European Commission rejects Italy’s 2019 budget

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Yesterday, the European Commission struck down the 2019 budget proposed by Italy’s far-right government, claiming that it violated Italy’s promises to the European Union (EU) to impose austerity, and demanding revisions. This is the first time that the EU Commission has ever demanded that an EU member state rewrite and resubmit its budget to the EU.

A violent struggle is set to unfold on the summits of European bourgeois politics, as both pro-EU and far-right populist forces fight to impose their version of austerity while trying to avert a financial panic that could provoke an Italian and global market crash. The central question is a perspective for independent political opposition by the working class, uniting workers struggles against austerity in Italy and across Europe. The EU austerity diktat and neo-fascist Italian Interior Minister Matteo Salvini’s nationalist demagogy are equally right-wing and hostile to the workers.

On October 18, the EU issued a letter denouncing Salvini’s “People’s Budget” as a “significant deviation” from previous plans, and demanding clarifications. While Salvini’s austerity budget is within the deficit limits of the EU’s Maastricht criteria, it sets out a deficit three times as high as the 0.8 percent of gross domestic product (GDP) pledged by the previous Italian government.

The EU letter triggered a sell-off in bond markets, and Economic Commissioner Pierre Moscovici pledged “constructive dialog” with Rome in order to prevent a crash. With Italian banks already holding an estimated €260 billion in bad loans from the last crash in 2008, Credit Suisse AG estimated that Italy’s banking system would face “unsustainable pressure” if Italian bonds fell to the point that they were paying 4 percent more interest than German bonds. This nearly happened on October 19, when the so-called “spread” over German bonds reached 3.41 percent.

Despite Moscovici’s pledges, the EU Commission again denounced the Italian budget yesterday and formally demanded that it be rewritten in line with the EU austerity diktat. “Unfortunately the clarifications were not convincing to change our earlier conclusions of particularly serious non-compliance,” said EU Commission Vice President Valdis Dombrovskis yesterday. “The Italian government is consciously and openly going against commitments made. … It is tempting to cure debt with more debt, but at some point the debt weighs too heavy.”

The Commission’s decision bucked a statement on Monday by Portugal’s Mario Centeno, the new head of the eurogroup of eurozone finance ministers. Centeno had praised Rome’s responses to the EU as “constructive” and predicted a deal would be reached.

The Italian government now has three weeks to rewrite and resubmit its budget or face billions of euros in EU fines.

Italian officials are issuing calls for nationalist resistance to Brussels, while signaling that a deal might be reached with the EU bureaucracy in Brussels. Salvini, the regime strongman, declared: “This doesn’t change anything, let the speculators be reassured, we’re not going back. They’re not attacking a government but a people. These are things that will anger Italians even more. And then people complain that the popularity of the European Union is at its lowest!”

Deputy Prime Minister Luigi di Maio of the populist Five Star Movement (M5S) wrote on Facebook: “This is the first Italian budget that the EU doesn’t like. I am not surprised. This is the first Italian budget that was written in Rome and not in Brussels.”

Italian Prime Minister Giuseppe Conte sounded a more cautious note, however. While he said that Rome has “no Plan B” for another budget, he added: “We are ready to reduce, maybe, to operate a spending review if necessary.” Conte told Bloomberg News that he has “some leeway to tweak aspects” of the budget, but that if he were asked to change the substance of the budget, “it will be difficult for me because I cannot accept that.”

In fact, furious behind-the-scenes discussions are doubtless taking place in Rome over how to reach an accommodation with Brussels. The ruling alliance between the M5S and Salvini’s Lega party has already cut deals with the EU, notably ditching its proposed economy minister, anti-euro economist Paolo Savona, in the spring. This weekend, Lega official and Italian Cabinet Undersecretary Giancarlo Giorgetti stated that Rome could not ignore systemic risk to the financial system.

Powerful forces in the European bourgeoisie are also seeking to arrange an austerity deal in Rome, working—as they did with the Syriza government of Greek Prime Minister Alexis Tsipras—through talks between the EU and the national government. This strategy was laid out yesterday by the German financial daily *Handelsblatt* in its article, “The sound of not criticizing Italy.”

Handelsblatt wrote, “That deafening silence you’re hearing in Berlin is the sound of German VIPs not (yet) talking openly about Italy. Sure, everybody from Chancellor Angela Merkel on down is worried that we may be on the verge of Euro Crisis 2.0. ... But German pols also know that the worst thing right now is for Germans to be doing the criticizing. That would just dare Rome’s governing populists on left and right. … Under the banner of defying German tyranny, they would leap even further over the cliff of budget insanity. So the talking-to must come from Brussels, not Berlin.”

Whatever maneuvers are planned by various factions of the European ruling elite, however, a major political breakdown is unfolding. With Britain set to exit the EU in March, talks over how to handle Italy’s budget deficits and its €2.4 trillion debt pile (130 percent of Italy’s GDP) have again exposed the unviability of the political and financial foundations of European capitalism.

After a decade of economic disintegration and vindictive EU austerity since the 2008 Wall Street crash, Italy’s economy is still smaller than it was before the crash. And across Europe, states are sinking into debt, financed by massive money-printing from the European Central Bank, without which they would be effectively bankrupt. Heavily indebted states include not only Italy but Greece (180 percent of GDP), Portugal (126 percent), Spain (99 percent) and France (98 percent). Even Germany, at 63 percent of GDP, is indebted over the 60 percent Maastricht limit.

With official unemployment still at 9.7 percent (31 percent for youth), social anger in Italy is explosive. The EU’s own “Generation What” poll, which found last year that most European youth want to participate in a mass uprising against the social order, showed that nearly two-thirds of Italian youth want to join such an uprising.

The central issue facing workers and youth in Italy is the turn to the European working class. The collective industrial and social strength of the working class across Europe must be mobilized in a struggle to bring down the capitalist system, which is financially and politically bankrupt.

Salvini’s nationalist blustering, his demagogic “People’s Budget” and his behind-the-scenes talks with the EU are nothing but a neo-fascist trap for the masses. While he builds up a vast police state apparatus in order to carry out mass deportations of hundreds of thousands of immigrants, Salvini is implementing his own version of austerity. His budget pledges billions of euros for the military, the police-state build-up, and business tax breaks, while providing a miserly €780 per month “basic income” for all Italian citizens, who would then be forced to work in order to receive that income.

The ultimate targets of Salvini’s maneuvers are not only refugees and immigrant workers, but growing social opposition to austerity in the entire working class of Italy.