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A tale of two populisms
The League and the Five Star Movement in power

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Abstract

Politic in Italy in 2019 revealed a series of discontinuities as well continuities with regard to previous years. The discontinuities were clear: two populist parties – the League and the 5MS - gained power with a platform of radical promises on the social and economic front, even if one of them, the League, left the government prematurely (a signal of its growing electoral strength in the country), allowing the centre-left PD, which had dominated Italian governing coalitions from 2013, to return to power in Conte II. The continuities were no less obvious: the populist government's radical promises were substantially downscaled due to inescapable macroeconomic constraints and the debt policing powers of the European authorities («radicalism meets reality»), as well as barely concealed or open conflict over policy priorities among the coalition partners («radicalisms in competition»).

Keywords: Italy; populism; Five Star Movement; League

Introduction

Italy is certainly not a boring country when it comes to government duration. Since the end of the Second World War, Italy has had 65 governments, and the 65th – true to form – lasted only from 1 June 2018 to 5 September 2019, some 15 months in all and roughly equal to the average length of government since 1945. But 2019 was not only a year in which one parliamentary majority was replaced by another. The year marked the end of a governing coalition (Conte 1) of two parties - the Five Star Movement (5SM) and the League – one that had attracted much international attention because of its anti-establishment, populist nature - and saw the beginning of another (Conte 2) in which the League was replaced by the Democrats (PD), a party that had previously opposed coalition with 5SM.

For most observers the end of the «populist» governing coalition was an accident waiting to happen. Not only were the 5SM and the League ideologically too distant from each other, but the former was more or less eclipsed by the latter as its leader, Matteo Salvini, came to dominate the government's agenda. The question was not if but when the government would collapse. The results of the European elections in late May, which crowned the League as the largest party in the country, was just the final trigger of the collapse of an inherently unstable coalition. But the collapse was far from automatic, and was preceded by a long period in which the 5SM and the League engaged in some very difficult balancing acts, as detailed in the next section. In this period, the populist government's radical promises were substantially downscaled due to inescapable macroeconomic constraints and the debt policing powers of the European authorities («radicalism meets reality»), as well as barely concealed or open conflict over policy priorities among the coalition partners («radicalisms in competition»).

Although the collapse of Conte 1 and its replacement by Conte 2 was the headline event of the year, accompanying developments are no less relevant. First, 2019 marked the official transformation of the League from a northern, separatist party into a national party [Albertazzi, Giovannini and Seddone 2018]. This transformation has implications for the centre-right in Italy: as Salvini eclipsed Berlusconi in European and regional elections, so the balance in the centre-right shifted away from the centre to the right. This could be potentially transformative for the Italian political landscape, but has already triggered a counter-reaction in the rise of the Sardines protest movement against the xenophobia of the League. Second, the rapid turnover of the governing coalitions in 2019 remind us that Italy's perennial political instability prevents serious attempts at resolving Italy's most important problems. This has been as true for the more immediate policy challenges - as in finding an effective and humanitarian response to the immigration and refugee

crisis, shaping new foreign policy orientations, dealing with the controversy surrounding large scale infrastructure projects and managing bank bailouts – or the country's longer-term, structural problems, as in responding to the European authorities' demands for government debt reduction, or the ongoing crisis in the labour market, most prominently high levels of youth unemployment and the consequent brain drain.

Building on the main political events of 2019, in this introduction, we focus on developments in both coalitions, analyze the reasons why the first collapsed, and consider the implications of both governments for Italian politics and policy. In doing so, an important takeaway from this introduction and the contributions to this volume is that most of the policy challenges that put relations between the 5SM and the League in Conte 1 under strain have not disappeared, threatening not only the stability of the new government but, more importantly, the country's future.

