The Image of Crisis-Ridden Europe and the Division Between Creditor and Debtor Countries: The Case of Italy

Michele Comelli

Abstract

The eurozone’s debt crisis has exposed structural economic and political rifts within the European Union. Specifically, it has created a new cleavage between creditor and debtor countries, the former being mainly located in Central-Northern Europe and the latter in Southern Europe, each with its own understanding of the causes of and remedies to the crisis. This paper explores how a debtor country - Italy - has changed its political discourse on the EU as a result of the crisis, focusing on political elites, civil society and public opinion. It argues that while the discourse of political elites and of civil society clearly mirrors this cleavage, public opinion does not necessarily follow this pattern, being mainly concerned with the country’s domestic ills.

Keywords: European Union / Italy / Creditor countries / Debtor countries / Public opinion / Elites / Social actors / Democratic legitimacy
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by Michele Comelli

Introduction

The eurozone’s debt crisis has exposed structural economic and political rifts within the European Union, creating a new cleavage between creditor and debtor countries, each with its own understanding of the causes of and remedies to the crisis. This paper explores how a debtor country - Italy - has changed its political discourse on the EU as a result of the crisis, focusing on political elites, civil society and public opinion. It argues that while the discourse of political elites and of civil society clearly mirrors this cleavage, public opinion does not necessarily follow this pattern. On the one hand, political elites and the epistemic community seem concerned with two intertwined issues, that is the growing gap between creditor and debtor countries and therefore the inequality among member states and the need to ensure more democratic legitimacy within the EU. On the other, the crisis has certainly had a negative effect on the public’s image of the EU. However, Italians continue to trust the EU much more than they trust national institutions and seem not to be too bothered by the increased powers of the Commission to scrutinize national draft budget laws. Also, their view of Germany is fairly positive, in contrast to the creeping negative image of the country that has emerged in part of the political class and civil society.

1. Europe’s sovereign debt crisis and the emerging cleavage between creditor and debtor crisis

While striving to achieve greater internal cohesion, the EU has always been characterized by internal cleavages that time and time again have threatened to undermine its internal stability, identity, sense of purpose and policy-making capacity. Prior to the current crisis, the main intra-EU division was between “old” and “new” member states. As the economic crisis hit Europe in late 2009 and the entity of the Greek public deficit and debt problem emerged in full light, another division started gaining ground: that between creditor and debtor countries. The former are those that keep their public accounts more or less in order, the latter instead run excessive deficits and debts. While creditor countries are mostly located in Central and Northern Europe, debtor countries are concentrated in Southern Europe, with the notable exception of Ireland. Italy falls squarely in the second category, joining the unflattering PIGS (Portugal, Ireland, Greece and Spain) club.

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Michele Comelli is Senior Fellow at the Istituto Affari Internazionali (IAI).

New member states are those Central and Eastern European countries that joined the EU in 2004 and 2007. The grossly simplistic and in many ways inaccurate old/new distinction allegedly captures some substantive differences, with the former supposedly being more advanced and integrationist, while the latter less developed and more Atlanticist.
Hence, the emergence of a north-south divide in the EU. Northern member states are characterized by strong economic performance, public satisfaction with domestic politics and leadership, and the view that so-called debtor Euro countries should keep their public accounts under control. The latter are characterized by unhealthy economies, deep dissatisfaction with domestic politics and a narrative calling for greater intra-European solidarity. EU-wide public opinion polls confirmed this divide. As revealed by a Pew Research Centre report (2012), Germans and Greeks diverge on critical issues, including the benefits of EU membership, and satisfaction with domestic politics and economics. For example, 68% of Germans view favourably the EU, as opposed to 60% of Italians, 59% of Spanish and only 37% of Greeks. While more than half the German respondents (53%) are satisfied with the economic conditions in their country, only small minorities of Italians (11%), Spanish (10%) and Greeks (2%) say likewise. The percentage of people inclined to think that the economic situation will improve over the next year is again larger in Germany (29%) than in Southern European countries (25% in Spain and 22% in Italy), with a mere 9% being optimistic in Greece.

