

Mapping Italy: scenario and political risks

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1. Scenario and risks

1.1. Scenario

The Draghi government has launched an operation to pacify Italian politics. After years of conflict between nationalist and populist parties on the one hand and centrist parties on the other, Mario Draghi's premiership has set itself the challenge of reuniting interests with a majority ranging from the League (*Lega*) to the 5 Star Movement (*Movimento 5 Stelle*) through the pro-European forces of the Democratic Party (*Partito Democratico*) and Go Italy (*Forza Italia*). Draghi will perform a function similar to that of the *Podestà* in the medieval municipalities of the thirteenth century: an agent external to a system in crisis who seeks to reconcile the factions and replace a political class that is unable to implement reforms.

In terms of scenario, there are two significant issues at political level. The first is the inclusion of the League, a Eurosceptic and right-wing force, in the majority and in the government. On the one hand, this involvement in a national unity government determines a "normalisation" of Salvini's party, which is pursuing legitimacy at European level by supporting the former ECB President, and strengthens its credibility as a governing force for the future. However, the inclusion of the League in the government formula is also important in terms of representation: self-employed workers, small businesses, the North, which form the basis of Salvini's electorate, have a greater say in the Draghi government than in Conte 2.

The other politically important fact is the fracture of the 5 Star Movement during the vote of confidence in the Draghi government. The most radical wing of the party refused to join the new technocratic-led executive, which represents the exact opposite of the original populist mission of the Movement. The outsiders in Parliament will give rise to a new political force, almost certainly led by Alessandro Di Battista, which will look to the radical left.

The Italian political system shows a convergence at the centre. On the margins, outside of the majority, will remain Brothers of Italy (*Fratelli d'Italia*) on the right and the new group born from the dissidents of the 5 Star Movement and LeU on the left. In this context, the presence of the League assumes a greater strategic value as its political weight is strengthened. Indeed, with the 5 Star Movement mutilated, the League parliamentarians have increased their influence over the majority and over the executive. An uncomfortable situation for the Democratic Party, until yesterday the pivot of the system, now forced to share the crown with their most bitter opponents from the right. An increase in internal conflict within the Democratic Party cannot be excluded, due to the weakness of the leadership and to the fact of having suffered rather than managed the crisis of Conte 2.

In terms of program, many problems remain to be solved by Draghi. The Prime Minister outlined a very ambitious and vast government program, attempting to satisfy the interests of the many and varied parties that support him. Realistically, Draghi still has three main goals: the allocation of the Recovery Fund; the setting up of related structural reforms; a plan of mass vaccinations and a gradual reopening to leave the pandemic behind. For the new Prime Minister, also considering the point of the legislature we are in, it will be easier to act on fiscal and budgetary levers than to map out reforms, such as those of the public administration or justice, which require a reorganisation drive that will have to be rolled out over many years.

The configuration of the Government also shows a sub-cabinet within the Council of Ministers made up of Draghi and the technical ministers (Economy and Finance, Ecological Transition, Infrastructure and Transport as well as the Undersecretary to the Prime Minister's Office). This will be the heart and engine of the new executive, particularly at economic and planning level. The massive presence of political parties, with such a large majority, does not spare Draghi from potential management problems, especially in relation to measures to contain the pandemic.

1.2. Forecasts

Probability of Draghi's government lasting:

- a) **Up to Q1 2022: 60%**
- b) **Up to the end of the legislature in 2023: 40%**

Many analysts are wondering how long the Draghi government will last. Until the election of the next President of the Republic at the beginning of 2022, the navigation of the executive should be safe. In 2022 the scenario forks: Draghi could be elected to the Quirinale and therefore should leave the leadership of the executive, opening up to the possibility of an early return to the polls or to the choice of a successor for the conclusion of the legislature; or if another personality were chosen by Parliament as President of the Republic, Draghi would have the possibility of continuing to govern until 2023, the natural expiry of the legislature. This does not of course exclude the possibility of other scenarios, such as those of lack of support after 2022 of one or more parties that now make up the majority. It is therefore very difficult to predict the duration of the government at the moment, but it should be noted how much, with a majority and with the political elections approaching, the second year can become complex for Draghi. The differences in the interests and objectives of the parties would become clearer and the reforms would risk losing their momentum or being weakened by the parties themselves in Parliament for reasons of electoral convenience. Filled in 2022, therefore, the management of the executive could run greater dangers both in terms of political stability and the practicability of reforms. As of today, therefore, it appears slightly more likely that the Draghi executive will end in 2022 instead of 2023. However, the next few months will tell us more on this point since much will also depend on the ability of the new executive to exploit the first months to capitalize on the implementation of the Recovery Fund and the setting up of structural reforms.

1.3. Mapping risks

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

- a) **The progress of the pandemic.** It is a risk that cannot be quantified, but is always present. Success for Draghi will depend above all on the speed of the vaccination campaign. After more than a year of limitations through lockdowns and an economic slowdown, the suffering and rising intolerance of the most vital areas of the population could increase the fracture between institutions and the people, rapidly reducing the credit given to the new executive.
- b) **The parliamentary swamp.** The parties remain distant in terms of priorities and interests represented. The risk of an excessively broad and ambitious program is that of seeing the reforms thwarted during parliamentary conversion and becoming the prey of vested interests. Draghi can centralise decisions and produce reforms by decree, but the same will then have to pass through parliamentary assemblies. The same goes for the next budget law. The risk of political sabotage of government programs cannot be ruled out.
- c) **The excess of continuity with the past.** As the composition of the government and the appointments of the undersecretaries reveal, a certain continuity has been established with the first two governments of the legislature, which both ended with a political crisis and an uncertain and inefficient reform path. The personalities of the government and the quality of the Italian political class remain a risk for the new executive. Shortfalls in competence and political foresight have emerged clearly over the past two years. It is not a problem that can be solved by Draghi or by technicians, but a political class inclined to demagoguery can jeopardise the effectiveness of the government in the implementation of reforms and public policies. At the same time, the government has chosen continuity also with respect to the senior bureaucracy. The government relies on an already tested and solid apparatus, which however has shown all its limits in recent years in implementing decisions and its tendency towards legalistic approaches and excessive form

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