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Italy, the Monti government and the euro crisis (2011-12)

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ABSTRACT

Hailed initially as the country's saviour for saving Italy from default, Mario Monti's technocratic government (2011-13) ended in controversy and with its achievements questioned. Aware of this contested legacy, this article seeks to revisit Monti's term in office and to assess his approach to the crisis that engulfed Italy and the eurozone in 2011-12. In doing so, it looks primarily at Monti's European policy, but also briefly examines his domestic agenda. Monti's legacy has so far drawn very limited academic interest. By filling a gap in the existing literature on contemporary European and Italian affairs, this article aims to improve our understanding of a critical phase in the recent politics and foreign policy of one the key EU member states.

Keywords: Italy, euro crisis, euro, EU, Monti, eurozone

Introduction[1]

On 10 November 2011, as Italians awoke to the news that yields on Italy's 10-year treasury bonds had risen to almost 7.5 percent — a level widely regarded by analysts as unsustainable in the long term — alarm and bewilderment spread through the country.[2] Since the worsening of the euro crisis in 2011, Italians had repeatedly been told by Silvio Berlusconi's centre-right coalition government that Italy was not Greece and that its financial position and economic fundamentals were much sounder than those of its Mediterranean neighbour[3].· Now, suddenly and almost incomprehensibly, they were witnessing their country's slide into financial turmoil[4]. To compound their distress and disorientation was an escalating political crisis in Rome. For weeks, pressure had been mounting — both within and without the country[5] — on Berlusconi to resign[6]. On 8 November, the embattled leader, whose numbers in

[1] I would like to thank the anonymous reviewers for their comments and suggestions.
[2] *FT.com* 2011d
[3] *FT.com* 2011a
[4] The eurozone's sovereign debt crisis can be regarded as an aftershock of the 2007-08 global financial crisis. Although the underlying causes of the eurozone crisis lie in the monetary union's unfinished structure and somewhat faulty economics (Marsh 2009, pp.1-18), the global financial crisis laid bare the euro's fundamental weaknesses (Stiglitz 2016, pp.41) by tightening credit and imposing significant financial burdens on governments through bailout programmes and fiscal stimuli. For a brief analysis of the links between the two crises see, for instance, Soros (2012, pp.73-89), Stiglitz (2016, ch. 1) and Marsh (2009, pp.1-18).
[5] As the eurozone crisis took a turn for the worse in the late spring and early summer of 2011, investors' confidence in Italy's capacity to remain financially solvent quickly evaporated. To worry them was the Berlusconi government's apparent inability to promote economic growth and stabilise Italy's parlous public finances. On this point see Jones (2012, pp.83-100).
[6] *FT* 2011c.

Parliament had been haemorrhaging since 2010, had announced his intention to step down following the loss of his majority in the lower house[7]. With Italian bonds consumed by panic and with a political system seemingly incapable of dealing with the financial emergency, a Greek-style financial meltdown now looked a distinct possibility[8]. In one crucial aspect, however, Italy was certainly different from Greece — although this was by no means the way Berlusconi would have wished others to see it: as the eurozone's third largest (and the world's seven largest) economy, Italy had a much greater destabilizing potential than its tiny Mediterranean neighbour. As the Economist vividly put it in mid-November 2011, "[w]hen the world's third largest bond market begins to buckle, catastrophe looms"[9]. At stake, of course, were not only the solvency of the Italian state and the survival of the European Monetary Union (EMU) with its flagship, the euro. At risk were also the viability of the European Union (EU)'s single market and the health of the overall world economy. The mood of impending disaster was well captured in the alarmed, and often panicky, reporting by Italian and international media organisations.

On 12 November 2011, Berlusconi finally tendered his resignation to President Giorgio Napolitano. Less than 24 hours later, Napolitano formally asked Mario Monti, a well-established economics professor at Milan's prestigious Bocconi University and former European Commissioner for internal market and services (1995-99) and later competition (1999-2004), to form an emergency government[10]. The self-effacing, soft-spoken and professorial Monti could not have been more different in manners from the flamboyant, clownish and scandal-prone Berlusconi[11]. Unlike his controversial predecessor, the then 68-year-old Monti was held in high regard in EU and international circles[12]. Almost exclusively comprised of academics and top public servants, Monti's new technocratic administration was sworn in on 16 November[13]. Although he had attempted to include elected politicians in his ministerial team, the principal parties supporting his government — the centre-right Popolo della Libertá (the People of Freedom, PdL), the centre-left Partito Democratico (Democratic Party, PD) and the centrist alliance, the "Third Pole" — chose not to take up cabinet posts, preferring to maintain a low profile[14]. Monti's mandate was far from being an open-ended one: like a modern Cincinnatus, the Roman aristocrat and statesman known for his integrity and selfless dedication to the Roman republic, Monti was supposed to remain in office only for the time strictly necessary to implement a raft of emergency measures aimed at restoring international confidence in Italy's financial position. In any case, his government was not expected to last beyond the next general election, then due by April 2013. On Monti taking office, the Berlusconi-owned newspaper, Il Giornale, predicted that the technocratic government would fall as soon as its economic agenda was made public[15]. Uncertainty over the government's long-term survival was also reinforced by Berlusconi's warnings that he could bring Monti down at any time if the latter tried to implement measures unpopular with the PdL[16]. With no predetermined majority in

[7] *FT* 2011b.
[8] *Economist* 2011b.
[9] *Economist*. 2011b.
[10] *FT* 2011d.
[11] *FT.com* 2011c.
[12] *FT.com* 2011d.
[13] *FT.com* 2011e.
[14] *FT.com* 2011e; Bosco and McDonnell 2013, p. 38.
[15] *FT.com* 2011f.
[16] *FT.com* 2011g.

parliament, Monti hoped to succeed where previous "political" administrations had failed — namely in reviving a sclerotic economy and in lowering Italy's massive public debt[17]. He had, no doubt, an unenviable task ahead.

