# The people's budget? How business interests and fiscal constraints shaped the economic policies of the Italian populist government

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Although critical political economists have investigated how the 'populist' government furthered neoliberalism in Italy, an analysis of its organic ties with Italian capital is still missing. Our paper addresses this gap by investigating, within a critical Global Political Economy perspective, the competing business interests behind the budgetary plan and how they shaped the formulation of the populist government's economic policies. The analysis of the executive's economic policies, together with its organic ties with capital, allows us to explain the rise of the populist government, describe its nature as well as its contradictions which explain its limited transformative potential and its inner fragility.

The findings highlight the relevance of a critical Global Political Economy perspective for investigating economic and fiscal policy in the era of authoritarian neoliberalism, in particular in assessing the EU structural constraints on economic and fiscal policy but also the agency of domestic capital shaping it.

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## 1. Introduction

*«This EU is over»*

Luigi Di Maio, leader of Five Star Movement (quoted in Ilsole24ore, 2018a)

*«European Elites against the people's choices, pack your suitcase»*

Matteo Salvini, leader of League (quoted in Buzzanca, 2018)

The salience of the political debate on the process of European integration has been dramatically raised by the eurozone crisis and the subsequent EU-driven austerity policies. Arguably, the imposition of these policies and liberalising 'structural reforms' over the last decade have contributed to a multi-level legitimacy crisis (Van Apeldoorn, 2013:194). This has been mirrored in the increasing share of votes gained by Eurosceptic and nationalist parties throughout Europe. Although the outbreak of the Covid-19 pandemic in early 2020 has further reshaped the EU architecture – leading to the unprecedented decision to temporarily suspend the fiscal constraints of the Stability and Growth Pact (SGP) and to the establishment of an EU 'recovery fund' to be financed through a joint emission of EU bonds – many of the fault lines that emerged during the eurozone crisis are still visible, while the attempts by EU leaders to depoliticise the EU economic governance regime become less and less tenable (Ryner, 2022:12).

Within this context, Italy is a case in point. With an economy already stagnating before the outbreak of 2008 financial crisis, the country was among the worst hit by the eurozone crisis. In the shadow of the euro-crisis and under implicit but strong EU conditionality exercised primarily by the European Central Bank (ECB) (Sacchi, 2015), successive governments on both sides of the political spectrum implemented highly unpopular austerity policies and structural reforms. The growing dissatisfaction of the electorate with both centre-left and centre-right parties led to the rise of the anti-establishment catch-all party *Five Star Movement* (Movimento 5 Stelle, M5S henceforth). After having topped the poll in the 2018 national elections, the M5S signed a coalition agreement with the far-right *League* (Lega). The M5S-League Coalition was quickly labelled by the press as the first 'populist' government in a major European country (Ilsole24ore, 2018b).

Without formally questioning the permanence of Italy in the EU or the Economic and Monetary Union (EMU), the new government nevertheless openly challenged the EU rules with respect to immigration and, to our interest, fiscal policy. A few months after having formed the government, the coalition presented the Draft Budgetary Plan (DBP) – the main programmatic document regarding economic policy. The first draft of the plan broke with the rules of the EU's SGP, triggering months of negotiations with the European Commission. The budget was eventually approved by the EU executive, but only after significant amendments.

This paper aims to investigate how the 'the people's budget' – as those in government tried to frame it (La Repubblica, 2018a) – was shaped by the competing interests of Italian capital fractions, within the constraints imposed by the European economic governance framework. To do so, we will adopt a critical Global Political Economy (GPE) perspective to investigate the formulation of economic policies by the M5S-League Coalition as embedded in the main instrument of economic policy: the national budget. Our research aims therefore to unravel the political relations behind economic processes and the power structure within them, in order to question these same relations and, ultimately, the related policies (see Wigger, 2022). In doing so, it contributes to the growing critical political economy literature on contemporary capitalism and its authoritarian neoliberal features (Bruff, 2014; Bruff and Tansel, 2019; Wigger, 2019), in particular in the case of Europe and Italy (Caterina, 2019; Caterina and Huke, 2020; Cozzolino, 2019; 2020; Monaco, 2023; Ferragina and Arrigoni, 2021).

The paper is structured as follows. In the second section, we provide an overview of the trajectory of Italian political economy within the EU's authoritarian neoliberalism, highlighting the contribution of the existing literature, but also its limits. In the third section, we describe our theoretical and methodological framework. In the fourth, we provide a thick description of the process of the drafting and negotiation of the Italian budget. In the fifth and sixth sections, we assess the preferences and the influence of Italian capital on the process of drafting and negotiating on the budget. The final section draws some conclusions on the internal contradictions of the populist government and its consequent fall.

## 2. Italy within the EU's authoritarian neoliberalism

In response to the 2008 economic and financial crisis, the EU executives put forward significant changes to the European economic governance framework, which have not only accentuated its neoliberal features, but have also displayed an increasingly authoritarian character (Bruff, 2014; Wigger, 2019). In fact, the outbreak of the eurozone crisis engendered an increase in EU intrusiveness in member states' policymaking, especially the policies concerning economic and fiscal governance. Notably, this institutional framework entails little democratic oversight, as not only does it preclude national parliaments from playing any significant role, but – differing from the EU's ordinary legislative procedure – it also marginalises the European Parliament (Erne, 2015). Thus, in Cozzolino's (2019: 345) words, these measures 'can be conceived as a formal break with representative democracy and, at the same time, as a tool of further empowerment of the European executive'.

