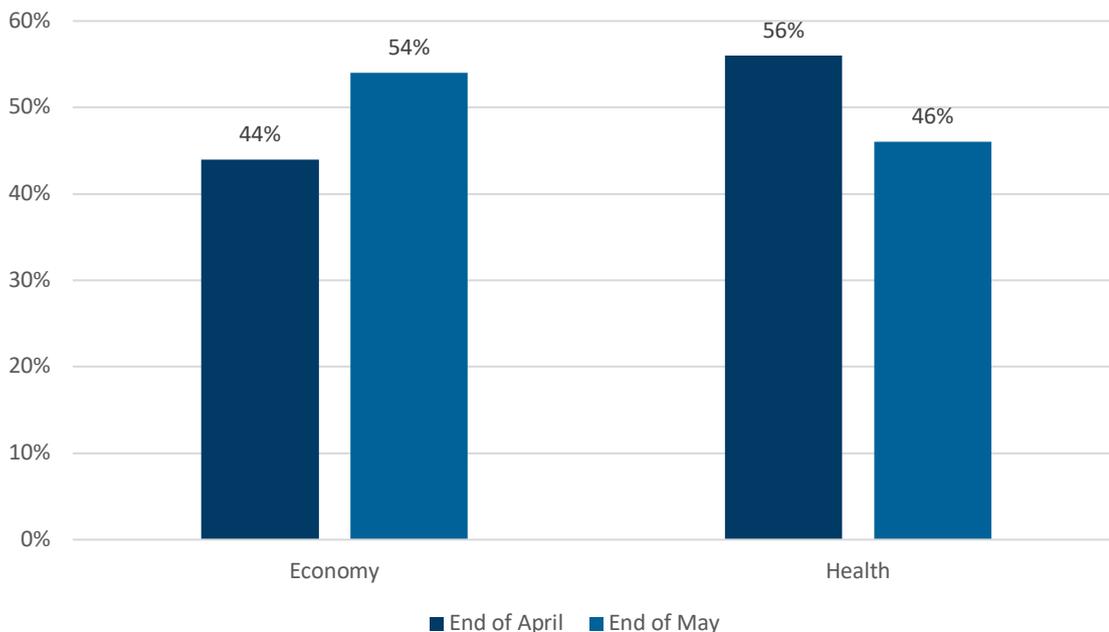


Figure 2: Economy vs Health, the priorities of Italian citizens. *Source: Winpoll-II Sole 24 Ore April 2020, May 2020.*

Beside this turnaround on the priority to be assigned to economy and health, there is a widespread (though not massive) dissatisfaction with how the government is managing the economic crisis. In fact, if the government is in general approved for the management of the health emergency (52% of the respondents think that the government is doing well dealing with the pandemic), public opinion is less positive when it comes to the management of the economy. In this case, in fact, 48% of the respondents judge the government's performance positively, against 52% who instead consider the government's performance on the economy negatively.

In general, Italian public opinion appears polarized in assessing how the government is managing the pandemic and economic crisis. On the one hand, the impact of the economic crisis is reorienting priorities among public opinion; on the other, the government's ability to respond to these priorities is often judged insufficient. It is exactly in this context that one of the main problems for the future of the yellow-red government clearly emerges. If the government fails to intervene promptly to reduce economic and social suffering and to revitalize the economy, these feelings of dissatisfaction could spread more extensively in public opinion, thus weakening a government whose parliamentary basis is already in itself very fragile. Much will therefore depend on the government's capacity to act promptly, streamlining, among other things, cumbersome Italian bureaucracy and favouring the rapid implementation of policies aimed at contrasting the crisis.

3. Economic Scenario

«The coronavirus pandemic is a human tragedy of potentially biblical proportions. [...] It is the proper role of the state to deploy its balance sheet to protect citizens and the economy against shocks that the private sector is not responsible for and cannot absorb. » These are the words that the former President of the European Central Bank (ECB), Mario Draghi, used to exhort Europe together with individual Member States (MS) to undertake a rapid policy response. The urgency is motivated by the support that firms and households need. In particular, without such support we face a big and prolonged economic slump (besides health and psychological implications), with the majority of firms unable to survive once the industrial process of the country goes back to “normal”, greatly deteriorating the productivity of a country but also the ability of the state to manage the fiscal budget, given the resulting drop in tax revenues for every firm that defaults or cannot reopen. More than ever the role of the state is essential.

