

Mr Draghi and Italy's time for healing

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The President of the Republic Mattarella gave a mandate to former European Central Bank President Mario Draghi to forge a high profile widely supported "technical government".

In a speech held on Wednesday 3rd February, Mr Draghi said that Italy is facing a difficult moment. The current priorities are to win the pandemic, the vaccine campaign, and the relaunching of the economy. Using EU funds will be critical. He conveyed confidence in the coming discussion with all the parties.

It is the fourth time, in just under 30 years, that an Italian Head of State solved a government crisis by asking a "prestigious professional", foreign to Parliament and the political parties, to create a "technical and high profile" government.

The previous names were C.A. Ciampi (former Bank of Italy Chairman) in 1994, L. Dini (former Bank of Italy General Manager) in 1995, and M. Monti (University L. Bocconi dean) in 2011.

This time the task is more difficult, complicated by the unprecedented scenario caused by the pandemic. Italy, even before the onset of Covid-19 had many significant issues. The country was already suffering from anaemic growth, high unemployment, and excessive levels of public debt.

Designate Premier Draghi had consultations with all the political parties, aimed at gaining a wide parliamentary support. Consultations ended Sat. 6th, February . All parties, except right-wing Fratelli d'Italia 1, gave their "green light" to the Draghi headed government.

Mr Draghi started Monday 8th, February the second round of consultations, most likely focusing on:

1. **Recovery fund**, namely the allocation and spending discipline of the gigantic 210bn budget.
2. **Critically slow vaccine campaign/Covid-19 crisis.**
3. **Very bad employment and financial situation of those sectors specifically hit** by the double lockdown.

4. Composition of the new government, namely on the split between “technician” and “politicians” in charge of the ministries.

Who will support the new government?

On Friday 5th February, a few representatives of Movimento 5 Stelle (M5S) (currently the biggest force in the Parliament) confirmed a potential support to Mr Draghi. Former leader Di Maio urged the Party to proceed without prejudice. Other members consider strongly that some of their flagship reforms, such as minimum citizenship subsidy, are confirmed prior to any further discussions.

Nicola Zingaretti, the democratic party leader, will back a strong Draghi’s government, stressing the urgency of a tax reform and a clear pro-Europe agenda.

Former Prime Minister Conte stated that he will help with the new Government. He hopes it will act as a political government, taking strong political choices on sustainable growth and social inclusion.

Forza Italia’s leader Berlusconi made it clear to be in favour of a Draghi headed government.

Lega’s leader Salvini eventually clarified his opinion, sharing the view of many of the party MPs to support the new government.

Right Party Fratelli d’Italia leader Meloni will not join the Government coalition and prefers early elections. However, an external support is not excluded.

What is the Premier in-charge facing? Have a look at the main points in the agenda.

1. The Recovery plan. Before submitting to the EU scrutiny, the dossier drafted by the “Conte 2 government” is expected to be deeply revised.

2. The pandemic & vaccination plan. It proved to be lagging behind schedule and in need of revision, to prevent further economic and social consequences.

3. The post-pandemic “new normal”: during the still ongoing Covid-19 emergency, a clear welfare plan

and lines of direct subsidies were pursued. Mr Draghi will need to bring back public spending to a more sustainable path.

4. The access to the European Stability Mechanism for the health sector. This issue is crucial and divisive, being among the causes of the Conte 2 government's fall.

Going back to an acceptable public finance trajectory will likely imply future cuts in the State budget and higher taxes. This is a difficult task and a highly divisive topic among the forthcoming Government coalition partners.

What choice will Mr Draghi make on the policies of inclusion, such as “citizenship minimum income”, and on next expiry of the freeze on layoffs in March 2021?

Immigration policy is another hot issue, as Italian politicians and people remain much divided in their views.

Fiscal reform and social security represent other harsh battlefields. Lega's leader Salvini stated his aversion towards an increase of taxation on real estate holdings and household savings and he is ready to defend “Quota 100 early pension” law, the Lega's flagship during the short lived “Conte 1” government.

The EU always suggested shifting the Italian tax burden from wages to wealth and Mr. Draghi seems to be more on the EU side.

However, for the first time in its history, Italy can rely on abundant and cheap financial “EU resources” to address the economic and social emergencies. The funds made available by Europe are potentially the best trigger of a radical and structural reform to make Italy more productive, inclusive, environment friendly and, eventually, modern.

The new Government implementation of what appears to be more than a conventional “program” will require the systematic preventive confrontation and agreement with the civil society representatives. Social cohesion must be strengthened and guaranteed. Mr. Draghi, in accepting the mandate from the President, explicitly mentioned it.

As conditions evolve on this issue, we look forward to writing more as further conclusions and plans become known.

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