As events turned out, the "Monti experiment" was short-lived — he stepped down in December 2012 following the PdL's decision to withdraw parliamentary support. In his brief tenure at Palazzo Chigi, however, Monti made significant strides in dampening widespread international fears over Italy's ability to avoid default. His successors, Enrico Letta and Matteo Renzi, were able, notwithstanding the inconclusive February 2013 general election and Rome's endlessly fractious political landscape, to gain some respite from market turbulence thanks to Monti's consolidation programme. At least temporarily, a financial crisis had been averted in Italy even though the country's public debt remained worryingly high, at about 127 percent of GDP in 2012, and its economic revival appeared as elusive as ever[18]. Unsurprisingly, therefore, during Italy's 2013 election campaign — a campaign which saw Monti run as the leader of a newly formed political party, Scelta Civica per l'Italia ("Civic Choice for Italy") — his alleged focus on austerity came under severe criticism from both sides of politics. Such criticism gained a significant traction in the domestic press and, to some extent, in the international media too. Memorable, in this respect, remains the harsh judgment passed on him by Wolfgang Münchau, the Financial Times's influential columnist on European economic affairs. History, claimed Münchau, would accord Monti a "role similar to that played by Heinrich Brüning, Germany's chancellor from 1930 to 1932", whose deflationary policies are regarded by some as having unwittingly brought Hitler to power[19]. In the New York Times (2013), Paul Krugman, the authoritative American economist, was no less stinging. He dismissed Monti as a "proconsul installed by Germany to enforce fiscal austerity on an already ailing economy"[20].

Hailed at the start of its term in office as the government Italy needed to right its ship after Berlusconi's disastrous interlude, the Monti experiment ended in controversy and with its record in office fiercely contested. Aware of such a contested legacy, this article reassesses Monti's term in government and his approach to the crisis that engulfed both Italy and the eurozone between 2011 and 2012. It does so by focussing principally on Monti's European policy. With the euro crisis being a continental rather than a purely Italian emergency, Monti was right to view it as one requiring primarily an EU-wide response. Accordingly, his policy was designed to ensure that Italy would play a significant role in shaping such response. That said, the article also briefly examines Monti's domestic program for, as the following pages will make clear, the technocratic administration saw its domestic and European agendas as closely intertwined. Monti's legacy has so far drawn limited scholarly interest, no doubt as a result of the still very recent nature of the events covered in this article. By filling this gap, the article aims to make a contribution to our understanding of a critical phase in the politics and foreign policy of one of the key EU member states. In order to achieve this, it relies primarily on the wealth of news reports and analyses that have been published since the beginning of the euro crisis.

Monti's uphill task

[17] Lombardi and Paganetto 2014, p.66.
[18] Denk 2013, p.5.
[19] *FT.com* 2013b; for Bruning's policies see Patch 1998, pp. 10-13.
[20] P. Krugman, 2013.

Monti came into office in the midst of one of Italy's most severe political and economic crises since the Second World War[21]. On the domestic front, the technocratic government was staring at financial meltdown and facing an ailing economy that, for far too long, had suffered from anaemic growth and low productivity[22]. The gravity of Italy's economic situation was compounded by the political system's apparent inability to address the country's economic woes. The experience of the Berlusconi government (2008-2011) was indicative in this respect. With its credibility weakened by intra-coalition squabbles and by its leader's controversial lifestyle and ongoing tussle with the judiciary, the centre-right administration had looked increasingly adrift and unable to provide a coherent strategy to shield Italy from Greek contagion. More problematically, the growing disarray within the government ranks was accompanied by deep divisions among the centre-left opposition parties — divisions that made it difficult for them to form an alternative majority government[23]. To make matters worse, the emergence of an anti-establishment party such as the Movimento Cinque Stelle (Five Star Movement, M5S) — underlining, as it did, the Italian public's growing contempt for its political elites — bode ill for Italy's governability and its ability to respond to the tough challenges ahead.