The current cleavage features also divergent narratives of the crisis itself. As argued by Erik Jones (2012, p. 164), the worst intra-EU quarrels are those in which both sides have valid arguments. The current quarrel within the EU is no doubt one of these. According to creditor countries, the chief cause of the debt crisis is the deplorable management of public spending in Greece, the absence of structural reforms and poor labour productivity in Italy, the lack of banking vigilance in Ireland and the construction bubble and private debt in Spain. According to debtor countries instead, the crisis is attributed to the inflow of money following the introduction of the euro, the low level of domestic demand in Germany and its export-oriented strategy. As for the remedies, creditor countries call for fiscal restraint, good governance and structural reforms in debtor countries and resist the European Central Bank’s (ECB) empowerment to rescue ailing eurozone economies. Debtor countries instead believe that fiscal austerity is not only insufficient but can hamper growth, which instead requires counter-cyclical policies. In addition, the ECB should be allowed to assist insolvent countries and mutualize public debt through the emission of Eurobonds. Finally, debtor countries share the perception that policy-making in Brussels, especially at top political level, is dominated by creditor countries, and notably by Germany. This also links with the issue of democratic legitimacy. While the question of democratic legitimacy is not a newcomer in the EU political and academic debate, it has acquired new saliency because of the crisis and is particularly invoked in debtor countries.

2. The changing EU discourse in Italy in light of the crisis

The EU discourse in Italy has been affected by the crisis in many ways and certainly the perceptions and the debate broadly reflect the above mentioned cleavage between creditor and debtor countries. However, the impact of the crisis on the Italian discourse on Europe has not been uniform across the population, and the awareness of the distinction between the two groups of countries is much stronger among the political class and civil society rather than among the broad public.
2.1. The government, political parties and politicians

2011 was an \textit{annus horribilis} for Italy within the EU, well summarized in Mario Monti’s editorial on the \textit{Corriere della Sera} on 16 October 2011. According to Monti, who was to become Italy’s Prime Minister exactly one month later, the cumulative effects of the low credibility of the Berlusconi government and, more generally, of the whole Italian political class, coupled with the weakness of the economy, risked “transforming Italy from a founding EU member state to a state that sinks the Union”\(^2\) and to make the future and the dignity of young Italians increasingly precarious (Monti, 2011). In particular, in the second half of the year, Italy underwent a strong speculative attack, that brought the whole Economic and Monetary Union (EMU) to the brink. The increasing difficulties Italy faced in financing its ballooning public debt resulted in a downgrade in Italy’s credit rating by leading international rating agencies and triggered France and Germany to call upon Italy to adopt long-awaited economic and social reforms without delay. The strong pressure from both international financial markets and EU member states, namely Germany and France, finally led Italian Prime Minister Silvio Berlusconi to resign. As a result, the Italian President of the Republic Giorgio Napolitano asked Mario Monti to form a new government, that quickly won the confidence of fellow leaders and international markets.

The succession from Berlusconi to Monti was marked by a blurring distinction between European and domestic politics. Italy’s domestic political debate, in particular since the summer of 2011, has been dominated by the debt crisis and by the urgency of avoiding the eurozone’s breakup. The deterioration of the domestic and European situation as a result of the crisis and the subsequent change in government had several repercussions on Italy’s political debate on the EU. First, domestic and European politics became indistinguishable in the political (and media) rhetoric, which meant that EU-related issues have been widely covered by the national media, far more than what is normally the case. Second, harsh criticism was voiced about Germany and France’s perceived monopolization of the substantive and procedural management of the crisis. In fact, both the Berlusconi and Monti governments criticized French and especially German attitudes, though in different ways. Commenting on a bilateral meeting between German Chancellor Angela Merkel and French President Nicolas Sarkozy on the margins of a Foreign Affairs Council meeting on October 9\(^{\text{th}}\), 2011, then Foreign Affairs Minister Franco Frattini complained that “a global situation cannot be solved through bilateral axes” (Caizzi, 2011), thereby displaying a fear of being sidelined by the so-called Franco-German axis. More significantly, then Prime Minister Silvio Berlusconi strongly criticized an unusually undiplomatic move by Merkel and Sarkozy, who in a press conference held on October 23\(^{\text{rd}}\) following a European Council meeting, exchanged sarcastic smiles after a journalist asked them whether the Italian government’s commitments could be considered as credible. According to him, “Nobody inside the Union can appoint himself/herself as a commissioner and speak in the name of elected governments and European peoples. Nobody is in a position to teach lessons to its partners”\(^3\) (Presidenza del Consiglio dei Ministri, 2011).

\(^2\) The original Italian version contained a pun: “Stato fondatore” (founding state) and “Stato affondatore” (sinking state). Translation by the author.