Italy is a 'vantage point' (Bieler, 2021: 4-5) from which to observe the emergence and the consequences of authoritarian neoliberalism within the EU context. While the country did not formally enter into a structural adjustment programme following the outbreak of the Eurozone crisis, pressures from the financial markets, the ECB, and from the governments of other European member states (Sacchi, 2015; Tooze, 2018) led nonetheless to the fall of the centre-right government headed by Silvio Berlusconi in November 2011. The latter was replaced by a technocratic executive led by the former European Commissioner Mario Monti.

In line with the pro-austerity turn in Europe, Monti's government – which was supported by an encompassing coalition of centre-right and centre-left parties – implemented harsh measures of fiscal retrenchment (Marcon and Pianta 2013), including a major pension reform, combined with commodifying 'structural reforms' of labour market regulation (Caterina, 2019). The Monti government advanced authoritarian neoliberalism also through the constitutionalisation of the principle of the balanced budget, as requested by the strengthened European fiscal rules (Cozzolino, 2019: 347). Commodifying structural reforms were pursued ever further by the subsequent centre-left government led by Matteo Renzi, which, in 2014, deregulated once again the employment protection legislation through its 'Jobs Act' (Ferragina and Arrigoni, 2021; Rutherford and Frangi, 2018).

The Italian case is also of interest as it shows the contradictory nature of authoritarian neoliberalism (Bruff, 2014: 125). While attempting to strengthen neoliberal institutions by shielding them from popular scrutiny, national and European executives are exposed to a rising crisis of legitimacy, with 'declining voter turnout and party membership, increasing electoral volatility, and growing mistrust of the political elite' (ibid.). This is indeed an accurate depiction of the trends in the Italian political system, which over the last decade was characterised by the emergence of an anti-party sentiment and distrust in the governing classes. This was due to cases of corruption and poor administration (Marangoni and Verzichelli, 2015: 38), but crucially also to voters' perceived lack of political alternatives, since neoliberal restructuring had been carried out by both the centre-left and the centre-right (Cozzolino, 2019).

This is the context that led to the formation of the M5S-League coalition in 2018. Founded in 2009 and running on a catch-all anti-establishment platform, M5S saw its share of votes rising significantly until the party topped the polls in the 2018 national elections. As M5S still lacked the majority to form a government, it signed a coalition agreement with the League. The latter is a far-right party that over the previous decade had dropped its regionalist stances and had adopted a nativist nationalist approach under the leadership of Matteo Salvini (Albertazzi et al., 2018).

In their successful electoral campaign, both parties capitalised on a strategy of re-politicisation of key socio-economic issues (Monaco, 2023), as they harshly criticised some of the most relevant policy measures introduced by the Monti and Renzi government, namely the 2012 pension reform and the 'Jobs Act'. In fact, the rise of both parties can be traced back to worsening of material conditions of the population, such as rising inequality, impoverishment, and casualisation of the workforce (Bloise et al, 2019). To enforce the coalition, the two parties signed a 'Contract for the Government of Change' (League and M5S, 2018), outlining the political platform on which they agreed. The coalition argued in favour of more deficit spending to boost internal demand, criticising the EU fiscal rules, although it did not directly advocate for an exit from the E(M)U. However, the 'Yellow-Green'[1] government did not last long, as it collapsed only 17 months after its formation due to the internal contradictions that characterised it, which we are going to explore throughout this paper.

Even though the tenure of the M5S-League government was short, it attracted considerable scholarly attention. The literature focused on whether the two parties managed to effectively reverse the structural reforms that they had criticised in their electoral campaign, highlighting how they did it only to a limited extent (Afonso and Bulfone, 2019; Branco et al., 2019). Indeed, critical political economists have highlighted how the 'Yellow-Green' government – while selectively opposing some aspects of the EU's authoritarian neoliberal institutional framework – has furthered neoliberalism, maintaining the core of commodifying labour and pension reforms enhanced by previous governments, while advancing an anti-immigration and welfare chauvinist agenda (Monaco, 2023). Yet, whereas there is a recognition that different constellations of social and political forces can in turn shape different neoliberal processes (Monaco, 2023: 225-226), we still miss a systematic investigation of the organic ties between the 'populist' government and Italian business interests. This is where our paper seeks to contribute, by analysing the main instrument of fiscal and economic policy – the budgetary plan – and the negotiations that unfolded around it.

## 3. Theoretical and methodological framework

The central aim of this paper is to investigate which interests shaped the 2018 Italian budgetary plan, according to the *cui bono* question, ie to whose benefit (Van Apeldoorn and Horn, 2019). Hence, we maintain that a critical political economy approach is the most appropriate to address our research *problematique*, since it questions existing structures, and it highlights their contradictions (Cox, 1981). We employ a historical materialist approach which considers state and market as inherently intertwined, instead of independent entities (Bieler and Morton 2018: 42). This allows us to conceptualize unequal power relations between social forces and conflict over resources (Wigger, 2022).

Our starting point is therefore the sphere of production, and the social relations embedded in it. *Class agency* means that companies are not independent entities, but rather that they have common features that qualify them as a class. However, class interests are not homogenous. The literature on Italian capitalism (Amyot, 2003; Graziano, 1998) suggests that the main division within Italian capitalism has traditionally been between large (LE) and small and medium enterprises (SMEs), with conflicting interests with respect to national policy choices and the process of European integration, deriving from different competitive strategies and from the degree of internationalisation. We thus assess separately the interests of LE and SMEs in the process of budget formation and we analyse whether diverging positions emerged.