1. The odd couple tries to govern

The 5SM and the League are usually labelled «populist parties» [see Caiani 2019, Pirro 2018], raising the question of whether and how they would be able to reconcile their anti-establishment credentials with the imperative of governing the country. Indeed, once in power, the governing coalition was forced to confront several (often long-standing) policy challenges, the solutions to which risked alienating their supporters. In other words, both parties confronted the stark dilemma of having to balance the imperative of electoral responsiveness with that of government responsibility [Mair 2014]. In addition to this balancing act, and like any governing coalition, the two parties also faced another: between sticking to the party's identity and forging the compromises required to stay in power and ensure coalition survival [see also Cotta this volume]. While it might be expected that they would err on the side of responsiveness due to their populist leanings, the experience of the Conte 1 government reveals a more uneven pattern in the implementation of the coalition's policy agenda [see especially Giannetti, Pinto and Plescia this volume]. If sometimes the governing parties responded to policy challenges by privileging «responsiveness» (e.g., by taking a confrontational approach to Europe and Italy's international partners that risked denting Italy's credibility), other times the two governing parties did make difficult compromises, thus inclining more towards «responsibility».

The major (and long-standing) policy challenge facing Conte 1 that tested the balance between responsiveness and responsibility concerned Italy's budgetary position. The 5SM-League government had to reconcile the ambitious pledges made in its «contratto per il governo del cambiamento» to revive economic growth [Marangoni and Verzichelli 2019] with the very tight fiscal

space available to it and the discipline imposed by bond markets and the EU institutions. To complicate things further, macroeconomic conditions were far from benign. At the beginning of 2019, official numbers showed that the country had fallen once again into recession – the fourth downturn after those registered in 2008, 2011 and 2014. The downtown also followed a tough confrontation with the European Commission, which had rebuked Italy's 2018 budget proposal as a serious breach of European spending rules. As Marzinotto [this volume] explains, in the background lies the unique set of problems that characterize Italian national debt – stemming from a deleterious «snowball" effect, resulting from positive high interest rates, low real growth and, recently, low inflation – that heavily constrains the scope for government budgetary maneuver. This is a legacy of past decades of government spending and low growth that, regardless of a primary budget surplus (the balance excluding interest payments) - which has been positive for all but one year since Italy joined the Euro - makes the country highly vulnerable to large-scale shocks (the post-2008 financial crisis) as well as smaller macroeconomic perturbations, notably market-driven interest rates.

Although the Italian government toned down its plans in the last part of 2018, its relationship with the EU Commission was further strained at the beginning of 2019. In January, the Conte 1 government eventually approved two of its flagship promises: a citizens' income of welfare payments for the unemployed and a pension reform, including an early retirement scheme [Stamati this volume]. These measures were the result of a compromise between the two governing parties: the Five Star wanted a citizen's income, the League wanted the pension reform and both parties staunchly defended them as critical for stimulating the economy – even if serious doubts exist as to their effective growth potential. While an argument could be made that the citizens income would act as an economic stimulus, providing a «significant increase in income support for individuals and households below the poverty line and in addition earmarks additional human, financial and technological resources for Job Centers and other ALMPs, including training» [Department of Treasury 2019, 5], any economic impetus from the pension reform would depend on the trade-off between the increase imparted to government debt, and the employment improving impact of earlier retirement for the 62-year old plus age cohort. Nevertheless, Stamati [this volume] considers that these new social programmes represent a degree of fiscal expansion that was unthinkable under the preceding PD-led Renzi or Gentiloni governments.

