

Opinion **Italian politics**

Driving Italy out of the euro makes no sense at all

Another election should focus on economic stagnation, not the currency issue

BILL EMMOTT



In talks: Luigi Di Maio, leader of Five Star, Matteo Salvini, leader of the far-right League, and Giuseppe Conte, who was put forward for prime minister of the coalition made up of the two parties © Twitter/@GiuseppeConteIT
Bill Emmott 8 HOURS AGO

Italy's [political crisis](#), now almost sure to send the country back to the polls in the autumn, is dramatic yet strange. Dramatic because it has pitched two anti-establishment parties which won a combined 50 per cent of the votes in March's election against the constitutional right of a head of state to [reject a proposed minister](#).

But strange too, because neither [Five Star](#) nor the League campaigned on the very issue raised by that ministerial choice: Italy's membership of the euro.

This was for good reason: there is no conceivable scenario in which leaving the European single currency would be in Italy's national interests or in the interests of the ordinary Italian families those parties seek to represent. This is not an ideological or political point, but a pragmatic one.

Italy is running a very healthy surplus on the current account of its balance of payments of about [3 per cent](#) of gross domestic product and an even larger trade surplus. Its exports, chiefly thanks to manufacturers based in northern Italy where the [League](#) dominates, are growing lustily. There is no competitiveness problem. Devaluation is of no economic relevance.

The country's public debt, which at [more than €2.3tn](#), or 132 per cent of GDP, is the eurozone's largest in absolute terms, is certainly more relevant. As a member of the single currency, the Italian government is able to borrow and service that debt at far lower interest rates than if it

were outside. The European Central Bank's expansionary monetary policy since 2015 has served Italy well by driving those rates down.

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Any decision to leave the euro would send Italian banks insolvent, as they are big holders of Italian government bonds. Their value would plummet, forcing a government rescue that would further add to the debt. Might a debt restructuring or default therefore be in order? Well, perhaps, but millions of Italian households would lose out as they are big holders of government bonds and of bank securities.

The real issue concerns fiscal policy, and the constraints placed on Italy by the inter-governmental [fiscal pact](#) that eurozone countries signed up to in 2012. The best option for a country with a debt as large as Italy's is to keep profiting from those low eurozone borrowing rates while sneaking some wiggle room on the budget deficit — if necessary by disregarding admonitions from the European Commission. They could meanwhile lobby for looser rules on capital investment, which is what Mario Monti, prime minister from 2011 to 2013 who signed that pact, has done both in office and afterwards.

All of this would have been perfectly possible for the Five Star-League government to do within the terms of their own governmental contract. If only they had not insisted on [nominating Paolo Savona](#) as finance minister, an unelected economist who is on public record as advocating the drawing up of plans to leave the euro. Such an appointment was bound to drive up Italian borrowing costs — and, most pertinently for President Sergio Mattarella, to put at risk the country's international treaty obligation.

The need for another election looks highly contrived. It could easily have been avoided but Matteo Salvini, the League's leader, appears instead to have engineered a pretext for a “who governs Italy?” clash, which he hopes will transform his status from junior partner in the coalition to that of leader of the centre-right, and perhaps of Italy.

If Five Star and the League choose now to run as a coalition on an anti-euro platform, the response of other parties should be: bring it on. The narrative to use against such a self-improving proposition would write itself. With probably four months until a second election can be held, there will be plenty of time for Italian families to dwell on the prospects.

For that very reason, Five Star would be foolish to run on a joint ticket with the League. So too would Silvio Berlusconi's Forza Italia, the League's traditional partner. Thanks to a recent court decision, Mr Berlusconi will be entitled again to compete in the autumn election following a five-year exclusion due to a tax-fraud conviction.

Five Star, in particular, risks alienating many of its core supporters if it makes itself the tool of Mr Salvini's ambitions. While the two parties share the fervour of insurgency, the League has a record of just the sort of corruption and cronyism, at local and national level, that Five Star defines itself against.

It would be far better for Five Star, for Forza Italia and for the weakened Democratic party, led by former prime minister Matteo Renzi, to focus on how they could really make a difference for the many ordinary Italians who have suffered through the country's long economic stagnation.

Cleaning up corruption, reforming the justice system and helping the poor through welfare payouts tied to job-seeking efforts — all Five Star policies — make excellent sense. But such measures would be unaffordable if Italy were driven out of the euro and into a confrontation with financial markets. That would make no sense at all.

The writer is a former editor of The Economist and author of 'The Fate of the West'

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