On the international front, Monti faced an almost equally daunting challenge. Italy's loss of international credibility during the Berlusconi years had been palpable. Berlusconi's licentious lifestyle and pitiful gaffes had made him an almost embarrassing presence at EU summits. His government's apparent inability to deliver on EU commitments had exasperated his European counterparts[24]. With the euro crisis entering its most dangerous hour in the autumn of 2011, the eurozone's survival appeared to be increasingly pinned on Italy's ability to stave off financial meltdown. Monti, therefore, was only too conscious of the pressing need to tackle Italy's economic woes, reassure its international partners and restore the country's credibility among financial investors. To better shape the government's economic agenda, he initially reserved the finance portfolio (Ministry of the Economy) for himself[25]. In that capacity, he could also attend the Eurogroup and Ecofin meetings of EU finance ministers and, in so doing, be better placed to influence the Union's response to the crisis.[26] From his standpoint, both the domestic and European dimensions were tightly interwoven. He had little doubt that Italy had to put its house in order, not just to avoid a disastrous default, but also to avert the eurozone's implosion. In a series of blunt newspaper articles and speeches delivered before taking office, he had criticised Italy's political elites for failing to tackle the nation's debt and foster domestic growth[27]. Monti, however, had also been equally adamant that these objectives could only be secured trough reinforced EU (and international) collaboration.

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[21] Puri Purini 2011.
[22] Emmott 2012, pp. 64-65.
[23] Nor was the PD willing to form a government that would have to pursue an unpopular economic agenda. See Zulianello (2013: pp.247).
[24] *FT* 2011a.
[25] *FT.com* 2011g.
[26] The Economic and Financial Affairs Council (Ecofin) comprises the finance ministers of the 28 EU member states. The Ecofin can deliberate on any aspects of the EU's economic governance bar monetary policy, which is traditionally an ECB prerogative. As for the Eurogroup, its membership is restricted to the finance ministers of the 19 members of the eurozone. It generally meets the day before the Econfin and focuses on issues pertaining to the eurozone.
[27] *FT.com* 2011c.

The first opportunity for Monti to elaborate on these points came on 17 November 2011 during his first address to the Italian Parliament. In speaking to senators before the confidence vote, he said that while Italy was no doubt facing a "serious emergency", it was the whole European integration project that was experiencing its "most severe test since its inception". No-one, he warned, should be under the illusion that such project "could survive a break-up of the EMU". Such a break-up "would unravel the single market, its rules, its institutions, and would take us back to where we were in the 1950s". For Monti, lack of proper governance was partly to blame for the eurozone's woes, and this could only be "overcome by cooperation at European level". Italy had a role to play here, but it could only do so if it ceased to be considered Europe's "weak link". Otherwise, he said, Italy would find itself "at the centre of a European project" that it had not conceived — a project, that is, "designed by countries that, while having the future of Europe at heart, have also at heart their national interests, among which a strong Italy may not necessarily feature". Hence, the future of the euro would also "depend on what Italy does in the next few weeks". "International investors", he continued, "hold 50 percent of our public debt. We have to convince them that we have embarked on a gradual but lasting reduction of our debt-to-GDP ratio". To achieve this, the government intended to rely on "three pillars" — "fiscal rigour, economic growth and social fairness". Fiscal consolidation was necessary to meet Italy's economic emergency and lay the groundwork for lasting domestic growth. This, in turn, was also dependent on a series of reforms aimed at modernising Italy's economy, labour market and society. What is more, fiscal consolidation and economic growth would help bolster Italy's role in Europe. His government, therefore, did not view European demands as an "imposition": economic reforms were not simply what the EU expected from Italy, but also what Italy should expect from itself. In casting himself as a strong supporter of European integration, he added emphatically that "there is no us and them. We are Europe"[28].

Following through on these ideas, on 4 December Monti introduced a supplementary budget centred on tax increases, spending cuts and the rationalisation of the state administration. Named "Save Italy", the decree law included a package of severe fiscal adjustments worth roughly €30 billion (US$ 40 billion) aimed at balancing the budget by 2013. Predominantly focussed on fiscal consolidation (with more than 300 billion of Italy's €1.9 trillion debt expected to be refinanced in 2012, this was hardly surprising), the budget nonetheless included €10 billion worth of tax breaks designed to assist Italian firms in expanding their workforce, and other measures intended to promote infrastructure development[29]. The decree law (which would be passed by both houses of Parliament with large majorities in mid-December 2011) also included an ambitious overhaul of the pension system[30]. In December, Monti also indicated that the government would look to introduce significant structural reforms (including the controversial reform of the labour market) to promote long-term growth[31], without which Italy could hardly improve its debt-to-GDP ratio[32].

[28] *Repubblica* 2011a.
[29] Culpepper 2014, 1271; *Economist* 2011e; *Economist* 2011c.
[30] Cencig 2012, 32; *Economist Intelligence Unit* 2012, p.12.
[31] Monti's labour-market reform included plans to make it easier for firms to fire permanent workers (by relaxing dismissal rules through a reform of Article 18 of the Workers' Statute, which had traditionally made it tough for Italian companies employing more than 15 workers to make unproductive or underperforming staff redundant) and to provide increased job protection for temporary and young workers. In addition, Monti sought to liberalise (and thus increase competition

While intent on implementing its ambitious domestic economic agenda, Monti also embarked on a diplomatic offensive to shore up Italy's image and position in Europe. He had two chief tasks at hand — firstly, to reassure Italy's EU partners of his reformist credentials and, secondly, to ensure that Rome would play a leading role in devising EU responses to the crisis. Neither task was easy. At the Eurogroup meeting on 28-29 November, Monti was handed a confidential report by the Commission warning that unless Italy overhauled its economy rapidly, it could be faced with serious liquidity problems. Luckily for him, the eurozone's finance ministers were coming round to the view that only stronger action from the European Central Bank (ECB) could ward off a run on Italy's sovereign debt[33]. Monti could not have agreed more. In his view, the solution to Italy's financial woes — as he would never tire to repeat in the following months — did "not depend only on Italy's efforts, but also, and essentially, on Europe's ability to confront the crisis in a more decisive way"[34]. He was already on record for urging greater ECB market intervention in the short-term and the introduction of eurobonds in the long-term[35]. On 24 November, at a trilateral summit in Strasbourg with German Chancellor Angela Merkel and French President Nicolas Sarkozy, Monti, while re-emphasising his commitment to stabilise Italy's debt burden, had also cautiously reiterated his support for eurobonds[36].