Up until the spring, the two governing parties succeeded in presenting something of a united front in confrontations with the EU commission. In the run-up to the European elections, however, tensions within the coalition increased and the different positions and priorities of the Five Star and the League burst into the open. Although the Conte 1 government tried to appeal to the EU with conciliatory tones (Treasury Minister, Giovanni Tria, described the Italian budgetary stance as

necessary for supporting social cohesion),[1] the spending measures inevitably raised eyebrows in Brussels. «Government spending is set to increase significantly following the introduction of the citizenship income and several provisions on pensions, including a new early retirement scheme,» the commission officially concluded in its May forecasts.[2]

With economic growth projected to be lower than expected, the confrontation between the Italian government and the EU reached new heights as the Commission raised the prospect of opening an excessive deficit procedure against Italy. Both the Five Star and the League rejected the EU's demands while simultaneously relying on Treasury Minister Tria and Prime Minister Conte to build bridges with the Commission as a means of shaping a new budget in the fall. As time went by, and with European elections looming, the government's balancing act became increasingly difficult as the governing parties stepped up their anti-EU rhetoric. This was especially so for the League in line with Salvini's initiative to become the leader of pan-European right-wing nationalist group in the European Parliament.

The difficulty of balancing electoral pledges with the imperative of governing was also revealed by the management of the banking crisis. In this case, both parties tried to square the circle of governing while retaining their political identities by opting for «responsibility» while at the same time stepping up their «anti-establishment' rhetoric. After having long criticized bank rescues, the Conte 1 government provided state guarantees to stave off a full bailout of Banca Carige in the early part of 2019 (5SM would also support the bailout of Banco Popolari di Bari in late 2019 under Conte 2). But both governing parties sought to place the blame for the situation on the «establishment»: Salvini targeted the Bank of Italy and Consob, the stock market regulator, suggesting that they should be «reduced to zero, more than changing one or two people» and that «fraudsters» who inflicted losses on Italian savers should «end up in prison for a long time».[3] Salvini's position was echoed by Deputy Prime Minister and Five Star leader Luigi Di Maio. Discussing the future governance of the Bank of Italy, Di Maio's message was clear: «We cannot think of confirming the same people who were in the directorate of the Bank of Italy if we think of everything that has happened in recent years».[4]

Salvini and Di Maio's positions were also very much in tune during the first part of the year in rethinking Italy's international alliances. Take the relationship with France. While M5S clashed with the French government on the *gilet jaunes*, Salvini accused France of «stealing wealth» from African countries, thereby propelling its migration waves.[5] At the same time, however, due to the Five Star and League's different policy priorities, there were areas where the two parties simply pushed the country in different directions, revealing the growing tensions in the coalition. In March 2019, Italy became the first G7 country to sign a Memorandum of Understanding with China within the framework of the Belt and Road initiative (BRI). This decision, which was strongly supported by

the Five Star, not only raised criticisms from Italian international partners, from the US to Europe [see Giugliano this volume], but support for the BRI also revealed the tensions between the parties. While the Five Star cheerfully embraced the relationship with China, Salvini took a much cautious approach: «If it is a question of helping Italian companies to invest abroad, we are willing to reason with anyone. If it is a question of colonizing Italy and its companies by foreign powers, no.»[6]

Migration posed another such policy challenge for finding a balance between the two governing parties. As with the budget, in the first part of the year Di Maio and Salvini largely agreed on taking a tough stance towards migration (i.e., the policy to close the ports) [see Geddes and Pettrachin this volume], although the League pursued the anti-migration agenda more vigorously while the Five Star took a more conciliatory tone. Evidence that the two parties were close – at least for a time – on this issue is that the Five Star lent support to Salvini when he was accused of kidnapping in the Diciotti affair. In particular, the Five Star's membership (via online vote) agreed to refuse to remove Salvini's immunity following the investigation by Sicilian prosecutors over his blocking of the Diciotti vessel from entering Italy with 177 migrants on board. The Five Star, which has long argued against allowing Italian politicians immunity from prosecution, had to placate its members while protecting its alliance with the League.[7]

