REFORMING ITALY’S BUDGET PROCESS, 1960-1999: EUROPEANIZATION IN CONTEXT

by

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By studying the reforms of Italy’s budget institutions this research aims to define the factors that explain the timing and content of institutional and policy reform in the context of extreme policy stability. It argues that the timing of reform depends on the preferences regarding the status quo of the parties in the government majority, and that these preferences depend on the nature of the party system (whether it allows government alternation or not) and on the type of electoral rules.

Specifically, lack of government alternation and the use of proportional representation minimize the likelihood of reform, since it gives incentives to parties to develop a distributive policy orientation. Conversely, government alternation and the use of plurality rules make reform easier by making parties more programmatic, namely by changing their electoral calculus in favor of the provision of substantive rather than merely distributive policies.

Moreover, reform may at times occur even in the presence of a government majority with a strong distributive orientation. In this case, in order for reform to occur policy entrepreneurs must be able to exploit the pressure of exogenous factors, such as the weakening of the electoral support for the government parties to force the government majority to accept the reform.

Among these exogenous factors, a potentially crucial role could have been played by European pressure. However, this research, using a bottom-up approach, has concluded that in most cases of reform Europeanization has been a contributing, rather than the main explanatory factor.

As regards the content of reform, this research has shown that in most reform episodes the content of the reforms has been shaped by “master ideas” - such as economic planning in the 1960s and New Public Management in the 1990s – connecting the structure of the fiscal policy institutions to broader attempts to reform the way the Italian State operates. This conclusion
provides an ideational argument that contrasts with institutionalist arguments that are skeptical of an independent causal role for ideas in explaining how fiscal institutions are chosen.
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PREFACE

Working on this project has been a great pleasure. I found confirmation of my weird love for spending long hours in the company of stacks of yellowing paper, and the daily appointment with writing was a duty that I gladly embraced.

Part of the joys of this research, however, was the opportunity to meet so many people of great humanity and expertise that have gracefully shared their knowledge during my fieldwork in Italy. At the Ministry of the Economy, the Bank of Italy, the Corte dei Conti, the Senate, the Camera dei Deputati I met people animated by a profound sense of civic duty, and this gives me a glimmer of hope that reform is still possible in Italy.

I wish I could thank each of them individually, but I would like at least to thank Professors Giuliano Amato, Sabino Cassese and Giacinto Della Cananea, and Doctors Pierluigi Ciocca, Gaetano D'Auria, Efisio Espa, Tommaso Padoa-Schioppa, and Salvatore Rossi.

I have also been extremely fortunate to have the guidance of Professors Alberta Sbragia, Mark Hallerberg, Guy Peters, Claudio Radaelli, and Anibal Perez-Liñan. I could not have asked for better guidance and support from each of them. Furthermore, it is an honor for me to be the latest of a long series of students thanking Professor Sbragia. I developed a debt that I hope to repay through my own scholarship.

Finally, I would like to thank all my friends on both sides of the Atlantic. Without them, this work would truly not have been possible.

This work is dedicated to my family: my parents, Renato and Anna, and my sister, Chiara.
1.0 INTRODUCTION

For most of its postwar history Italy was marked by policy immobilism, namely by an extreme inability to produce substantive policies, that is policies that, by virtue of their broad scope, would address the mounting political, social and economic problems of a polity that very rapidly passed from being mostly agricultural to being industrial and later post-industrial. Works with titles such as “Italy – Republic without Government?” (Allum 1973), “Surviving without Governing” (Di Palma 1977) and “Is There a Government in Italy?” (Cassese 1980) exemplify the consensus on the matter.

Policy immobilism is a concise way to say that the political system was unable to produce reforms. However, this immobilism was interrupted by brief “reform seasons” (notably in the early 1960s and in the 1970s) or by individual reform episodes. Moreover, the immobile landscape of the first forty something years of the Italian Republic has given way in the 1990s to a period of unending change, from the reform of the budget process – the object of this research – to the reform of the pension system, to two constitutional reforms aiming to transform the basic institutional structure of the country from centralized to quasi-federal.

The early episodes of reform in a political system normally unable to produce reforms present a glaring puzzle, and the shift to a rapid reform pace in the 1990s also requires explanation. In explaining these questions, this research does not, however, only speak to the Italian case. Rather, it addresses the broader theme of the explanation of reform in contexts of high policy stability, which in turn allows it to contribute to the discussion on the impact of electoral rules on policy making, on the role of Europeanization, and on the connection between actor preferences and policy making.

Moreover, this research explicitly analyzes the explanation of reform as two distinct questions: explaining the timing of reform and explaining its content. This allows it to separate the discussion of the factors that shape the preferences of the actors regarding whether to move
away from the status quo from the discussion of the factors that shape the direction of this move. In fact, the two sets of factors are quite different in the way they operate and in terms of the relevant actors. While the first set of factors operates by affecting the electoral calculus of the government parties, the second set is represented by the ideas of the reformers, namely policy entrepreneurs with a stake in the reforms.

Empirically, this research aims to explain the timing and content of the reforms of the Italian budget institutions, namely of the statutory rules that govern the role of Parliament, the government and the bureaucracy in the budget process, and in particular in the formulation, approval, and implementation of the budget. The research starts with the early 1996s, the earliest time when the structure of budget making became politically salient due to the increasing size of government spending, and ends with the late 1990s, when the then relevant policy community concluded that the budget process had achieved a satisfactory structure.

The rest of the chapter is organized as follows: the next section briefly describes the Italian case; section 2 discusses possible explanations of the Italian pattern of policy making; section 3 explains the argument presented in this book; section 4 provides the roadmap of the book.

1.1 THE ITALIAN CASE

With the onset of the Cold War in the late 1940s Italy found itself in the Western camp. At the same time Italy had the strongest Communist party in the West, with a share of the vote that increased from almost 25% in the 1950s to more than one third in the 1970s.

Facing the Italian Communist Party (PCI) was the Christian Democratic party (DC), which only polled an absolute majority of the votes in 1948. Given the proportional representation electoral system in use until the 1990s, the DC never had, save after the 1948 elections, a majority of seats in Parliament.¹ Nonetheless, throughout the postwar period and until the early 1990s the DC was constantly in government, sometimes forming minority

¹ The 1948 Constitution created a parliamentary regime with a perfectly bicameral system, namely with two chambers (Camera dei Deputati, the lower chamber, and the Senate) with equal power in the legislative process and equally entitled to give their vote of confidence to the executive.
governments alone, and most of the time in coalition with others (the major political phases – in terms of the “political formulas,” namely of the coalitions supporting the government in Parliament – for the period covered by this research are shown in Table 1).

The DC and its allies were bound together by what became known as the *conventio ad excludendum*, or “agreement to exclude” the PCI from government. This agreement was the domestic expression of the Cold War: Communist participation in the government would have been unacceptable not only to the anti-Communist parties, but also to United States, which throughout the postwar period maintained a very active stance with regard to Italian domestic politics (Ginsborg 2003; Pizzorno 1996; Salvadori 1996). Since the PCI was the core of the opposition (until the 1960s because the Socialist Party was largely subordinate to it, and later because the Socialists had joined the government coalition) this meant that government alternation (barring an electoral earthquake giving the PCI an absolute majority of the vote) was effectively ruled out.

The political context dramatically changed in the early 1990s. The end of the Cold War and of Communism in the Soviet Union on the one hand prompted the PCI to transform itself into a non-Communist, socialdemocratic party (the Partito Democratico della Sinistra, or PDS, which later in the 1990s evolved into the current Democratici di Sinistra, or DS), and on the other dissolved the *conventio ad excludendum*, thus finally opening the door to government alternation.

The widespread dissatisfaction with the inefficiency of the DC-dominated governments reached its peak with the discovery of widespread corruption in 1992 and, in the same year, Italy’s forced abandonment of the European Monetary System, which underscored the inability of the parties that had governed the country for forty years even to maintain Italy’s place in the process of European integration.

As a result of the voters’ ire and of judicial investigations, the government parties had to take a step back, allowing the formation of transition governments largely independent of the parties in 1992 (the Amato government) and 1993 (the Ciampi government). At the same time, a referendum for the abolition of the proportional representation electoral system, also fueled by the climate of discontent, passed with an overwhelming majority: starting with the 1994
elections, the system in use became a mixed, but mostly plurality, system, assigning 75% of the seats with a plurality formula and 25% of the seats with a proportional formula.\(^2\)

As for the party system, it did not survive the 1992-1993 season. The DC and its allies (chief among them the Italian Socialist Party, PSI) were dissolved or saw their electoral support disappear. The 1990s were the decade of new parties, \(^3\) and also of government alternation: the center-right (Forza Italia, Alleanza Nazionale and the Northern League) won the 1994 elections, and the center-left coalition, built around the PDS, won the 1996 elections.

Finally, the 1990s were also the decade when European integration gained momentum with the signing of the Maastricht Treaty in 1992 and the creation of the Economic and Monetary Union (EMU) in 1999. For a country characterized by extremely high support for European integration, both among voters at large and among the elites, the requirements posed by the process of integration had the potential to influence the policy choices made by the new governments.

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<th>Years</th>
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<td>1968-1976</td>
<td>Weakened Center-Left, with frequent breaks in the formula</td>
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<td>1976-1979</td>
<td>“Historic Compromise,” with the PCI providing parliamentary support to</td>
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<td>1979-1981</td>
<td>Transition governments</td>
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<td>1981-1991</td>
<td>\textit{Pentapartito}, coalition between DC, PSI and three minor parties</td>
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<td>1992-1993</td>
<td>Transition governments</td>
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<td>1994-1995</td>
<td>Center-Right coalition (main components: \textit{Forza Italia}, \textit{Alleanza Nazionale},</td>
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\(^2\) Minor differences in the electoral system between the Chamber of Deputies and the Senate are briefly described in chapter 7.

\(^3\) Beside the PDS, the ones with the greatest electoral relevance were the center-right \textit{Forza Italia}, founded by the media tycoon Silvio Berlusconi, \textit{Alleanza Nazionale}, heir to the old neo-fascist \textit{Movimento Sociale Italiano}, the separatist Northern League, and \textit{Rifondazione Comunista}, born from the rump of the PCI that had refused the move away from Communism.
1.1.1 Italy’s pattern of policymaking

A striking feature of Italy’s postwar history is the utter inability or unwillingness of succeeding governments to address the accumulating social and economic problems of the country. As an Italian observer poignantly put it, “Considering the official program of any government, one is astonished at the number of important reforms it lists. However, considering the program of the next government, one finds almost exactly the same items” (Marradi 1982, 60). Even governments explicitly created to introduce reforms, such as the Center-Left governments of the early 1960s, would end with a very dismal track record of reform.

Policy immobility, however, does not mean that parties did not compete over some type of policy. Rather than producing broad-scoped legislation that would address Italy’s social and economic problems, Parliament and the government (as usual, especially in a parliamentary system, most legislation is introduced by the executive) would produce legislation in a piecemeal fashion, creating a pattern of fragmented policies often aimed at providing benefits to specific constituencies.

This pattern may be described, following Theodore Lowi’s well-known classification (Lowi 1964, 1971, 1972), as privileging distributive over redistributive policies. A further policy classification suggested by Maurizio Cotta (1996, 28-36) allows to complete the description of Italy’s pattern of policy making. Following Cotta, we can divide policies into three types: meta-policies, meso-policies and micro-policies. “Meta-policies” refer to the fundamental choices regarding the political, economic and social organization of a polity and – in a situation of radical bipolar confrontation at the international level like the one that obtained during the Cold War – the country’s adherence to either international bloc (Cotta 1996, 29). “Meso-policies” – roughly coincident with Lowi’s redistributive policies – refer to choices regarding the modification of “substantive aspects of economic, social, foreign, institutional policy” (Cotta...
“Micro-policies” – Lowi ’s distributive policies – properly speaking do not correspond to policy choices. Rather, they refer to “the management and defense of the interests of specific groups” (Cotta 1996, 30). As such, they are so focused that they minimize the possibility of conflict among groups, thus skirting the trade-off between costs and benefits (and the entailed choices) of redistributive policies.4

Party competition, especially in the First Republic, has been based on the meta and the micro levels, rather than the meso one. Governments were formed around a meta theme, namely, as we saw, the anti-Communist *conventio ad excludendum*. Given this strong overriding preoccupation, governments brought together parties that often did not have much in common beyond this common concern. In order for these governments to survive, therefore, policy differences had to be minimized (Cotta 1996, 31-32; Vassallo 1994, 256-257).5 This meant minimizing redistributive policies – where substantive choices risked pitting the parties’ constituencies against one another – and emphasizing distributive policies that reduced inter-constituency confrontation. Unable to promise major changes in society, parties were left, to bolster their support, to personalized benefits and the distribution of jobs and appointments in the vast state sector and in the large swaths of society that were under their control (De Felice 1996, 85; Pasquino 1985, 14; Pizzorno 1980, 41; Pizzorno 1996, 337-340).6

This dual meta and micro orientation of policy-making is behind two features of the Italian governance system. First, the pervasiveness of party penetration in every crease of public life – the so-called partitocrazia (Calise 1994 ) – as parties needed to penetrate state and society both to get the resources for their operation and to deliver the type of personalized benefits they provided their supporters (Pizzorno 1996, 318-9).7

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4 In fact, following Lowi we can say that “these are policies that are virtually not policies at all but are highly individualized decisions that only by accumulation can be called a policy” (Lowi 1964, 690). In this research I do not cover the third type of policies – regulatory – considered by Lowi.

5 For a more general statement on how parties will tend to form government coalitions regardless of their substantive policy preferences if there appears to be a threat to the democratic regime see Budge and Keman (1990, 35-36).

6 Furthermore, from the 1960s on, as the declining appeal of religion and political ideology for voters reduced the scope of meta-policies for party competition (Caciagli 1985; Parisi and Pasquino 1980), parties had to rely more and more on micro, that is distributive, policies. On how this process of increasing “clientilization” worked out in the two major government parties in the 1980s (the Christian Democrats and the Socialist Party) see Caciagli, 1985 (for the Christian Democrats) and, for the Socialist Party, Salvadori (2001).

7 In turn, the provision of these benefits institutionalized the clientele networks of the parties (and thus the separation between a “red” and a “white” camp), as these distributive policies produced ever new interests (Amato and Cafagna 1982, 90-91; Shefter 1977).
Second, and only apparently in contradiction with the first feature, the inability of parties to provide policy-making at the meso level.\(^8\) On the one hand, distributive policies created entrenched interests that would oppose future moves to redistributive policies (Cotta 1996, 38), while at the same time parties adopted extreme factionalization to exploit their ability to channel the smallest interests.\(^9\) On the other hand, the fact that government parties did not compete on meso policies atrophied their policy capabilities.\(^10\)

In sum, parties created a “particratic” system in which governments survived not by governing (which implies choosing among different demands) but by yielding to every demand (Calise 1994, 448).\(^11\) This incapacity and unwillingness to make choices among competing interests in fact meant that parties were incapable and unwilling to make policy.\(^12\) Their role in policy-making was increasingly negative, in the sense that they would only act as veto players defending the interests of their constituencies in the face of proposed policies rather than proposing policies themselves (Cotta 1996, 26-27; Cotta and Verzichelli 1996, 190-197; Verzichelli 1999, 224).

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\(^8\) In fact, parties would emphasize programs (and thus accomplishments at the meso-policy level) at the beginning of new government formulas (such as the early De Gasperi governments, the early Center-Left, the national solidarity governments and the early *Pentapartito* governments in the 1980s), but the entrenchment of the interests benefiting from micro-policies and the disappointing electoral results of these attempts for the parties that had most invested in the reform programs (such as the PSI during the Center-Left and the PCI during the national solidarity period) rapidly halted these attempts (Cotta 1996, 37-41; Verzichelli and Cotta 2000, 453).

\(^9\) With reference to party governments, Richard Katz has identified two relevant dimensions, namely the “partyness of government” and “party governmentness.” The first refers to the scope of parties’ control on the political process (as opposed to control from the bureaucracy or from elected officials that are only weakly controlled by the parties), while the second refers to the actual ability of parties to use their control of the political process to direct policy-making (Katz 1987, 7-8). Katz (1987, 9) and Cotta (1996, 18-9) stress that the two dimensions of party government may well be inversely correlated, for instance because the weakness on the second dimension pushes parties to emphasize the first one in order to shore up their support in society. Similarly, and with specific reference to the Italian case, Alessandro Pizzorno wrote of the “two powers” of parties, namely the power to provide benefits to the broad constituencies of the party and the power to provide individualized benefits to the party adherents and concluded that Italian parties were very powerful in the latter but very weak in the former sense (Pizzorno 1980, 51-9). The nature of the Italian parties (and especially of the government parties) had its mirror image in the voting behavior of the electorate, which tended to vote based on very stable ideological allegiances rather than policies and (more and more so as the pull of ideology weakened) on the base of the personal advantages that may stem from the vote (Pizzorno 1996, 317). In a similar vein, Salvatore Vassallo (1994, 55-56) distinguishes between programmatic and *spartitório* (“carving-up”) government. In the former parties focus on substantive policymaking and do not colonize the state bureaucracy. In the latter parties are unable to provide substantive policies even though they have penetrated the state bureaucracy.

\(^10\) It is telling that only the PCI – the party condemned to perennial opposition – had a strong economic policy department (Vassallo, 1994: 205). The DC did not have one, so that eventually in the 1970s the left of the party (the only group within the party that was interested in policy issues) had to create AREL, its own external think-tank (Pasquino 1987a, 230).

\(^11\) Giuseppe Di Palma dubbed this the “available State” (Di Palma 1980)

\(^12\) Here I refer to meso-level policy-making.
The proportional representation electoral system, in use until 1993, contributed to this situation. Parties could run their electoral campaigns on programs that were independent of those of the parties with which they would form government coalitions after the elections. In fact the very high proportionality of the system meant that it would electorally pay off to emphasize their own political identity. When they formed a new government coalition, since this was after the elections, they had no incentive to bring closer their policy positions. They would make optimistic policy pronouncements, but in fact they would minimize their substantive policy efforts. Government action would be organized so as to parcel out policy briefs to each party in the coalition based on the parties’ main constituency interests. Each party – or the politician the party nominated for the relevant ministerial position – would control that policy area, with limited input by other cabinet members as long as they felt that the interests of their own constituencies were not threatened. This type of organization, called “administration by ministry” in the Italian literature (Serrani 1979), ensured that policy would only be made piecemeal, by accretion of disparate measures rather than a part of a broader program to introduce significant political, social or economic changes in the polity (Della Sala 1997, 19; Dyson and Featherstone 1999, 455; Floridia and Sicardi 1991, 256-257; Merlini and Guglia 1994, 483; Onida 1991, 21-23; Tarrow 1977, 216).

Policy immobilism and policy fragmentation have found a vivid expression in the nature of the budget process, which has tended to operate in terms of “fiefdom” (Hallerberg 2004) or “neo-feudal” (Amato 1976; Ristuccia 1980; Ristuccia 1984a) governance. Fiscal policy, and thus the allocation of public resources among competing uses, was not decided on the basis of a coherent, agreed-upon government program. Rather, each ministry would be a largely autonomous spending center (a “fiefdom”), controlled by the minister’s party (or often the minister’s faction). This fragmentation was reflected in the way budget decisions were made, piecemeal, so that until the late 1970s the government budget was the simple summation of the revenue and spending decisions of the single ministries plus the uncontrolled creep of past spending decisions.

The story of the reforms of the Italian budget process is in fact the story of the subsequent attempts to bring the budget process, and through it fiscal policy and in fact the entire policy-making system, to greater coherence. This explains the choice of policy area studied in this

13 Or more judgmentally “neo-feudal governance,” Amato, 1976; Ristuccia, 1980; Ristuccia 1984.
research. On the one hand, the budget process is the foundation for policymaking in all areas of government. On the other hand, the deficiencies of the government budget process were very apparent already in the 1960s, thus prompting repeated attempts at reform, which constitute the unit of analysis of this research. While some of these reform attempts were successful (in 1964, 1978, 1988, 1996), others, following the more general pattern of policy stability, were not. In the following section I will argue that the existing theoretical are insufficient to fully explain why some, and only some, attempts were successful.

1.2 EXISTING EXPLANATIONS

The most established theories explaining the inability of Italian governments to produce substantive policies have been provided by Giorgio Galli (1966) and Giovanni Sartori (1966). Galli has stressed Italy’s “imperfect bipartitism,” meaning that the electorate tended to aggregate around two main parties (DC and PCI), with one (the PCI), however, condemned to opposition in perpetuity due to its alleged lack of “democratic credentials,” which made it “uncoalitionable.” This lack of alternation reduced the ability of voters to punish the government for unsatisfactory outcomes, and thus the government’s incentives to move away from existing policies.

According to Sartori, the root cause of the Italian malaise has been “polarized pluralism,” namely an extreme fragmentation of the party system – produced by the interaction of multidimensional social cleavages and a proportional representation electoral formula – that has produced a Parliament with many parties and large and ideologically diverse government coalitions which have not been able to agree on common programs.

The problem of both theories is that they rely on constant factors and thus cannot account for the episodes of reform, namely for periods when the political system briefly moved away from policy stability. Moreover, they could not be extended to the entire postwar period, as they were based on factors (the \textit{conventio ad excludendum}, the proportional electoral formula) that could not be applied to the new situation of the 1990s.