Little progress, however, was made in Strasbourg on this issue. While Sarkozy was happy for the ECB to intervene energetically on international bond markets in support of eurozone treasury bonds under speculative attack, he was still opposed to eurobonds. So was Merkel, who had already made her position clear ahead of the summit by describing a Commission proposal for the creation of commonly issued "stability bonds" as "troubling"[37]. In the end, the three leaders agreed to refrain from pressurising the ECB. Where, however, they registered considerable agreement was on the need to strengthen budgetary discipline across the eurozone. Both Merkel and Monti favoured the creation of a "fiscal union" which would deepen EMU fiscal and economic integration. Sarkozy, too, favoured greater budgetary discipline but sought to link it with demands for a more prominent ECB role in buying up EU sovereign bonds. Germany rejected such a quid pro quo at least at this stage[38]. On issues regarding EMU economic governance, Berlin retained a de facto veto power.

Greater fiscal discipline within the EU was not a novel issue in late 2011. In June 2010 EU leaders had already agreed to consider means to strengthen the Stability and Growth Pact (SGP) but had fallen short of supporting automatic fines for states failing to abide by EU fiscal rules[39]. Whereas Germany, backed by a bunch of northern European countries, favoured automatic fines, France and Italy, together with Spain, Belgium and others, were opposed to them. This latter group did not reject greater fiscal discipline but wanted the new rules to allow for a degree of political discretion[40]. At a Franco-German summit in Deauville in October 2010, Merkel had, against her instincts, caved in to French pressure not to make sanctions

in) areas such as the service sector, local public services, energy, banking and insurance. On this point see Cencig (2012, pp.39-46) and Culpepper (2014, pp.1273-1274).

32 *Economist Intelligence Unit* 2012, p.13.

33 *FT.com* 2011l.

34 *Economist online* 2012a.

35 *FT.com* 2011b.

36 *Sole 24 Ore* 2011; *Repubblica* 2011b.

37 *FT.com* 2011h; *WSJ* 2011.

38 LE MONDE 2011; FT.com 2011j; FT.com 2011i.

39 FT.com 2010a; Marsh 2011, p.202.

40 FT.com 2010b.

automatic[41]. In late 2011, however, she was having second thoughts on this and began to push for tighter rules[42]. She was unconvinced that legislation put forward by the Commission and the President of the EU Council, Herman Van Rompuy, (the so-called "six-pack" and "two pack") [43] was stringent enough[44]. As for Sarkozy, he was now willing to accept less political discretion in the process leading to sanctions[45].

The new Franco-German understanding was sealed in Paris on 5 December 2012. In the French capital, the two leaders agreed on a joint proposal to be tabled at the forthcoming European summit. The plan included, among other things, automatic sanctions for those states in breach of the SGP's 3 per cent rule on budget deficits; the introduction of a "golden rule" into the member states' national constitutions, committing them to balance their budgets; an agreement to create a permanent bail-out facility, the European Stability Mechanism (ESM). These reforms should be preferably enshrined in a new EU treaty, but if agreement from all 27 EU members were impossible to achieve, France and Germany would be ready to settle for an intergovernmental agreement among the 17 eurozone members[46]. The European Council, held in Brussels on 8-9 December, witnessed British opposition to a new treaty, thus forcing EU leaders to compromise on an intergovernmental "fiscal compact". The new agreement would introduce semi-automatic sanctions on the participating EU countries overshooting the deficit target of 3 per cent of their GDP; it would commit participating governments to ensure that debt and deficit ceilings be enshrined in national constitutions; it would also enable the European Court of Justice to control whether national legislation was adequately binding. Leaders also agreed to the establishment of a €500 billion large ESM[47].

Monti welcomed a bigger firewall and greater fiscal responsibility[48]. As mentioned earlier, he had little doubt that a stable eurozone required greater fiscal coordination and that such integration should be underpinned by stricter budgetary discipline. Without better economic governance, the single currency might indeed be at risk of collapsing. But he was also realistic enough to know that unless Berlin secured an agreement committing member states to fiscal discipline, it would remain firmly opposed to eurobonds as well as to an ECB role as a lender of last resort. In this, Monti was on the same wavelength as ECB President Mario Draghi. Only a few days earlier, Draghi had spoken of a "fiscal compact" both as a means of "restoring credibility" in the financial markets and a prerequisite for more effective ECB intervention. For Draghi, greater fiscal discipline had to come first. "Other elements", he added, "might follow, but the sequencing matters"[49]. Indeed, that sequencing mattered for Monti too. Without greater fiscal responsibility, Germany would not give ground on the issue of eurobonds.