The difficulty of balancing party identity and government survival illustrated by the Diciotti case was also acute, especially for the Five Star, on a number of other policy issues, including the Siri affair and more clearly still the high-speed Turin-Lyon train link, known in Italy as the TAV, or Treno Alta Velocità. Armando Siri, the League's undersecretary of transport, was accused of corruption - a key issue for the Five Star. Salvini defended Siri, creating a point of conflict with the Five Star, only resolved by Siri's voluntary resignation. In the case of the TAV, the high-speed Turin-Lyon project was strongly opposed by the Five Star but strongly supported by the League [see Biancalana this volume]. Although the TAV was eventually used by the League to pull the plug on the government in the summer, in the early part of the year balancing the exigencies of the two governing parties translated into erratic and ambiguous solutions. For instance, in March, the Conte 1 government approved a call for tenders for continuing the tunneling on the French side, after having blocked the call for weeks. At the same time, however, the government pledged no new financial commitments to the project, while also promising its wholesale review. This delicate compromise solution was hailed by Salvini as proof that the TAV was going ahead. At the same time, it allowed Di Maio, to claim that the project was still under review.

In short, the Five Star and the League had to engage in difficult balancing acts to deal with the governing challenges they confronted, producing an erratic pattern of compromises and conflicts. Eventually, however, the challenges of governing together strained relations between this odd couple.

This was particularly so because the problems facing the Conte 1 government were much more costly politically for the Five Star than for the League:the former was often forced to accept compromises that that made it resemble the elites against which the party had mobilized political support (Tronconi 2018). As the scope for compromises reached its limits, so did the duration of the government.

2. Tensions come to a head

Tensions within Italy's Five Star-League coalition escalated ahead of the European Parliament elections in late May, which marked a shift in the balance of power between the two governing parties. The results in those elections, which made the League the most popular party in the country – albeit one in a junior position in the government – were not unanticipated. The regional elections that had taken place earlier in 2019 had already revealed the political momentum building behind Salvini [see De Giorgi, this volume]. In the spring, a centre-right coalition led by the League won regional elections in Abruzzo, Sardinia, Basilicata, as well as in Umbria in October - the eighth straight victory for the League-led centre-right since March 2018. The centre-right's electoral momentum has come at the main expense of the centre-left, as demonstrated by its defeat Basilicata and Umbria, which had been strongholds of the left for decades.

The results of the May 2019 European elections cemented the reversal of fortunes between the two governing parties [Chiaramonte et al this volume]. By securing 34.3 per cent of the vote, the League not only became the largest party in terms of votes, but that victory signaled its transformation from a fringe, separatist party into a national party. It was also a personal victory for Salvini who strongly supported the League's strategy of abandoning its 'northern» focus and symbolism in order to become a party competitive across all Italian regions. The European elections also marked the lowest point for the Five Star which, after its peak of 32 per cent of the national vote in the 2018 general elections, received just 17 per cent of the vote in the European election, ending up in third place behind the Democratic party (22.7 per cent).

The election results undermined the delicate balance and the political compromises between the two governing parties discussed above. Nowhere was this more evident than in growing public divergences in the key areas of budgetary and migration policy, with the League choosing now to respond more to its expanding electoral base, rather than acting as a party of government. Already in the run-up to the European elections, Salvini stepped up his party's anti-EU rhetoric, openly envisaging breaching European spending rules. Salvini's stance reflected his broader European strategy of creating an alliance of anti-immigration European populist parties, including the French National Front (since June 2018 the National Rally), the Alternative for Germany (AfD), the

nationalist Finns and the Danish People's Party, among others. Salvini's anti-immigrant rhetoric became more incendiary over time, and threats against political leaders supporting women's and refugee rights increased [see also Pavan this volume]. A particularly chilling example occurred in November when 89-year-old senator and holocaust survivor Liliana Segre received hundreds of threats on social media after she called for parliament to establish a committee to combat hate – a sensible and civilized proposal, and one that passed despite an insensible and uncivilized opposition from the far-right parties, the League and Fratelli d'Italia.