\footnote{A similar argument has been made by Amie Kreppel (1997).}
In fact, the 1990s brought a spate of reforms, both in the budget process and in other areas. However, explanations of Italy’s “season of reforms” in the 1990s remain divided between those that emphasize domestic factors, such as a break in the previous institutional equilibrium due to a disconnect between society and institutions, and those that explain change in terms of international – and in particular European – pressure (for a brief review see Di Palma 2000, 11-12; Radaelli and Franchino 2004).

Finally, a general approach to the explanation of policy stability, and thus policy change, has been provided by George Tsebelis (Tsebelis 1995; Tsebelis 1999; Tsebelis 2000; Tsebelis 2002). The basic insight of Tsebelis’ veto player approach is that the potential for policy and institutional change in a political system is a function of the distance among the ideal points (i.e. the policy preferences) of the veto players, namely of those “actors whose agreement is necessary for a change of the status quo” (Tsebelis 2002, 19). The relevant actors are the parties that make up the government majority, whether they are part of the executive or not (Tsebelis 2002, 79-96). If the preferences of the veto players are distant (namely, since we are considering political parties, if their ideological range is large) change will be more difficult.

Given a situation of high policy stability, Tsebelis’ approach only provides the necessary condition for change: a reduction in the ideological range is necessary for policy change, but it is not sufficient, so that a reduction in the ideological range of the government coalition may not lead to reform. As such, the veto player approach is not meant to explain specific instances of reform, and thus is of only partial use in a case study.

Moreover, and crucially, the veto player approach does not address the issue of the factors affecting the preferences of the veto players. The model only considers changes in the

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15 In particular pensions and in the public administration, an area that, as we will see in the empirical chapters, has proven to be closely connected to the budget reform
16 The best-known example of the “adaptation through European pressure” argument is the vincolo esterno (“external constraint”) thesis proposed by Kenneth Dyson and Kevin Featherstone (Dyson and Featherstone 1999). With specific reference to the fiscal retrenchment of the 1990s, an example of a domestic-level argument is Spaventa and Chiorazzo 2000.
17 Properly speaking, actors have preferences over outcomes. However, policy outcomes are not directly under the actors’ control, while policies are.
18 Tsebelis distinguishes between institutional and partisan veto players. The former are actors whose veto power descends from the country’s constitutional arrangements (such as each of the two chambers of Parliament in a bicameral system). Partisan veto players “are generated by the political game” (Tsebelis 2002, 19). In a parliamentary system, partisan veto players are, for instance, each of the parties in the government coalition. Since in the period covered by this study the constitutional context has not changed, I have focused on the partisan veto players, and in particular on the formation of their policy preferences.
veto players’ preferences due to changes in the actors (government alternation, Tsebelis 2002). However, if the actors do not change, policy preferences are supposed to be fixed (Tsebelis 2002, 31).

This requirement on the one hand implies that the model cannot account for situations – common in the real world – in which the actors change their policy preferences because they change their assessment of the costs and benefits associated with the current policy outcomes. With reference to the present research, the model has a hard time explaining the occurrence of reforms of the budget process in connection to increases in the ideological range of the government coalition (in 1964, when for the first time the Socialists entered the DC-led government; in 1978, when the PCI was associated to the government’s parliamentary majority) or cases when coalitions with similar ideological ranges failed to introduce reform at some times (e.g. in 1986) and succeeded at other times (in 1988).

Furthermore, an explanation of reform that rests on the ideological range of the government coalition is not adequate for the increased pace of reforms in the 1990s, which occurred with government coalitions that were (in 1992) identical to or (in 1993 and 1996) more diverse than the coalitions of the 1980s.

Therefore, an explanation of reforms that can account for both reform successes and reform failures must include a theory of how parties form their preferences. This, in turn, will imply defying party identities, depending on whether they give more electoral weight to policies that support the status quo or to policies that promote substantive moves away from the status quo.

1.3 THE ARGUMENT

The explanation of reform can be analyzed as two distinct questions: the explanation of the timing and the explanation of content. The timing of the reform depends on the preferences of the veto players (the parties in the government majority) regarding the status quo. The content depends on the ideas held by the relevant policy community, and in particular by the policy entrepreneurs, namely the subset of the community that connects it to the political decision-
makers. The following two sections review the argument regarding the explanation of the timing and content of reform

1.3.1 Timing: The factors affecting the preferences of the veto players

The actors’ policy preferences are the policy choices that maximize their interests (Milner 1997, 34). If one brackets the issue of what constitutes an actor’s basic interest, as Tsebelis does (2002, 6), one cannot predict how the actors’ policy preferences may change over time, since one does not how they assess the current policy outcomes.

Conversely, this research is based on the assumption that political parties aim to maximize their share of the vote. While this assumption is not uncontroversial, since it can also be argued that the parties’ primary interest is to achieve certain policy outcomes (De Swaan 1973), it is prima facie reasonable and has a long tradition in political science (Downs 1957). Moreover, in many cases electoral success is necessary in order to achieve the party’s policy goals.

From this assumption follows that parties will assess the current policy outcome (the status quo) on the basis of their assessment of how it affects their electoral prospects, namely of an electoral cost/benefit analysis. Namely, the parties’ policy preferences are based on how they assess the policies’ electoral implications. Thus, they can change not only due to changes in the policy outcomes, but also because the electoral implications of the status quo may change.

As for the parties’ assessment of the status quo, and thus for their policy preferences, it is based on the fundamental strategy connecting policies and votes that they choose to follow, namely on their policy orientation. A party policy orientation can be distributive or programmatic, depending on whether it tends to base its electoral appeal on providing narrow scope benefits (patronage) or on broad-scoped policies. Depending on their fundamental policy orientation (distributive or programmatic) parties will tend to oppose or advocate a move away from the status quo, namely reform.

If the government majority is composed of distributive parties, policy stability will prevail. Reform will occur if programmatic parties enter the government majority, or if the policy orientation of the parties in the current majority (temporarily) becomes more programmatic. In particular, even if the current policy outcome, namely the status quo, does not
change, the majority parties’ electoral calculus – and thus their policy preferences – may, due to changes occurring outside the policy arena.

In particular, two types of events can change the electoral calculus of the parties. First, a change in electoral rules. In particular, a move from proportional representation to a plurality formula may increase the parties’ programmatic orientation. Second, constraints external to the policy arena, often emerging from the interaction between the domestic and the international level, may force a reassessment of the electoral costs and benefits of the status quo. In the case of a member of the European Union, Europeanization – the pressure to change policies exerted by the European level – is an especially strong constraint.

However, the pressure of these external constraints will not alone cause reform. These constraints hold only the potential to change the electoral calculus of distributive parties. However, for this to actually occur it is necessary that these constraints be actualized, namely that they be used by reform-oriented actors to impose change on the parties. These reformers are policy entrepreneurs, who, by exploiting the pressure of, say, Europeanization, change the parties’ electoral calculus, making the electoral costs of the status quo exceed its benefits.

In sum, my explanation of reform rests on the explanation of the policy preferences of the parties, which are assumed to depend on their assessment of the electoral consequences of the status quo. Moreover, parties tend to have different identities: depending on whether they choose strategies that imply policy stability or policy change, they will be distributive or programmatic.

Given a context of high policy stability, which implies that distributive parties control the levers of policy making, reform will occur when programmatic parties are associated to the government, or when distributive parties are forced to change their electoral calculus. In turn, this can occur due to a change in electoral rules or due to the pressure exerted by external constraints such as Europeanization.

This explanation fits well the Italian case: as long as the European pressure was low, reform could only occur when programmatic parties were associated to the government, as was the case in 1964 (with the PSI) and 1978 (with the PCI). When, in the late 1980s, the European pressure began to be felt, reform occurred because the reformers could exploit this pressure to force reform on the distributive parties in the government. Finally, in the 1990s electoral reform change the nature of the government coalitions, increasing their programmatic orientation and thus making reform easier.
1.3.2 The content of reform

While the decision of moving away from the status quo depends on the preferences of the veto players, the actual content of the reform depends on the ideas of the experts that make up the relevant policy community. This community is connected to the political veto players through policy entrepreneurs, who span the “world of ideas” of the policy community and the “world of power” of the parties.

As such, the reforms’ content does not directly depend on an electoral calculus, but rather on what the experts consider to be the best way to organize fiscal policy making in order to achieve the goals defined by specific “master ideas.”

These master ideas are ultimately connected to electoral considerations, in that the policy entrepreneurs believe that their implementation will provide electoral benefits to the political parties to which they are connected, but their content reflects the conclusions of the intellectual debate within the policy community.

As we will see in the rest of the book, the master ideas that informed the reform content varied over time: “economic planning” in the 1960s, “financial planning” in the 1970s, and public administration reform based on the principles of the “New Public Management” in the 1990s. Only in the 1980s the reform of the budget institutions was driven by specific considerations of government spending control. This conclusion contrasts with the more usual assumptions of the literature on fiscal institutions, which connects the choice of fiscal institutions to the government’s goal to control spending. In chapter 7 I will systematically compare the expectations generated by an institutionalist approach that assumes that the reform’s goal is to limit spending and does not consider the ideas of the actors with one that explains the reform content based on the reformers’ ideas.

1.4 PLAN OF THE BOOK

The following chapter discusses the theoretical arguments made in this book and addresses the design of the research. Chapter 3 provides a broad overview of how the suggested explanations
fit the empirical pattern of reforms successes and failures in the four decades between the early 1960s and the late 1990s. The following four chapters (chapter 4 to 7) each cover in detail one of the four decades. Chapter 8 concludes.
2.0 THEORY AND RESEARCH DESIGN

Explaining reform means addressing two analytically separate issues, namely the timing and the content of the reforms. Accordingly, this chapter first introduces the theoretical framework explaining the timing of reform and then discusses the explanation of the reforms’ content. Section 1 introduces the actors that affect the opening of a policy window for reform (government parties and policy entrepreneurs) and discusses broadly the factors that can affect the preferences (for or against reform) of the government parties, namely electoral institutions, Europeanization and the role of the policy. These three factors are then discussed in greater detail in, respectively sections 2, 3, and 4.

Section 5 discusses why the content of reform is an analytically different issue than the timing of reform and then proceeds to discuss the role of policy communities and policy entrepreneurs in the explanation of the content of reform. Section 6 discusses the methodology and design of the research. Particular attention will be given to the methodological problems inherent to the study of Europeanization.

2.1 THE TIMING OF REFORM AND PARTY PREFERENCES

For most of the postwar period Italian governments have felt little pressure to introduce reforms, even in the face of very high public discontent (Morlino and Tarchi 1996). In particular, government parties, freed of any realistic threat of alternation, were able to ensconce themselves in the State structure. Thus, they gained the ability to use the State’s’ resources to provide targeted benefits to their constituencies, and these distributive policies became the centerpiece of the government policies.
Broad-scoped policies were not electorally necessary, given that patronage was sufficient to retain voters’ support, and in fact they became increasingly unlikely as the political personnel in government lost the skills necessary to formulate them.

Under these conditions, occurrences of reform pose a puzzle. In order to solve it, we need to define, first, the conditions that allow the opening of a policy window for reform and, second, the role of individual actors that can exploit the policy window to affect the introduction of reform.

As regards the first issue, the opening of a policy window depends on the preferences of the actors whose assent is necessary for reform. These veto players are, in a parliamentary system, the parties that compose the parliamentary majority (Tsebelis 2002). The explanation of the timing of reform, therefore, lies in the changes of the government parties’ preferences with regard to the status quo.

If we assume that the parties’ ultimate goal is electoral success and that policies are instruments to achieve this goal (Laver and Schofield 1990, 58-9; Milner 1997, 34), party preferences over policies will depend on the parties’ assessment of the policies’ electoral benefits and costs. As I will argue in the next section, the electoral benefits and costs of the status quo depend on exogenous shocks (such as European pressure), on the likelihood of government alternation (namely on the competitiveness of the party system) and on the type of electoral institutions.

Finally, as we will see, whenever the opening of the policy window is connected to exogenous pressure, for reform to occur it is also necessary that individual actors – the policy entrepreneurs – exploit this pressure to force the government parties to accept reform.

2.1.1 The factors affecting the policy orientation of the government parties

In terms of the use of the polity’s resources, policies can have a broad or a narrow scope, depending on whether they affect broad or narrow interests in society (Lowi 1964, 1971, 1972).\footnote{Following Lowi, distributive policies provide benefits to specific societal interests in isolation from other interests, thus minimizing conflict among beneficiaries and between beneficiaries and those that have fund the benefits; conversely, redistributive policies affect broad groups in society, some of which will gain and some of which will lose from the policies. Any significant move from the status quo, namely any reform, falls within the redistributive policy type, as it engenders winners and losers.}
Although normally parties appeal to voters with a mix of broader (redistributive) and narrower (distributive) policies, they tend to emphasize either of the two policy types (Geddes 1994; Shugart 1998). Parties emphasizing redistributive policies are programmatic, as they emphasize a program based on broad-scoped policies, while parties emphasizing distributive policies are patronage parties. This can also be rephrased in terms of the parties’ assessment of the status quo: programmatic parties prefer a significant move from the status quo (that is reform), while patronage parties have a preference for the status quo, since distributive policies by definition do not affect significant changes from the status quo, if not by accretion over time.

Thus, reform will be possible when parties in government favor a significant departure from the status quo, namely when their policy orientation is relatively programmatic. Hence, the first step in the explanation of the timing of reform is to define the conditions that lead government parties towards a programmatic policy orientation.

If government alternation is possible, government parties will likely not be able to entirely base their electoral appeal on distributive policies, since they do not have long-term access to public resources and thus to patronage. Thus, they will tend to be relatively programmatic, and this entails that the alternation in government between incumbent and opposition parties, especially if accompanied by a large electoral mandate, makes policy change relatively easy (Brady, Bullock and Maisel 1988; Bunce 1981; Goodin 1977; Kingdon 1984; Weyland 2002).

Furthermore, the programmatic orientation of the parties in government can be increased by the type of electoral rules. In particular, under certain conditions that will be discussed in section 2, a plurality electoral formula will steer government parties towards a more programmatic orientation and thus increase the likelihood of reform.

In a political system without government alternation, government parties will tend to base their electoral appeal on clientelistic practices. Conversely, opposition parties, deprived of access to government resources, will emphasize programs addressing significant social or economic issues. In other words, government parties will support the status quo, while opposition parties will prefer a significant move from the status quo.

Lowi also identifies regulatory policies as a distinctive type of public policy. However, since this research connects reform propensity to the government’s propensity with regard to the use (distributive or redistributive) of the polity’s resources, regulatory policies fall outside of this research’s purview.
In this context, reform can occur under two sets of circumstances. First, a policy window for reform can open if the government parties associate in government one or more of the opposition parties.\(^{20}\) This window will typically stay open only for a short period of time: the opposition parties will have a certain bargaining power at the time of their integration in the government majority (otherwise they would not have been asked to join the majority in the first place); however, either the newly associated party will eventually be co-opted into the clientelistic practices of the other government parties, or it will eventually have to withdraw from the alliance in the face of the government majority’s resistance to reform.

So far I have based the explanation of the timing of reform on factors connected to the party system: government alternation, electoral rules and the extension of the majority to include (parts of) the opposition. However, and this is the second mechanism whereby reform can occur in political systems where government alternation is lacking, reform can also be spurred by factors exogenous to the party system: the government parties may temporarily change their preferences regarding the status quo if constraints external to the party system dynamics force them to reassess the electoral costs and benefits of the status quo. Before we delve into this mechanism, we should preliminarily note that exogenous pressure alone cannot explain reform. Contrary to the other factors, which alone are sufficient to explain the timing of reform, exogenous pressure requires the presence of individual actors, the policy entrepreneurs, for it to affect reform.

External constraints typically take the form of an impending crisis. Under the pressure of a crisis that threatens to drastically reduce their electoral support, even the parties most opposed to reform can judge that reform is necessary for their survival. However, using crisis for the explanation of reform presents a serious problem, namely the difficulty of defining what constitutes a crisis, and thus the difficulty of providing a falsifiable hypothesis: “If an economy in crisis has not yet reformed, the frequently proffered explanation is that the crisis has not yet become ‘severe enough’” (Rodrik 1996, 26); conversely, crisis-based accounts have a hard time explaining why crises might not have an impact for long periods, until they suddenly produce dramatic change (Waterbury 1993, 266).

\(^{20}\) The government parties (or some of their factions) can see the need to expand the majority to include some of the opposition parties to guarantee themselves enough votes in Parliament if they have suffered an electoral defeat or to stave off social unrest in cases of widespread mobilization of the opposition’s electorate.
A way out of this analytical conundrum is to note that crises for the most part emerge from the interaction between the domestic and the international level. It is often the pressure of the international level that increases the costs of the status quo for the veto players, thus creating a policy window for reform. Thus, international pressure in most cases offers the best route to operationalize “crisis.”

In particular, for a member of such an institutionalized organization as the European Union, international pressures are entwined with its participation in the EU (Hennis 2001; Verdier and Breen 2001; Wallace 2000). Thus, “globalization” is in many instances tantamount to “Europeanization.” For example, a core element of globalization is the increase in international capital mobility. In the Italian case, capital liberalization, with the attendant unsustainability of its large government debt, was a European decision, taken in the late 1980s against Italy’s position. Even the (in)ability to manage one’s exchange rate have become a European affair after the end of Bretton Woods. Italy’s currency crises from the 1970s on have been in terms of the inability to stay within the exchange rate parameters of the “Snake” in the 1970s crises and of the European Monetary System (EMS) in the 1992 crisis.²¹

### 2.1.2 Policy entrepreneurs and the timing of reform

If Europeanization can create constraints that may change the government parties’ cost/benefit analysis of the status quo, it is not however a sufficient explanation for reform. The emergence of external constraints only creates the potential for reform. Europeanization and reform will be empirically linked if individual actors are able to exploit the external constraints to push reform through. These actors are policy entrepreneurs, namely “advocates who are willing to invest their resources – time, energy, reputation, money – to promote a position in return for anticipated future gain” (Kingdon 1984, 188), where the gain may be material (election for a politician, career advancement for a bureaucrat etc.) or “purposive,” namely simply to “promote [the entrepreneurs’] values, or affect the shape of public policy” (Kingdon 1984, 130).

When the opening of the policy window is connected to the operation of external constraints, policy need to exploit the external constraint by using it to force the veto players to

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²¹ The Snake (set up in 1972) and the EMS (set up in 1978) were attempts to regulate the exchange rates within the European Community in the post-Bretton Woods context of floating exchange rates (McNamara 1998).
accept the reform. In this case, the actions of the policy entrepreneurs are a necessary element for the explanation of the timing of reform.

In sum, I connect reform to the opening of a policy window, which in turn depends on the preferences of the parties in the government majority. The opening of the window can occur “naturally,” namely due to the internal dynamics of the party system. This will happen routinely in systems that allow government alternation, especially if combined with a plurality electoral system, and it can also happen in systems where government alternation is impossible, if the opposition is associated to the government.

However, in systems that do not allow for government alternation the window can also be forced open. This can occur if policy entrepreneurs are able to exploit existing constraints to bend the government parties’ preferences to accept reform.

This conclusion is relevant to assess the causal role of policy entrepreneurs in explaining reform. Policy entrepreneurs are always necessary for a descriptively accurate account. Namely, a narrative of reform will always show that some individual actors operate to provide the connection between the producers of reform ideas and the parties that have veto power on policy change (see section 5).

However, from the standpoint of theoretical parsimony they are not necessary to explain the timing of reform when the policy window opens “naturally,” namely because of government alternation or of the greater programmatic orientation of the parties in government (whether it be due to the association of the opposition to the government or because of changes in the contestability and electoral rules of the system). There is no dearth of policy entrepreneurs ready to connect the ideas of the policy community to the parties in government once a policy window has opened, but the window can open without their intervention.

Conversely, policy entrepreneurs are causally necessary when policy windows do not open naturally, but are opened in connection to the pressure of external constraints. In these cases, the role of the policy entrepreneurs is central, because it is these entrepreneurs that exploit the pressure created by the external constraints to force the window open.

Bringing this discussion to bear on the Italian case, namely a context characterized by lack of alternation and by policy immobilism, policy making will become more programmatic and thus reform will be more likely when, first, programmatic opposition parties are associated to the government. This occurrence is linked to the electoral calculations of the government
parties and cannot be explained by systematic factors. As such, it can be thought of as “unexplained variance.”

Second, the likelihood of reform depends on changes in the preferences of the government parties, which in turn are influenced by the electoral formulas and by constraints such as those created by Europeanization, which however need to be exploited by policy entrepreneurs. The next three sections will discuss these three factors affecting the preferences of the government parties in greater detail.

2.2 ELECTORAL FORMULAS

Italy adopted a proportional representation system in 1948 and retained it until 1993, when a popular referendum forced the legislature to adopt a mixed, but mostly plurality electoral formula assigning 75% of the seats based on a first-past-the-post system and 25% of the seats based on proportional representation.22

The literature provides opposite expectations regarding the impact of the change from proportional representation to plurality on the type of policies, depending on whether it focuses on the connection between electoral formulas and internal party relations, or on the connection between electoral formulas and electoral accountability.