While the government promoted itself as representative of the 'people', based on the literature on Italian capitalism we can hypothesize that the budget favoured SMEs' interests, since SME owners have historically been among the core supporters of the League (Amyot, 2003) – as confirmed also by the analysis of voting patterns in 2018 (IPSOS, 2018). However, critical political economy literature on other advanced capitalist economies has highlighted that LEs own higher structural power, which is linked to their capacity to influence policy-making through their investment decisions (Bieler, 2012). Hence, the degree of influence of SMEs and LEs on the budgetary process will be assessed empirically.

To assess the interests of SMEs, we focus on *Confartigianato* and *Confcommercio*. These are deemed as representative of SMEs interests, as they are two of the three largest associations of SMEs by number of members, representing, respectively, artisans and retailers (Eurofound, 2019). To investigate the interests of largest enterprises we look instead at *Confindustria*, which is the biggest business association in Italy, and arguably the most influential. Whereas Confindustria includes among its members also SMEs, historically the view of larger companies prevails (Amyot, 2003). In any case, this assumption will also be tested empirically: if the positions of Confindustria on the budget diverge significantly from those of Confartigianato and Confcommercio, this signals that the position of larger companies within Confindustria prevailed.

We will start our analysis by providing a thick narrative (Della Porta and Keating, 2008: 30) of the drafting and the negotiation of the Italian budgetary plan. This thick narrative enables us to analyse the unfolding of the events surrounding the budgetary process, while considering the larger context in which they were embedded. First, we have analysed the economic and fiscal policies included in the budget, looking at all the versions of the budgetary plan (MEF, 2018a, 2018b; PCM, 2018a, 2018b), together with other official documents produced by state institutions that describe the content of the budget. The policies are outlined throughout the text, and are reported and described in detail in Appendix A. To review the events surrounding the budget negotiations, we started with the documents produced by the actors involved. These include, but are not limited to, the Italian Ministry of Economy and Finance (MEF), the Italian Presidency of the Council of Ministers (PCM), and the European Commission. Furthermore, we analysed a large set of newspaper articles, mostly from *Ilsole24ore*, the most authoritative newspaper in Italy for news on economic and financial affairs. We conducted a systematic search on the *Ilsole24ore* archive using keywords such as 'legge di bilancio' or 'manovra di bilancio' (budgetary law) for the period September-December 2018.

We then conduct a process tracing analysis (Vennesson, 2008) to establish the link between the observed factors of interest, ie business' interests and economic policies, by looking at both 'the ways in which this link manifests itself and the context in which it happens' (ibid., p. 232). In particular, we aim to establish the influence of business associations on the budgetary plan, mapping their interests and the outcomes, assessing if the outspoken requests of one or more employers' associations was fulfilled by the government in the economic and fiscal policies included in the budget.

We have mapped the interest of business associations in the budgetary process through a qualitative content analysis of documents that they produced. The outspoken stance of business associations is used as an indicator for the interests of capital fractions. The data considered is composed of the press releases and the positions held by the three business associations in the parliamentary hearings about the (draft) budget law. Press releases are a straightforward tool to assess the outspoken stance of business associations. These are available in the dedicated sections of their respective websites (Confartigianato, 2019a, 2019b; Confcommercio, 2019a, 2019b; Confindustria 2018a, 2018b). Moreover, parliamentary hearings are a good indicator for business associations' interests, as they are the official occasion for voicing concerns in the Parliament. In fact, parliamentary commissions regularly hold hearings in the process of formulating laws, as they can listen to ministers, experts, and stakeholders.

Thus – similarly to the approach followed for news analysis – all the press releases and parliamentary hearings from Confindustria, Confcommercio e Confartigianato between the beginning of September 2018 until the end of December 2018 with subject "budgetary plan" have been read and categorized, in order to give a systematic and unequivocal assessment of the outspoken stance. While in the empirical section we present the findings of the analysis, in Appendix B we provide the coding procedure, to increase transparency and reliability. In the appendix, for each document is provided the source and a short summary of the information contained. Then, from this information, the coding is extrapolated: "+" if the business association has declared to be in favour of a measure, "-" if instead it has declared to be contrary to a measure.

The findings of this analysis will allow us to conclude: first, whether there is a pattern of conflicting interests between different fractions of Italian capital vis-à-vis the draft budgetary law; second, if there is congruence between the outcomes of the budgetary plan and the interests of SMEs and/or LEs; and finally, whether, despite their competing interests, the different fractions of Italian capital could eventually find unity and cohere around a *hegemonic project*, forming an historic bloc and reuniting under a shared paradigm (Bieler, 2005; Van Apeldoorn, 2000).

## 4. The drafting and the negotiation of the 'Yellow-Green' budgetary plan

The process of formulating the budgetary plan has raised national and international attention due to the heated negotiations that arose between the Italian government and the European Commission. To build the empirical grounding for our subsequent analysis, in this section we provide a thick description of the process of formulating the Italian budgetary plan, and of the negotiations that followed. These events are also graphically illustrated in Figure 1, which shows the timeline of the negotiations around the budgetary plan, and the relevant events influencing it, through a three-level outline: on the upper level, the interventions of the EU Commission; on the central level, the policymaking by the nation state executives, with the different versions of the budgetary plan; on the lower level, the interactions with business associations.