The League's incendiary rhetoric was not only applied to the policy issues which the party possesses «issue ownership» such as migration [Giannetti, Pedrazzani and Pinto 2017, Passarelli 2013]. Emboldened by the election results, the League also raised the stakes in economic policy by calling for a fiscal shock made up of tax cuts: «We want to cut taxes to workers and families regardless of the opinion of a bunch of bureaucrats. The future of our children and Italy comes before the constraints decided who knows where.»[8]

Salvini's harder stance made Di Maio's position even more difficult. On the one hand, Di Maio made several attempts to recast his party's anti-establishment image by assuming a more «responsible' role. Indeed, the leader of Five Star openly accused Salvini of being «irresponsible» by proposing that Italy infringe EU rules. Di Maio also accused Salvini of stoking «social tension» in Italy with inflammatory campaign rhetoric against migrants.[9] Relations between the coalition partners were further embittered by allegations of a meeting between League representatives and Russian businessmen to provide the party with $65m in illicit party funding, which Salvini denied. Di Maio and Conte have called on Salvini to answer to parliament and for an investigation into all party finances.

But on the other hand, Di Maio was also keen to rekindle his party's core image in order to mobilize support. This was the case in June after parliament endorsed in a non-binding indicative vote a proposal from the League's manifesto and the coalition agreement for a new type of Treasury bill - Treasury mini-bills - which could be used by the government to pay back debt to commercial businesses and by citizens to pay their taxes. If implemented, the proposal could effectively create a parallel domestic currency to the Euro in Italy – raising the prospect of further conflict with the EU authorities. Both technical (independent) Economics minister Giovanni Tria and Conte derided the idea as «useless»[10], provoking a united and critical response from Salvini and Di Maio.

But more generally common ground between the two parties was fast disappearing. Tensions between the governing parties reached new heights following the Five Star's move to support Ursula von der Leyen to become president of the European Commission. The narrow room for maneuver of the government ahead of drafting the new budget only inflamed matters: the coalition parties needed

to take responsibility, either by introducing unpopular new taxes to fix the budget deficit, or clash openly with the Commission and provoke new financial market tensions, which would only narrow the government's fiscal space further.

Speculations that the government would not survive proved to be correct: Salvini used a parliamentary motion on the TAV to pull the plug on the government while on unofficial electoral campaigning on Italian beaches. It was summer time: unprecedented timing to end the parliamentary session in Italy. There has been no general election in autumn in Italy since the country became a Republic because this period of the year is dedicated to passing the national budget.[11] It was Salvini's gamble - and a miscalculated one, at least, in the short-run.

3. A miscalculated gamble?

It is difficult to ascertain whether Salvini's true motives in terminating the Conte 1 government were to deflect blame for the upcoming budget (which would have required prudence on spending and thus admission that the trumpeted «fiscal shock' could not be implemented) or were simply hubristic in that Salvini was emboldened by electoral success. What we know in retrospect, however, is that Salvini's gamble to assume the reins of government misfired.

In a surprise move, Matteo Renzi, former leader of the PD, who had ruled out any alliance with the Five Star after the 2018 general election, went public by opening the possibility of a caretaker government with his former enemies to pass a budget with no VAT increases. While the PD leader Nicola Zingaretti (initially) ruled out the alliance proposal, Renzi's opening also emboldened the voices of other PD parliamentarians interested in a more ambitious alliance with the Five Star.[12] Renzi's unexpected change of position also revived Renzi himself, after he was sidelined in the party. In response, Salvini announced his willingness to continue the coalition with the Five Star Movement, just at the point when Italian parliamentarians were called back from the summer recess for the no-confidence vote against the government. After a tough parliamentary confrontation between the former partners, Conte resigned on August 20. In line with constitutional rules, Sergio Mattarella, the Italian President, was now tasked with finding a solution to the political crisis, which ended up giving Giuseppe Conte the mandate to form a new government between the Five Star and the Democratic Party.