Work focusing on party discipline stresses that, compared to proportional representation, plurality electoral rules tend to increase the electoral value of personal over party reputation (the “personal vote,” Cain, Ferejohn and Fiorina 1987), thus reducing the influence of party leadership on individual candidates, and this in turn will increase the relevance of territorial issues (as opposed to broader, national concerns) in policymaking (Cain, Ferejohn, Fiorina, 1987; Carey and Shugart 1995; Cox 1990; Cusack, Iversen and Soskice 2004; Lancaster 1986; Lancaster and Patterson 1990; Lizzeri and Persico 2001; Milesi-Ferretti, Perotti and Rostagno 2002; Persson and Tabellini 1999).23

22 After the period covered by this research (in 2005) the electoral formula was changed to proportional representation with a majority bonus.
23 It should be stressed that, while the personal vote has first been studied with reference to plurality formulas (Cain, Ferejohn, Fiorina, 1987; Fiorina and Noll 1978), it can also be a feature of proportional representation, in particular when open lists – giving voters the opportunity to select specific candidates from a party list – are used. The impact
Conversely, work focusing on the government-electorate relationship stresses that, compared to plurality formulas, proportional representation facilitates the fragmentation of the party system and thus of the government majority. This disperses authority and thus reduces electoral accountability, since it will be difficult for the voters to ascertain the responsibilities of individual parties for specific policy outcomes (Huber and Powell, 1994; Powell 2000; Powell and Whitten 1993). In turn this diminishes the electoral payoffs of reform and reduces the costs for government parties of voters’ dissatisfaction with the status quo. A separate literature from political economy reaches a similar conclusion with reference to fiscal policy: given the common pool problems inherent in a multiparty coalition government, and given that proportional representation is associated with coalition governments, as well as minority governments and short government duration which also suffer from forms of the common pool problem, proportional representation tends to produce higher government spending, government deficit and government debt than plurality formulas (Alesina and Drazen 1991; Bawn and Rosenbluth 2006; de Haan and Sturm 1994; Edin and Ohlsson 1991; Franzese 2002; Grilli, Masciandaro, and Tabellini 1991; Kontopoulos and Perotti 1999; Roubini and Sachs 1989a; Roubini and Sachs 1989b; Velasco 1999).

The different degree of electoral accountability of proportional representation and plurality rules is crucially reflected in the nature of the party programs under the two types of electoral formulas. Under proportional representation parties can run the electoral campaign on their own program, and in fact it often pays off electorally to present voters a distinctive party of open lists on the personal vote, party discipline and policymaking has been studied with regard to Latin America (Ames 1995, Mainwaring 1999) and also Italy (Golden 2003; Golden and Chang 2001). However, Golden’s argument – that ineffective policymaking in Italy was due to the use of an open list system (allowing voters up to four preferences) – cannot be used to explain variations in the nature of policymaking (more or less programmatic and thus more or less reform-oriented) in the postwar period. The electoral system (proportional representation with “preference voting”) did not change (save for a reduction in the number of preferences from four to one in 1991, McCarthy 1995; Pasquino 1991) until proportional representation was abandoned altogether in favor of plurality in 1993.

Given a pool of government resources created through general taxation, each spending decision-maker can spread the costs of spending (i.e. higher taxes) across the entire population. Inasmuch as the decision-makers can target some of these resources to specific constituencies, they have an incentive to increase spending (and hence taxation, and/or government deficits) since the benefits of each spending decision are concentrated (and thus the political benefits can be reaped by the spending decision-maker), while the costs are spread across all taxpayers (Weingast, Shepsle and Johnsen 1981).

Note however that recently the association between proportional representation and higher government deficit has been disputed (Iversen and Soskice 2006). In particular, Iversen and Soskice have pointed out that multiparty coalition governments can solve the collective action problems associate with common pool resources through appropriate institutional design of the type suggested by von Hagen and Hallerberg, (1999) and Hallerberg (2004).
image; parties will form coalitions after the elections, and thus the government program will also be negotiated among the parties and presented to the voters after the elections.

Conversely, plurality electoral rules tend to simplify the party system, facilitating the emergence of two main parties (Riker 1982), or, in the case of an already fragmented party system, of two competing coalitions. While under proportional representation coalitions are formed after the elections, with plurality electoral formulas the two parties or coalitions antedate the elections, and thus campaign on an electoral platform that is presented to the voters before the elections (Huber and Powell 1994, 297; Lijphart 1994, 144; Powell 1999, 9, 12, 68-71; Tsebelis 2002, 216). Voters can thus not only choose the government based on the alternative policy programs, but they can also assess the government on the policy outcomes it has achieved. Substantive policies will thus have a greater electoral relevance, and voters’

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26 More accurately, the move to a mostly plurality electoral formula has the potential to produce more cohesive government coalitions. There are a number of factors, some of them peculiar to parliamentary systems, that may work against the formation of cohesive coalitions and policy-oriented governments, even after the move from proportional representation to plurality. First, it may take some time before a bipolar logic asserts itself among voters and parties, as both need some time to learn the implications of the new electoral formula. Note that Duverger’s “psychological effect” takes at least two elections to operate (Taagepera and Shugart 1989, 65). Examples of mistakes made by voters in new democratic countries are provided by Powell 1999, 24; for mistakes made in unstructured party systems (such as one emerging from the shift from one electoral formula to another) see Cox (Cox 1997a, 152). Second, the operation of the incentives of a plurality electoral formula is directly connected to the elections. However, in parliamentary systems a government formed after the elections can fall and be succeeded by a new government that does not have an electoral origin. In this case, since the new government coalition has not been formed to compete in the elections, and thus has not had to present a common program to the voters, it is not constrained in its composition, which in turn may lead for less cohesive, and thus less policy-oriented, coalitions. Third, even a party system structured into two main coalitions may still allow for smaller parties unaffiliated with either coalition. If after the election the winning coalition does not have a majority in Parliament, it may be forced to make an agreement with an unaffiliated party. If this party’s position is outside the range of the coalition (which is likely, since otherwise it would probably have been part of the coalition from the outset), then the new government – no matter how cohesive the original coalition is – may be partly impeded to pursue the implementation of its electoral program. Fourth, the parties forming the coalition must have roughly similar bargaining power. If this is not the case, for instance because has an upsurge of popularity among the voters compared to the its partners, before the elections the dominant party may be able to impose its own policy preferences on its coalition partners, so that the coalition’s program largely reflects the positions of the dominant party. This may create problems once the coalition wins office and the junior partners, no longer confined by the straitjacket of the elections, begin to push for their own policy preferences. Finally, even in the presence of a relatively cohesive government coalition, the government may not be able to produce substantive policies simply because the parties in the coalition have not been able to acquire the necessary policy skills. All these factors have been present in Italy after the introduction of the new electoral rules, thus dampening, but at least in one case (the center-left government formed after the 1996 elections) not entirely canceling, the impact of the plurality rules on the government’s cohesiveness and policy orientation. This research (chapter 7) will show how some of these countervailing factors have operated in the 1990s.

27 Electoral accountability will be greater for single party governments than for coalition governments.
dissatisfaction with the status quo will imply greater electoral costs, than under proportional representation.

In sum, if one looks at the candidate-party relationship (party discipline), a plurality electoral formula should fragment policies by increasing the electoral importance of geographically concentrated benefits, while if one looks at the electorate-government relationship (electoral accountability) plurality formulas are expected to increase the scope of policymaking by increasing the electoral relevance of substantive policies relative to distributive policies.

This research tends to support the electoral accountability approach. The party discipline approach assumes that plurality maximizes the importance of candidate reputation relative to party reputation, thus minimizing party discipline. This conclusion implies that candidate selection is done locally, namely at the constituency level. However this assumption is not always warranted (Lancaster 1986, McGillvray 1997). Rather, it depends on historical circumstances. For instance, if a plurality formula is adopted in a fragmented party system, it will likely favor the creation of two opposing coalitions rather than two parties. Given the varying “quality” of electoral districts (as they can be more or less safe for either coalition), it is probable that each coalition will centralize the bargaining among the parties over the candidacies. In this case, plurality will not be associated with a shift towards the personal vote, as a higher degree of centralization in the selection of candidacies works in favor of party discipline (Morgenstern, 2004: 85).

Under these circumstances, and combined with the greater electoral accountability it fosters, plurality will therefore create an incentive for government parties to be more programmatic, namely to increase the scope of government policies, thus facilitating reform.28 In chapter 7 we will see how the Italian case on the 1990s offers an example of this effect of a plurality formula on party policy incentives and thus on the reform orientation of the government.

28 This conclusion is consistent with the work of Barbara Geddes (1994), who associates plurality electoral systems, two-party systems and greater likelihood of reform.
2.3 EUROPEANIZATION

In section 1 I have argued that Italy’s participation in the European Union (EU) has the potential to affect the electoral costs and benefits parties associate with the status quo, and thus their preferences for reform. Following common usage, I will refer to the impact of EU policies and institutions on domestic policies and institutions as “Europeanization.\(^{29}\)"

For the present research, three Europeanization mechanisms are especially relevant: coercion, external constraints, and negative integration.\(^{30}\) The first mechanism, coercion refers to cases when the EU mandates specific institutional forms, as for the requirement of central bank independence during the process of European monetary integration.

Second, in some cases the EU does not prescribe a specific institutional form, but it does prescribe a policy outcome (e.g. the exchange rate band in the European Monetary System, the convergence criteria in the Maastricht Treaty or the requirements of the Growth and Stability Pact). In this case, the pressure to achieve the prescribed outcome may twist the arm of distributive parties in government, forcing them to change their assessment of the electoral costs of sticking to the status quo. In fact, it has been argued that in some member states, including Italy, reformers have strategically committed their government to the outcomes required by, for instance, the Maastricht Treaty so as to force reform on recalcitrant domestic actors (Dyson and Featherstone 1999). This mechanism, therefore, may work by imposing an “external constraint” (the required policy outcomes) on the domestic actors.

A third and similar mechanism is connected to EU-driven liberalization or “negative integration,” namely the creation of “integrated markets by removing barriers to trade, investment, freedom of establishment and free circulation of people” (Radaelli 2003, 42). In this case, the pressure to produce certain policy outcomes derives from the competition among the member states generated by the removal of the barriers among them. For instance, a case of negative integration was, in 1990, the liberalization of capital markets as a result of the Single European Act. For Italy, the increased capital mobility induced by the liberalization meant that

\(^{29}\) Note, however, that this is one of the many meanings that the term has taken on; for a review of some of these different meanings see Olsen 2002 and Radaelli 2003.

\(^{30}\) The present discussion is largely an adaptation of Knill and Lehmkuhl 2002 and Radaelli 2003. I diverge from these authors in that I do not consider the mechanism of framing (whereby the EU alters “expectations and beliefs of domestic actors in such a way as to motivate domestic institutional change,” Knill and Lehmkuhl 2002, 262) and to their list I add the “external constraint” mechanism (Dyson and Featherstone 1999).
Italian capital could more easily move to other EU countries offering higher and safer returns. Thus, fiscal responsibility had to become a more salient policy issue, or else Italy’s ability to access capital markets would suffer, resulting in actual capital rationing or in interest rate hikes that would eventually make the burden of the government debt unsustainable. As in the case of the “external constraint” mechanism described above, the pressure originating from negative integration may make domestic reform easier by increasing the cost of “non-reform” for the government parties.\footnote{There is often a strong expectation that negative integration will produce institutional convergence around some “optimal” form, namely the one that produces the most efficient policy results (Harmsen 1999). This expectation, however, may not be fulfilled. For one, this is a somewhat weaker mechanism than the external constraint, since it depends on the transposition of a market force (competition) into a political force (required to affect institutional reform): the structure of the political economy may make this transposition difficult, or even produce institutional change that goes against the grain of liberalization (Héritier, 1997; Héritier and Knill, 2001). Moreover, it assumes the operation of unfettered competition among different polities, which is not tenable in reality (Radaelli 2000). Finally, the optimization expectation discounts the fact that the drivers of institutional reform may have different ideas as to what constitutes the best institutional form.}

### 2.4 POLICY ENTREPRENEURS

The constraints posed by Europeanization cannot, however, produce reform by themselves (Radaelli 2003). Context, the set of constraints in which policy is made, does not have a univocal or necessary impact on policy: actors can manipulate the constraints to try to achieve their preferred goals (Samuels 2003).

Reformers can use exogenous constraints to force open a policy window: if these constraints can potentially affect the cost/benefit calculus of the government parties with regard to the status quo, policy entrepreneurs can activate them to force the government parties to accept reform. In two instances (the 1988 and the 1992-1993 reforms), policy entrepreneurs used exogenous constraints (capital liberalization in the first episode and domestic scandals in the second) to increase the cost of non-reform for the government parties.

In these cases policy entrepreneurs have a causal role, as they force open the policy window for reform: they are necessary in the explanation of the timing of reform. As I argued in section 2, however, in other cases policy windows open “naturally,” due to the integration of a
programmatic opposition party into the majority (in systems without government alternation) or to normal government alternation. In these cases, a descriptively accurate narrative should still include policy entrepreneurs, even though they are not necessary for a parsimonious explanation of the timing of reform. They are still necessary, however, to explain why the movement from the status quo took the form it did, namely to explain the content of reform. They act as “idea brokers” (Smith 1991) or “idea carriers” (Berman 1998, 25) by connecting the ideas developed by policy experts with the decision-makers, namely the government parties. They therefore have a crucial role in explaining the content of reform, as it will be argued in the following section.

2.5 THE CONTENT OF REFORM

If decision makers were perfectly rational, explaining the timing of institutional reform would also explain the form of the new institution. If institutions are both constraints (the rules of the game played by the actors) and outcomes (the equilibrium of this game, which defines the status quo), actors will move away from the status quo, and thus change the rules of the game, if their preferences (the assessment of the costs and benefits associated with the status quo) have changed.

Given the actors’ ultimate interests, say electoral success in the case of parties, the factors that explain the change in their preferences – in the context of this research, for instance the pressure of European integration or a change in electoral rules – are exogenous factors that modify the set of constraints under which the actors play the game, and the same factors will also explain the form of the new institution, namely the new equilibrium: it will be the institutional form that maximizes the likelihood of electoral success for the parties under the new constraint.32

This conclusion, as hinted at the beginning of the section, is based on the assumption of instrumental rationality, namely that actor will choose the best (i.e. most rational) strategies to achieve their goals (North 1990, 356; Tsebelis 1990, 18). This is in fact a rather basic requirement of rationality, since it does not imply the rationality of the actors’ goals, but only

32 This schematic account abstracts from the possibility that the actors may have different bargaining power. Considerations of power differentials introduce the possibility that institutional change is not only efficiency-maximizing, as this account implies, but also redistributive (Knight 1992; Knight 1995; Sened 1991).
that the actors choose the best possible strategy to achieve their ends, given the information available to them. However, even this assumption is often untenable. Even abstracting from the extent of the information available to the actors, it assumes that actors can correctly predict the payoff of all possible strategies (North 1990, 356; Ostrom 1995, 176). This may be the case when the stakes are very high and when the actors’ choices produce immediate feedback, thus facilitating learning about the optimal strategy.33

However, in general actors involved in institutional design will have to make their decisions in discreet reform episodes in which their past experience is of little guidance. As Tsebelis has stressed, in “noniterative situations” one cannot assume that actors are certain about their goals or how to achieve them (Tsebelis 1990, 32, 38). This implies that in a typical noniterative situation such as a major reform of the budget process one cannot deduce the form of the new institution from the assumed interests of the actors. Even if we were to conceptualize the process of institutional change as the adaptation of the actors’ strategies to an exogenous shock, we do not know ex-ante how the actors will adapt their strategies.

This adaptation will depend on the expected payoffs the players attach to the available strategies. In turn, these expected payoffs will depend on the causal theories players adopt, namely on their ideas regarding the cause-effect relationship between their goals and their actions (Goldstein 1993; Goldstein and Keohane 1993, 10; Levy 1994, 285). Thus, under conditions of uncertainty over the impact of the choices available to them – a situation that is likely to be common precisely at times of crisis or more in general when institutional arrangements become fluid and open to change – ideas are crucial in guiding actors’ choices (Campbell 2004; Goldstein and Keohane 1993, 17; King 2005, 99); the metaphors often used being of ideas as “roadmaps” (Goldstein and Keohane 1993), “institutional blueprints” (Blyth 2001) or “flashlights” (McNamara 1998).

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33 Typically, this is the result reached by studies that focus on parliamentary bodies, and especially on the U.S. Congress (Riker 1980; Shepsle and Weingast 1987; Shepsle and Weingast 1981; Weingast and Marshall 1988), where the actors deal with the making of the rules that will affect their re-election chances (high stakes) and can rapidly receive clear feedback from their choices; or by studies that focus on the repeated interaction among actors with very high stakes in the game, such as the study on the interaction of foreign merchants with local rulers in the Middle Ages, where the merchants’ life and property was often at the mercy of the communities to which they traveled (Greif, Milgrom, and Weingast. 1995).

It may also be argued that the validity of the rationality assumption derives on a competition mechanism, namely that if actors do not respond properly, i.e. rationally, to the constraints imposed by the institutional context, they will be eliminated (Knight 1995); this argument, however, can hardly be applied to studies of specific instances of institutional choice.
The role of ideas in defining the content of reform also clarifies why in explaining institutional change the question of the time of change is often separated from the question of its content. In situations where the assumption of instrumental rationality holds empirically the factors that explain the time of institutional change also explain its content: once an exogenous shock causes a change in the equilibrium, one only needs to know the interests of the actors to deduce what the content of the new institution will be. However, if ideas guide the choices of the actors, one can no longer draw a straight line between the exogenous shock and the form of the new institution. Exogenous factors can create the conditions for change (thus ultimately accounting for the time of the reforms), but they cannot account for the content of the reform (a similar argument can be found in Blyth 2001 and King 2005).

Making ideas an important factor in explaining institutional choice does not imply rejecting the characterization of actors as strategic, namely as aiming to choose the course of action that will confer them the greatest benefit (Hall and Taylor 1996, 939). Rather, ideas are important because, as I have argued, it is often impossible to attribute instrumental rationality to actors, namely perfect correspondence between means and ends (North 1990, 363-364; North 1995, 17-18; Simon 1985). Actors will indeed strive to achieve their goals and will adapt their strategies to those of the other actors with whom they interact (Levi 1997, 23), but they do so based on “the expected effects” of their actions, not on any objective knowledge of these effects (Goldstein and Keohane 1993, 13-14, emphasis in the original).

If ideas matters for the explanation of the reforms’ content, two overlapping sets of actors are relevant: the producers of ideas and the policy entrepreneurs, who, spanning “the world of ideas” and the “world of power,” bring these ideas in contact with the policymakers.

34 A similar conclusion is reached by Frank Baumgartner and Bryan Jones, who argue that “problems and solutions ought to be analyzed separately in order to understand governmental decision-making” (Baumgartner and Jones 1993).
35 Note that this deductive approach is predicated on the correspondence between the function of the institution and the interests of the actors that create it, and is thus open to the charge of being unrealistically functionalist DiMaggio and Powell 1991; Goldstein and Keohane 1993; Hall and Taylor 1996; Peters 1999; Pierson and Skocpol 2002; Rothstein 1996).
36 An interesting example of how even distinguished practitioners and students of politics can fail to understand the political impact of institutional choices is discussed in Riker 1982. In particular, Riker shows that John Stuart Mill and Disraeli both failed to understand the impact that introducing a proportional representation electoral formula could have had on the British party system.
37 As the Italian case shows, for the most part policy entrepreneurs literally span the two worlds, being academics or otherwise “idea-producers,” and politicians at the same time. In their parties they have the role of experts in the specific policy area, so that they can define the content of reform for the vast majority of non-experts in the party.
These two sets of actors come together in an “advocacy coalition.” An advocacy coalition is composed of actors sharing a belief system, namely “a set of basic values, casual assumptions, and problem perceptions” (Sabatier 1993, 25). Since these values, assumptions and perceptions refer to policies, the members of an advocacy coalition are defined by a shared “policy core,” which contains both normative (e.g. “identification of groups or other entities whose welfare is of greatest concern,” Sabatier 1998, 112-113) and empirical (e.g. “basic causes of the problem;” proper distribution of authority among levels of government;” priority accorded various policy instruments,” Sabatier 1998, 112-113) elements.

The ideational elements that define a policy community change through policy learning, namely through “relatively enduring alterations of thought or behavioral intentions which result from experience and are concerned with the attainment or revision of policy objectives” (Jenkins-Smith and Sabatier 1994, 182). In turn, policy learning may be due to policy failure (Hall 1993; Hansen and King 2001, 261; Levy 1994, 304), or to the persuasiveness of the new ideas, namely to their perceived ability to address the problems that are considered to be most pressing at the moment (Sikkink 1991, 247).

The advocacy coalition framework (ACF) combines an attention to context (shocks exogenous to the policy are or government alternation are necessary for change, Jenkins-Smith and Sabatier 1994, 183), with an emphasis on individual agency in the explanation of policy change. In order to turn the ideas developed by the policy community into policies, the reformers must be policy entrepreneurs: they must exploit the policy window by, for instance, attaching themselves to the new government coalition (Sabatier 1998, 119).


38 The advocacy coalition framework has been developed by Paul Sabatier and Hank Jenkins-Smith (Jenkins-Smith and Sabatier 1994; Sabatier 1998; Sabatier and Jenkins-Smith 1993).

