

Unintended consequences of Italy's fiscal reprieve

Blog post by Research Associate Ana Martínez, 8 February 2019

During the Eurogroup meeting on February 11th, the European Commission is expected to present a detailed account of its decision to halt the Excessive Deficit Procedure (EDP) against Italy. The back and forth between Brussels and Rome at the end of last year kept some of us at the edge of our seat. But the EDP was not only an existential crisis for Rome and the eurozone as a whole, but also for pro-Europeans in other member states, particularly the Netherlands.

The Dutch prime minister, Mark Rutte, did not shy away from publicly showing his discontent with the European Commission's decision during the economic summit in Davos. Rutte said that the commission's actions against Italy were insufficient and added that people asked him why the Netherlands should stick to the budget rules if others do not. The Dutch finance minister, Wopke Hoekstra, made a similar point during the January Eurogroup meeting, in which he highlighted the lack of respect for EU fiscal rules. "The rules are there...because they are in the long-term interest of the European people and European countries," said Hoekstra after the meeting. The Hague feels like the obedient student in a class where those that do not follow the rules are not punished. And letting this happen without scold will be hard to sell to Dutch voters, particularly three months away from the European Parliament elections.

The commission's truce with Rome - arguably prompted by France's expected deficit increase following the yellow vest protests and the proximity of European elections - might have prevented an increase of Euroscepticism in Italy. But the calculation did not consider Dutch voters who, in the 2017 general election, made the right-wing populist Party for Freedom (PVV) the second most voted group. The new party Forum for Democracy (FvD), currently ranking third in the polls with 11% of votes, could also increase its support. The FvD, led by Thierry Baudet, has a strong opinion about the EU and is calling for a referendum on EU-membership and membership of the eurozone. The current situation in Italy also touches upon one of the party's criticisms of the eurozone: how Dutch tax payers have been paying for the bailout of countries like Greece for their own inability to keep their house in order. "The way in which the prospectless and failed euro is being kept alive is scandalous and costs us billions - while the economies in Southern Europe are being destroyed by it," reads FvD's website.

Not going through with the EDP has also damaged Rutte's image as an influencer at EU level. The Dutch prime minister has worked towards positioning himself as a pro-European but also as a constructive critic who can bring change through the Hanseatic league. After Italy made its 2019 budget public, Rutte expressed concern over the country's plans and highlighted his "full support" to the commission in applying the Stability Pact. The European Commission's decision undermines his efforts in trying to gather support for the bloc and install trust in the fair and equal treatment of all member states.

While the halting of the EDP might have prevented an increase in Euroscepticism in Italy, it has the potential of unleashing other risks for the Netherlands and its prime minister ahead of the European Parliament elections. Not only could it increase support for Eurosceptic and populist parties in the Hague, but it also deepens the north/south divide between eurozone countries.