The formation of the Conte II government has not been straightforward: there has been a lot of back and forth within both the Five Star and the PD. The former had to confront the anger of its supporters and activists who saw the PD as the symbol of the «establishment» they much despise. To escape the impasse, the decision to form a new government was put to an online vote held on Five

Star's «direct democracy» web platform Rousseau: the decision was eventually approved with 79 per cent voting in favour. There were also problems on the PD side. Zingaretti was unconvinced until late on in the process of government formation, and there were fights on the content of the government programme with the Five Star.

The formation of the Conte 2 government had four main implications for the Italian political landscape. A first was the ascendancy of Giuseppe Conte from an unknown political figure (an obscure academic private lawyer) to a more established political leader. During his first term as prime minister he was eclipsed by his two deputies, Salvini and Di Maio. Over time, however, Conte was able to create for himself a distinct political identity that has attracted significant popular support: in a poll in early September, Conte had an approval rating of 51 per cent (second only to the president, Sergio Mattarella) while Salvini's rating as 36 per cent and Di Maio's 26 per cent[13] [see Giannetti e, Pinto and Plescia this volume]. Under the Five Star-League government, Conte acted as the intermediary between the two coalition parties, and constantly sought to build compromises on the politically sensitive TAV issue. Conte also served as the key Italian representative with European institutions and in international meetings, toning down the harsh rhetoric of the coalition allies. However, it was Salvini's decision to pull the plug on the government that raised Conte's profile: after having silently accepted for months most of Salvini's policy positions, Conte delivered a very tough speech against the leader of the League during the parliamentary debate that ultimately led to his resignation.

A second implication of the formation of the Conte 2 government regards the role of Renzi and the PD. The PD's decision to ally with Five Star along the lines set out by Renzi helped to resurrect the former PD leader. This, in turn, created momentum for him to split from the PD and launch a new liberal, reformist and pro-EU political party – Italia Viva. The creation of Italia Viva – an example of the proclivity of Italy's politicians to create platforms for personal power rather than pull together in support of common ambitions or principles – may yet further weaken the centre-left, which has become even more fractious than before. Furthermore, it is as yet unclear how much popular and electoral support Italia Viva can attract. The creation of Renzi's party also has implications for Conte II by creating the potential for yet more instability. Although Renzi vowed to continue supporting the government, Conte 2 has to keep Renzi on board in order to survive.

The third implication of the formation of the Conte II government for the country regards the future of the centre-right. The consultations preceding the creation of Conte II showed the centre-right to be united behind Salvini, with Silvio Berlusconi sidelined. This means that the centre of gravity in the Italian centre-right has clearly moved to the right. Furthermore, Salvini is back in opposition - a very comfortable position for campaigning, mobilizing political support, and testing

the alliance with Fratelli di Italia (whose support has increased since the League's experience in government) and Berlusconi's Forza Italia. Hence, although his gamble failed back in the summer, it is likely that his defeat is only temporary. Opinion polls at the end of 2019 showed that the League was still Italy's most popular party, with over 30 per cent support, even though that number had declined from 37 per cent at the peak of its popularity just prior to the breakup of the League-Five Star government in August. At that point the League appeared likely to be the winner of any forthcoming elections.

However, there is always room for political surprises. Although the League seemed well positioned to win the elections in Emilia Romagna at the end of January (indeed Salvini made a point of targeting and securing victory in the historically left-wing region) the periodic flooding of piazzas across Italy from November until January by the new Sardine movement – in peaceful protest against the far-right – has provided some succour for the center-left. The Sardines are attacking Salvini's racist rhetoric, arguing that verbal violence should legally be considered the equivalent of physical violence. Although the PD lost opinion poll support nationally after its entry into coalition government with the M5S in September[14], in Emilia-Romagna the PD-led centre-left coalition prevailed over the right-wing coalition (the League, Forza d'Italia and Fratelli d'Italia) on the back of a 30 per cent increase in turn out. This outcome demonstrated that a far-right government in Italy – based in a plausible League-Fratelli d'Italia coalition – is not a foregone conclusion.