39 The concept of advocacy coalition is similar to but broader than that of “epistemic community” (Haas 1992) in that the latter refers to a network of experts who do not have direct policy-making responsibilities, while an advocacy coalition also includes policy-makers and thus applies to the Italian case, where experts (especially from academia) often also double as elected officials or are otherwise involved in policy-making. The ACF’s connection between ideas and policies and its classification of different ideational layers identifying an advocacy coalition (beside the policy core described in the text, the ACF identifies a “deep core” and a set of “secondary aspect,” Sabatier 1998, 103-104) is also consistent with Peter Hall’s identification of third, second and first order policy change, respectively connected to changes in the ideas regarding “the overarching goals that guide policy in a particular field, the techniques or policy instruments used to attain those goals, and the precise settings of these instruments” (Hall 1993).
To sum it up, the ideas of the policy community define the policy choices available to the political decision makers, and these policy choices are made politically actionable by the policy entrepreneurs. The conclusion is that the relevant actors for the explanation of the content of public policies are not parties, but communities of experts and policy entrepreneurs. As Hugh Heclo put it, “a great deal of policy development – its creation, alteration, or redirection – has been settled prior to or outside of substantial exercises of power” (Heclo 1974, 306).

2.6 CASE SELECTION, RESEARCH DESIGN AND VARIABLE OPERATIONALIZATION

The present section first explains the selection of Italy as a crucial case and the focus on institutional rather than policy change; then it describes the research’s research design and finally it addresses the dependent and independent variables’ operationalization and measurement. Section 2.6.2 focuses on the general issue of designing a one-country study. Section 2.6.3 addresses specifically the question of studying Europeanization and section 2.6.4 the specific issues connected to the study of the reforms’ content. Sections 2.6.5 and 2.6.6 conclude discussing variable operationalization and measurement for, respectively, the timing and content of reform.

2.6.1 Case selection: Why Italy, why fiscal policy institutions

The analyst that is interested in the causes of institutional reform will find that a study of a country characterized by policy immobilism – such as Italy – provides significant advantages. Instances of change will run counter to the existing theories explaining this immobilism, so that the case study is in fact a “crucial case” or “crucial experiment” (Eckstein 1975; Lijphart 1971).

I will generally use the less specific term of policy community, which describes “policy actors who share a common idea set or outlook” (Howlett and Ramesh 2003), rather than advocacy coalition. According to the original definition of the concept, the members of an advocacy coalition are supposed to be engaged in a “nontrivial degree of coordinated activity over time” (Sabatier 1993, 25). Since this research has not focused on assessing the degree of coordination among the members of the relevant policy communities I will retain the less specific term “policy community.”

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At a minimum, studying the reform episodes provides the opportunity to re-evaluate how the conditions hypothesized by the current theories are measured or to qualify the existing theories with the conditions that limit their applicability. In this research, moreover, the theories developed to explain the Italian are subsumed within a broader theoretical framework (the veto player approach), so that the conclusions of this study can travel beyond the Italian case.

Moreover, selecting cases with extreme values of the study variable, such as a country with high policy stability if one aims to study policy/institutional change, reduces the risk of omitted variable bias, since it reduces the likelihood that the values predicted by the theory are caused by omitted variables (Van Evera 1996, 52-53).

Finally, the focus on Italy, and in particular on its fiscal institutions, also recommends itself with regard to the study of one of the main independent variables of this research, namely Europeanization. Fiscal policy is one of the policy areas where the influence of European factors is likely to be strongest, and thus more easily observable, due to the pressure created by Italy’s determination of being part of the process of European monetary integration (this refers first of all to Italy’s “heroic” race to fulfill the Maastricht criteria for inclusion in the final stage of the EMU, but in fact extends beyond either ends of this period, to Italy’s participation in the EMS and to the constraint posed by the Growth and Stability Pact in its various versions).

Moreover, the choice of focusing on fiscal institutions rather than policy outcomes also addresses another concern that has been expressed by the Europeanization literature, and by European policymakers and media specifically with regard to Italy. The question that has been posed is to what extent the changes wrought by Europeanization are permanent, and to what extent they are merely temporary, simple “coping strategies” to respond to European challenges (Radaelli 2003, 38-39).

In order to answer this question, the best strategy is to combine a full account of European and domestic factors of change (Di Palma 2000, 29), with the study of institutional transformation. To offer a relevant example from the 1997 Prodi government’s strategy to meet the Maastricht criteria, imposing cash limits on government spending may help meet externally set goals in the short term, but these limits are not sustainable and tend to produce spending

41 Beside being more durable than policies, institutions, or at least statutes, have another feature that makes them worthy of study: political actors cannot directly affect policy outcomes. Rather, what they can directly control is the statutes that, they hope, will produce the desired outcomes. In this sense, studying statutes rather than outcomes means going to the core of how a political system performs (Di Palma 1977, 7-24; see also Tsebelis 2002, 6).
rebounds. Only changes in how the budget is made and implemented can lead to sustainable deficit and debt reduction. I should also stress that the issue of the durability of domestic change is not of merely theoretical import. The extent of the adaptation of the member states to one another and to the policy and institutional implications of EU membership has a potentially large significance for the stability of the European institutional structure.

2.6.2 Research design

The choice of explaining the timing and content of institutional reform through a longitudinal study of a single country provides a number of methodological advantages. To begin with, it increases the validity of a comparison across units of analysis. Comparison across units assumes that they vary only on the study variables. This *ceteris paribus* assumption has always made students uneasy, ever since John Stuart Mills’ condemnation of it (he argued that its use in political science was “completely out of the question” due to the impossibility to fulfill this *ceteris paribus* condition). However, focusing the study on a single country helps reduce, although certainly not eliminate, the problem by reducing the variation of possible confounding factors, namely of causal factors that are exogenous to the research’s causal model (George and Bennett 2005, 81; Lijphart 1971; Van Evera 1996, 57-58).

Beside increasing the validity of the comparison, the longitudinal study of a single case is especially well-suited for the study of the key variables of this research. On the one hand, a long-term approach is especially important when studying policy change (Jenkins-Smith and Sabatier 1994, 178), and, as we will see, the role of European integration in domestic change.

Alongside the longitudinal comparison of the hypothesized reform conditions across all cases of reform success and reform failure (two in the 1960s, one in the 1970s, two in the 1980s, and two in the 1990s), this research also uses process tracing. Process-tracing implies following the causal chain connecting an independent variable with the dependent variable, namely reform success or failure (George and Bennett 2005, 206). Process-tracing can also solve the problem

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42 This is the “unit homogeneity” assumption (King, Keohane and Verba 1994).
43 Mill’s citation is from Lijphart (1971, 688).
44 As much as possible one should show that each step in the causal chain is supported by a more general law, so as not to fall into the trap of ad-hoc explanations (George and Bennet 2005, 210; see also Levi 1997, 20). Moreover, every step in the causal chain must conform to the expectations of the hypothesized causal mechanism, namely the
of too few degrees of freedom which may affect structured comparison in case studies, where the number of observations may be too low for the number of variables (George and Bennett 2005, 28-29). In these situations, studies that were to simply rely on comparison across cases are unable to reach conclusions on the causal impact of the study variables, since the research design is indeterminate (King, Keohane, and Verba 1994).

Process-tracing addresses this problem in that it does not rely on the correlation of variables across cases. Rather, it focuses on testing the causal mechanisms that the theory hypothesizes, so that it can adjudicate between different independent variables based on the presence or absence of the causal mechanism that should connect these variables to the dependent variable (George and Bennett 2005, 13, 177). Furthermore, and connected to this discussion, process-tracing also addresses the problem of multicollinearity among independent variables (for instance, it is likely that legitimacy crises and government alternations are correlated) by allowing the researcher to assess whether there indeed is multicollinearity and how it may affect the causal mechanisms.

2.6.3 A bottom-up approach to the study of Europeanization

As we have seen, a major factor that can explain the opening of a window for reform is the presence of European constraints, if domestic policy entrepreneurs are able to use them to change the electoral cost/benefits calculus of the government parties regarding the status quo. The study of these European constraints raises some methodological issues that will be discussed in this section.

The study of how the European Union has affected the institutional structure and policies of the member states, what James Caporaso called the “post-ontological” phase in the study of European integration (Caporaso 1996), has gathered pace since the mid-1990s.

Variables at each step of the causal chain must take the values expected by the model (George and Bennett 2005, 207). This makes process-tracing a very powerful instrument to assess the causal impact of different factors, since its factor must be shown to affect the dependent variable through the causal chain hypothesized by the theory.

45 To be sure, the impact of the EU has also been studied for countries that do not (yet) belong to it (Grabbe 2001; Laegreid, Steinthorsson and Thorhallsson 2004; Lippert, Umbach and Wessels 2001); however, most of the focus has been on EU member states.
The Europeanization literature has tended to adopt a “refractive” approach, namely to focus on how European factors create adaptive pressures in the member states, and on how national and policy-specific structures have refracted these pressures, leading to more or less domestic adaptation (Börzel 1999; Börzel 2002; Cowles, Caporaso, and Risse 2001; Héritier et al. 2001; Rometsch and Wessels 1996). In particular, a framework has been developed for the study of the EU impact on the domestic level that proposes a two-step approach, whereby the extent of European pressure depends on the “goodness-of-fit” between European and member state policies, and the extent and direction of member state reaction to this pressure depends on domestic structural features, and in particular on the veto player structure of the policy area (Cowles, Caporaso, and Risse 2001; Héritier and Knill 2001; Knill and Lehmkuhl 2002).

The problem of this literature is that it relies on research designs that are essentially “snapshots” of a much longer process of domestic change (Hix and Goetz 2000, 16) and that, therefore, tend to emphasize a single main explanatory factor for domestic change, namely “Europe.” Since it lacks explicit consideration of other causal factors, this literature is unable to assess the relative importance of Europeanization in the explanation of domestic change (Goetz 2000, 222-223; Radaelli 2003, 50).

In fact, in order to study institutional change one must observe relatively long periods of time, since institutional development is a process, not a single episode (Goetz 2000, 223; Jenkins-Smith and Sabatier 1994, 178).

A further step in Europeanization research is therefore to take an “inside-out” or “bottom-up” approach in the sense advocated by Claudio Radaelli (Radaelli 2003, 51; Radaelli and Franchino 2004, 948; Schmidt and Radaelli 2004, 191), namely – as I do in this research – by starting from the domestic level, rather than “from Brussels down.” This implies both tracing “sequences of events in domestic policy” and focusing on “individual and institutional choices” (Radaelli 2003, 51). This permits to escape the snapshot orientation of much recent research and to put European factors into the broader context of domestic institutional development.

46 The importance of domestic veto player structure has been empirically supported both by quantitative (Giulaini 2003) and qualitative (Haverland 2000). Note however that this framework is especially pertinent in the policy areas where the EU mandates policy (see later).

47 In fact, since process tracing is sensitive to the “actors’ motivations, perceptions and evaluations” (King 2005, 97; see also Berman 1998 and 2001, and Jervis 1976), it is especially suited to a bottom-up study of Europeanization, which entails studying the actors’ preferences and beliefs and their strategies under the limits imposed by their environment (Radaelli 2003; Radaelli and Franchino 2004; Schmidt and Radaelli 2004).
2.6.4 Studying the content of the reforms

The previous discussion, although of general import, is especially oriented to addressing the issues related to the study of the timing of reform. The content of reform, the other dependent variable of this research, warrants some specific considerations.

In particular, based on this research’s theoretical framework the content of reforms is expected to be largely explained by the reformers’ ideas. In this case the best approximation of a direct observation of the causal link between ideas and the policy choice is to assess the consistency between the ideas of the decision-makers and the content of the policy choice, namely to adopt a “congruence procedure” (Berman 1998, 23; George 1979; George and Bennett 2005, 181; Yee 1996, 77). In particular, this implies comparing the content of the reforms with the ideas of the policy community and with possible foreign, and in particular EU, models.

However, an ideational explanation cannot only rely on the congruence of the reformers’ ideas and the content of the reforms. Taking heed of Heclo’s (1974) famous dictum that policymaking is about puzzling, but also about powering, one must also show how the reformers managed to shape the reform content.

In particular, ideas can have an impact only if they find a political sponsor that finds them electorally useful (King 2005, 98). This consideration has two consequences for the research design. First, the researcher should show how the reform content furthers the electoral interests of the veto players, namely of the parties in the government majority. Thus, for every reform episode I will show how the reform content would be electorally damaging or beneficial to the relevant parties, and in particular how the content would fit with their electoral strategies, namely with the parties’ strategies regarding the constituencies they aim to benefit and the type of policies (substantive or distributive) they choose to provide.

Second, one should also show how the reformers have been able to move from the “world of ideas” to the “world of power,” namely either to become themselves political decision makers or to bring their ideas to the attention of the political decision-makers. Methodologically, this

48 See also Berman 1998 and 2001; Gourevitch 1989; McNamara 1998; Parsons 2002.
49 Incidentally, these strategies are also in part ideational in nature, in that they depend not only on “objective” factors such as the relative strength of potential constituencies or the institutional context, but also on the causal beliefs the parties hold regarding the electoral payoffs of the different strategies they could adopt. In this research, however, I do not pursue the ideational dimension of parties’ electoral strategies.
points again to process-tracing, namely to “tracing the way in which [reformers] secure positions of power from which to translate their ideas into policy” (Hall 1997, 184). Therefore, for every reform episode I will show how and whether the reformers were in positions of power that could allow them to implement their ideas.

We can now proceed to describe the operationalization and measurement of the dependent and independent variables. Following the structure of the chapter so far, I will first cover the variables related to the “timing of reform” question and then move to the variables relevant for the “content of reform” question.

2.6.5 The timing of the reforms

As regards the timing of reform, the dependent variable is “reform/lack of reform” of the government budget institutions. Reform is operationalized as a large move from the status quo through statutory innovation. In order to measure moves from the status quo, and thus to define what qualifies as reform, I rely on primary sources (statutes, parliamentary proceedings, parliamentary inquiries), interviews of experts of the Italian budget process, and secondary literature.\(^{50}\)

The unit of analysis is “attempted reform.” This means that for every reform attempt I am observing if it led to reform or not. Using this unit of analysis may seem risky, since it may be correlated with the dependent variable (there cannot be reform if there is no attempt). Moreover, this unit of analysis is also potentially correlated to the independent variables, since there may be times when there is no attempt because the would-be reformers conclude that the political or institutional context makes success unlikely. However, an in-depth study of the Italian case shows that throughout the period considered in this research we can observe with regularity only three types of situations: reform (successful reform attempts), lull after the reform, and renewed

\(^{50}\) When studying a field in which the investigators do not have sufficient substantive expertise, it is advisable that they consult experts that can guide them in choosing the best historical accounts and in reviewing their own accounts (George and Bennett 2005, 96). Secondary sources are useful to gauge the “significance and evidentiary worth” of primary sources (George and Bennett 2005, 97).
reform attempts, and thus that the problem of a possible correlation between the unit of analysis and the dependent and independent variables is not present.\footnote{The unit of analysis may be correlated to another potential independent variable, namely the availability of reform ideas. However, the case studies show that ideas have never been in short supply.}

Moving to the independent variables, these are changes in electoral institutions, Europeanization (through the external constraint and negative integration mechanisms), and policy entrepreneurs.

“Electoral institutions” properly refer to “electoral formulas,” namely proportional representation or plurality voting. Since electoral formulas are hypothesized to have a causal impact through their impact on the party system, the structure of the party system (in particular whether it is bipolar or not) will also be considered. In fact, taking account of the structure party system is important, because it allows to avoid prematurely discarding the variable “electoral institutions” if we do not observe an immediate connection between a change in electoral institutions and the occurrence of reform: in order for the hypothesized mechanism to operate, the new electoral formula needs to have some time to affect the structure of the party system.

As regards “policy entrepreneurs, their role is to exploit the opening of a policy window, namely, to use Kingdon’s terminology, by bringing together the problems, solutions, and politics streams (Kingdon 1984, 190). In the terms of this research, they act as “idea brokers” (Smith 1991) or idea “carriers” (Berman, 1998: 25), by connecting the ideas developed by the policy community with the decision-makers, namely the parties in the majority. They can also force open a policy window by exploiting the pressure generated by exogenous pressures.

Policy entrepreneurs can operate from just about any location in the policy system: they could be part of the top executive, of the bureaucracy, of Parliament, representing interest groups, academics etc. (Kingdon 1984, 188). Thus, they are defined more by their role in ensuring the passage of a certain reform rather than by their institutional role. Hence, it is not possible to ex-ante define their identity, beside the observation that they must have some quality (expertise, power) that gives them “some claim to a hearing” in the policy decision (Kingdon 1984, 189).

Thus, the best way to study policy entrepreneurs is to follow the choices they make in their attempts to influence policy. In order to this, I am following the process-tracing technique
of using “primary and secondary sources such as interviews, records of parliamentary debates, public speeches and political memoirs” (King, 2005: 97-8).

Finally, Europeanization may affect the time of reform through the “external constraint” and the “negative integration” mechanisms. Both mechanisms operate by changing the electoral costs and benefits associated with the status quo, as the parties opposed to the reform must moderate their positions in order not to be exposed to the electoral sanctions that may be caused by not heeding the European pressure.

As regards the external constraint, in some cases the EU prescribes a policy outcome (e.g. the exchange rate band in the European Monetary System, the convergence criteria in the Maastricht Treaty or the requirements of the Growth and Stability Pact). The pressure to achieve the prescribed outcome may affect the preferences of the veto players, in particular forcing those opposed to reform to moderate their opposition. Italy’s traditionally high public support for European integration makes the inability to meet policy goals necessary for Italy’s full participation in European integration potentially very costly for the current majority, and formal guidelines increase the ability of the public to judge the responsibility of the government, since this transparency makes it clear to the public whether the policy goal has been reached or not. The external constraint is operationalized in terms of the current or expected European requirements.

“Negative integration” refers to the creation of “integrated markets by removing barriers to trade, investment, freedom of establishment and free circulation of people” (Radaelli 2003, 42). In this case, the pressure to produce certain policy outcomes derives from the competition among the member states generated by the removal of the barriers among them. Particularly relevant for budget reform is the liberalization of capital markets as a result of the Single European Act. For Italy, the increased capital mobility induced by the liberalization meant that Italian capital could more easily move to other EU countries offering higher and safer returns. Thus, fiscal responsibility had to become a more salient policy issue, or else Italy’s ability to access capital markets would suffer, resulting in actual capital rationing or in interest rate hikes that would eventually make the burden of the government debt unsustainable. Since the pressure to conform has derived not only from the actual increase in capital mobility, but also from the expectation of such an increase, negative integration will be assume to operate with the formal elimination of the barriers to capital mobility.
2.6.6 The content of the reforms

Moving to the content of the reform, the central issues regard the development of the ideas of the policy community and whether there is correspondence ("congruence" in George’s terms) between the reform content and the ideas of the “relevant policy community,” namely of the policy community that has established links with the majority parties, or those majority parties that have a greater substantive policy orientation, such as the PSI in the early 1960s or the PCI at the time of its participation in the majority in the late 1970s. The impact of Europeanization will be measured in terms of the congruence between the EU institutional requirements and the content of the statutes (in the case of the coercion mechanism), or through the participation of the relevant “idea-carriers” in EU-connected networks (in the case of soft integration).

Ideally, the identification of the relevant policy community should be done through “systematically gathered data on the beliefs and behavior of actors within the subsystem” (Sabatier 1998, 107, emphasis in the original). However, this would require the use of expensive survey techniques, which I did not have access to; while I recognize the problems inherent of a non-systematic approach, many studies in the ACF tradition have produced important results even without carrying out a systematic survey of the policy subsystem (Sabatier 1998, 107-108). Rather, I have used a “snowballing” approach, relying on the informants I had contacted at the early phases of my fieldwork to introduce me to other members of the policy community and also to give me an understanding of the past membership of the policy community. This understanding has been further refined by the study of the literature produced by the members of the policy community during the entire period covered by the research, a study that has been facilitated by the guidance generously provided by many of the current members of the policy community.

As regards the measurement of the congruence of the ideas of the policy community with the actual content of the reforms, the initiators of the ACF approach have indeed developed techniques for the systematic coding of the ideas expressed by the members of the policy community (Sabatier and Jenkins-Smith 1993); however they require the employment of large a

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52 Snowball sampling is a form of non-probability sampling (non-probability sampling is common in small scale research) in which “a small number of individuals are identified to represent a population with particular characteristics and they are subsequently used as informants to recommend similar individuals” (Lewin 2005, 219).
number of coders, a solution that was not available to this researcher. Luckily, since the assessment of congruence regards the comparison of statutes with preexisting ideas as expressed in the literature produced by the policy community, the coding is rather straightforward, especially because it is aided by the secondary literature commenting the statutes.

Moreover, the problem of coding has been reduced by the fact that this research has developed in a largely inferential manner. Inference reduces the risk of non-random error in measurement, which may induced by a researcher unconsciously trying to fit the data to the values expected by the model being tested. Inference does not reduce the risk of random error in the measurement of variables, but this is a relatively less severe problem, since random error either does not bias the estimates of the causal relationship (when it affects only the measurement of the dependent variable) or it biases them only in the sense that makes them weaker (King, Keohane, and Verba 1994, 158).

Finally, an issue that must be raised with regard to the study of the causal role of ideas is that it is difficult to state how much of a causal impact ideas have. As Craig Parsons has asked, “What was the range of possibilities without these ideas?” (Parsons 2002, 49-50; emphasis in the original). Thus, the analyst should be able to identify a range of possible alternative ideas over the direction of policy change, and then show how a set of specific ideas won out and was implemented (Parsons 2002).