[41] Pisani-Ferry 2014, p.110**;** Economist 2010.
[42] Pisani-Ferry 2014, pp.110-111; Economist 2011a.
[43] Put forward by Van Rompuy, the "six-pack" envisaged the introduction of early financial sanctions against states in breach of the SGP. Proposed by the Commission, the "two-pack" package required member states to provide the Commission each year with detailed information on their budget plans so that the Commission could comment on them and demand changes.
[44] Pisani-Ferry 2014, pp.110-111.
[45] Economist 2011d.
[46] FT.com 2011m**;** Economist 2011d.
[47] Pisani-Ferry 2014, p.112**;** FT.com 2011n and 2011o; Economist 2011f.
[48] IHT 2011**;** Comelli 2012, p.54.
[49] *FT* 2011e.

With EU governments and institutions busy drafting the text of the agreement reached at the 8-9 December European summit, Monti focussed on other aspects of his programme. On 20 January, he announced a wide-ranging package of liberalisation measures[50]. Although the government expected structural reforms to lift Italy's long-term productivity and growth, these would take time to produce tangible results. In the interim, they were most likely to have a deflationary effect on the economy, thus making debt-reduction difficult in the short term[51]. Monti was clearly in need of some external help. As a result, he began to lobby for measures that would mitigate the short-term impact of his domestic reforms. What Monti had in mind were not only financial measures aimed at lowering Italy's borrowing costs, but also EU-wide initiatives to boost domestic demand (and hence growth). As he well knew, Germany would hold the key to any progress in these areas. Hence, it was hardly surprising that Monti chose a visit to Berlin in early January 2012 to call for lower interest rates — a code word for eurobonds and greater ECB intervention in the bond markets[52]. In an interview with Die Welt, he warned that without greater EU efforts to lower Italy's borrowing costs, his reformist agenda would be at risk. "[T]here would inevitably be", he said, "a backlash in Italy against the EU, and also against Germany as the ringleader of EU intolerance and against the European Central Bank"[53]. With yields on Italian bonds remaining stubbornly high, Monti argued that such state of affairs could not just be ascribed to market concerns over Italy's solvency, but was also attributable to the lack of credible EU mechanisms to reassure bond investors. He hoped that with the "fiscal compact" expected to be endorsed at the 30 January European Council, both Germany and the ECB could be more forthcoming towards mechanisms designed to assist states in financial difficulty[54]. That, however, was only one aspect of his message. He also urged the EU to relax its focus on austerity and endorse measures to stimulate growth across Europe[55]. Fiscal discipline, he said, was a "necessary" but not "sufficient" condition for growth[56]. In a visit to London in late January, he told British Prime Minister David Cameron that Italy was ready to support British efforts to complete the EU's single market in areas such energy, services and the digital economy[57]. This, Monti hoped, would open up new opportunities. In February, Monti and Cameron signed a joint letter with other 10 EU leaders calling for the EU to adopt more growth-friendly measures, take vigorous action to complete its internal market and foster greater free trade internationally[58].

Monti's advocacy for growth-creating measures was reflected in the conclusions of two European summits held in Brussels at the end of January and in early March 2012. At the January European Council, EU leaders, while endorsing the fiscal compact, pledged to take measures to foster growth and combat unemployment[59]. At the March European Council — a summit that saw the signing of the fiscal compact — Monti, supported by Cameron and others, pushed for a more stringent EU monitoring of the member states' performance in market liberalisation. This was

[50] *Economist* 2012c.
[51] *Economist* 2012d.
[52] *Economist* 2012a; *Repubblica* 2012; *FT* 2012a.
[53] *FT.com* 2012a.
[54] *FT.com* 2012b and 2012c.
[55] *FT* 2012a.
[56] *Economist* 2012b.
[57] *Economist* 2012b; *FT* 2012b.
[58] *Daily Telegraph 2012.*
[59] IHT 2012; WSJ 2012a; FT.com 2014a.

reflected in the final communiqué calling for regular EU monitoring[60]. Although Monti was successful in somewhat shifting the EU debate towards a greater emphasis on growth, the eurozone's focus remained very much set on austerity. In this context, however, he succeeded in blocking the introduction of tougher rules in the fiscal compact designed to speed up debt reduction for those countries (like Italy) with a public debt over 60 per cent of GDP[61]. All in all, despite the evident difficulty in overcoming German opposition to greater debt mutualisation, Monti had managed to achieve quite a significant turnaround in reputation for Italy. While Berlusconi had been shunned by his peers, Monti commanded respect and credibility. His grasp of the economic brief made him an authoritative voice among his EU peers. Italy was back at the top table, commented both the Economist and the Financial Times in January 2012[62].