The final implication of the Conte II government is the troubled future of the M5S, which received a boost in national polls after the breakup of its governing coalition with the League, but which has seen its popularity decline subsequent to the formation of its new government with the PD, falling from 20 per cent in early September 2019 to 15 per cent in early February 2020. Meanwhile the League was also in slight decline and the PD was relatively stable around the 20 per cent mark.[15] Several factors are likely contributing to M5S weakness and perhaps inevitable decline: the disapproval of its voters with its erstwhile partnership with the xenophobic League; the (weak) revival of the PD's fortunes in the face of a far-right League/Fratelli d'Italia surge in the polls; and its inability to secure a durable «populist» trademark policy success while in government given coalition and macroeconomic policy constraints. The contrast with the League is clear: as Geddes and Pettrachin [this volume] point out, the League has acquired effective ownership of the immigration issue and, by pursuing policies that can only exacerbate the problems of ongoing irregular immigration, has created a context that will continue to deliver it political advantage.

4. Italy's future is still at stake

The most immediate and demanding challenge that the new Conte II government had to confront was passing the budget for the new year. It was therefore not surprising that the first issue in Conte II's 29-point political programme emphasized the need to pursue an «expansive» economic policy but «without compromising public finances». As the programme reads, the major stated objective is «the neutralization of VAT increase» [la neutralizzazione dell'aumento dell'IVA] – in other words delaying or preventing an increase in VAT requested by the European authorities from impacting the income and spending of families through accompanying measures.[16] Drafting a budget that kept the deficit stable while avoiding an automatic increase in VAT that was likely to produce a big uptick in opposition to the new government (most likely to the advantage of the League, now also parading itself as an anti-tax party) has been the first test for the new government coalition. Budgetary room for manoeuvre was no greater, however, than under its predecessor: the 2020 budget aims to target a deficit of 2.2 per cent of GDP – the same level as in the previous two years. This means that while containing a host of new minor initiatives, some falling under a related tax law decree, and others seeking to stimulate the economy without threatening to add further deb to the government's accounts, none was likely to deliver a substantial boost to Italy's woeful economic performance – despite Prime Minister Conte's claim in mid-October that «It's an expansionary budget, we are satisfied ».[17]

The budget received only very reluctant EU approval at the end of November - to which the Italian government responded by casting doubt on its support for granting new debt arbitrating powers to the European Stability Mechanism (ESM), part of a reform agreed to by the Eurogroup in June [see Giugliano and Marzinotto this volume]. Analysis of the budget reveals a combination of tax alleviation measures (the delayed special VAT increase, a lower income tax for middle-earners, the restoration of fiscal incentives to help companies raise capital scrapped in 2019, lower property taxes on factories and warehouses, tax concessions for individuals and companies moving to Italy) and tax raising measures (new anti-tax evasion sanctions, e.g., for retailers who do not accept credit cards, a lower threshold above which it is illegal to use cash, a unilateral 'web-tax' on digital companies, tougher tax rules for toll road operators, and new taxes on single-use plastic and sugary drinks). But while all salutary and sensible, there was nothing in the way of new government spending provisions: indeed the budget cut 2.7 billion euros from central government spending on goods and services. And notably there was nothing in the budget for critical sectors like research and education, regardless of Conte's pledge to boost support for them when he received a crucial vote of confidence from the

Senate for his new coalition government in September. Education Minister Lorenzo Fioramonti resigned in protest.