In the case of this research, I have found that for every reform attempt the policy prescriptions developed by the relevant policy communities coalesced very quickly around a widely shared consensus, so that it was not possible to assess a range of alternative ideas held by different policy experts before the reform. However, in one case (the reforms of the mid-1990s) I have been able (see chapter 7) to compare the ideas of the policy community before the reforms both with the actual content of the reforms and with the precise predictions of a non-ideational explanation of those reforms (Hallerberg 2004). The gap between the non-ideational predictions and the actual content of the reform, inasmuch as it corresponds to the pre-reform ideas of the policy community, provides a rough measurement of the causal impact of ideas.
This chapter provides an overview of the reforms of the budget process between the early 1960s and the late 1990s. It also shows how the arguments regarding the explanation of the timing and content of reform fit the empirical record.

As regards the timing of reform, it depends on the preferences of the veto players (the parties in the government majority) regarding the status quo, which in turn depend on their electoral calculus.

If distributive parties are permanently in the government majority, as was the case in Italy until the early 1990s, reform will only occur when programmatic parties are associated to the government or if constraints – exploited by policy entrepreneurs – change the policy preferences of the government parties. Among these constraints, this research has paid special attention to Europeanization, a source of pressure for reform from the late 1980s on.\(^{53}\)

If the political context allows government alternation and the electoral formula facilitates the formation of programmatic coalitions, as was the case starting in the mid-1990s, reform will become easier and will be associated with changes in government.

As regards the content of reform, it is expected to reflect the evolving ideas of the policy community. Empirically, these ideas have in most instances of reform had a broad scope, namely have been concerned with how to adapt the fiscal institutions to the evolving concepts of what the role of government is, from economic planning in the 1960s to ensuring an “efficient and effective” public administration in the 1990s. These broad concerns contrast with the assumption, common in the political economy literature, that the main goal of budget institution reforms is to limit government spending. The next section briefly sketches the Italian budget

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\(^{53}\) As one would expect given the early stages of European integration at the time, Europe did not play much of a role in the first two reforms. If anything, the European Commission intervened \textit{against} the 1964 reform of the budget process, as it disapproved of the Socialist emphasis on using the budget for economic planning.
process and the following section describes its evolution through the reforms that occurred between 1964 and 1999. Section 3 concludes.

### 3.1 A FRAGMENTED BUDGET PROCESS

A striking feature of the Italian budget process has been its fragmentation, which has been accompanied – and this is only apparently a contradiction – by a concentration of authority in the Treasury ministry. In fact, the Treasury ministry has had to play a remedial role, namely using its centrality in the budget process and its endowment of resources to make up for the fragmentation of political authority over the budget.

The first reform occurred in 1964, and until then there was no single budget document covering the allocation of government resources, as Parliament voted the budget of each ministry as a separate law.\(^{54}\) Even after the 1964 reform, the budget document could not be the institutional locus for unified decision-making on government spending, as this decision-making took place beforehand, in the individual spending laws passed by Parliament.

This situation descended from the view of the budget held by the drafters of the 1948 Republican Constitution. The budget and the procedures for its approval were functional to the “minimal government” view of the pre-war liberal state (Senato della Repubblica 1978). Right after the war this view was still dominant in the Constitutional Assembly that drafted the new Constitution. Art. 81 of the Constitution – strongly influenced by the liberal economist Luigi Einaudi (elected to the Constitutional Assembly for the Liberal Party, governor of the Bank of Italy, first Budget minister and eventually President of the Republic) – mandated (third paragraph) that “the law approving the budget cannot introduce new taxes or new expenditure.” This provision was meant to prevent Parliament from rashly altering existing legislation (Barettoni Arleri 1986, 60; Della Cananea 1996, 108), and reflected the then predominant view of the budget as a “formal” law, namely as a legislative act that was really the responsibility of

\(^{54}\) That there was a plurality of budgets was due to a rather menial reason: during the preparatory works for the Constitution a typo occurred between versions, so that the article reading “Parliament approves the budget” became “Parliament approves the budgets” (see Camera dei Deputati, Atti Parlamentari, N. 311-A, IV Legislature).
the executive and not of Parliament, even though, as any piece of legislation, had formally to be approved by Parliament (Barettoni Arleri 1986; Della Cananea 1996, 113-114).

However, what this provision did was to ossify the budgetary procedures. The budget became a simple summary of spending decisions made during the previous financial year, with Parliament called to authorize decisions that had already been made (Manzella 1977, 379-380; Ristuccia 1980, 152). The whole exercise was a “useless rite” officiated in a semi-deserted Parliament (Cassese 1974b, 236). Since the budget document was a simple summary, it could not be used for the definition of fiscal policy in a unified manner. Spending decisions, in particular, were taken in a fragmented fashion over the year, and no single institutional lever existed for their governance.

Moreover, the scope of the budget had been shrinking: the budget law covered only the central administration and as more and more government spending was carried out outside the central administration (through local government boards and government-owned corporations) the fraction of government spending that was actually decided (or even kept track of) in the budget had been falling (Ricci, Salvemini, and Zaghini 1979, 13-14, 16-17).

This fragmentation of the approval process in Parliament was consistent with the fragmentation of decision-making at the executive level, both at the formulation and at the implementation stages of the budget. Postwar governments rested on a “formula” (namely an established party makeup for the government coalition) rather than on a common program that would define how to allocate government resources. Since the purpose of the coalition was to preserve itself (namely its formula), policy conflicts had to be minimized. Hence, parties (and their fractions) had substantive autonomous authority over the ministries they controlled. Each minister’s decision was largely shielded from cabinet evaluation, in spite of the Constitution-sanctioned collegiality of cabinet decision-making (Di Palma 1977; Lombardini 1974; Pasquino 1987b; Ristuccia 1980; Ristuccia 1984a).

55 Only once in the entire post-war period was the budget of a ministry not approved by Parliament.
56 The post-war period has experienced coalition governments (always including the DC until 1992) or brief minority DC governments.
57 New spending legislation proposed by a minister would only cursorily be discussed by the cabinet. In fact, beside the fact that the individual cabinet members would lack adequate preparation to discuss proposals outside their ministerial brief (and the lack of support structure on the part of the cabinet office), the cabinet would often be given only the title of the law (Di Passio 1979; Greco 1969; Pasquino 1987b). In 1975 this applied to 90% of the proposals brought to the cabinet (Rodotà 1979, 73).
Under De Gasperi’s tenure as Prime Minister this fragmentation had been kept in check, as he had managed to limit the importance of factions within his own DC and had employed his considerable political weight to support the position of the Treasury ministers vis-à-vis the spending ministers (Ristuccia, 1980: 65). After his death in 1954, however, fragmentation significantly increased, so that by the early 1960s (and at least until the mid-1990s) Italy had what has been variously defined as “multiple non-coordinated leadership,” “carving-up” or “neo-feudal” government (Amato 1976; Cheli and Spaziante 1979; Ristuccia 1980; Ristuccia 1984a).

This has left the Treasury to play a remedial role. In the absence of a political commitment among the coalition partners on the distribution and overall amount of spending, it has fallen on the Treasury to control spending (Lombardini 1974). Thus, the role of the Treasury as controller of spending has been an integral part of the way fiefdom governance has operated in Italy.

The post-war history of the Ministry of Treasury begins in 1944, when it was reconstituted after it had been unified with the Finance Ministry during Fascism.\textsuperscript{58} The reconstituted ministry acquired centrality in the government during the early reconstruction years, as the Treasury managed the Marshall Plan funds for Italy, thus becoming “truly the largest banker in Italy.”\textsuperscript{59}

However, it is starting in the 1950s – at the same time as the collegiality of the executive wanes after De Gasperi’s death – that the Treasury becomes the “fulcrum of the administration” (Serrani 1979, 87). This position has come to it from its function as controller of government spending. However, this role has been largely “micro,” namely confined to a piecemeal control of individual spending decisions.

\textsuperscript{58} Throughout the unitary history of the country, responsibility for fiscal policy has oscillated between being concentrated in one ministry (the Finance Ministry) or distributed between two (Treasury for the control of spending and Finance for taxation). Piedmont had a single Finance ministry, and so did Italy until 1877. In 1877 the Left ascended to government and created the Treasury, giving it responsibility for controlling public spending. However, this separation remained essentially theoretical until 1888, as in this period the Finance minister also held the interim role of Treasury minister. The separation became effective in 1889 and lasted until 1922, when the Mussolini government – in one of its first acts – proceeded to reunify Treasury and Finance (Colarullo 1983). After the reconstitution of the Treasury in 1944, Treasury and Finance were briefly reunited between February and June 1947, so as to deprive the Communist Party, then in the government, of control of the Finance minister, which was at that time managing emergency financial measures and had been held by the Communists (Serrani 1973, 55). The move was made shortly before the government crisis of May 1947, when De Gasperi broke with the Left and all economic ministries were given to liberal (free-market) or DC ministers (Merlini 1979, 144).

\textsuperscript{59} Corbini, speech at the Chamber of Deputies, September 21, 1949 (quoted in Merlini 1979, 148).
The primacy of the Treasury over spending has not been political (as we saw there is no political agreement among the coalition partners that the Treasury is called to guard), nor has it derived from a legal super-ordination of the Treasury over the other ministers (which would run against the constitutional requirement of cabinet collegiality). Rather, it has been rooted in its central position in the spending procedures.

More precisely, the central role is played by the *Ragioneria Generale dello Stato* (RGS). First, the RGS, the oldest of the directorates into which the Treasury is divided, controls both the formulation and the implementation stages of budgetary spending decisions (Allegretti 1971, 97-98; Cassese 1974a; Cassese 1974b, 246-247; La Rocca 1987; Vegas 2000-178). The formulation stage begins with the RGS branches (the *Ragionerie centrali*) in each spending ministry defining the proposed budget of that administration with the ministry’s Director General (in fact the budget is actually drafted by the *Ragionerie centrali*). This draft is sent to the minister and from the minister to the RGS, which can then ask the ministry to modify the requests that the RGS finds incompatible with its spending goals. Once the ministry’s budget is approved by the RGS, it is presented for approval by the Treasury to the Council of Ministers and then to Parliament.

Once Parliament approves the budget, the implementation stage begins. Based on the budget approved by Parliament, the administrations can request disbursements from the Treasury. However, approval of the budget does not imply that the spending it authorized will in fact take place. The disbursements are subject to the availability of funds, and it is again the RGS that certifies their availability and thus effectively controls the amount of spending that the administrations can carry out (Amato 1976, 147-148; Cassese 1974b, 248; Colarullo 1983, 423; Perez 1978, 193). In this way the RGS also controls the use of the so-called global (or special) funds, namely funds set aside in the budget whose destination is left undefined so as to guarantee flexibility to the administration, and which constitute the main way of covering new or increased expenditure (Cassese 1974, 252; Perez 1978, 188).

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60 Art. 95 of the Constitution.

61 In fact, the RGS is older than the ministry itself, having been created in 1869, when Parliament approved the bill presented by the then Finance minister, Luigi Guglielmo Cambray-Digny (Seguiti 1991, 1). In 1877, when the Treasury was created, the RGS was moved from the Finance to the Treasury Ministry.

62 Another Treasury directorate which is heavily involved in the budgetary process and has the powers on the actual disbursement of funds is the *Direzione Generale del Tesoro* (DGT, Directorate General of the Treasury). The DGT is – among other things – the state treasurer. As such, it controls the flow of state funds to all government agencies,
Second, every new bill having financial consequences must be “concerted” with the Treasury, and this in practice means that it must be vetted by the RGS. In fact, the RGS is involved in the preparation of the bill from the earliest stages. Thus, the RGS (in particular the division called Ispettorato Generale del Bilancio, IGB, or General Budget Inspectorate) evaluates the first draft of the bill proposed by the administration. After this evaluation has been transmitted to the proposing administration, a phase of informal cooperation ensues between the IGB and the administration so as to reach an agreement on the draft bill that will be presented in the Council of Ministers. In this phase officials from the proposing administration and the IGB meet to solve any differences. If they cannot solve them, the Office of the President of the Council of Ministers will organize meetings at higher levels (up to staff of the cabinets of the involved administrations or the political personnel of the administrations). Unsolved issues will be taken up in the Council of Ministers (Fiorentino 1995, 308).

The centrality of the RGS in this process does not entail, however, that the Treasury can exert total control over spending. In spite of its being “a savings-oriented bureaucracy” (Cassese, 1974: 262), the RGS cannot put up a wall against the ministries’ spending. It can at most act as “a limiting factor at the margin” (Cassese 1974b, 263). Anything more substantial than this would be incompatible with the existence of many autonomous spending centers (the ministries), as they (and each ministry’s clientela) would revolt against any rigid control of their spending by the RGS (Cassese 1974a, 263). The perverse effect of this system has been that on the one hand it has further degraded the quality of government spending (since the RGS has tried to limit the growth of spending by postponing the less urgent, namely investment, Amato 1976, 147), and on the other the system has in fact been functional to the interests of the spending ministries, as they can find a reasonable agreement with the RGS without having to comply with a coherent plan regulating the amount and composition of government spending (Amato 1974, 4).

Moreover, neither the Treasury minister nor the RGS have been above the partisan use of funds. A famous instance of partisan use of the Treasury occurred in 1968. Before the elections,

and thus it controls the actual disbursement of already appropriated funds (Della Cananea 1996, 209). This power increased with the creation of a unified treasurer system in 1984 (see chapter 3).

63 This provision dates back to the Fascist period (it was introduced with l. 1037/39, Colarullo, 1983: 402).
64 It is noteworthy that it is in fact the ragionerie centrali in each ministry that actually draft the budget of the ministry they oversee (Perez 1978, 186-187).
65 See also Barbieri and Giannini (1984, 195).
66 See also “Da che parte pende il bilancio?” L’Espresso November 25, 1979.
the Treasury minister, the DC Emilio Colombo, had denied funds for the improvement of pensions requested by the PSI. Right after the elections, and after the PSI had suffered a severe electoral defeat, Colombo happened to finally realize that the funds were indeed available, and introduced the reform, interview with U, professor of administrative law and former official of the Prime Minister Office, 1/20/04 (see also Andreatta et al. 1971, 20-21).

As for the RGS, it has always been well aware of the power that comes to it from its control of government funds, and it has sometimes used this control to favor or damage certain partisan interests (interview with F, Corte dei Conti judge, 2/17/05; interview with T, Corte dei Conti judge, 2/16/05; interview with J, former head of the cabinet of the MBEP, 2/16/05). 67

3.2 THE REFORMS OF THE BUDGET PROCESS

Beginning with the timing of reform, during the “First Republic,” the reforms of the budget process occurred when programmatic parties joined the government majority or when policy entrepreneurs were able to exploit the pressure of external constraints – such as Europeanization – to force reform on otherwise recalcitrant government parties.

The reforms of 1964 and 1978 followed the electoral progress of the left-wing opposition, when the DC would co-opt part of it by associating it to the majority or even to the executive. For a brief period, then, the new member of the majority would push for the implementation of its electoral program. The window of opportunity, however, was short, as the new party either would give up its programmatic orientation to become part of the distributive coalition once it had access to the state resources (the fate of the Socialist Party), or it soon left the majority in frustration over the lack of progress on its programmatic goals (the choice of the Communist Party).

The first reform, in 1964, followed the entry of the heretofore opposition Socialist Party into the majority and the executive, and it was strongly pushed by the Socialist Budget minister Antonio Giolitti. It marginally increased the coherence of the budget document (the budget

67 See also Amato (1974, 4).
68 1948-1993, namely the period characterized by lack of government alternation and the use of proportional representation.
became a single law covering the entire central administration, rather than having a distinct budget for each ministry, each subject to parliamentary vote, as had been the case until that point; the financial year was made to coincide with the solar year; spending was classified into current and capital spending) and tried to give one ministry (the Budget ministry) responsibility for the coordination of the government’s fiscal policy. The second reform, in 1978, followed the entry of the Communist Party into the government’s parliamentary majority, and it enjoyed the decisive support of the new Treasury minister (Gaetano Stammati), a “technical” minister that had been called in after the poor performance of his Christian Democratic predecessor.

By then, the hope of making the Budget ministry the center of the government’s fiscal policy-making had been abandoned. Thus, the reform focused on the rationalization of the budget process in Parliament, in particular trying to make the budget an instrument that could be used to actually orient fiscal policy, rather than being a document that would simply collect decisions made piecemeal over the year by Parliament and the ministries. In sum, if the executive could not steer the budget on its own (witness the failure of the attempt to strengthen the Budget ministry), it was hoped that the reform would give Parliament and the executive an instrument with which they could together govern fiscal policy.

The last reform of the First Republic, in 1988, was the only one that occurred absent government alternation. It took the form of measures to control government spending (for instance finally introducing procedures for the assessment of the cost of new legislation and limiting the ability of Parliament to change the balance of the budget) and, in a separate piece of legislation, of eliminating the possibility of secret voting in floor votes by Parliament.

Of all reforms covered in this research, it is the reform where Europeanization, through negative integration,69 played the clearest role. The very same reform proposals that the executive opposed until 1987 were pushed by it in early 1988, when it became clear that the full liberalization of capital movement within the EU would go ahead, in spite of Italian objections. The then Treasury minister, Giuliano Amato, played a pivotal role. Before the European Community’s decision to liberalize capital movements, his ministry had contributed to the stalling of the reform plans. However, once the capital liberalization decision was made, Amato

69 As a reminder, “negative integration” refers to the Europeanization mechanism whereby the increased competition among member states induced by European integration creates pressure for certain policy outcomes.
introduced a reform bill that subsumed the existing reform bills and constituted the basis of the 1988 reform.

I should add that the 1988 reform, although a major reform of the budget process, had a limited scope, in the sense that it was strictly limited to the budget, and in particular to ensuring better control of total government spending. This made it an “easier” reform, and it contrasted with the greater scope of the budget reforms before or hence, which have been connected to broader reform attempts. Moreover, one of the main elements of the 1988 reform, the elimination of secret voting, had strong roots in the dynamics of a party political game. It was part of Bettino Craxi’s (the secretary of the Socialist Party) strategy to isolate the PCI by eliminating its ability to make use of secret defectors from the majority in parliamentary votes.

Moving into the 1990s, budget reform became once again part and parcel of a larger reform design, this time to reform the public administration. The first reforms occurred in 1992-1993. They increased public managers autonomy in the management of the public resources allocated to them and made them accountable for the achievement of their goals. Moreover, the reforms tried to steer the administration away from legalistic, procedural criteria and towards an output-oriented administration.

As in the case of the 1988 reform, the crucial factor explaining the timing of reform was the emergence of exogenous factors, although in this case European pressure was only one of the factors that played a role. The legitimacy of the majority parties was wiped out by the combination of a currency crisis and the uncovering of widespread financial malfeasance, so that they could not resist the reform push of determined policy entrepreneurs, again Amato, prime minister in 1992, and Sabino Cassese, minister for the public administration, in 1993, both helped by the support of the President of the Republic, Oscar Luigi Scalfaro.

European pressure played a role through the “external constraint” mechanism, which operates when the EU mandates a certain policy outcome. The currency crisis erupted because of Italy’s participation in the European Monetary System (EMS), which mandated that the exchange rate of the participating currencies be kept within a set band, and the crisis took the form of the Lira having to abandon the EMS in September 1992.

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70 In other words, the purpose of the 1988 budget reform was just to reform the budget. In all other cases, the reform of the budget was seen as an instrument to achieve a broader goal: economic planning in the 1960s, financial planning in the 1970s, public administration reform in the 1990s.

51
The external constraint mechanism worked by contributing, along with the financial scandals, to the sinking support of the majority parties. It did not, however, operate directly to impose reform on the recalcitrant parties or on the public sector unions. The government appeals to Parliament to vote and to unions not to obstruct the reforms due the financial and currency crisis fell on deaf ears. What pushed the reforms through was the Amato-Scalfaro threat to call new elections if Parliament did not vote for them. For many this was not a threat to take lightly. Many members of Parliaments were implicated in the financial scandals. Their parties’ popularity at rock bottom, they feared elections not only because they would lose their seats in Parliament, but because this loss would mean losing parliamentary immunity, and thus possibly the opening of the prison’s gates.\(^71\)

After stalling for two years (1994-1995) the joint reform of the budget and of the public administration resumed apace between 1996 and 1999. The structure of the budget was changed so as to allow a more outcome-oriented management of public resources, and the structure of the economic executive was rationalized, bringing down the number of ministers responsible for fiscal policy from three to two to finally one.\(^72\)

In this case, the status quo was affected by the change in the electoral formula, from proportional representation to plurality. The 1996 elections were the first where the effect of the new formula (first applied in the 1994 elections) was fully felt on the party system. The plurality formula forced parties to coalesce into coalitions before the elections, and the reforms that were to be implemented were part of the electoral program of the winning Center-Left coalition. Significantly, the pace of reform slowed down when the first Center-Left government, which had direct electoral legitimacy, fell and was followed by governments and coalitions that were no longer bound by a common electoral program. Given the broad scope of these reforms, a number of policy entrepreneurs can be identified. Treasury minister Carlo Azeglio Ciampi played a key role on the budget side of the reform (especially with regard to the redefinition of the role of the Treasury in the budget process) alongside Paolo De Ioanna (who was one of the main designers

\(^{71}\) In principle, the fiscal and monetary criteria set by the Maastricht Treaty for participation in the final phase of European monetary integration may also at the time have worked as an external constraint. However, the failure of the Danish referendum on the treaty in June 1992, the near-failure of the French referendum in September 1992, and the crisis of the EMS (which was to constitute the launching pad for monetary integration), with a number of countries having to exit it, made it seem very unlikely that European monetary integration would happen by the original January 1999 deadline thus eliminating the punch of the Maastricht criteria.