[INSERT FIGURE 1 HERE]

In their coalition agreement signed in May 2018, the two ruling parties had argued in favour of more deficit spending to boost internal demand, to foster GDP growth, and hence reduce the debt-to-GDP ratio. These commitments were embedded in the subsequent draft budgetary law. The first official act of the formulation of the budget process – as shown in Figure 1 – was the publication of the so-called Update of the Economic and Finance Document (Nota di aggiornamento del DEF) on the 27 September 2018. In the document, the government announced formally the plan to increase the public deficit to 2.4 per cent of the GDP in 2019, 2.1. per cent in 2020, and 1.8 per cent in 2021. This ran against the commitment of the previous government to increase the deficit to only 0.8 per cent in 2019 and to reach a balanced budget in 2020 (Fabbrini and Zgaga, 2019). This commitment was accompanied by a letter from the minister of Economy and Finance Giovanni Tria, which asked the European Commission for the opening of a dialogue (MEF, 2018e). Meanwhile Di Maio, M5S leader and deputy Prime Minister, was releasing statements such as 'this EU is over' and 'this work does not challenge Brussels but repays Italians of what the injustice they have been subject to' (quoted in Ilsole24ore 2018a).

The Commission reacted immediately, noting that, while respecting the 3 per cent threshold set by the Maastricht Treaty, the draft budget could still be rejected according to the EU fiscal rules, as it neither converged towards the so-called 'Medium Term Objective' (MTO) nor respected the requirement to significantly reduce public debt for countries with a debt/GDP ratio over 60 per cent, such as Italy (Dombrovskis and Moscovici, 2018). It should be noted that while Italy had also violated the latter rule under the previous centre-left governments, it had avoided being put under an Excessive Deficit Procedure (EDP) – the corrective mechanism of the SGP – as the government implemented liberalising 'structural reforms' (Claeys and Collin, 2018).

In an official statement issued on the 15 October (Consiglio dei Ministri, 2018), the government announced the DBP for 2019 and provisional budgets for 2020-2021. The budget included many of the promises made by the two coalition partners during the electoral campaign. The key measures were the introduction of a form of basic income ('Reddito di Cittadinanza' - RdC) and a pension reform ('Quota 100') that would moderate the effect of previous interventions in pension policy that had raised retirement age. The RdC was particularly appealing for the M5S core electoral base, found in the poorest strata of the population: unemployed and precarious workers, especially in southern Italy. Its appeal lay in its simplicity: the notion that 'every citizen will be guaranteed income up to the poverty line' spoke to the part of the population who is actually living under the poverty line, especially amongst youth. In Italy, the youth unemployment rate was around 32% in 2018 (Romei, 2019). It should be noted, however, that the government restricted the access to RdC only to Italian citizens and to foreigners residing in Italy for at least 10 years. This showed a chauvinist approach to welfare (Monaco, 2023). In turn, the reversal of Monti's pension reform would have benefited primarily male senior manufacturing workers in Northern Italy, which were part of League's core electorate (Sacchi, 2015; Afonso and Bulfone, 2019). The draft budget also foresaw several measures that appeased SMEs owners. These included: a flat tax for small business owners and the self-employed, the non-increase of Value Added Tax (VAT) rates, and a softer approach to tax evasion (see Appendix A for a detailed description of such policies).

One week later, the European Commission officially rejected – for the first time in the history of the eurozone – the Italian DBP (European Commission, 2018a). The Commission requested the Italian government to revise the budget law in accordance with the EU fiscal rules, within three weeks. In response, League's leader Salvini declared: 'Let the speculators be reassured, we're not going back (…) They're not attacking a government but a people. These are things that will anger Italians even more and then people complain that the popularity of the European Union is at its lowest' (France24, 2018). Di Maio, M5S leader, commented that 'This is the first Italian budget that the EU doesn't like. I am not surprised. This is the first Italian budget that was written in Rome and not in Brussels' (Reuters, 2018a). While signing the draft law to be submitted to the Parliament on the 1 November, the President of the Republic Sergio Mattarella asked the government to have a dialogue with European institutions for the stability of the country, on the grounds of those articles in the Italian Constitution that bind Italy to a balanced budget (Presidenza della Repubblica, 2018).

On the 8 November the European Commission published a competing macroeconomic forecast with very different numbers from the one provided by the Italian government. While accusing the Commission of technical incompetence, the Italian government had to work on a new budgetary plan, to be published on the 13 November. Whereas the deficit and growth projections did not change, to reassure Brussels, the government committed to a privatization of public assets equal to 1 per cent of the GDP in 2019 to generate revenues, and to not exceed the deficit of 2.4 per cent, even using 'safeguard clauses', ie future automatic hikes of the VAT rates (MEF, 2018b, 2018f). Nevertheless, this commitment was considered insufficient by the Commission, which threatened the government with opening an EDP (European Commission, 2018c).

December 2018 was filled with events impacting the Italian budgetary plan. The 'Gilet Jaunes' protests in France pushed President Macron to promise an increase of minimum wage and tax cuts on pensions. Such measures would increase France's deficit in the following year, possibly above the 3 per cent threshold allowed by the EU fiscal rules (Dall'Orto, 2018). In turn, this decision provided some leverage for the Italian Government to justify its own expansionary policy. Stefano Buffagni, a member of government for M5S, declared that in France there were problems of social cohesion and perhaps that meant that Italy was anticipating these problems, by siding with the 'country's needs and not the elites' (Dall'Orto, 2018). Giancarlo Giorgetti, a member of government for League, declared that 'somebody in Italy had already thought about it [social policy] without streets riots' (ibid.). The French example could then be used to argue with the Commission for more fiscal flexibility, by virtue of equal treatment of EU member states.