By the spring of 2012, the key aspects of Monti's strategy were clearly discernible. The first and most important element was the government's determination to push through far-reaching economic reforms and fiscal stabilisation. As mentioned earlier, his ambitious agenda was intended not only to save Italy from financial ruin and revive its anaemic economy, but also to prevent the EMU from disintegrating into chaos and acrimony. For Monti, Italy's future prosperity was reliant on a viable EMU. Like other Italian leaders before him, he saw EMU membership as a way of "locking in" Italy to a long-term process of economic rebuilding and restructuring — the so-called "external constraint" (vincolo esterno) or the idea that Italy needed some self-imposed external discipline to modernise its economy and embrace a more virtuous fiscal behaviour[63]. The second aspect of Monti's strategy was closely tied to this first one: his effort to regain international credibility was not an end to itself, rather a means to an end. From his viewpoint, restoring Italy's reputation was essential not only to reassuring international investors about the country's capacity to reform (and, hence, to lowering the costs of servicing its debt). It was also crucial to fulfilling traditional Italian foreign policy goals, such as the strengthening of European integration and the upholding of Italy's place in the inner circle of most powerful EU nations[64]. This, in turn, would enable Rome to have a say in the formulation of measures aimed at improving EMU governance and financial assistance. Furthermore, it would also spare Italy from taking on alone the burden of full adjustment. As the government sought to cut public debt and restructure the economy (at a time when the private sector was also cutting spending), Monti was painfully aware that EU-wide pro-growth measures were needed to avoid a sharp downturn and make fiscal consolidation attainable. Without growth, debt reduction would be illusory.

The steep road ahead

By the summer of 2012 Monti had succeeded in lifting Italy's image and his reformist agenda had won him plaudits abroad. Yet for all the praise heaped on him by the international media, his popularity at home was in decline.[65] His government's

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[60] Economist online 2012b.
[61] Comelli 2012, p.56.
[62] Economist 2012b; FT.com 2012d.
[63] Dyson and Featherstone 1999, p.461; Dyson and Featherstone 1996, p.274.
[64] For a discussion of Italy's commitment to European monetary integration as a means of fulfilling Italy's domestic and external interests see Dyson and Featherstone, 1999: pp.453-484.
[65] For Monti's early popularity see *Economist* 2012c and 2012e. For his declining popularity see *FT.com* 2012e and 2014b; *FT* 2012c.

parliamentary position appeared more vulnerable. In two rounds of local elections in May, the PdL, the largest party backing the government, saw its electoral support crumble. Its poor performance led some within the party to question its support to the government's austerity programme. While not yet amounting to a no-confidence vote in Monti, these internal rumblings were nonetheless a sign that PdL was growing restless and might, at some point, pull the plug on the government[66]. As if this was not enough, the PdL's electoral defeat, coupled with the PD's rather lacklustre performance and the electoral growth of the populist M5S**,** also signalled the Italian public's growing dissatisfaction with the country's mainstream parties[67]. The May elections might have been only a warning shot, but, with Monti's tough fiscal tightening beginning to bite and the economy sinking deeper into recession, the government was starting to face significant political headwinds[68].

Also alarming — at least from Monti's standpoint — was the creeping opposition that its reformist agenda was encountering from the parties backing his government and pressure groups such as the trade unions[69]. The government's labour-market reforms and its Cresci Italia (Grow Italy) liberalisation programme, which was designed to improve Italy's competitiveness by opening up closed-up sectors of its economy, had been watered down in Parliament[70]. To complicate things further, concerns over Italy's overall fiscal position stubbornly refused to die down. After a brief respite, yields on Italy's ten-year bonds had risen again to dangerous levels in late spring and early summer, thus putting both Italy's economic recovery and its fiscal solvency at risk[71]. It was against this backdrop that Monti's calls for a more effective approach to the euro crisis became more insistent over the summer[72]. In his advocacy, Monti found an important, if somewhat improbable, ally in France's new socialist president, François Hollande. Hollande's Keynesian approach was not entirely in tune with Monti's focus on balanced budgets and supply-side reforms. However, his calls for a renegotiation of the fiscal compact and the introduction of a "growth compact", aimed at relaunching economic activity across the Union, were to help refocus the EU's internal debate away from austerity and towards growth. What is more, his support for eurobonds promised to strengthen the hand of those EU nations demanding greater solidarity[73]. Hollande's démarches represented a marked shift in France's position. Under his predecessor, Paris had firmly aligned itself with Berlin even though France's fiscal position should have made it more sympathetic to the problems of its Mediterranean partners[74]. Sarkozy's reluctance to side with them was partly motivated by the belief that no French president could afford to call into question the Franco-German axis — one of the most enduring axioms of post-war French foreign policy. To some extent, however, it was also driven by concerns that closer identification with the Mediterranean "peripherals" would damage Paris's international prestige and influence.

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[66] *Economist*. 2012f; *FT.com* 2012f; *WSJ* 2012c; Zulianello 2013, pp.252-256.
[67] *FT.com* 2012g.
[68] *FT.com* 2012g and 2014b.
[69] *Economist*. 2012h; Zulianello 2013, pp.244-261.
[70] *FT.com*. 2014b; Cengig 2012, pp.38-40 and pp.41-45.
[71] *Economist*. 2012h; *FT.com* 2012i.
[72] It was somewhat ironic that for all the austerity measures proposed or enacted by Monti, the bond market was still not responding the way the Italian government would have wished. Clearly, bond investors appeared only too keen to maintain a very guarded attitude towards Italian bonds, at least until Monti's reforms had demonstrably shown a positive effect on economic growth. The author is grateful to one of the anonymous referees for this comment.
[73] *FT.com* 2012h.
[74] *Economist*. 2012g.