\(^{72}\) The last merger was decided in 1997 and implemented in 2001.
of the new budget structure), while Franco Bassanini was the main figure behind the reform of the public administration.

What the empirical record shows (see chapter 7) is that the change in electoral rules played a greater role than European pressure in explaining the 1996-1999 reforms. The external constraint, the need to abide by the Maastricht criteria first and by the Growth and Stability Pact later, only played a contributing role in explaining the time of the reforms. To be sure, the Center-Left and its electorate was more pro-European than the Center-Right coalition and electorate, and this indeed increased the pressure of the external constraint since failing to participate in European monetary integration was probably seen as greater risk for the country and a bigger political black eye towards its electorate by the Center-Left executive than by the Center-Right. However, the government began the reforms of the budget and of the public administration months before it decided, in late summer 1996, to try to get Italy into the final stage of the Economic and Monetary Union (EMU) along with most other member states. The European card, that is the argument that “we need the reforms because of the EMU,” was indeed played during the parliamentary debates, and it may have helped shore up the parliamentary support for it, but it does not explain the time of reform. Moreover, the reforms had a long-term orientation, and while they were meant to make Italy’s life in the EMU easier by increasing the efficiency of public spending, they were not meant to have an immediate impact on Italy’s public finances and thus on Italy’s ability to join the EMU. In fact, the one provision that the reform bills contained which would have had an immediate impact on the public finances was struck down by Parliament and never became law.

Moving to the content of reform, what is striking is that the reforms of the budget process were never, but for the 1988 reform, pure attempts to rein in government spending. Rather, they were connected to broader “master ideas” about the structure of government developed by policy communities and taken up by certain parties for their programmatic appeal. By “programmatic appeal,” I mean that these ideas fit the substantive program of the parties, which would see them as the foundation for substantive policies that could bring them electoral rewards. This implies that in order for these ideas to be relevant for policymaking, parties must base their electoral strategies at least in part on substantive policies; conversely ideas would not have electoral appeal for parties that base their electoral success on distributive policies or on broader, non-policy specific themes (such as anti-Communism, on this see Cotta 1996).

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73 By “programmatic appeal,” I mean that these ideas fit the substantive program of the parties, which would see them as the foundation for substantive policies that could bring them electoral rewards. This implies that in order for these ideas to be relevant for policymaking, parties must base their electoral strategies at least in part on substantive policies; conversely ideas would not have electoral appeal for parties that base their electoral success on distributive policies or on broader, non-policy specific themes (such as anti-Communism, on this see Cotta 1996).
In the case of the 1964 reform, the fragmented nature of the budget process was seen by a policy community composed of Socialist and left-leaning Catholic economists as an obstacle to the introductions of forms of economic planning. Planning, along the lines experimented in France, was considered necessary to address the social problems created by the tumultuous economic growth of the “economic miracle” of the 1950s and to restart it, after the economic slowdown of the early 1960s, on more equitable and durable basis. This aspiration fit the programmatic strategy of the Socialist party, and when it finally joined the government in 1964 the Socialist Budget minister Antonio Giolitti proceeded to try to make the budget process more coherent and, against strong opposition, to set up an institutional structure for economic planning.

When, by the early 1970s, it was clear that economic planning was a non-starter, both because of the opposition to it from the state structure and the objective difficulty to plan the economy, the attention shifted to financial planning. The policy community was again mostly composed of left wing economists, and budget reform took on the aim to create a process (once again, a more coherent process) that would allow decision-makers in the executive and in Parliament to govern the flow of public resources to their preferred uses, thus overcoming the incrementalism and fragmentation of current budgetary decision-making.

In the political arena, the reform found the support of the PCI. The PCI was in the 1970s in some ways where the PSI was in the early 1960s. That is to say, it aimed to reform the structure of government so as to be able to provide substantive policies that would change Italian society and reward the party at the polls. This orientation of the PCI coincided with its participation in the government’s parliamentary majority in the late 1970s, and in fact the reform of the budget was one of the points of the agreement reached with the DC for the PCI’s participation in the majority.

The 1988 reform was, as I mentioned before, the narrowest in scope. To be precise, it was a major reform of the budget process, and it has defined the structure of the government budget to this day, but its scope was limited to the budget; it was not connected, as the previous reforms had been, to broader attempts to reform the way the Italian government operated. In this sense, it was less political than the other reforms, and this was reflected in the nature of the relevant policy community. In this case the parliamentary officials, and in particular the officials of Parliament’s budget offices (each chamber has its own office), played a major role in developing
the content of the reform. These officials were often left-leaning, but for obvious reasons did not have explicit connections with any party.

The reforms of the 1990s (in 1992-1993 and in 1996-1999) were once again part of a broader reform design, this time to restructure the public administration. The blueprint was provided by the New Public Management (NPM) approach, a new paradigm in the scientific study of public administration. This new paradigm inspired the administrative lawyers that constituted the core of the policy community involved in the reforms. NPM emphasized the decision-making autonomy of the spending administration and a cost/benefit analysis of the broad economic impact of policies.

The content of the reforms of the 1990s is especially interesting, because in this case I have been able to compare it to the expectations of an approach that does not consider ideational factors, a comparison which allows to some extent to assess the relative contribution of the ideas of the policy community to the explanation of reform content.

The alternative, non-ideational hypotheses come from the work by Mark Hallerberg (2004). Hallerberg has argued that changes in the party system (bipolarization and increased competitiveness) should lead to the concentration of budget power in the executive, and in particular in the Finance minister (or Treasury minister, to use the Italian terminology), who would have tight control of the government’s financial flows.

To summarize the conclusions of the comparison carried out in chapter 7, I show that the changes at the formulation stage of the budget process are entirely consistent with the non-ideational predictions, so that the knowledge of the ideas of those that carried out the reforms does not significantly add to our ability to explain the content of the change in the budget formulation process.

However, at the approval and especially at the implementation stages of the budget process the content of the reforms diverges considerably from the predictions of the non-ideational model, and only consideration of the reformers’ ideas regarding what constitutes the proper structure of the budget process can help us make sense of the actual choices made by the reformers.
3.3 CONCLUSIONS

As regards the timing of the reforms, the Italian case shows that entrenched policy stability can temporarily be broken if programmatic parties are associated to the government (1964 and 1978 reforms) or if policy entrepreneurs are able to use emerging constraints to change the preferences of the government parties (1988 and 1992-1993 reforms). The empirical record of the 1990s also shows that changing the electoral rules (from proportional representation to plurality) can reduce policy stability by increasing the programmatic nature of the government coalitions. The case also shows that, with regard to fiscal institutions, the impact of European pressure has been marginal compared to the impact of the change in the nature of the government coalitions.

As regards the reform content, the Italian case shows how fiscal institutions have in most reform episodes been changed according to evolving master ideas, namely to connect the organization of the budget to broader policy goals, from economic planning in the 1960s to the reform of the public administration in the 1990s.
4.0 THE 1960S AND LAW 62/64

This chapter covers the reforms and attempted reforms of the budget institutions in the 1960s. This research starts in the early 1960s, because it is around this time that the size of the government had grown enough from the original small dimensions of the liberal “minimal state” that the government budget began to be considered a major policy instrument and thus to gain political significance. Piero Nenni, the PSI party secretary, at a political rally at the Coliseum (October 7, 1962) that anticipated the historical entry of the Socialist party into the government, famously declared that the role of the state in the economy had become so large that reforms could only be introduced if the PSI could enter the “control room” of the state (Tamburrano 1990, 184).

The chapter focuses on the two attempts to change the budget process, namely the restructuring of the budget structure (law 62/64) and the reform of the Budget ministry (law 48/67). The two laws were part of a broad attempt to make the budget process more cohesive, which in turn aimed to increase the ability of the Center-Left governments to carry out their reform programs.

Largely because of a changing political context, the two attempts differed in their degree of success. Law 62/64 was passed during a phase of government alternation, when the new member of the Center-Left coalition, the Socialist Party (PSI), had a strong programmatic orientation. The law was, considering its limited purview, a success, in that it finally introduced changes to the budget documents that had been advocated to no avail for many years.

Conversely, law 48/67 was a failure. It was certainly more ambitious than the 1964 reform, in that it aimed to confer to a single ministry, the Budget ministry, control over the realization of the government’s economic program. However, its failure compared to law 62/64

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74 It was in 1961 that for the first time deficit-spending had official sanction by the Paratore Parliamentary Inquiry Committee (De Ioanna 1981, 644-645; Meschino 1991, 365).
(the provisions of the law were insufficient to truly increase the power of the Budget ministry, and the ministry was never able to have a significant role in the budget process) was not solely due to its greater ambitions (in fact, the goal of creating a sole center coordinating the government’s economic policies was indeed finally achieved, although only in the 1990s).

Rather, a significant factor was the change in the political context. In the second half of the 1960s the PSI largely abandoned its reformist aspirations, and thus was only lukewarm in supporting the reform project, even though the project was the brainchild of reformers that were close to the Socialist Party. Moreover, the increase in the fragmentation of the government parties militated against efforts to make economic policymaking more coherent.

For each of the two attempted reforms, the chapter first covers the factors explaining the timing of the reform, and then moves to discuss the content of the reform, connecting it to the ideas of the relevant policy community and the role of specific policy entrepreneurs.

4.1 THE TIMING OF THE 1964 REFORM

As I have argued in the previous chapters, until the move from proportional representation to a mostly plurality electoral system in the mid-1990s a window of opportunity for reform could only open either when programmatic parties were associated to the government, or as a result of exogenous pressure such as Europeanization.

In fact, in the period covered by this chapter the key factor was the participation of a programmatic party to the government majority, since in the 1960s European integration was in its infancy: after a few failed attempts between the late 1950s and the early 1960s, the first reform of the budget in 1964 was made possible by the extension of the government majority to the Socialist Party (PSI).

The “opening to the Left,” as this enlargement of the government majority was called, was the DC’s response to a changing society. The “economic miracle” (1958-1963) had changed the structure of Italian society from agrarian to industrial, thus eroding – as the Catholic

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75 For the history of the budget reform attempts, see the reports to each chamber by the rapporteurs of the 1964 reform bill, (Camera dei Deputati, Atti Parlamentari, N. 311-A, IV Legislature and Senato della Repubblica, Atti Parlamentari, N. 372-A, IV Legislature).
sociologist Achille Ardigò pointed out (Carabba 1977, 66; Ginsborg 1988, 263) – one of the DC’s traditional constituencies. At the same time, the rapid economic growth had created new social tensions that the government had to take on (Di Palma, 1977: 121). Faced with acute social strife, and even the fear of a right-wing coup (Craveri 1995), the national council (the main governing body) of the DC declared in May 1960 its willingness to enter into an alliance with the PSI, and in early 1961 Center-Left (DC-PSI) coalition governments were launched in major cities (Milan, Florence and Venice). At the January 1962 DC party conference the line of opening to the PSI won a vast majority and in February of that year the DC Amintore Fanfani formed a government that was externally supported by the PSI. In November 1963 the DC, the PSI, and two smaller partners (the Republican Party, PRI, and the Social Democratic Party, PSDI) signed a “programmatic accord,” and in December of the same year the Moro I government was sworn in, the first full – i.e. with Socialist participation in the executive – Center-Left government.

For the PSI, participation in the government meant, as party secretary Piero Nenni famously put it in 1962, that the PSI would finally be in the “control room” of the State apparatus (Tambrurano 1990, 184). Being in the control room meant the opportunity to pass reforms that would transform Italian society, if not to move it towards socialism through democratic means as the left wing of the PSI intended to (Ginsborg 1988, 262; Tambrurano 1990, 123-6), at least to show voters the benefits of PSI’s reformism against both the sterile opposition of the Communist Party (PCI) and the immobilism of the DC.

The path to reform passed through the use of planning, so as to use government resources in a more coherent fashion. The first step was to reform the budget process, in order to reduce its fragmentation both at the parliamentary and at the executive level.

Thus, the reform of the budget document (law 62/64, the Curti law, thus known from the name of the first signatory of the bill, the DC Aurelio Curti) responded to the need to update the mechanisms of budgetary decision-making to make them compatible with planning. 76 The reform bill was presented at the end of July 1963 and was approved by Parliament on March 1, 1964, during the Moro I government.

76 See the speech of the Budget minister, the Socialist Antonio Giolitti during the parliamentary discussion of the reform bill (Camera dei Deputati 1964).
In this reform episode “Europe” played a negative role. After the approval of the reform bill, the president of the European Commission, Robert Marjolin, wrote to the Italian government (May 20, 1964), urging it to discard forms of planning that may run against “the strictest economic orthodoxy” (Craveri 1995, 169).

4.2 THE CONTENT OF THE 1964 REFORM

The Curti law was a first attempt to reduce the fragmentation of the budget process, and it has the purpose of making the budget a more efficient instrument for the coherent formulation and implementation of the government’s economic policies (Carabba 1977, 95-96). In this instance, and as we will see in most other reform episodes, the reform of the budget was not a goal in se, but it was instrumental to the implementation of broader “master ideas.” In the 1960s this master idea was planning.

The fragmentation of the budget process had been especially convenient for the DC in the late 1950s, as it used its control of government-owned corporations and local government boards (attached in a loose galaxy to various spending ministries) to gain control over the streams of money flowing through them and thus to emancipate itself from the financial backing of societal actors (Craveri 1995, 9; Ginsborg 2003, 156). Since Parliament had virtually no saying on spending initiatives (the government would keep a tight control over spending bills through the early 1960s), the DC and its smaller government partners could further enjoy the advantage of keeping the opposition entirely outside of spending decision making.

However, by 1960 the downside of fragmented fiscal governance was evident. Fragmented fiscal policymaking meant that the increasing resources spent by the government could not be coordinated into a coherent set of policies that would tackle the problems of a more and more complex society. Policy makers began to distinguish between the quantity and the quality of public spending. “Quality” refers to the potential of spending to have a noticeable

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77 Marjolin’s interference led to a direct clash between him and Giolitti in June 1964, a month after the letter to the Italian government (Tamburrano 1990, 297).
78 However, starting in the 1960s the left also carved up its share in the system, both with the entry of the PSI in the government (the PSI was to be in government for most of the years after 1963) and with the greater role granted Parliament to start spending legislation.
impact on society by providing the services needed for a higher quality of life and higher economic growth. Since these services are provided through investment, the quality of government spending can essentially be operationalized as the ratio of investment spending over total government spending.

Based on this definition, by the early 1960s the structure of government spending had deteriorated, with an increase of the share of current spending and correspondingly a decrease in investment spending (Craveri 1995, 92). The question, therefore, became how to reduce this fragmentation.

Starting in the early 1950s left-wing intellectuals close to the PSI and to the left wing of the DC had begun advocating the adoption of a “plan” as a way to increase the cohesiveness of government action, in particular to tackle the underdevelopment of the South (Carabba 1977, 1). The result of this first orientation towards planning was the so-called “Vanoni” plan. It was presented in 1954 by the DC Budget minister, Ezio Vanoni, as a proposal for a long-term economic plan aiming to reduce unemployment, orient the economy away from agriculture and towards manufacturing, reduce the North-South gap and achieve a favorable balance of payments. However, the plan, which had originated from Vanoni’s cooperation with left-leaning economists close to the DC, was Vanoni’s private initiative, and it was never endorsed by his party or by the government (Carabba 1977, 5-6; Craveri 1995, 88-90; La Palombara 1966, 59-60). It thus never evolved beyond the proposal stage.

The presentation of the Vanoni plan coincided with the start of a period of accelerated economic growth (the “economic miracle”). While incomes grew at an unprecedented rate,\(^\text{79}\) growth did not solve old social ills (such as the North-South divide) and in fact it created new ones, such as the social dislocation caused by the massive emigration from the South to the North and the attendant unregulated urbanization.

Thus, after the mid-1950s the political and economic debate began to broaden beyond the issue of the North-South divide. The economic miracle brought to the fore the increasing dualism of the productive structure, with large, very technologically advanced firms coexisting with very small, undercapitalized, unproductive firms. Moreover, observers began to speak of a “distortion of consumption,” namely the rapid increase in private consumption, even for non-

\(^{79}\) In the 1951-1958 period the economy grew by 5.5% per year, and in the 1958-1963 period by 6.3% per year (Ginsborg 2003, 214).
necessary goods, and the slow increase in public consumption for priority services such as education, health and housing (Carabba 1977, 5).

Already in 1959, Pasquale Saraceno, a very respected Catholic economist who had cooperated to the Vanoni plan and who was an expert on the Southern question, advocated the creation of a public “propulsive center” that would “define – through the plan – the nature and extent of the development that one wants to pursue” and that would guide “both public and private actors” (Saraceno, quoted in Carabba 1977, 27). In particular, the plan should be directed to address the North-South dualism through a push for the industrialization of the South, and thus an increase in the share of investment within aggregate demand (Carabba 1977, 28).

Thus, planning had a receptive audience among some in the Catholic world, and in fact also in the DC. Planning had been already advocated by Alcide De Gasperi who at the June 1954 DC party conference in Naples, two months before his death, called for a multiyear plan for the economic and social development of the country (Carabba 1977, 16). After his death, however, planning disappeared from the DC agenda, as the party, under Amintore Fanfani’s leadership, oriented itself towards achieving control of public resources as a way to emancipate itself from societal actors.

However, planning remained at the center of the economic proposals of the leftwing of the party, especially with reference to the problem of Southern underdevelopment. In fact, the first official parliamentary debate on planning took place in January and February 1961 (in the context of the first signs of the broadening of the government majority to the PSI), during the debate on the report of the minister presiding the committee for the South, the DC unionist Giulio Pastore (Carabba 1977, 29).

The concept of planning was then given new legitimacy by the Papal Encyclical “Mater et Magistra” (May 1961), which exhorted governments to implement policies to tackle social

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80 The definition of planning can be more or less expansive, depending on whether the plan is coercive or simply indicative and on the scope – the entire economy or only the public sector – of its application (La Palombara 1966; Shonfield 1965). In Italy planning took a rather limited meaning, namely as a way to improve the quality of government spending, in particular by increasing investments and controlling their destination, so that it can be used to finance broad reform programs (Camera dei Deputati, Atti Parlamentari, IV Legislature, N. 2606, p. 24472).

81 Also note that Saraceno (as well as Riccardo Lombardi, the leader of the left wing of the PSI) stressed that Italy’s participation in the newly created EEC imposed the elimination of tariffs with the member states by the early 1970s. This made it necessary to increase the productivity of the Italian workforce, which in turn implied increasing investment.
and economic inequalities among citizens and between more and less developed areas of the polity.\textsuperscript{82}

A few months later, planning finally entered the mainstream of the party through the first of two DC “ideological conferences,” which aimed to define the party’s position on planning.\textsuperscript{83} Through these conferences, which brought together DC politicians with the Catholic economists supporting planning, the leftwing of the party sought to convince the mainstream of the party of the need for planning (La Palombara 1966, 64). At the September 1961 “San Pellegrino I” conference the most influential report was presented by Saraceno, who strongly argued that in order to solve the problems of the South it was necessary to implement a coherent set of policies that would go beyond sectoral intervention (Carabba 1977, 64-65; Craveri 1995, 100-101; La Palombara 1966, 65-66). In fact, Aldo Moro (one of the party leaders that most strongly favored a government coalition with the PSI and who was to head the Center-Left governments until the end of the 1960s) relied heavily on Saraceno’s report to advocate planning at the January 1962 party conference convened to decide over the party’s opening to the PSI (Carabba 1977, 66-67; Craveri 1995, 105-106; La Palombara 1966, 68-69).\textsuperscript{84}

However, by 1963 the moderates in the DC had regained control of the party, so that in the Center-Left governments the DC acted largely as an obstacle to planning and to the reforms of the budget process meant to make planning possible.\textsuperscript{85} None of the main actors of the opening

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\textsuperscript{82} The Encyclical was the foundation of the social orientation of the DC(see the parliamentary discussion on bill 2606, \textit{Camera dei Deputati, Atti Parlamentari}, N. 2606, IV Legislature, p. 24467). The English text of the Encyclical is available at \url{http://www.vatican.va/holy_father/john_xxiii/encyclicals/documents/hf_j-xxiii_enc_15051961_mater_en.html}.

\textsuperscript{83} The first conference was held in San Pellegrino in September 1961. The second conference was held again in San Pellegrino, in September 1962. These conferences explicitly stressed that the DC view of the plan (as an instrument for the State to guide, but not stifle, the market in order to achieve socially meritorious goals) was consistent with the Church’s teachings on solidarity (Tamburrano 1990, 118). The San Pellegrino conferences reflected (possibly for the last time) the DC’s attempt to integrate the social doctrine of the Church into its economic policy stance (Craveri 1995, 100).

\textsuperscript{84} In fact, on the first times when the connection between planning and the reform of the budget process was at the San Pellegrino II conference, by the young Catholic economist instance Nino Andreatta – who was going to join the cabinet in a number of governments in the 1980s and 1990s (Carabba 1977, 66).

\textsuperscript{85} Opposition to the DC-PSI alliance was widespread in society (the Church and the entrepreneurs were vehemently opposed), in the state (the Bank of Italy was opposed) and in the DC itself. In particular, in the DC not only the right, but also the center (the \textit{Dorotei} fraction, thus named from the Santa Dorotea convent where they first met in 1959), was opposed, although its opposition was “more through refusal and silence than through explicit policy positions” (Carabba 1977, 69). The occasion for the tipping of power relations within the DC was offered by the April 1963 elections, which saw the party lose a million votes (its vote share went down from 42.3% - its share in the previous 1958 elections – to 38.3%). Within the party, this was taken as indication of the voters’ opposition to the alliance with the PSI, and the following month the Fanfani government fell.