On June 12, Italian PM Giuseppe Conte opened a high-profile dialogue on the country’s economic relaunch to outline a series of reforms to set in motion for the recovery phase. Among the participants in the discussion, the President of the European Commission, Ursula von der Leyen, the ECB President, Christine Lagarde, the Managing Director of the International Monetary Fund, Kristalina Georgieva, the EU Commissioner for Economy, Paolo Gentiloni, and representatives from corporations, the financial sector and trade unions. The 9-point plan presented by the Italian PM at the ‘Estates General’, with a major contribution from the Covid-19 Task Force headed by Vittorio Colao, will serve as a baseline set of policy interventions that will support all the sectors most hit during the lockdown, as well as a way to promote a more sustainable recovery for the future. In particular, the 9-point plan covers the following sectors:

- A more digitalised economy, especially the optical fibre network, 5G, agriculture 4.0 and Artificial Intelligence;
- More efficient infrastructure, focusing on the rail and road network and a more sustainable construction plan;

- A green and sustainable country, with investments in the energy transition, green economy and the development of the circular economy;
- Technology transition for businesses and jobs, support for exports and reshoring for Italian firms, income protection for employees and the importance of the quality of employment;
- Support for production chains, with a focus on tourism, car industry, artistic heritage, fishing and agriculture, and steel industry.
- Tackling the structural issue of bureaucracy, promoting a more efficient system for the Public Administration;
- Education and Research, with a focus on e-learning methods, essential during the lockdown, and aligning educational skills with the needs of the society;
- Tax and Justice reforms, as well as the fight against tax evasion;
- A more equal and inclusive country, focusing on a development programme for the south but also breaking down barriers for youth employment and for gender equality.

The 'Estates General' talks are motivated by the huge amount of funds coming from the European Commission (EC) to the MS, in the form of grants and loans. On top of the €540bn already approved via European institutions, of which up to €80bn to Italy, the EC is now evaluating the structure and composition of the Next Generation EU programme (ex-Recovery Fund), with the main element of uncertainty being the gratuity of the funds, but also their amount. On this point, the opposition comes from the leaders of the 'Frugal Four' (Austria, Denmark, Netherlands and Sweden) where in a joint paper they reiterated their dissent to debt mutualisation, emphasising that the EC should not help MS with grants, but only through loans. Nevertheless, in a recent remark the Austrian Chancellor, Sebastian Kurz, said that he is open to granting some of the virus aid as a direct handout, a position previously rejected by the 'Frugal Four'.

So far, the Next Generation EU (NG-EU) proposed by the EC consists of raising up to €750bn on the financial markets, leveraging on the EC's strong credit rating, lifting its own resource ceiling to 2% of EU Gross National Income. The NG-EU proposed programme involves €500bn of funds given as grants and €250bn as loans, with repayment of the mutualised debt over a long period of time through future EU budgets, between 2028 and 2058, with support of new EU taxes and levies (mainly taxing carbon and big tech companies). Among all the MS, according to the EC's proposed quota, Italy might get the highest slice of the Fund, with approximately €170bn, of which €80bn as grants and €90bn as loans. Nevertheless, the final decision of the Commission is still pending from the first deadline set on May 6. It is important to note though that the European Union responded in a timely manner to tackle short-term damage from the pandemic (the emergency phase) with €540bn divided among the ESM, EIB and the EC's SURE fund, while the Next Generation EU is aimed at a longer term perspective, that is the recovery phase.

The unprecedented decision of the EC does not come without strings, in fact the Commission will receive MS' plans on how to use these funds by October 15 and only after approval will the funds be released. The aim of the Commission is to avoid further polarisation among the MS as hard-hit countries, mainly Italy, cannot afford generous fiscal stimulus programmes relying only on national fiscal budgets. Moreover, the EC set out the guidelines for these funds as green and digitalisation investments as well as structural reforms in line with the usual recommendations of the EU, and given a lack of progress the Commission has the power to freeze and eventually to withdraw the funds. The tight monitoring of the EC, especially for Italy, should be seen as a positive contribution to the realisation of Next Generation EU goals due to, despite the good intentions, the huge amount of money coming into the pockets of the Italian government, hence it will be hard to address, at the same time, all the structural problems in the economy.

After having made clear the strong central bank role during the early stage of the pandemic, in the first week of June the ECB continued to provide full support to the real economy, increasing its Pandemic Emergency Purchase Programme (PEPP) by €600bn, reaching a total of €1350bn. With this measure, the ECB aims at further ease funding conditions for the banking sector and hence for firms and households. In doing so, it extended the horizon of the temporary pandemic programme to at least the end of June 2021, or as soon as the Governing Council believes that the coronavirus crisis phase is over. It should be noted that, under this programme, the ECB has already decided to reinvest the maturing principal payments until at least the end of 2022. Policy rates remain unchanged as the ECB does not expect any rise until it has seen a robust convergence of the inflation outlook towards the ECB's inflation target. Ultimately, in light of the fact that the ECB will hold, at least, a quarter of all Italian bonds by the end of the year, providing

great stability to the Italian government (due to our high and increasing public debt), we should be aware that any future increase in inflation, which forces the ECB to sell sovereign bonds and raise interest rates, needs to be offset with interventions aimed at reducing the burden of public debt to avoid additional sovereign debt instability. Thus, we will soon need to find a way to reduce public debt without damaging the composition of the fiscal budget, that hopefully by that time will be more robust and sustainable, with new austerity measures.

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