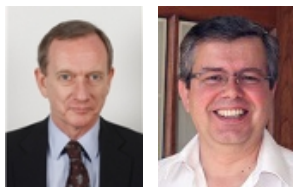


# A breakdown of EU norms and rules risks opening Pandora's box



*The dispute between Italy and the European Commission over the Italian budget for 2019 illustrates a shift in how member states treat the obligations of EU membership. **Iain Begg** and **Kevin Featherstone (LSE)** argue that instead of using pressure from Brussels to justify difficult policy measures, countries are now picking fights with the EU to boost their domestic political standing, thereby demonising the EU.*

The unprecedented rejection by the European Commission of the draft Italian budget for 2019 will escalate hostilities between Rome and Brussels at a time when many of the features of eurozone economic governance are already under challenge. Austerity, together with rigid and complex fiscal rules, is increasingly seen as a misguided and damaging policy prescription, while the inability of the EU level to devise adequate collective fiscal policy mechanisms to contribute to macroeconomic stabilisation leaves a glaring gap in the policy framework.

Although what the EU institutions, especially the Commission, demanded of member states was never popular, it used to serve an important purpose of setting out policy goals which, though often difficult for governments to implement, were nevertheless in the medium- or long-term interests of the country. Indeed, Guido Carli, the Italian Treasury Minister in the early 1990s, wrote in his memoirs published in 1993 that the country had made its most significant economic progress since 1945 when it had been subject to such a *vincolo esterno* (external constraint).

The constraint countered the propensity of political leaders who, with their electoral interests in mind, were prone to take the soft options, particularly what was dubbed *protezionismo interno* (internal protectionism). This involved a politics of 'clientelism' – dispensing favours to groups that could be relied on, in return, to keep the politicians in power – and a resistance to open, competitive markets. The conflict between the two pressures was akin, Carli noted, to that of the 'Two Souls of Faust'.

Deeper economic integration, first through the single European market and subsequently through the strictures of the eurozone imposed tougher policy discipline on governments. As a result, governments accustomed to dispensing favours in what was a form of crony capitalism had to bow to the *vincolo esterno*. It enabled them to push through reforms they tacitly welcomed, while avoiding much of the blame. As such, it can also be seen as a form of constructive hypocrisy: "not my doing, gov, but no choice".

Now the relationship has been up-ended: 'Brussels' is the dragon to be slayed in order to win domestic favour. Rather than '*vincolo esterno*', the EU has become the '*nemico esterno*' (external enemy), calling into question its ability to ensure compliance with common rules, norms and political objectives. This could have profound and potentially damaging ramifications for economic and social governance.

In its capacity as guardian of the Treaties, the Commission has to have regard to the wider objectives of the Union, such as the stability of the euro, the orderly management of migration or respect for legal provisions. Put another way, it has to perform a '*vincolo*' function because the common good requires it to prevent opportunistic behaviour by individual member states.



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The machinations around the Italian budget portray the EU's rules and institutions as the obstacle to be overcome so as to deliver popular (and often populist) policies. Buoyed by its electoral mandate, Rome is locked in a battle with the Commission over the size of its budget deficit. The Italian government argues that lower taxes (sought by the supporters of Lega) and increased social spending (to reward supporters of the Five Star Movement) must be delivered, even if it means breaking with EU demands for fiscal discipline.

Significantly, the battle itself appears to be as politically important to some of the coalition leaders as the likely modest benefits of its new fiscal plans. Rather than Europe helping to unblock domestic politics to achieve modernising reforms, it is Brussels that has to be seen to be defeated for glory at home. A similar logic has underscored Salvini's tough stance on the refugee crisis: Europe is frustrating the legitimate rights of the Italian people.

The Greek debt crisis also exemplifies this new trend, as do populist responses to EU policies on migration, not to mention the long-standing portrayal by so many British politicians of the EU as a malign influence. In Athens, Varoufakis and Tsipras railed against the euro-straitjacket and they won votes for the promise of overcoming the constraint. Separately, Polish and Hungarian leaders have sought to woo their electorates by picking fights with Brussels over judicial independence and refugee quotas.

Garnering the support of those disaffected from the old party formations means battling against the established elite paradigms. The shift in the Italian mindset no doubt also reflects a change in the country's self-identity. The period Carli described was one where Rome felt a vulnerability and a dependency on Brussels. Italy needed support, especially in funding, and could not countenance being excluded from a successful Europe.

Now, Italy is a net contributor to the EU budget in a union that is far more heterogeneous and one whose success is more questioned. Before Maastricht, Giuliano Amato (who later became Italy's Prime Minister) had seen the euro as a means of dispersing German monetary power; today's 'one-size-fits all' ECB policy looks rather like the problem the euro was supposed to have overcome.

While there are many lessons to ponder from the current imbroglio between Brussels and Rome, at its heart is the efficacy and legitimacy of the eurozone's policy rules. The switch from a belief in the benefits of a *vincolo esterno* to a '*nemico esterno*' stems from the sense of an ill-fitting policy and an unaccountable process. It is a wake-up call to Berlin that the agenda of reform for the eurozone championed by President Macron cannot be kicked down the road without there being consequences.

It is, however, important to distinguish the debate on how governance should evolve from the demonisation of the EU as an entity. The many critics of the austerity policies the Italian government is ostensibly rejecting may welcome an easing of fiscal discipline and favour a shift of the policy paradigm. But any new governance approach will also require compliance.

By contrast, open defiance of legally binding obligations risks a free-for-all inimical to good governance, redolent of the phrase 'having your cake and eating it'. Tempting as it might be to applaud the plucky Italians in standing up to Brussels, a breakdown of EU norms and rules risks opening Pandora's box.

*This article originally appeared at the [Dahrendorf Forum](#). It gives the views of the authors, not the position of LSE Brexit or the London School of Economics.*

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