\(^3\) Translation by the author.
Also, the Monti government did not refrain from criticizing Germany. In fact, while it initially focused on the difficult task of restoring the deteriorated image and credibility of the country vis-à-vis its European partners and financial markets, it subsequently levelled a number of critiques to the German attitude towards the crisis and especially towards its lack of solidarity towards other partners. In particular, in an interview to the Financial Times, Monti openly warned Germany that if it did not commit itself more seriously to help EU countries facing economic difficulties to lower the cost of financing their debt, there may be a serious public backlash (Spiegel and Dinmore, 2012), reinforcing the creditor/debtor cleavage. More recently, Monti warned that “sooner or later [in Italy and other debtor countries] there will be a backlash against fiscal and structural austerity. So Europe really needs to accelerate its efforts […] to limit contagion […] I believe that countries that are at the core of the system, who have had the merit of instilling a culture of stability in the EU in the first place, most notably Germany, should reflect deeply, but quickly on these aspects.” (Monti, 2012, p. 3).

The cleavage between creditor and debtor countries and especially the related idea that the former hold the key to EU decision-making, imposing, together with financial markets, conditions on the latter, was also indirectly referred to by centre-right parliamentarians during debates over the stability budget law, after whose approval Berlusconi had declared he would resign (Camera dei Deputati, 2011). Some complained about the interference of other EU partners in Italian domestic politics. Indeed, Italy’s government change was the product of market pressure coupled with the strong influence of the EU’s most powerful member states, that is, France and Germany, which had lost confidence in the Berlusconi government to redress Italy’s dramatic situation. Therefore, even if the Monti government restored Italy’s international credibility and thus temporarily decreased pressure from financial markets, the change of government raises serious questions about the legitimacy of the process. Referring to the different typologies of the concept of legitimacy (Wagner, 2005), while output legitimacy (i.e., deriving from the impact on citizens) of the change in government was assured, input legitimacy (i.e., deriving from the compliance with democratic-parliamentary procedures) left much to be desired.

Notwithstanding some reservations, all three mainstream parties, the centre-right Freedom People’s Party (PdL), the centre-left Democratic Party (PD) and the centrist Union of the Centre (UDC) support the Monti government. By contrast, a populist rhetoric against fiscal austerity is spreading across parties that oppose the Monti government - the Northern League and the Italy of Values Party. These parties do not just criticize the way in which this government came to power. They oppose its policies and the very notion of fiscal austerity. In addition, a new populist, although not ideological, party, the Five Star Movement, led by the comedian and blogger Beppe Grillo, that obtained a significant showing in the May 2012 local elections, has launched a populist platform that includes exiting the eurozone and defaulting on Italy’s public debt. The party, that according to some polls, could win between 14% and 17% of the vote at the next general elections (Economist, 2012, p. 28) might therefore join the Eurosceptic front, to which it may add a significant voice on the way to the general elections, scheduled in Spring 2013. However, the potential electorate of the Five Star Movement is economically and socially diverse, mainly made up of citizens who are

In particular, one of its candidates was elected as mayor of the Northern city of Parma.
frustrated with the poor delivery of the ill-fated Second Republic, but who are not inherently Eurosceptic. In fact, as discussed below, mass discontent with domestic politics has spilled over into discontent towards the EU, but not to the same extent. Italians still trust the EU much more than national institutions, and this is an element that political parties cannot ignore.

2.2. Civil society

Civil society in general, and the epistemic community in particular, has been the sector that has adapted more its EU discourse to the situation triggered by the debt crisis. Both the cleavage between creditor and debtor countries and the related inequality among member states have renewed calls for greater democratic legitimacy in the EU. Many commentators, while acknowledging Italy’s responsibilities, question the German narrative of the crisis and its solution, and believe that it cannot be accounted for just by referring to a fiscal and competitiveness problem that has hit the structurally weakest economies of the eurozone (Bastasin, 2011; Di Taranto, 2012; Macroeconomicus, 2012; Caselli and Pastrello, 2011) In particular, they argue that the crisis clearly has a financial origin, meaning that it was transmitted into the EU from the US financial system. Some also argue that Germany has benefited from the fall in bond yields given that German banks have invested in toxic assets more than their Mediterranean counterparts and therefore now need less recapitalization than others (Macroeconomicus, 2012, p. 78). Some academics posit that Germany favours the status quo not just because a different attitude would have a high political price, to be paid by the current leadership at the next general election in September 2013, but because it contributes to Germany’s development (Di Taranto, 2012, p. 182).