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to the Left in the early 1960s (Amintore Fanfani for the DC, Ugo La Malfa for the PRI, and Riccardo Lombardi for the PSI) were in the Moro I government, the first “official” Center-Left government. Conversely, of the two leaders of the Dorotei, one – Mariano Rumor – was voted party secretary (in Moro’s place) in January 1964, and the other – Emilio Colombo – was appointed Treasury Minister (Carabba 1977, 68). 86

Within the Center-Left coalition it was the PSI and the PRI that supported planning and the connected reforms of the budget process. In fact, the clearest connection between planning, economic and social reform, and reform of the fiscal governance institutions was made by the PRI. In May 1962 the Republican Ugo La Malfa, Budget minister in the 1962-1963 Fanfani government, presented to Parliament a document that is considered the official beginning of planning in government, the so-called Nota aggiuntiva. 87 In this document La Malfa pointed to the regional and sectoral dualisms that the economic miracle had not solved and stressed that in order to confront these problems the government should commit to an improvement in the quality of its spending. In order to achieve this goal, planning was necessary to control the amount and direction of investments, and this also required new institutional mechanisms that would guarantee the coordination of the government’s programs and the programs’ implementation through the budget (Amato 1976, 78; Carabba 1977, 32-33; Cavalcanti 1992, 66-70; Salerno 1983, 9-10). 88

Eventually, the strategy of including the PSI in the government won again in the DC, but at the price of imposing a severe restriction on how far the new government should go with regard to planning. In particular, the central issue was not about the general goal of planning, but on the institutional implications of planning. In the “programmatic accord” that the DC, PSI, PRI and PSDI signed in November 1963, planning was carefully separated by the question of the reform of the budget institutions (Merlini 1979, 244-7)

86 The position of the Dorotei in government had also been strengthened by the election of one of their own – Antonio Segni – to the Presidency of the Republic in May 1962 (Carabba 1977, 68). The President is a largely, but not entirely, ceremonial position. It falls to the President to call for new elections (a power the President has inherited from the monarchic period) and to sign the appointment of the cabinet ministers. A politically weak government can be strongly influenced by the President. This was in fact the case of the first Moro government (when Segni had an important role in its formation, Craveri 1995, 163) and, in the 1990s, of the “technical governments” that managed the period after the “Clean Hands” scandals.

87 The official title was Problemi e prospettive dello sviluppo economico italiano. Nota aggiuntiva alla Relazione generale sulla situazione economica del Paese, but it commonly went by Nota aggiuntiva (reprinted in Mondo Economico – Supplemento 2 June 1962).

88 See also Giolitti’s contribution to the first parliamentary debate on planning (January 25 – February 8 1961), in which he emphasized the connection between development of the South, planning, and coordinated management of government resources (Carabba 1977, 29-30).
As for the PSI, it had made social reforms and planning the cornerstones of its political program (Amato and Cafagna 1982, 26; Scoppola 1997, 350). As Riccardo Lombardi (the leader of the left wing of the party) put it, the meaning of the party’s very existence was to introduce “structural, democratic and socialist reforms” in Italy (Lombardi, quoted in Ginsborg 1992, 654), and these reforms required the use of planning (Giovannini 1977, 457).

The participation of the PSI in the early Center-Left governments had as its goal precisely the introduction of major social and economic reforms (Amato and Cafagna 1982, 44); thus, with La Malfa gone from the executive, the role of supporting planning in the Moro I government fell on a Socialist, the Budget minister Antonio Giolitti.

Giolitti was, along Riccardo Lombardi, the leader of those who, within the PSI, emphasized the need for structural reforms and the connection between reforms, planning, and the ability to govern public spending (Carabba 1977, 71; Giovannini 1977, 456). Giolitti, thus, came to be the representative of the reformers within the executive (Carabba 1977, 38), and in fact he played a key role in ensuring the passage of the budget reform (Carabba 1977, 96).

The content of the budget reform reflected the intent to reduce the fragmentation of the budget process, consistently with the intent of making the budget an instrument of planning. With the reform, the budget was to be a single law covering the entire central administration, rather than having a distinct budget for each ministry (each subject to parliamentary vote); the financial year was made to coincide with the solar year; government spending was classified into current and capital spending.

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89 See also the report of the economic committee of the PSI, January 1962 (partially reproduced in Amato 1972, 100-101).

90 Unifying the budget into a single law had been advocated for a long time as a way to provide a unitary view of the government budget, rather than having it fragmented into 19 documents, one for each ministry (see Curti’s report to the Camera, in Camera dei Deputati, Atti Parlamentari, N. 311-A). Using the solar year for the budget had also been advocated for a long time as a way to make the period covered by the State budget coincide with that used for national accounting. This reform also reflected the influence of European integration, as the EEC had recommended that Italy use the solar year for its budget as this was the practice in the other member states (see Curti’s report to the Camera, Camera dei Deputati, Atti Parlamentari, N. 311-A). The classification of spending into current and capital spending also reflected international influences, as it implemented a scheme prepared by the RGS in 1959 on the basis of a 1952 UN work (Salerno 1983, 9). It aimed to facilitate overall planning by making it possible to assess the size of the current balance (the difference between current revenues and current spending) and thus to assess the room available for spending (Camera dei Deputati, Atti Parlamentari, N. 311-A IV Legislature: p. 4449). Also in the context of the new planning orientations, being able to distinguish current and capital spending would allow to better assess the impact of the budgetary decisions on national income (Camera dei Deputati, Atti Parlamentari, N. 311-A IV Legislature, p. 4473).
The advocates of planning recognized that these were only relatively minor improvements, but believed that this reform was going to be a first step towards a much deeper overhaul of the budget process.\textsuperscript{91}

### 4.3 THE FAILED REFORM OF THE BUDGET MINISTRY (LAW 48/67)

As it happened, however, the Curti law was the high point of the drive to reform the budget institutions to make them hospitable to planning. The 1967 law on the Budget ministry was passed when the window of opportunity for reform had already closed.

#### 4.3.1 The timing of the reform

After 1964 the economic, social and political environment for planning and thus for a reduction of budget process fragmentation dramatically worsened. In the late spring of 1963 the Bank of Italy, in response to the deterioration of the balance-of-payments that had followed the years of rapid economic growth, opted for a severe tightening of monetary policy (Shonfield 1965, 182).\textsuperscript{92} While this choice solved the balance-of-payments crisis, it also severely reduced the rate of growth of the economy.\textsuperscript{93} On the one hand, this weakened the assumption on which planning had been advocated, namely that ever-increasing resources would be available for policymakers (Amato and Cafagna 1982, 32; Salerno 1983, 16). On the other hand, the economic slowdown caused a large increase in unemployment,\textsuperscript{94} which reduced the unions’ power \textit{vis-à-vis} the

\textsuperscript{91} See the speeches of Giolitti, Riccardo Lombardi and Luciano Barca (responsible for economic affairs in the PCI) in the parliamentary discussions on the reform bill (bill N. 311-A, IV Legislature).

\textsuperscript{92} The use of the monetary lever was congruent with the policy stance of the Dorotei, who were more than glad to let the Bank of Italy take politically unpopular measures while keeping their control over the myriad centers of government spending (Craveri 1995, 157).

\textsuperscript{93} Real yearly growth was 8.2% in 1960 and it was still 5.6% in 1962. In 1963 it dropped to 2.6% and in 1964 it climbed up to 3.2% (Nardozzi 1980, 314).

\textsuperscript{94} The unemployment rate had dropped from 7% in 1959 to 3.9% in 1963. Starting in 1964 (4.3%) it began to climb up again (Nardozzi 1980, 315).
employers (Carabba 1977, 120), and thus reduced the bargaining power of the Left within the Center-Left coalition.\textsuperscript{95}

Moreover, the PSI began to lose its reformist orientation, and pushed ever more weakly for planning. In the spring of 1964 the Moro I government went under increasing fire over the question of planning (Craveri 1995), and of structural reforms of the economy, opposed both from within (by the Treasury minister, the \textit{Doroteo} Colombo) and from without (the Bank of Italy and the EEC Commission). All argued that in the context of difficult economic contingencies the government should focus on solving the crisis at hand, postponing its further projects to advance planning (Ginsborg 2003, 275). In June 1964 the Moro I government fell, precisely over a planning issue (a draft urban planning law). The government crisis was solved in July 1964 with the creation of the Moro II government (with the same party lineup). The President of the Republic – the \textit{Doroteo} Segni – was heavily involved in the formation of the new government, imposing on Moro (who had been designated to form the new government) a more moderate program.\textsuperscript{96} One of the conditions posed by the DC to the PSI was to give up any further institutional reforms (Craveri 1995, 180),\textsuperscript{97} and the PSI accepted.\textsuperscript{98}

\textsuperscript{95} An indication of the weakened position of the working class after 1964 is offered by the evolution of the share of wages as a share of total valued added in manufacturing: from its peak in 1964 (65.2\% of valued added), it declined to 60.3\% in 1965, bottoming out at 57\% in 1968 (Graziani 1979, 78).

\textsuperscript{96} Segni also made a point of discussing the formation of the new government with representatives of institutions other than Parliament and the parties, including Carli for the Bank of Italy and, rather ominously, general Aldo Rossi – head of the General Defense Staff – and general Giovanni De Lorenzo – head of the \textit{Carabinieri}. Three years later a journalistic investigation revealed that at the time the two officers had in place a plan to take over the government in case of a (Leftist) threat to public order (Craveri 1995, 175).

\textsuperscript{97} The interplay between reformers and the DC’s “refusal and silence” can be seen in the fate of the \textit{Commissione Nazionale per la Programmazione Economica} (National Committee for Economic Planning, CNPE). La Malfa had instituted it when he was Budget Minister, with the purpose of moving from the broad policy directives of the \textit{Nota Aggiuntiva} to an actual program. The CNPE, chaired by the Catholic Saraceno, brought together economists (like the Socialist Giorgio Fuà and Paolo Sylos Labini) and representatives of both employers and unions. The report of the CNPE (a draft version, supposedly secret, was circulated in June 1963, and the final report came out in 1964) ended up as a mere analysis of the problems to tackle rather than as an actual blueprint for the plan. This was the result of an explicit decision of the chair, and it caused a strong reaction from Fuà and Sylos Labini, who then published their own “counter-report” (\textit{Idee per la programmazione economica}), which aimed to provide a bridge for the construction of an actual plan, including a discussion of the relationship between objectives and constraints and the institutional framework that should be set up (Carabba 1977, 36).

\textsuperscript{98} One may wonder why the PSI, which had started its government experience still on Marxist positions, accepted to be in the government. The answer probably lies in the rightward turn of the party. The PSI had suffered a split in January 1964, when the most left-leaning section of the party left to start its own party (the PSIUP or \textit{Partito Socialista di Unità Proletaria}). After the split, the PSI rapidly moved rightward, in fact eventually merging with the PSDI, a DC ally since the 1950s, in 1966 (Scoppola 1997, 377). The unified party, which was to break up in a few years after disappointing electoral results, took the name PSU (\textit{Partito Socialista Unificato}).
Although the PSI continued to publicly push, against the DC’s opposition, for the introduction of forms of planning, its commitment to reforms began to falter (Carabba 1977, 74-75), as participation in the government became a goal in itself (Farneti 1980, 33; Ginsborg 2003, 279; Scoppola 1997, 378). Giolitti moved to the opposition within his party (Carabba 1977, 75), and in his place for the post of Budget minister the PSI selected Giovanni Pieraccini, a journalist who had no background in planning and was always shunned by the Socialist reformers (interview with T, Corte dei Conti judge and member of the 1960s planning community, 2/16/05; interview with W, former Corte dei Conti judge and member of the 1960s planning community 6/14/05).

Furthermore, the reformers’ goal to create institutions that would improve the coherence of the government’s economic policies was hampered by the increased fragmentation of the government parties themselves. As party members vied for the electoral and financial spoils of government, party factions increased in number and importance: by the late 1960s the DC had “around nine” factions and the PSI “four to seven” (Di Palma 1977, 269).

4.3.2 The content of the reform

Although in the second half of the 1960s the DC had effectively co-opted the PSI into its system of government, the supporters of planning, mostly Socialist, but quite distinct from the PSI party officials (Amato 1981, 296), continued to work with Giolitti to further planning in government (interview with T, Corte dei Conti judge and member of the 1960s planning community, 2/16/05; Melis 1996, 483).

The goal of the reformers was to make planning the framework of all government economic policymaking, and this goal passed through the creation of institutions at the executive level that would coordinate planning (Amato 1981). The institutional solutions were the

A complementary hypothesis (which however, given the nature of the facts lacks solid evidence) is that the PSI was cognizant of the risks of a military coup. They decided to join the government fearing that a refusal to join could have dangerous consequences for the stability of the constitutional order (Craveri, 1995).


100 Participation in the government became a way to share in the distribution of the government resources controlled by the DC (Giovannini 1977, 464)
strengthening of the Budget ministry and the creation of a committee of the economic ministers that to some extent would act as the economic cabinet (Carabba 1977, 98-99).

Both solutions were pursued with law 48/67, which reformed the Budget ministry (and renamed it Ministero del Bilancio e della Programmazione Economica, Minister of the Budget and Economic Planning, MBEP) and created the CIPE (Comitato Interministeriale per la Programmazione Economica, Inter-ministerial Committee for Economic Planning). However, the extent of these reforms was very limited and utterly insufficient to reduce the fragmentation of the budget process because, as Giuliano Amato put it, the “centrifugal forces in the political system had not been touched” (Amato 1974, 4).

Entrusting the responsibility of planning to a reformed Budget ministry had been of the key institutional proposals of the supporters of planning since the early 1960s, and the proposal had even entered the program of the Fanfani “ unofficial Center-Left” government (Camera dei Deputati 1962, 27608-27609).

The Ministero del Bilancio (Budget Ministry) had been created in 1947 (the following account is based on Bianchi 1995; Calandra 1978; Corte dei Conti various years; D’Aniello 1973; Merlini 1979; Sepe 1995; Serrani 1973; Severi 1967).

The original intention was to establish a coordinating structure between Treasury and Finance which would take a general view of fiscal policy and which would be especially entrusted with limiting public spending. The exit of the Left from government in 1947 had provided the opportunity for the establishment of a ministry with the mandate of controlling expenditure and the new ministry was in fact created as a vehicle for Luigi Einaudi (governor of the Bank of Italy between 1945 and 1948, Treasury and Finance minister in 1947, Budget minister in 1947-48, elected President of the Republic in 1948), who held strong economic liberal views.101 According to the decree establishing the ministry (law decree of the provisional Head of state n. 407 of June 4, 1947), the bills approving the budgets of the various state administrations would first have to receive the agreement of the Budget minister. Also, the Budget minister would have to approve all expenditure present in the budgets of more than one ministry as well expenditure exceeding one billion liras or measures reducing tax revenues.

101 In Italy as elsewhere, the two principal tenets of liberal thought at the end of WWII were that the market is the most efficient allocator of resources among competing uses and that public spending is the main cause of inflation (Serrani 1973, 57).
Moreover, the new ministry was explicitly tasked with the promotion of all measures needed to control and increase revenues and to regulate and contain expenditure authorizations and outlays. Finally, the Budget minister was to give its approval (the so-called *concerto*) to the budget before the Treasury would present it to Parliament.

However, the ministry had a weak bureaucratic structure (the ministry only consisting of the minister’s staff, made up of personnel commanded from other existing administrations) as Einaudi failed to obtain from the then Prime Minister Alcide De Gasperi that the main government office for the control of expenditure (the RGS) be moved from the Treasury to the Budget Ministry. As for the Budget Ministry’s role in preparing the budget, it was effectively prevented from exercising it: the Treasury transmitted the budget bill to the Budget Ministry only a few days before it was to be presented to Parliament, thus leaving the Budget Ministry no time to modify it (*Camera dei Deputati, Atti Parlamentari*, N. 2606, IV Legislature, p. 24482). As a result, after Einaudi left the ministry to become President of the Republic in 1948, the ministry essentially remained in abeyance, with the position of Budget minister being often held *ad interim* by either the Prime Minister or the Treasury minister until the Fanfani government in 1962.

A new bill for the reform of the ministry was presented in September 1965 and, unlike all the previous attempts to address the role of the Budget Ministry, it was finally approved by Parliament in February 1967. The new law (law 48/67) changed the ministry’s name to Ministry of Budget and Economic Planning (MBEP), thus reflecting the two main themes of the reform, namely defining the role of the ministry in both the budget and the planning process. The extent of the reform, however, was once again very limited, due to the opposition of the DC (Melis 1996, 484-485), and the powers given to the MBEP were much weaker than in the original reform proposals (Serrani 1973). As regards the role of the minister in the budget process, law 48/67 simply restated the competences that the ministry already had since its creation, competences that the Treasury had never taken (and would never take) seriously.\(^\text{102}\)

Moreover, the limited resources of the Ministry of Budget and Economic Planning (the total number of personnel for the ministry was set at 300, including thirty economic advisers, ---

\(^{102}\) Law 48/67, repeating the content of the original decree that had created the Budget ministry, stated that the Budget minister “cooperates with the Treasury minister in the drafting of the budget” (art. 2, paragraph a). However, even after the reform, the Treasury would regularly transmit the draft budget to the MBEP a bare 24 hours before the CIPE was scheduled to approve it (Rodotà 1979, 82).
who in fact ended up for the most part having training in law, Serrani 1973, 88-89) and the Treasury’s (specifically, the RGS) monopoly of budgetary data (Calandra, 1978, 405; Serrani 1979, 89) reduced the potential significance of the reformed ministry’s contribution to the formation of the budget.\(^{103}\)

In sum, the reform was unable to increase the importance of the MBEP at any stage of the budget process, so that throughout its history (until it was merged into the Treasury in 1997), the contribution of the MBEP to the budget process was “nil” (interview with V, former Budget minister, 2/23/05; interview with J, former head of cabinet of the MBEP, 2/16/05). Already by the mid-1970s the PSI, the party that had done the most to strengthen it, proposed that the MBEP be absorbed by the Treasury (“Requiem per il Ministero del Bilancio.” Paese Sera January 29, 1976; “Cosa sia nessuno lo sa, a che serve nemmeno.” L’Espresso November 12, 1978).

In fact, the reformers failed in their most important effort, namely in transferring the RGS to the MBEP (Amato 1976, 79). However, the fact that the MBEP was controlled by the PSI and the Treasury by the DC made this transfer impossible, and this failure ensured that the control of spending remained firmly in the hands of the Treasury.\(^{104}\)

The other plank of the reform, the CIPE, was similarly weak. Its creation had originally been proposed by Giolitti in 1964 (Merlini 1979, 251), and law 48/67, following pressure from the PSI (D’Aniello 1973, 96), charged it with defining the general lines of the government’s economic plan and of the budget (art. 16). The idea of the reformers was that, if the MBEP could not directly control public spending since the RGS would not be transferred to it, at least it would be able to coordinate the government’s economic policies through its control of the CIPE (interview with T, judge of the Corte dei Conti and member of the 1960s planning community, 2/1/6/05).\(^{105}\)

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\(^{103}\) As late as 1988 the ministry still lacked access to the public finance information network of the Treasury (Corte dei Conti 1989, 81).

\(^{104}\) The question of the transfer of the RGS from the Treasury to the MBEP had been the cause of clashes between the Socialist Budget minister Giovanni Giolitti and the DC Treasury minister Emilio Colombo during the preparation of the bill (Camera dei Deputati, Atti Parlamentari, N. 2606, IV Legislature). Between 1962 and 1964 previous attempts to move the RGS from the Treasury had been blocked by the fact that the PSI held the Budget and the DC held the Treasury (Carabba 1977, 97). The transfer was also adamantly opposed by the RGS itself, which resisted being moved to a second tier ministry like the Budget ministry (interview with J, economist, head of cabinet for the MBEP in the late 1980s and a member of the budget reform community since the 1970s, February 16, 2005).

\(^{105}\) On the creation of the CIPE as an instrument to implement planning through the coordination of decision-making in the executive see Serrani, Donatello. 1978. “Il governo dell’economia.” Il Sole 24 Ore December 12, 1978.
Formally, the CIPE was to be chaired by the prime minister, but the prime minister would normally be represented by the minister of Budget and Economic Planning. In this new institutional framework, weakened compared to Giolitti’s original proposal (D’Aniello 1973, 94-95), the MBEP was charged with preparing a draft national economic plan, to be presented to the CIPE and approved by the Council of Ministers (art. 3, paragraph a), and the MBEP would be responsible for “the political vigilance over the actions of the other ministers” (report of deputy Colarelli to the Assembly, Camera dei Deputati, Atti Parlamentari, IV Legislature, N. 2606, p. 4).

However, the very composition of the CIPE (almost coterminous with the entire cabinet, including as it did fifteen ministers at the time of the passage of the law, D’Aniello 1973, 98), weakened its coordinating role. Moreover, the “political vigilance” of the MBEP was not coupled with coercive or veto power on the other ministers to force them to comply with the plan. Thus, the CIPE would be reduced to “solemnly record” the decisions made by the individual ministers (Merusi 1979, 172).

During the 1970s the CIPE would fragment into myriad sectoral subcommittees and by the end of that decade it was considered “an empty shell” whose ineffectiveness undermined the very reason for keeping the MBEP alive (Paladin 2004, 212; Serrani 1979, 55), nor would it take a significant role in the budget process in the following years (Perez 2003, 616).