Despite some easing on the international front, the government had to face the internal growing discontent of employers. The straw that broke the camel's back for employers was the decision of the Turin local council – led by M5S – to vote against continuing the construction of a high-speed train line ('Treno ad Alta Velocità' – TAV) connecting Turin to Lyon, at least until a cost-benefit analysis was conducted. As the train line would have required a major tunnel excavation through the mountains between Piedmont and France, a vast social movement against the infrastructure had developed in the valley most affected, Val di Susa, since the 1990s. The movement had then acquired national relevance, as a coalition of environmental movements and political activists came to see the TAV as a major example of the contradictions of the current socio-economic system. The position taken by the Turin local council reflected the fact that M5S had historically supported the mobilisation against TAV and had pledged to stop the construction of the train if elected.

Employers reacted very negatively to the decision of the Turin local council to halt the TAV's project and discursively linked this decision to the broader government's budgetary choices. First, in a rather unusual way – as capital usually can rely on lobbying rather than open protest – the local business associations called a demonstration in November 2018 against the halting of TAV, which they called 'an insult to the future of the city, of enterprises and of workers' (Ilsole24ore, 2018c). Confindustria quickly sided with their local branch, announcing that 'a special council involving all Italian associations will be held in Turin to protest together against the choice of stopping investments that depresses the economy and the employment of the country' (Confindustria, 2018c). Indeed, Confindustria involved twelve other business associations in writing an 'Enterprises' Manifesto' outlining the reasons for a 'yes to TAV'. It was at this point that the issue of the TAV was connected to the budgetary plan. In fact, the enterprises' meeting in Turin also addressed the question of avoiding the opening of an EDP (Ilsole24ore, 2018d). The employers defined themselves as the 'Party of the GDP', protesting a government neglecting the 'engines of growth' (ibid.).

With these internal pressures, the threat of an EDP still looming, and the interest rates on treasury bonds growing, in the following days, the government worked on new changes to the budgetary law. The two key figures of the executive, Salvini and Di Maio, announced that the 'substance' of the measures was relevant, not the decimals of the deficit (Ilsole24ore, 2018e). As a result of a high-level meeting in Brussels, that involved the key figures within the European Commission and the Italian government, finally on the 12 December the government announced the decision to lower the deficit for the following year from 2.4 per cent to 2.04. Whereas the government managed to retain both its planned basic income and pension reform, it had to curtail them to respect the new deficit targets.

This kind of compromise between a national government and the EU institutions was not uncommon throughout the Eurozone crisis. Commenting upon a similar backtracking of the conservative Spanish government led by Mariano Rajoy in 2012, the former European Commissioner Olli Rehn noted: 'sometimes decimal points matter, too – especially if they represent billions of euros and are heavily charged politically' (Rehn, 2020: 152). This was an acceptable compromise also for the Commission, as it allowed it to avoid a clash with the government of one of the largest EU members states a few months before the 2019 European Elections. Thus, on the 19 December, the Commission gave its approval. On the 29 December, the budgetary law was approved by the Italian Parliament.

## 5. Mapping the preferences of Italian capital on the 'Yellow-Green' budgetary plan

While in the previous section we described the negotiations around the budgetary law, in this section we move to analyse the role that Italian capital played in it. Drawing from the literature on Italian economic and political history (Amyot, 2003; Graziano 1998) we identify as the main division within Italian capitalism the one between small and medium enterprises and large ones. In this section we assess whether such division leads to diverging policy preferences and whether those interests were met within the final version of the budget law, analysing the large bodies of documents detailed in the methodological section.

The findings are illustrated in Table 1 below. The rows indicate the areas of interests in economic policies that emerge from the policy documents, grouped in broad categories of economic policy (labour, taxes, debt reduction, and welfare)[2]. The columns distinguish the stances taken by SMEs and LEs, respectively. As indicators of employers' stances on the budgetary plan, we used the outspoken stance of the relevant business associations. Thus, as discussed in the methods section, all the press releases and parliamentary hearings from Confindustria, Confcommercio and Confartigianato between 1 September 2018 and 31 December 2018 with subject 'budgetary plan' (in Italian 'bilancio' or 'manovra') have been read and categorized, in order to give a systematic and unequivocal assessment of the outspoken stance. The tables in Appendix B provide the details of the coding procedure, while here only the results of such coding are presented. The outspoken interest in a measure of economic policy is signaled with a '+', an outspoken stance against the measure is signaled with a '-'; when the outcome of the budgetary law reflected the capital fraction's stance, the cell is green; otherwise, it is red.

**[INSERT TABLE 1 ABOUT HERE]**

Two major points emerge from the findings highlighted in the table above. Firstly, there is a pattern of difference in the preferences of SMEs against those of LEs. In fact, their interests are conflicting in most of the issues, except for the reduction of labor costs (both in favour) and for the introduction of the basic income (both against). This is not surprising, since reducing labour costs is generally a policy preference of all the types of enterprises. In turn, the opposition to the introduction of a form of basic income can be explained by the fact that it reduces companies' bargaining power, as it lowers the willingness of the unemployed to seek new employment, while increasing their reserve wage. The only other case in which SMEs and LEs agree is on the abrogation of Imposta sul Reddito d'Impresa (IRI), a facilitated tax regime that was abrogated. Again, it is unsurprising that all employers are in favour of reduced taxation. However, the IRI was substantially substituted by a flat tax regime for autonomous workers, which SMEs were very satisfied with, unlike LEs. The pension reform (quota 100) was another area on which business associations disagreed, with SMEs being in favour, whereas LEs expressed reservations. SMEs associations also approved the government's intention to disregard EU fiscal rules to contract more deficit, whereas LEs were against.

