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COMMENT

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Rome and Athens allied against austerity? > Prospects for cooperation between Italy and Greece in the EU

The Italian government has welcomed the election of Alexis Tsipras in Greece and is ready to support some of Syriza's economic policies. Prime Minister Matteo Renzi sees Tsipras as a potential ally in his quest for fiscal flexibility, but Italy wants Greece to repay its debt.

During their first weeks in office, Greek Prime Minister Alexis Tsipras and his Finance Minister, Yanis Varoufakis, have been trying to gain the support of other European governments in order to challenge austerity policies in the EU. Several southern European EU member states such as Portugal, Italy and Spain appear as potential allies for Greece, as they have similar structural problems (negative or very low growth, a high debt-to-GDP ratio and high unemployment rates) and have implemented austerity measures that have plunged their economies into recession.

The third-largest economy in the eurozone, with a declared desire to refocus European economic policies on growth, Italy could be a key partner for Greece. It is therefore no wonder that Rome was one of the first destinations for Tsipras' official visits abroad in early February. The Greek premier had a very warm exchange with his Italian counterpart, Matteo Renzi, who has been leading a centre-left government since his appointment as Prime Minister in February 2014. Renzi is also Secretary of the centre-left Democratic Party, which received a landslide 40.8% of the vote in the European Parliament elections last May.

The Italian premier stated that he would support bilateral cooperation with Greece in all international contexts. Prior to his visit to Rome, Tsipras had already received the endorsement of Sandro Gozi, the Italian Minister for European affairs and one of Renzi's top aides. According to Gozi, Tsipras' election offered "new opportunities to pursue change in Europe, create growth and investment and fight unemployment".

Do these friendly exchanges foreshadow a deeper political alliance? Rome is likely to cooperate with the Greek government, but only as long as the alliance is conducive to Renzi's own political and economic agenda. In several respects, Renzi's and Tsipras' programmes are similar: Italy advocates more flexibility on fiscal rules and much greater focus on investments and growth.

These measures are of high priority for Italy, after years of stagnation and recession. The European Commission estimated that Italian GDP shrank by 0.4% in 2014, following a steeper decline (by 1.9% and 2.3% respectively) in the previous two years. Meanwhile, the unemployment rate has reached 13.4%, with much higher peaks among young people (well over 40% throughout 2014) and in the south of the country.

At the EU level, the Italian government will argue that the Greek case has shown how austerity alone cannot revive the economy. Italy will also highlight the risk that the continuation of austerity policies will alienate citizens, eventually leading to the democratic election of political forces that are less cooperative with EU institutions, or that reject European integration altogether.

However, Renzi does not want a clash with European institutions. His government intends to negotiate a revision of EU economic policies while carrying out structural reforms and respecting the Stability and Growth Pact. In the standoff with Greece, Italy will not support the cancellation or a substantial 'haircut' of the Greek debt. Italy is Greece's third-largest creditor, after Germany and France, and has a strong interest in Athens repaying its debt. As hinted by Finance Minister Pier Carlo Padoan, Italy will agree to a time extension for the repayment, and perhaps to tying payments to economic growth in Greece, but further concessions are unlikely in the short run.

Furthermore, the Italian government will not want to be seen as too close to Greece for fear of causing a negative market reaction. This was

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demonstrated in a recent exchange between Padoan and Varoufakis. In an interview with RAI, the Italian national public broadcasting company, Varoufakis stated that – according to Italian officials who had approached him – Italy also risked bankruptcy and was therefore keen to support Greek requests in the EU. Padoan immediately retorted that the Italian debt, currently the second largest in the EU in terms of percentage of gross domestic product (131.8% as of September 2014), is “solid and sustainable”.

The differences between the Italian and Greek governments are also political. While Renzi’s coalition is made up predominantly of centre-left forces, its economic and labour policies have been very market-oriented so far. Unsurprisingly, the General Confederation of Italian Industry (Confindustria) has applauded them, while the main left-wing trade unions (CGIL and FIOM) are very critical. Unlike Tsipras, Renzi would never stop privatisation programmes or prioritise the increase of the minimum wage.

Hence, while there is room for cooperation between the Tsipras and Renzi governments at the European level, it is likely to be limited to areas where economic interests and agendas overlap. Flexibility, focus-

ing on growth-oriented policies and investments, will make up the core of the Greek-Italian entente. Cooperation may receive a boost if France, which has a similar stance to Italy on fiscal and growth issues, throws in its political weight. French Finance Minister Michel Sapin has already announced that France will discuss ways to ease Greece’s financial problems, including a time extension for debt repayment. However, Paris is also reluctant to cut the Greek debt.

Until ideologically closer political forces come to power in other EU member states (potentially Podemos in Spain at the end of 2015), Tsipras will have to seek friends among centre-left governments that share some of his aversion to austerity policies. Italy is an obvious candidate, and Renzi is interested in cooperation that is instrumental in relaxing the austerity policy. However, such cooperation is highly unlikely to evolve into a full-fledged political alliance at the EU level.