Finding the resources to keep the deficit stable - while avoiding tax increases and confrontation with Brussels - was far from the only challenge for the newly created government. The Conte 2 government had to respond quickly to the major employment crisis triggered by the prospect of the potential shutdown of ILVA steelwork plant that quickly morphed into a national political crisis. Indeed, the ILVA debacle speaks to broader problems for the country: balancing environmental protection with fostering economic growth, and remaining attractive to foreign investors. Similarly to the TAV case, the ILVA debacle also brought to the surface the challenges for the Five Star as a governing party: as a movement, the Five Star privileges environmental protection but as a governing party, it cannot ignore the employment implications of shutting down the ILVA plants. Indeed, what happed in Taranto is that in 2018 the international steelmaker ArcelorMittal agreed to take over Ilva following an agreement with Italian lawmakers who granted Arcelor legal protection against future environmental liabilities arising from running the Taranto-based company. However, Italian lawmakers (Five Star) revoked that legal immunity giving Arcelor a pretext to walk away from the agreement. The future of around 8,000 people employed in the ILVA factory was at stake. But also at stake was the credibility of the country as a foreign investment location. Italy is an international laggard as a recipient of foreign direct investment, a problem partly linked to lengthy judicial processes and the attendant legal uncertainty. These problems are far from having been solved.

The list of unsolved problems afflicting the country is a long one. Chief among them, however, are emigration and the accompanying brain drain and a worsening demographic problem due to very low fertility – both ultimately driven by the country's poor economic and employment-creating performance. An Istat report at the end of 2019 revealed that in 2018, 157 000 people left Italy to live abroad (up 1.2 per cent from 2017), 117, 000 of them being Italians (up 1.9 per cent) bringing the total number of Italian expatriates moving abroad over the last decade to 816, 000, including 182,000 with university degrees. A large number of these migrants were actually leaving the more prosperous regions of Lombardy, Piedmont and Veneto, while southern Italians continued to move north [Istat 2019a]. The brain drain component of emigration is significant: whereas Spanish emigrants surveyed cite unemployment as a major driving force, half of Italian respondents leaving cited better business opportunities or education abroad[18].

On the demographic front, official statistics released in 2019 revealed that births in 2018 dropped to their lowest level this century [Istat 2019b]. As reported in the *Financial Times*, fewer than 440,000 children were born in Italy in 2018, a 4 per cent drop from the preceding year. Italy is set to be the only major European economy with a shrinking population in the five years to 2020,

according to the UN. With 23 per cent of the population aged 65 or above, it has the second-largest share of old people in the world after Japan[19]. The demographic trends translate into a shrinking number of workers - Italy's working-age population has fallen by 2 per cent since 2014. These are worrying demographic trends that weigh heavily on Italy's growth prospects and fragile public finances and the future of the country. A larger cohort of retired Italians and a smaller cohort of working Italians spells disaster for the sustainability of Italy's pension system. For a time in the 2010s, compensation for the declining population was provided by inward migration, but the changing character of migration to Italy (fewer staying and more moving on) and the more draconian anti-migration and refugee policies of the Conte I government cannot guarantee that the previous path will be followed.

Conclusion

Politics in Italy in 2019 revealed a series of discontinuities as well continuities with regard to previous years. The discontinuities were clear: two populist parties – the League and the 5MS - gained power with a platform of radical promises on the social and economic front, even if one of them, the League, left the government prematurely (a signal of its growing electoral strength in the country) allowing the centre-left PD, which had dominated Italian governing coalitions from 2013, to return to power in Conte 2. The continuities were no less obvious: in spite of the anti-establishment credentials of governing parties and promises of radical «change», the Conti 1 government, like its predecessors (and with high probability its successor as well), has ultimately scaled back its electoral pledges. The usual macroeconomic constraints as well as conflict over policy priorities between the coalition partners have ultimately «normalized» Italian politics in a time of populism.

If one lesson from the M5S-League coalition government is that, in spite of their remarkable electoral success in 2018 [Chiaramonte et al 2018], there are no free lunches, the other was that populism generates its own discontents – from which the League was able to benefit handsomely in the June 2019 European elections. Whether it will continue to do so will depend more on the success of the Conte 2 government and the capacity of the PD to benefit from social movement activism in the form of «the Sardines» than on the M5S, which, at the time of writing, appears to have lost its allure and mobilizing capacity. But, of course, making predictions in social science is always foolhardy. This is especially so in the case of Italian politics. 2020 will certainly not disappoint.

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