Secondly, there is a clear congruence between the requests of SMEs and the measures implemented by the government in the budgetary plan. This congruence is much stronger than that with LEs, whose outspoken stance matched the outcome in only one case (the reduction of labour costs), in which, notably, their stance coincided with that of SMEs.

## 6. Explaining the influence of competing capital interests on the populist government

From the analysis conducted in sections 4 and 5, two main aspects emerged. On the one hand, as shown in section 5, SMEs and LEs showed diverging preferences in terms of the government's budgetary policy, and it was the stances of the former, rather than the latter, that influenced the majority of the *content* of the budget. On the other hand, as shown in section 4, large enterprises played a crucial role in the final phase of the budget negotiations, managing to unite the capital front to avoid a full confrontation between the government and the EU, and influencing decisively the final *amount* of the deficit. In the following pages, we discuss these two aspects in more depth.

### *a) The primacy of SMEs in shaping the budgetary policy of the 'Yellow-Green' Coalition*

As shown above, besides introducing welfare measures such as a basic income and pension reform, the 'Yellow-Green' government sought the support of SMEs and based its budgetary plan on their needs, implementing significant tax reductions in their favor, as hoped for and then celebrated by the relevant business associations. Indeed, the 'Yellow-Green' government sought the support of SMEs since its formation. Immediately after the elections, M5S leader Di Maio met with the heads of Confartigianato, stating that 'the M5S gives centrality to small enterprises in Italian productive fabric' (Confartigianato, 2018c). As for the League, SME owners constitute historically one of its core constituencies (Amyot, 2003). The 'Yellow-Green' coalition budgetary strategy – combining social policies (minimum income and pension reform) with measures in favour of small businesses and the self-employed – can be understood as an attempt to rhetorically team up workers and owners, depicting them as victims of globalization. In fact, both parties portrayed SMEs as 'losers' from the process of globalization and thus needing state protection, just as unemployed and precarious workers are in need of social policy.

By contrast, throughout its short tenure, the 'Yellow-Green' government was less inclined to accommodate the interest of large enterprises, which were less central to its electoral project. For instance, following the fall of the Morandi highway's bridge in Genoa in August 2018, the government threatened to revoke the concession to run the highway network that had been assigned to the Benetton company, one of the largest Italian corporations, although it eventually did not pursue the threat. The government also irked the Italian-American multinational Fiat Chrysler Automobiles, the most influential Italian multinational (Amyot, 2003), when proposing to include in the budget an 'eco-tax' on the purchase of cars (Reuters, 2018b).

These policy choices contrast with those of the previous governments, which between 2013 and 2018 were led by the centrist *Democratic Party* (Partito Democratico, PD). Whereas the Renzi's government (2014-2016) had also introduced some measures aimed at including small business owners within the PD's electoral base, such as raising the amounts payable in cash (Afonso and Bulfone, 2019; Bulfone and Tassinari, 2021), the economic policies carried out by PD-led governments favored primarily the interests of LEs. Indeed, they governed in substantial continuation with the Monti executive with respect to policies of fiscal consolidation and structural reforms. In fact, the labour market reform promoted by the former prime minister Matteo Renzi ('Jobs Act') aimed at and succeeded in deregulating hiring and firing rules (Ferragini and Arrigoni, 2021). This is a core issue for LEs, because they have a higher number of employees and, in the Italian legislation, stricter firing rules apply to companies with more than 15 employees. Incidentally, it has been noted how the 'Jobs Act' reflected policy guidelines published by Confindustria in the same year in which the reform was approved (Il Fatto Quotidiano, 2014). Previous literature has already drawn the connection between Monti's and Renzi's governments, concluding that both carried out neoliberal restructuring in the key sectors of labour and pensions (Bifulco, 2017). Notably, these are the same issues that the 'Yellow-Green' government addressed in the opposite direction with on the one hand the Dignity Decree (Decreto Dignità) approved in the summer of 2018, which had the stated aim of combating precarious work, and on the other hand with the pension reform planned in the 2018 budgetary plan, as we have seen.

Beyond the structural reform agenda, Renzi's tax reductions benefited mainly larger enterprises. The reduction of IRES (Imposta sul Reddito delle Societa') tax benefited (bigger) listed companies rather than (smaller) partnerships[3]. The reduction of IRAP (Imposta Regionale sulle Attività Produttive) –

a tax on regional productive activity – on labour costs benefited enterprises with more employees. This tendency led the CGIA Mestre, a research center of a trade association of artisans and small enterprises, to complain that Renzi 'forgot small enterprises' (CGIA Mestre, 2017). In the subsequent 2018 elections, Renzi-led PD failed to get the electoral support of self-employed and small business owners (Afonso and Bulfone, 2019), whereas its commodifying structural reforms fostered the discontent of the working class against the PD and set the ground for the rise of the M5S and the Northern League. In fact, the PD emerged as the 'elite party' as its primary voter base was the richest strata of the population (Sio, 2018).

While the organic ties between the populist government and SMEs were crucial in shaping the budget law, in section 4 we highlighted how this alliance was challenged by the events taking place around the issue of the TAV train line. It is there that Confindustria managed to unify Italian capital in the protest against the government on the TAV issue, and to tie it to the broader question of the budgetary process.