While unlikely to sacrifice traditional Franco-German ties on the altar of Mediterranean solidarity, Hollande was not averse to playing hardball with Germany[75]. By the summer of 2012, he had shown increasing inclination to disagree publicly with Germany and had also managed to secure broad Italian and Spanish support for his pro-growth agenda as well as his proposals for a financial stability package designed to strengthen the EU banking system[76]. On 14 June, Monti and Hollande agreed in Rome on a common position to shore up the EMU through growth-enhancing measures, debt mutualisation and a more effective firewall[77]. That both leaders were singing from a similar song sheet became increasingly evident a few days later at the G-20 in Los Cabos, Mexico (18-19 June) and, again, in Rome during a quadrilateral meeting between Germany, France, Italy and Spain (on 22 June)[78]. At Los Cabos, with Merkel under increasing international pressure to do more to solve the euro crisis, Hollande openly backed a Monti plan to use EMU bailout funds to buy in the open market the treasury bonds of "virtuous countries" (i.e. countries that were undertaking significant structural reforms) facing market pressure. According to the Italian plan, bailout funds would be automatically activated without their recipients having to submit to further budget cuts or further reforms[79]. In Rome, Monti and Hollande, now backed by Spanish Prime Minister Mariano Rajoy, returned to the charge and put Merkel under further pressure to agree to the Italian plan. Initially, the Chancellor refused to budge. All she was prepared to accept was a €130 billion package of measures designed to stimulate growth[80]. Eventually, however, Italian, French and Spanish endeavours met with success at the 28-29 June European Council meeting in Brussels. In addition to backing those growth-enhancing measures, the summit also endorsed Monti's proposal on bailout fund assistance[81].

Generally interpreted as a diplomatic success for Monti, the June EU summit was also his political swansong. On the European scene, progress on the implementation of decisions taken at the summit was slow, with Germany already questioning some of them[82]. On the internal scene, the ever-shifting sands of Italian politics were testing Monti's political endurance and skills. As Italy's financial situation markedly improved in late 2012 following the ECB's decision to buy eurozone sovereign bonds in large quantities — Draghi's pledge to "do whatever it takes to save the euro" had a remarkably calming effect on the international bond market, thus making possible a significant reduction in Italian bond yields — Monti's domestic position weakened[83].

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[75] *FT.com* 2012l and 2012q.
[76] *FT.com* 2012k, 2012j and 2012h.
[77] *FT.com* 2012m; *WSJ*. 2012b.
[78] Alas, Monti's efforts to make common front with France and Spain in order to shift the EU's internal debate from austerity to growth-enhancing measures failed to make much of an impression on domestic public opinion. The reason for this was, at least, threefold: first, the government's attempts at coalition-building in Europe were either largely overlooked or simply discounted by the Italian public as unlikely to generate any immediate and tangible benefit; second, as Monti's reforms began inevitably to bite and the road to economic recovery appeared a long and tortuous one, Italians became increasingly impatient with the government and its economic policies; third, Italian political parties such as the PD and PdL, while willing to let the technocratic government do the 'dirty work' for them and push through long overdue (and painful) reforms, were also jockeying for influence amongst the electorate and preparing for the 2013 national election. They had an obvious interest in shifting all the blame on the 'technocrats'. As for a party, such as the Northern League, which, after the 2007-08 global financial crisis, had lent support to the Berlusconi government's fiscally conservative budgetary policy, it was now happy to ride popular discontent and cash on it.
[79] *FT.com* 2012n and 2014b; *WSJ* 2012d.
[80] *FT.com* 2012o.
[81] *FT.com* 2012p.
[82] *FT.com* 2012r.
[83] Economist 2012j.

With a forthcoming general election, Italian political parties began to jockey for influence. Berlusconi's decision to make a political comeback and lead the PdL into the next general election destabilised the precarious equilibrium upon which Monti's political survival rested. With the PdL lagging in the polls at about 15 percent, Berlusconi thought it was time to distance his party from Monti[84]. On 6 December, Berlusconi openly attacked his economic agenda and withdrew support to the government on two key reform bills[85]. In doing so, Berlusconi did not intend to bring down Monti just yet. Rather, his strategy was to keep a weakened government in power through a policy of parliamentary abstention until he had had time to reorganise the PdL ahead of the next spring's general election. In the meantime, he would have been at liberty to attack the government's economic record while casting himself as the only credible alternative to austerity[86]. Berlusconi's manoeuvrings, however, did not go according to the script. While theoretically able to survive in Parliament without the PdL's full support, Monti resigned on 8 December[87]. He had no intention of playing Berlusconi's sacrificial lamb and being endlessly exposed to his parliamentary ambushes. Nor was Monti confident that he could entirely count on the PD's continuing support despite his leader Pier Luigi Bersani's strong protestations of loyalty. With the PD now polling above 30 percent, not only was Bersani likely to find the prospect of a snap election tempting, but he also had little interest in being seen as Monti's key supporter[88]. In any case, since its formation, the Monti government's non-partisan character and its political legitimacy had been premised on the combined and continuing support of Italy's two major parties. Without it, the technocratic experiment was well and truly over. Despite Monti carrying on in a caretaker capacity until well after the February general election, his reformist agenda was cut short. Italy was again entering a new phase of political instability. The country's capacity to reform itself and remain an effective actor on the EU scene was again called into question.

