

**Luiss**

School of European Political Economy

# **Why a pro-European President of the Italian Republic is vital for the country's economy**

**Carlo Bastasin**

Policy Brief 1/2022

**LUISS**



January 25, 2022

## **Why a pro-European President of the Italian Republic is vital for the country's economy**

**Carlo Bastasin**

The role of Italy's President, differently from the premiership, does not wield executive powers. Nevertheless, its function of stability has become progressively more important in the last 20 years. In a political system uniquely characterized by its instability, the President's seven-year mandate has always provided a long-term institutional anchor to the country. Furthermore, as will be highlighted in this short brief, in the last 20 years the President's anchoring function has become even more critical because of a new feature in Italy's institutional dynamics, which leads governments to sway from a path of fiscal stability the more durable they are.

To justify this view, it is necessary to question one of the few certainties that political-economy scholars hold to be solid and that characterizes the Italian case in a unique (or anticipatory) way, unlike other political systems in advanced economies. The conviction is that the financial instability of a country is linked to political instability in a sort of vicious circle. In other words, it has always been taken for granted that the very short duration of Italian governments made them irresponsible with respect to the consequences of their own fiscal indiscipline: the shorter the government, the greater the deficit that the government presented to Parliament for approval, leaving the consequences of a higher-than-expected debt to subsequent administrations. But while this was true until the 1990s, perhaps it has not been the case in the last two decades.

Judged by Italy's standards, the last 20 years have been characterized by unusually long-lasting governments. Three of the four longest-serving administrations out of the 67 that have been in power hand-over-fist after World War II governed in the last two decades. Italy's longest-serving government was the one headed by Silvio Berlusconi between June 11, 2001 and April 23, 2005. The second was again led by Berlusconi between May 2008 and November 2011, and the fourth was headed by Matteo Renzi between February 2014 and December 2016. One needs to adopt a number of assumptions in gauging the fiscal performances of these administrations. One possible method is to confront the trend of the debt-to-GDP ratio at the beginning of the mandate and the outcome at the end. This is a problematic calculation, entailing many qualitative assumptions, particularly in the case of Berlusconi's most recent government coinciding with the global financial crisis. However, there is a clear indication that Berlusconi's 2001-2005 government took a U-turn from the fiscal discipline of its predecessors, bringing down the yearly primary surplus by four points and accelerating this direction in recent years. Similarly, Renzi's government was characterized by a strong accent on "flexibility" and "exceptional circumstances" that permitted it to partly circumvent the fiscal rules set – admittedly, too strictly – by the European institutions. The problem per se is not that fiscal policy was too lax,

but that the “indiscipline” coincided with an increase in current expenditures rather than capital building, showing that political duration perpetrates public expenditures in order to maintain power rather than to transform the country. A similar pattern was followed by another long-lasting government, that of Giuseppe Conte, whose premiership, however, covered two governments with different political compositions.

If my calculations are correct, in the last twenty years it has been precisely the most lasting administrations that missed the fiscal targets at the beginning of their mandates. It would seem that the stronger the prime minister, the more vigorous become the arguments for a cautious management of public resources. With the long duration of the government, narratives that are conventionally defined as populist consolidate: anti-Europeanism; European rules violation; sovereignty, and so on. If the administrations of the last twenty years are classified in terms of duration, one can see a fairly significant coincidence: the longer they last, the less they are committed to fiscal stabilization in the country.

This is a disturbing truth. In fact, if Italy’s instability problem had only been connected with the short duration of the governments, it would have been enough to stabilize the institutions, for example, through an appropriate electoral law, and Italy too could have had far-sighted management of the economy like that of other countries. Basically, this was the belief that in the past pushed continuous proposals for reform of Italy’s electoral system according to different models each time, e.g. French, British, or German.

But if the opposite is now true – i.e. the longer the governments last, the more they look for fiscal troubles – then the problem is precisely in Italy’s political culture and the Italian political class, which for two decades has been producing a “dysfunctional” Parliament and intrinsically populist governments, to the point to of having them prevail even over the personalities of those who drive them. After all, the desire of Italian political leaders to keep Mario Draghi as Prime Minister, in addition to the tactical reasons for such a desire, is not hampered by the fact that the budget policy of the current government has been anything but severe. Interestingly, the wider margin for expenditures and populist consensus building might have been provided by Italy’s participation in the stable financial framework of the common European currency (at least until the integrity of the euro was not disputed, as was the case between 2010 and 2012).

This is where the relationship between the executive government and the President of the Republic comes to the fore. The latter is, in this context, the only pivot of seven-year stability that allows the country not to lose balance even in the whirlwind rotation of governments. One of the arguments that are raised in favor of a Draghi presidency, for example, is that it would guarantee compliance with the country’s agreements with the European Union, including those concerning the Recovery and Resilience Plan (up to 2026), which have a stabilizing effect (as well as a transformative) on Italian society. The pivot provided by the President is fundamental in a self-defeating political framework such as the one we have described.

Constitutionalists have long argued whether competence of this nature falls on the president. In 2018, for example, an interesting debate took place on President Mattarella’s decision not to accept Paolo Savona’s candidacy for Minister of the Economy. Savona’s anti-euro orientation would have had consequences not only for the monetary structure but also for the stability of the economy and for Italy’s permanence within the European political framework.

There is no doubt that the historical-legal context in which the Italian form of government developed prescribes a stable relationship with Europe. In addition, the President can in certain circumstances override laws without financial coverage. In this context, the indication of pro-European candidates for the Presidency rather than Eurosceptic candidates is fully justified.

It is only partially useful to distinguish these two categories in terms of left and right because other cleavages also play a role. An example is that of Croatia, whose president has denounced this month the attacks that his country (including the Central Bank and the Red Cross) is suffering from "external agents" who want to sabotage Zagreb's accession to the euro zone and the Schengen Area.

The current election of the President of the Italian Republic is revealing some characteristics of the relationship between Italian politics and society that can also explain the reasons for the country's economic difficulties. The conclusion, in summary, is that many Italian problems originate precisely from the relationship between citizens/voters and Parliament and that the quality of this relationship has changed for the worse in the last twenty years.