### *b) The emergence of an historic bloc around the TAV question*

Whereas the business associations of SMEs exercised more influence in shaping the *content* of the budgetary law put forward by the 'Yellow-Green' coalition, large firms played a more influential role in pushing for a compromise around the total *amount* of the 2019 deficit, that was in the end lowered, avoiding a full confrontation with the EU executive. A key moment in the negotiations around the budgetary process was the mobilisation of capital on the TAV question at the beginning of December 2018. There, LEs leveraged on their structural power to influence the government on the issue of TAV, but also on its broader budgetary policies. It was Confindustria that initially promoted the mobilisation of employers around the TAV question and that soon managed to hegemonise the near-totality of Italian capital, represented by 15 business associations (including Confartigianato and Confcommercio). Notably, Confindustria connected the issue of the TAV to broader questions, such as the government's stance on large investment projects and, crucially, the necessity of avoiding a clash with the EU over the budget.

This also shifted the position of SMEs' organisations. Although only a few months earlier the SMEs associations had approved the government's aim to contract more deficit to pursue an expansionary policy (Confartigianato, 2018b), even against EU fiscal rules, they now joined the rally 'for the TAV and for Europe' (Confartigianato, 2018d). In Turin, capital marched united under the guidance of Confindustria. After the meetings with the government that followed the employers' mobilization in Turin, Confindustria's president Boccia declared that 'finally, we are listened to' (La Repubblica, 2018b). Since the SMEs' representatives had been listened to throughout the budgetary plan negotiations, Boccia was probably referring to Confindustria and the larger enterprises it represented.

The importance of the TAV construction thus transcended the train itself and became a representative issue of a mode of development and a mode of production; for the activists, fighting against it for twenty years, and now also for enterprises, defending it from the interruption of the construction. In neo-Gramscian terms, the TAV issue therefore represents a set of *organic ideas* – 'for TAV, for infrastructure, for growth' (Ilsole24ore, 2018f) - around which the *historic bloc* unifying Italian capital fractions was built. Confindustria hegemonized this historic bloc, to avoid the opening of an EDP and an open confrontation with the EU executive.

Furthermore, the unification of Italian capital shed light on the fracture of the 'Yellow-Green' coalition government and the fragility of the alliance it relies upon. In fact, as a reaction to the enterprises' mobilization, Salvini and Di Maio held separate meetings with the enterprises' representatives. While Di Maio could not go back on the opposition to the TAV, traditionally important to his party, close to the 'NO TAV' movement, Salvini instead supported its construction.

These differences in the approach towards large enterprises' stances had already emerged over the lifetime of the government. Following the fall of the Morandi bridge in Genoa in August 2018 (see above), it was M5S that pushed for revoking the concession from Benetton, whereas League was much more cautious. But it was on the question of TAV that the divergence of interests within the governing coalition emerged more clearly, with the M5S continuing to oppose its construction, while the League was in favour. In the summer of 2019, the government coalition broke up on a confidence vote over the TAV, when a motion of the M5S to stop the building works failed to get enough support.

## 7. Conclusion

In this paper, we relied on a critical GPE approach to study the trajectory of Italian capitalism within authoritarian neoliberalism, and in particular the experience of the 'populist' government led by 5SM and League in 2018-2019. The arrival in power of this coalition can be understood as an example of the inherent contradictions of authoritarian neoliberalism (see Bruff, 2014). In the Italian case, the implementation of EU-inspired liberalising structural reforms and retrenchment policies by successive governments since the outbreak of the 2008 global financial crisis led to the rise of both M5S and League in the 2018 elections. Nevertheless, as critical political economists have already emphasised, the arrival in power of the 'Yellow-Green' coalition did not significantly divert the neoliberal trajectory of the Italian political economy, while it also furthered an anti-immigration and welfare chauvinist agenda (Monaco, 2023). Our paper has added to these analyses, by unearthing the relationship between Italian capital and the 'Yellow-Green' coalition. We have done so by looking at the most relevant economic and fiscal policy process for a state: the formulation of the national budget. In doing so, we have corroborated critical GPE approaches with empirical evidence, seeking to understand contemporary dynamics within authoritarian neoliberalism by highlighting the role of capital and the divisions within it.

On the one hand, the analysis of the budgetary policies showed how the ‘Yellow-Green’ coalition sought the support of SMEs, to which it gave substantial concessions, at the expense of large companies. The ‘people’s budget’ that the M5S-League ‘populist’ coalition enacted was rather the budget of small and medium enterprises, with some social policy significantly cut because of the EU fiscal constraints. On the other hand, whereas it was SMEs representative organisations that exercised the most influence over the content of the budget, larger enterprises played a crucial role in shaping the final amount of the deficit/GDP ratio, avoiding a full confrontation with the EU executive.

The analysis also allows us to shed light on the meaning of populism, and to situate it within a critical GPE framework. The term ‘populism’ has been used as an umbrella concept for parties who are questioning the socioeconomic system we live in, and in particular the legitimacy of European governance, either from the left or from the right (Müller, 2016). However, it is worth noting, ‘populism’ does not equal ‘euro-sceptic’, although the two terms have often been used interchangeably. With our research, we have shown that the ‘populist’ nature of the ‘Yellow-Green’ coalition government did not lie in its critique of EU rules, to which it eventually bent, but rather in its attempt to team up workers and owners in its rhetoric, presenting itself as champion of the victims of globalization.