Conclusion

With Monti's unexpected decision to enter politics in late December 2012, his record in office came under intense scrutiny in the lead-up to the February 2013 election, and, sadly for him, it did not survive unscathed. Praised initially for rescuing Italy from the brink of a disastrous default, the once "Super Mario" (as the international press liked to nickname him) was now taking the blame for his country's longest and deepening post-war recession[89]. Quite predictably, those parties that had once supported his economic agenda were now openly critical of it. Media commentators who had been broadly sympathetic to his policies were now heaping criticism on him. Such criticism predictably centred on three areas: Monti's over-reliance on fiscal consolidation and austerity measures, his unwillingness to defy Berlin's pro-austerity "gospel" and his inability to kick-start Italy's ailing economy.

As this article has suggested, this criticism was largely undeserved. Despite experiencing difficulties in pushing its legislative program through Parliament, the government could nonetheless count several important pieces of legislation among its

[84] Economist online 2012d.
[85] FT.com 2012s.
[86] Economist online 2012d.
[87] Economist online 2012c.
[88] Economist online 2012c.
[89] Manasse 2013, pp.1-6; *FT.com* 2013a.

achievements[90]. In any case, it was not for lack of trying that its reformist agenda was not fully implemented. Where powerful vested interest opposed reforms, the political parties backing Monti ensured that legislation would be watered down so to minimise its impact on their political constituencies. In this regard, their criticism that Monti had failed to spur growth because of his overwhelming focus on fiscal consolidation rather than on growth-enhancing measures, was disingenuous. Besides, while Monti's fiscal consolidation no doubt produced short-term deflationary effects on the economy, the causes of Italy's severe downturn could not be solely ascribed to the "technocrats". To a good extent, they lay in Italy's long-standing inability to lift domestic competitiveness and in the widespread fiscal contraction that had occurred in Europe following the 2007-08 global financial crisis[91]. In any event, with international investors terrified at the prospect of Italy defaulting on its enormous debt and no longer willing to cut Italy any slack unless its financial position improved markedly, the Monti government had little option than to give priority to fiscal consolidation. In recalling the dramatic circumstances that brought him to Palazzo Chigi in November 2011, Monti graphically remarked in January 2013 that he felt as though he was about "to jump on to a derailed train that was heading for the precipice"[92]. To his credit, the train has not derailed yet.

But Monti's room for manoeuvre was also significantly constrained in other important ways. As this article shows, for all his personal prestige, Monti could not ignore the widespread scepticism surrounding Italy's ability to tackle its economic woes. He had the unenviable task of reassuring his European (and non-European) counterparts that Italy would neither be the eurozone's weak link nor the country responsible for the single currency's collapse. On the international stage, therefore, Monti's key priority was to restore Italy's credibility: by doing so, he hoped to allay concerns over Italy's financial position and better protect Italian interests in Europe. To achieve this, he believed, correctly, that his government's internal and external policies needed to be carefully synchronised. At a crucial juncture in the history of the European integration process, Italy, as one of the EU's founding members, could not afford to be sidelined in the EMU economic decision-making process. After all, Italian interests were not entirely coincidental with those of its main European partners, France and Germany. If, for instance, Rome supported Berlin's view that a viable eurozone could only be accomplished through deeper fiscal harmonisation and economic integration, it also shared Paris's desire to achieve greater debt mutualisation and (after Hollande's election) to see greater EU emphasis being placed on growth-enhancing measures.

How successful was Monti in securing those Italian interests in Europe? In an EU context where give and take are at the very heart of the decision-making process, success could only be partial. This was all the truer given Germany's growing political and economic ascendancy within the EU — an ascendancy that constrained Italy's options even further. Italy, of course, was not alone in this position: France and other EU members were also confronted with Germany's overwhelming influence. As the seemingly indispensable EU power and EMU anchor, Berlin could effectively scupper any initiative contrary to its interests. For Monti, therefore, challenging German prescriptions head-on was neither smart politics nor sound policy. It was not smart politics because no lasting solution to the euro crisis could be found without German

[90] Cencig 2012, pp.33-47.
[91] Manasse 2013, pp.1-6.
[92] *FT.com* 2013a.

blessing. Nor was it sound policy because by openly rejecting the fiscal discipline advocated by Berlin, Italy would harm its economic interests. The idea, for instance, that Italy should have stood up to Germany and made its EMU membership conditional upon the achievement of greater solidarity between EMU creditor and debtor nations ran counter to Italy's long-standing support for European integration[93]. It would also have been tantamount to exercising a devastating "nuclear option" — an option, that is, likely to lead to EMU implosion and economic chaos in Italy. For Monti, the only practical option was to encourage Germany to commit gradually to greater debt mutualisation and show greater flexibility in interpreting the fiscal rules governing the eurozone. In this, Monti's hopes were not misplaced. If only tentatively and often reluctantly, Germany gradually accepted greater ECB market intervention, committed to the idea of a banking union and agreed to some measure to spur EU growth. To his credit, Monti played not an insignificant role in prodding Germany along this path. Pity was that his good work was cut short by the dynamics of Italy's dysfunctional politics.

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[93] *FT.com* 2013b

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