Carlo Bastasin, a leading economic columnist, who has published a detailed book on the EU debt crisis, has blamed the lack of solidarity displayed by EU member states (Bastasin, 2012), and has criticized the political imbalance within the EU between Italy and Germany, that has translated in the former imposing “diktats” on the latter (Bastasin, 2012). A notable case in point was the German (and French) request on October 24th that Italy presented within three days a detailed list of measures to contain its public debt. The result was that the Italian government had to adopt measures required by Germany, whose parliament can also constrain the Chancellor’s mandate to negotiate at EU level. The Italian Parliament instead, was simply bypassed by the executive, which had to comply with Germany’s requests. This resulted in a clear imbalance between the weights of the two Parliaments and, consequently, of its citizens (Bastasin, 2011). This was considered unacceptable both from a democratic standpoint and from the standpoint of equality between member states, i.e., a founding principle of European integration. Other commentators take a different view. For example, the columnist Barbara Spinelli believes that member states are conducting a rearguard battle, in order to react to the erosion of sovereignty. In her view, it is precisely in the name of national democracy that Angela Merkel resists solidarity among eurozone member state (Spinelli, 2012).

Social actors, like employers’ associations and trade unions, are less keen on discussing the democratic implications of the crisis. The Italian General Confederation of Labour (CGIL), the most left-wing oriented among Italy’s unions, is critical of fiscal austerity and suggests that EU leaders ought to focus on growth and employment
instead (CGIL, 2012). The urgency to kick-start growth through deeper integration also underpins the approach of the former President of Confidustria, Italy’s employer association, Emma Marcegaglia (Confidustria, 2012).

However, the debt crisis has not only generated a critical debate on the fiscal austerity-first policy embodied by Angela Merkel’s Germany: federalists, a traditionally rich political and cultural strand in Italy’s EU discourse, have also been active. Alberto Majocchi, an economics professor, calls for a truly effective fiscal and economic Union, to be integrated with supranational competences also in the security and defence sectors (Majocchi, 2012). An EU-wide plan for sustainable development, combined with a new “Schuman declaration” was advocated by Roberto Palea (2012). In addition, for all the critiques being levelled at German attitudes towards the crisis and debtor countries, one of the most innovative and integrationist appeals on the future of the EU is precisely a joint Italian-German initiative. The proposal was made by Italian and German former and current leaders and intellectuals, including Giuliano Amato, Franco Frattini, Romano Prodi, Elmar Brok, Karl Lamers and Hans-Gert Pöttering. The manifesto, published in several European dailies on March, 10th, 2012, calls for an immediate ratification of the Fiscal Compact by the two parliaments on the same day and before the June 28-29 European Council, accompanied by a joint political declaration aimed at creating a strong political Union with a federal government, drawing inspiration from Alcide De Gasperi, Altiero Spinelli, Konrad Adenauer and Walter Hallstein (Amato and others, 2012). More importantly, the manifesto also calls for the launch of a European constituent convention, to be convened after the next European Parliament elections, but by the end of 2012. Even if the crisis has put Italy and Germany on different tracks, this proposal suggests the continued relevance of the traditional convergence between Berlin and Rome, at both a political and cultural levels, towards stronger EU integration.

2.3. Public opinion

Finally, the attitude of Italian public opinion towards the EU has certainly been influenced by the crisis, but in ways that are partially different compared with those regarding political elites and civil society. Even prior to the current crisis, Italians, while remaining largely pro-EU, had started faltering in their support for European integration. The phenomenon became apparent in the mid-2000s, as a combined effect of many factors, including the emergence of a more pragmatic and less idealistic vision of the EU, a general disaffection towards politics, and the increasingly vocal Euroscepticism of some political forces (Comelli, 2011, p. 4-6). In Autumn 2011, Eurobarometer revealed that Italians continued to view positively the EU (42%, against an EU-wide average of 31%) (European Commission, 2011a, p. 49). However, support decreased by 7 percentage points as compared with Spring 2011 (European Commission, 2011b). Trust in the EU witnessed a similar drop from 42% (Spring 2011) to 32% (Autumn 2011), while Italians distrusting the EU rose from 40% to 49% in the same period. National institutions fare even worse. In Autumn 2011, Italians revealed spectacularly low levels of trust in domestic institutions including the government (12%), parliament (14%) and political parties (14%).

Today, Italians are learning the hard way that their so-called “Second Republic” has not resolved the country’s structural political and economic problems and has proved to be
far worse than the First in many respects. An ossified political system, widespread corruption, a blocked social system and the lack of opportunities for the younger generation have induced deep mistrust towards all public institutions, first and foremost at the domestic level. In other words, the recurrent Italian phenomenon of “antipolitica” (Comelli, 2011, p. 6) surfaced again in 2011 as a result of the Berlusconi government’s gross failure to keep public finances in order, make the necessary reforms and reassure European partners and international financial markets. More generally, the broad public believes that the whole political class is incapable of solving the country’s problems. For a brief interlude, popular frustration with domestic politics was mitigated by the widespread bipartisan support for the Monti government that took office in November 2011. The honeymoon between the new Prime Minister and Italians did not last long, however. Italians are split on whether cuts in public spending are excessive: 37% of respondents believe cuts have gone too far, while the same percentage believes they have not gone far enough (Pew Research Centre, 2012, p. 31).