By teaming up owners and workers, such a narration relies on a mobilization against the European economic governance regime in terms of nation, rather than class. However, focusing on national sovereignty is quite limited, since it only concerns the institutional form of the EU, and it does not address its social purpose, which is neoliberal restructuring. This social purpose emerged clearly in the negotiations around the budgetary law: as a result of the compromise between the ‘Yellow-Green’ government and the Commission, the two most significant social policy measures contained in the budget were significantly curtailed in the final version of the budget. While national executives maintain a ‘relative autonomy’ (Poulantzas, 1973; Amyot, 2003) in the administration of social policy to seek political legitimation, they are constrained by increasingly ordoliberal EU crisis management rules (Ryner, 2015), as well as by the necessity of capital accumulation.

Nevertheless, the populist government did not effectively challenge the EU’s neoliberal social purpose, rather used it in its rhetoric to fuel a nationalistic drift. This focus on national sovereignty failed to promote real alternatives. Thus, it should come as no surprise that in 2021, only three years after having openly challenged the European Commission over the formulation of national fiscal policies, both League and M5S joined the 'grand coalition' that supported the technocratic executive led by the former ECB chairman Mario Draghi. The subsequent fall of the Draghi's executive and the electoral victory of a conservative coalition led by Giorgia Meloni's far-right *Brothers of Italy* (Fratelli d'Italia) showed once again the contradictions inherent in the trajectory of Italian authoritarian neoliberalism. This calls for further contributions from a critical GPE perspective to understand the current conjuncture.

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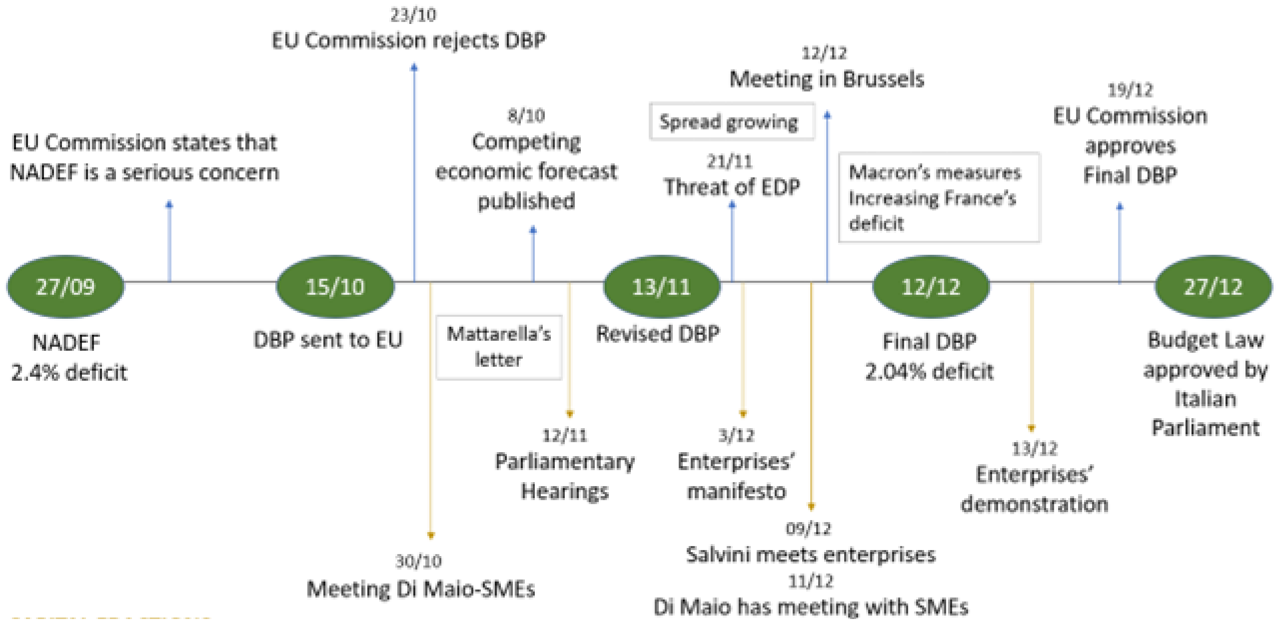
All links were checked on 05/01/2023

## Notes

[1] Whereas green is the colour traditionally associated to the League's symbol, yellow is the one associated to the Five Star Movement.
[2] For a detailed description of such policies, that goes beyond the scope of the paper, see Appendix A.
[3] The distinction in Italian is between the legal categories of 'società di capitali' and 'società di persone'.

Figure

**Figure 1. Timeline of the Negotiations over the Budgetary Plan**




Source: authors' elaboration. All acronyms are explained throughout the text.

Alt text: a graphical depiction of the timeline of the budgetary process, which is detailed in the following pages.

Table

**Table 1. Competing business interests on the draft budgetary plan**

Business interests

| | | SMEs | LEs |
|---|---|---|---|
| Labour | Reduction of labour costs (through INAIL tariffs) | + | + |
| | Structural reforms | Not outspoken | + |
| Taxes | Flat Tax | + | - |
| | VAT | + | Not outspoken |
| | Fiscal Peace | + | Not outspoken |
| | Abrogation of IRI | - | - |
| | Tax reliefs and simplifications | + | - |
| Budget balance/Debt reduction | Commitment to EU fiscal rules | - | + |
| | Spending review | Not outspoken | + |
| Welfare | Basic income | - | - |
| | Pension reform | + (early retirement) | - |

Economic policies

Source: authors' elaboration

Alt text: a graphical representation of the competing interests of large enterprises versus small and medium ones, which is described in the following pages.