As the crisis unfolds, the Italian narrative of Europe is changing. The eurozone crisis has demonstrated that Europe does not automatically represent the rescue remedy for Italy’s domestic ills. Dissatisfaction over the way decisions are taken at EU level and the insufficient involvement of parliaments has been voiced. Indeed, Italians that declare they are unhappy with how democracy works at EU level stand at 47%, against 40% that are satisfied. However, unlike polls in Greece, dissatisfaction with democracy at the EU level is not coupled with a negative opinion of Germany. Indeed, a majority of Italians (67% against 27%) have a positive view of Germany. This also marks a difference with the trends emerging among the Italian political class and civil society, where a wedge separating Italians from Northern Europeans and Germans in particular has made its way.

Finally, when seeking a way out, Italians remain largely supportive of EU-wide solutions. An overwhelming majority of Italians support bailouts to countries facing economic difficulties, with a mere 13% opposing these. 45% support (against 40% who oppose) EU oversight of national budgets. Perhaps in view of the vertical drop in trust for national institutions, Italians, while disaffected with politics, including at EU level, continue to see in the EU the necessary external anchor (“vincolo esterno”) to navigate in times of crisis. Italians continue to view the EU as “the only chance to bring order to the national system” and “a solution to the inefficiencies of the Italian system” (Bindi, 2011, p. 71).

Conclusions

The eurozone debt crisis has created a new cleavage in the European Union between creditor and debtor countries. Each group has its own narrative of the crisis, its causes and remedies and blames the other. Italy’s condition as a debtor country emerges from an analysis of its debates at official and civil society levels and, to a lesser degree, at public opinion level. Journalists, academics and commentators have criticized not only the attitude of creditor states such as Germany towards the crisis, but also the

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5 Amongst the polled countries - the others being France, Spain, Germany, Poland, the Czech Republic, Greece, and the UK - Italy is the only one that does not oppose EU oversight of national budgets.
apparent lack of equality among member states and the corresponding lack of
democratic legitimacy in the EU.

The perception that EU decision-making was becoming mainly a Franco-German affair
was running high in the Berlusconi government, whose members reiterated their calls
for a more inclusive approach. While the Monti government was quickly accepted as a
credible interlocutor by its fellow partners, scepticism at Germany’s lack of solidarity
was not dispelled. On the contrary, Monti himself referred to the risks implied by such
scepticism. He also referred to the problem of democratic legitimacy of the EU, to be
resolved, according to him, only by strengthening the European Parliament. (Monti and
Goulard, 2012). While the current government has taken a strongly pro-EU line, some
political sectors question its legitimacy because it was not popularly elected. In
addition, the usually thin Eurosceptic front in the Italian political spectrum might benefit
from the addition of the populist Five Star movement, that made a good showing at the
May 2012 local elections, campaigning on a rather confused platform that made
various references to Italy’s exit from the eurozone and default on its public debt.

The creditor-debtor countries cleavage has been commonplace in discourse of
academics, columnists and commentators. Their debates clearly reflect the point of
view of a debtor country, criticizing Berlin’s lack of solidarity and the benefits that
Germany has reaped from the euro, and lamenting the lack of equality among member
states and their citizens. Besides these contributions, the usually rich federalist strand
has also entered the debate, calling for a real fiscal and monetary Union and an EU-
wide plan for sustainable development. Somehow paradoxically, one of the most far-
reaching proposals for the future of Europe has involved precisely an Italian-German
appeal for the fast ratification of the new Fiscal Compact and the convening of a new
European Convention. But perhaps this appeal was precisely aimed at reducing the
emerging gap between Rome and Berlin and reconstituting their partnership based on
a common platform for greater European integration.

Finally, the crisis has impacted negatively on Italian public opinion towards the EU, that
was already on a downwards path. Italians have a less positive view of the EU
compared with a few years ago and express dissatisfaction of democracy at EU level,
although this tends to reflect a broader dissatisfaction with politics and in particular with
the disastrous performance of Italy’s Second Republic. In fact, Italians continue to trust
the EU much more than all the main national institutions. Possibly, the frustration with
national politics and the lack of trust of national institutions are the reasons why Italians
are not bothered by the EU’s oversight over national budgets, a measure that is
considered as intrusive by citizens of most EU countries. Also, the anti-German feeling
that emerged from the polls taken in Greece is not present in the case of Italian public
opinion.

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