4.4 CONCLUSIONS

In a political system marked by policy immobility, as Italy was until the change in electoral laws in the 1990s, reforms could only occur through the entry in the government majority of a new

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106 This provides an interesting contrast with the ministerial committees of the British cabinet, where the presence only of non-spending ministers or ministers with limited spending portfolios makes them effective in controlling the spending requests of the spending ministers (Hallerberg 2004).

107 This was indeed consistent with the constraints posed by the Constitution, which prevent any minister from having the power to initiate legislation independently of the cabinet (Art. 71) and reserve the task of coordinating the cabinet to the PM (Art. 95). In fact, concerns regarding the constitutionality of the original bill induced the Budget Commission of the Camera to reduce the power of the MBEP with regard to new government legislation (the MBEP was originally given the power to approve it, and the Budget Commission reduced this to the power to give an opinion), see Camera dei Deputati, Atti Parlamentari, IV Legislatura, N. 2606, p. 4).
party with a strong programmatic orientation, or as a response to pressure from the European Community.

In the 1960s this second factor was relatively unimportant, and if anything the pressure coming from Europe was against reform. A window of opportunity for reform, therefore, could only open in the context of partial government alternation.

The different fate of the two reforms of the budget process (law 62/64 and law 48/67) exemplifies the importance of the presence of such a window. Law 62/64 was passed at the tail end of a partial government alternation episode, namely the entry of the Socialist party in the government majority and in the executive, and it achieved the reformers’ purposes, namely to reduce the fragmentation of the government budget document.

Conversely, law 48/67 was passed when the Center-Left coalition had already exhausted its programmatic orientation and the PSI had effectively been co-opted into the Christian Democratic governance system. In other words, the partial government alternation phase was over, and the window of opportunity for reform had closed. As a result, the reform of the Budget ministry was much less far-reaching than what the reformers had originally envisioned, and the new MBEP was never able to coordinate the government’s economic policies.

The budget reforms did not have a narrow financial purpose, such as limiting government spending. Rather, their content, in the 1960s as in most other cases through the 1990s, reflected the ideas of the relevant reform community on how to transform the budget to make it into an efficient instrument for some broader policy goal. In the 1960s this policy goal was planning, namely the coordinated use of government resources for the introduction of significant economic and social reforms.

As we have seen in chapters one and two, the passage of ideas from the policy community to the sphere of policymaking requires a policy entrepreneur, an individual that acts as “ideas-carrier” (Berman 1998, 25). It also requires a receptive political environment, namely political parties (or groups within them) that consider these ideas useful for the achievement of their electoral goals (King 2005, 98).

In the early 1960s these parties were the Republic party (PRI) and the Socialist party, as both connected their electoral success to the introduction of broad reforms through planning. Thus, the policy entrepreneurs that worked for institutional reforms that would facilitate planning came from these two parties: Ugo La Malfa from the PRI and Giovanni Giolitti from the PSI.
The reforms are tightly connected to the efforts of these policy entrepreneurs, and Giolitti in particular is connected to both laws covered in this chapter. However, the efforts of the policy entrepreneurs are for naught if the window of opportunity has closed: the different degree of success of the two laws, in spite of their both being the product of the Socialist reformers that had organized around Giolitti, bears witness to the importance of the political context for reform.
5.0 THE 1970S AND LAW 468/78

Following the structure used in Chapter Four, this chapter first proceeds to explain the timing of reform in the 1970s (section one), and the moves to explain its content (section two). Section three concludes.

As regards the timing of reform, this chapter will show that the political conditions (that is, the lack of government alternation) made reform impossible in the early 1970s, in spite of widespread agreement on that fact that it was needed.

The reform process began in 1975 and picked up after the 1976 general elections. These elections contributed in two ways to open a window for reform. First, they marked a major electoral advance of the PCI, all but forcing the DC to include it into the government’s parliamentary majority if not in the executive, and the PCI had in the previous years developed a strong reformist orientation that rested on the revamping of planning and the reform of the budget. Second, the elections weakened the position of the long-standing Treasury minister, opening the door for a new Treasury minister that was relatively less wed to party interests and more oriented towards reform.

As regards the content of the reforms, and in particular of the main reform (law 468/78), this was a new attempt to make the budget process more cohesive, so as to improve its usefulness for a revamped form of planning (financial planning).

The choice of specific budget instruments reflected the debate that had developed among the experts in the previous years, but it was also strongly influenced by the political conditions at the time of the reform. In particular, reflecting the role of the PCI as a fundamental member of the parliamentary majority but not of the executive, the reform aimed to give Parliament a central role in the new budget process.

As regards the role of Europe, the chapter will show that it was still rather limited, with regard to both the timing and the content of reform.
5.1 THE TIMING OF THE REFORM

The 1964 Curti law and the 1967 reform of the Budget ministry did not exhaust the drive for reform. The Curti law had been but a small improvement of the budget process (interview with W, former Corte dei Conti judge and member of the 1960s planning community 6/14/05), and – as we saw in the previous chapter – law 48/67 failed to give substantive coordinating powers to either the MBEP or the CIPE.

Moreover, two developments in the 1960s reinforced the urgency of reform among the supporters of planning. The first development was the 1963-64 severe monetary tightening that the Bank of Italy had decided in order to face an impending balance-of-payment crisis. The crisis had resulted from the fast economic growth of the 1958-1962 period (the so-called economic miracle), as the rapid growth in incomes had led to an import upsurge. The monetary tightening averted the crisis, but it also ended the economic miracle and dealt a severe blow to the power of unions and of leftwing parties.

The episode had shown that the growth of the Italian economy had a very powerful external constraint, as any substantial acceleration in the rate of growth was going to produce a balance-of-payments crisis. For the reformers (the PRI, the left wing of the DC and of the PSI and the planners connected to the Budget ministry) it became clear that the plan was necessary not only to introduce social reforms, but also to improve the quality of government spending. In order to ensure that sustained growth would not bump into the external constraint, it was necessary to improve the government’s ability to control its spending, and in particular to increase investments compared to government consumption (Carabba 1977).

In early 1966 the Budget minister (the Socialist Giovanni Pieraccini) instructed the scientific committee within the ministry (which included Catholic and Socialist economists) to study the problem of the quality of government spending. The committee concluded its work in May 1966 and in its report recommended a “requalification” of government spending that would limit its “disorderly growth” (Carabba 1977, 122).

Moving to the second relevant development influencing the debate on planning and budget reform, in the same year (1966) the Constitutional Court issued a sentence (sentence 1/66 of January 10, 1966) that was to increase the political interest in the reform. This sentence addressed the constitutional obligation that every law causing new or greater spending should
indicate how this spending will be funded.\textsuperscript{108} This funding obligation contributes to limiting the fragmentation of spending by introducing a trade-off among spending decisions, as it imposes to put every spending decision in the context of total spending and revenues (Onida 1973, 48), and the interpretation of this obligation had become increasingly lax during the 1960s (in particular the legislator had often allowed multi-year laws that were funded only for the first year, as the Court pointed out in the sentence). In the sentence, the Court laid down a strict interpretation of the funding obligation, confirming that it also applies to the years after the first in the case of multi-year legislation.\textsuperscript{109}

However, the Court also argued that the government’s plan could provide an acceptable source of funding for multi-year legislation, namely that the revenues forecast in the plan could be used to offset the future expenditure. The fact that the sentence effectively allowed the plan to be used to fulfill the funding obligation for new spending spurred new parliamentary interest in the issue. After the sentence, the chairs of the two branches of Parliament set up a bicameral commission for “the study of the problems deriving from Art. 81 of the Constitution” (\textit{Comitato parlamentare di studio dei problemi derivanti dall’Art. 81 della Costituzione}, generally known as the Paratore-Medici committee from the names of its two chairmen, Giuseppe Paratore and – after his death in 1967 – Giuseppe Medici).

Even though by 1966 the reformers connected to the Budget ministry and also many members of Parliament were in favor of restructuring the budget process so as to finally make it compatible with planning, it took twelve years, until law 468/78, for this restructuring to occur. It is telling that the opposition within the government coalition to the conclusions of the Budget ministry commission report (which, as we have seen, had advocated a better coordination of government spending) was such that the report could not be published at all (Carabba 1977, 124).

In fact, within the government majority, the support for reform had waned. As for the PSI, we saw in the previous chapter that the party majority had grown increasingly lukewarm about reforms from 1964 on. The major defeat suffered at the 1968 elections further convinced

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\textsuperscript{108} The sentence responded to a case brought to the Court by a land owner who claimed that a law authorizing the temporary occupation of some of her land holdings in order to build a new road was unconstitutional as it did not indicate the sources of funding for the years past the first one (the constitutional reference is to Art. 81(4): “every law [other than the budget] that entails new or greater expenditure must indicate the source of funding.”

\textsuperscript{109} Thus it upheld the case of the landowner, if the reader was wondering.
\end{flushleft}
the party secretary, Pietro Nenni, that running on a program of broad reforms was not paying off electorally, and that a better route was to follow a strategy of providing particularized benefits to specific constituencies (Amato and Cafagna 1982, 124).

As for the DC, it reacted to the social unrest that followed the 1968 student and worker mobilization by moving to the right. Internally, the right and the Dorotei remained on the ascendancy until the 1974 referendum on divorce, which the DC – which had heavily campaigned for its abrogation – lost (De Felice 1996).

As a result, between the late 1960s and the first half of the 1970s the reform of the government budget stalled. As we saw in the previous chapter, neither the MBEP nor the CIPE were able to perform a coordinating role in the budget process, which remained firmly in the hands of the Treasury.

The momentum of reform picked up after 1974, namely after it became clear that the electoral trends were such that it would impossible to create a center-right majority in Parliament (Craveri 1995, 551), thus making the eventual association of the PCI to the government’s parliamentary majority a necessity (Di Palma 1979, 405).

In 1975 a reform of the budget institutions for the regions was finally passed. This reform, which had been five years in the waiting after the creation of the regions in 1970, implemented many of the conclusions of the debate on budget reform of the late 1960s and early 1970s, and it was generally considered to be the trailblazer for the reform of the budget process at the national level.

In 1976, the June national elections provided a further push towards partial government alternation, in the form of the association of the PCI to the government majority. The elections affected both the relationship between the DC and the main opposition party (the PCI) and the power relations within the DC itself.

Beginning with the first development, the elections saw a further advance of the PCI. In Aldo Moro’s words there were “two winners” from the elections – the DC and the PCI – and given the polarization of the electorate around them, any future government would have to rest on the agreement between these two parties. The government that was formed (under Giulio Andreotti’s premiership) was a single party (DC) “national emergency” government supported
by all constitutional parties (that is, excluding the MSI) and, for the first time, relying on the abstention of the PCI.\textsuperscript{110}

The PCI, much like the PSI in the early 1960s, brought to the majority a strong programmatic orientation. In 1975 the PCI started to seriously consider how to combine the bargaining power that unions have won since 1968 with what appeared as the increasing likelihood that the party may be called to share in the responsibilities of government and thus to tackle the two great economic ills of the time, inflation and the balance-of-payments deficit. The Communist leadership began to propose an exchange between wage moderation and planning (Paggi and D'Angelillo 1986, 10-11). This position was sanctioned in March 1976, at a conference organized by the CESPE, a think-tank close to the PCI. At the conference the economist Franco Modigliani advocated wage moderation in exchange for social reforms, and his position had a strong influence on the PCI and the unions (Paggi and D'Angelillo 1986, 11; Rampa, 141).\textsuperscript{111} Moreover, it fit well with an increasingly influential orientation in the PCI, espoused by Gianni Rodano already in the 1960s, to push the Italian economy and society towards a substitution of public for private consumption (Carabba 1977, 54; Rampa, 135).\textsuperscript{112}

Following the conference, the CESPE published a report ("Rapporto sull'economia italiana") that represented the summa of the Left’s position on reforms and planning (Rampa, 141-148).\textsuperscript{113} The report argued, along Modigliani’s lines, that it was necessary to limit the support to domestic demand provided by government transfers to families and firms, since these transfers stimulate economic growth that is not accompanied by investments, improvements in productivity and an increase in international competitiveness. This type of growth ends up bumping against the external constraint created by the balance of payments. Thus, in order to deal with this external constraint there are two strategies: either limiting salaries and wages (so

\textsuperscript{110} Given the entrenched opposition to the PCI’s direct participation in government, domestically and especially internationally (Ginsborg 2003; Ludlow 1982), this support by abstention (a so-called “non-no-confidence vote”) was the most that was politically feasible at the time (Rodotà 1982).

\textsuperscript{111} Modigliani had anticipated his position in an interview with Ugo Stille; in the interview Modigliani stressed that it was necessary to reduce real wages in order to stimulate investments and thus increase the international competitiveness of the Italian economy. In exchange for wage moderation, the government should finally embark on the program of social investments (such as schools and hospitals) that had been promised since the years of the center-left (Stille, Ugo. 1976. “Nell’anno della ripresa economica gli italiani dovranno vivere peggio.” \textit{Il Corriere della Sera} January 3, 1976).

\textsuperscript{112} Rodano was one of the closest advisors of Enrico Berlinguer’s, the secretary of the PCI between the early 1970s and the mid-1980s (Amato and Cafagna 1982, 96).

\textsuperscript{113} The report appeared in \textit{Rinascita} 32 (August 6, 1976), 9-12.
as to limit the growth in domestic demand), or increasing investments.\textsuperscript{114} The proposal was thus to control the wage dynamic in the short-term, and to introduce policies aiming to increase investments.

In fact, by the second half of the 1970s the economic analysis of the PCI was largely aligned with that of the Bank of Italy (Fotia and Romagnoli 1980; Paggi and D'Angelillo 1986, 148; Vacca 1987, 107, 164-165).\textsuperscript{115}

Moreover, in the second half of the 1970s the PCI took a decided turn towards the middle classes, endorsing wage moderation and pointing to inflation rather than unemployment as the chief economic problem, even if this meant alienating its traditional working class constituencies (Fotia and Romagnoli 1980; Napolitano 1979; Paggi and D'Angelillo 1986, x).\textsuperscript{116}

Thus, by the time of its entry in the government majority in the summer of 1976 the PCI considered the twin evils of inflation and balance-of-payments deficits the main issues it needed to face (De Felice 1995, 72), and it endorsed a strategy combining wage moderation, reduction in government transfer spending and increases in private and public investments, conversely rejecting devaluation as a solution to Italy’s balance-of-payments problems because of its impact on inflation (Cavalcanti 1992, 85-86; Fotia and Romagnoli 1980; Paggi and D'Angelillo 1986, 12, 115, 149-150; Vacca 1987, 156).

With regard specifically to government spending, the PCI was convinced of the need to improve the instruments for its management (Carandini and Simula 1977, 58-60; Cavalcanti 1992, 149; Salvemini 1979, 15).

On the one hand, this was considered necessary in order to increase the funds for investments aimed at improving international competitiveness and providing needed social

\textsuperscript{114} A third solution, devaluation, was rejected because its impact is only temporary, especially in the context of floating exchange rates and of high indexation of the wages to inflation; moreover, the attendant inflation would especially affect the salaried groups, the main constituency of the Left, who depend on fixed incomes.

\textsuperscript{115} Beside the role played by people like Modigliani (himself a longtime consultant of the Bank of Italy) in this convergence, there was also frequent personal interaction between the leadership of the PCI and many economists of the Bank of Italy (interview with X, senior Bank of Italy economist, July 15, 2003; another senior Bank of Italy official has also argued with me that the PCI has always been closer to the principles espoused by the Bank of Italy, chiefly creating competitive markets, than the DC, interview with AB, May 14, 2003).

\textsuperscript{116} The PCI had always been conscious, following Gramsci, of the need to extend its electoral appeal to middle classes (Amato and Cafagna 1982, 73-77; Craveri 1995, 78). However, it was only in the 1970s that this became an actual party strategy (Amato and Cafagna, 1982: 67-8). The move was in part caused by a study on social classes in Italy by a noted economist (Paolo Sylos Labini) which showed the large size of the middle class (Amato and Cafagna 1982, 68). In part, the strategic move towards the middle classes was inspired by the realization, inspired by the lessons of the 1973 coup in Chile, that a left coalition (PCI and PSI) could never govern in Italy if it did not reassure the moderates (Fotia and Romagnoli 1980, 59; Ginsborg 2003, 355).
services (Amato and Cafagna 1982, 84). On the other hand, better governance instruments were need to limit the overall growth of government spending, since the PCI, heeding one of the main concerns of Italian economists in the 1970s (Cavalcanti 1992, 46), feared the “crowding-out” effects of government spending on private investments (Fotia and Romagnoli 1980, 73-85; Paggi and D'Angelillo 1986, 170-171).

Moreover, the goal of improving the governance of public spending was consistent with the PCI’s goal of reforming public administration, which was seen as vital for the success of broader economic and social reform (Tarrow 1977, 257).

The entry of the PCI in the majority increased the programmatic orientation of the governments, so that for once in Italy’s postwar history the majority was bound together by a common program rather than by a stable coalitional formula (Di Palma 1979, 411). The program of the Andreotti government (presented to Parliament on August 4, 1976) emphasized the goal of reducing inflation and stressed the connection between inflation and government deficit. Among its goals it also included the strengthening of the coordination capabilities of the MBEP and improving the quality of government spending (i.e. increasing the share of investments in the total).

In July 1977 all the parties supporting the government, including the PCI, signed a common “programmatic agreement” that was voted as a parliamentary motion by the Lower Chamber. In the agreement, Parliament committed the government to improve the quality of public spending (namely to increase investments relative to current spending) and to improve the control of financial flows with the purpose of implementing financial planning (Camera dei Deputati 1977b, 8870).

As I mentioned above, the elections also had an impact in the power relationships within the DC. In particular, the elections weakened the position of the long-standing Treasury minister,

\[\text{\textsuperscript{117}}\] The first official declaration on the need to improve the quality of government spending was made by the Third Sub-Committee of the PCI’s Central Committee in October 1974 (see “Le proposte del PCI per un’energica azione riformatrice.” \textit{L’Unità} October 22, 1974).


\[\text{\textsuperscript{119}}\] The greater programmatic orientation of the governments in the 1976-1979 period is indicated by the nature of the enacted legislation; in that period, out of five laws one was of general scope (as opposed to sectoral or micro-sectional), while in the 1948-1972 period only one out of twenty laws had been of general scope (Cazzola 1982, 193).

\[\text{\textsuperscript{120}}\] Reprinted in \textit{Mondo Economico} 31/32, 21-28 August 1976.
the *Doroteo* Emilio Colombo. He was widely blamed for the stop-and-go policies followed by the Treasury in the previous years,\textsuperscript{121} and he also suffered a personal electoral defeat.\textsuperscript{122}

Colombo’s political weakening made it possible for the DC to pursue the policy of *rapprochement* with the PCI by introducing into the cabinet “technical” rather than political personalities.\textsuperscript{123} In fact, a number of DC senators signed a document requesting that the new cabinet would not have any former prime ministers, which immediately disqualified Colombo from being in the cabinet.\textsuperscript{124}

For the Treasury, the choice fell on Gaetano Stammati. While no political outsider, he brought to the job a greater distance from partisan politics (he was first elected to Parliament, for the DC, in the 1976 elections) and great technical expertise in the budget process as the former head of the RGS.

Stammati acted as a policy entrepreneur for the budget reform (see following section), and his action was facilitated by the January 1976 currency crisis, the second in a few years (there had been another one in 1973-1974). An extremely fast recovery spurred by deficit spending had caused inflation and a deterioration of the balance of payments: on January 20, 1976, on the heels of massive foreign reserve losses, the exchange market had to be closed, and it was only to reopen forty days later. The crisis made a huge impression and diffused among policymakers of all parties a deep concern for the financial stability of the country (Di Giulio and Rocco 1979, 19), and thus contributed to create a climate of support for the reform of the budget procedures in Parliament.\textsuperscript{125}

\begin{itemize}
\item \textsuperscript{121} Interview with J, economist and member of the 1970s reform community, 2/1/6/05; see also Pirani, Mario. 1976. “Colombo: ‘ma quail tagli posso fare alle spese che tutti esigono?’” *La Repubblica* March 7, 1976.
\item \textsuperscript{122} In Colombo’s constituency the DC lost 5% of the votes for the Lower Chamber and 3% of the votes for the Senate. Colombo himself lost 30,000 votes (Tamburrino, Lina. 1976. “In Basilicata il 20 giugno segna la fine del predominio di Colombo.” *L’Unità* July 7, 1976). Since the chance to be in the executive depended on the extent of personal electoral support (Calise 1996, 361-363), this severely hurt Colombo’s reappointment chances.
\item \textsuperscript{124} Valentini, Giovanni. 1976. “Primi assaggi con i Comunisti.” *La Repubblica* July 7, 1976.
\item \textsuperscript{125} For the extensive consensus on the need and urgency of reforms that would increase the scope and flexibility of the budget after the experience of the second currency crisis, see the parliamentary debates for law 407/77 (Camera dei Deputati, Atti Parlamentari, VII Legislatura, N. 1366) and for the 1978 budget (Senato della Repubblica, Atti Parlamentari, VII Legislatura, N. 911). The Bank of Italy also stressed that it had been unable to guarantee the respect of the credit ceilings agreed with the IMF and the EEC in 1974, since the lack of reliable information on the
\end{itemize}
In sum, after the 1976 elections a party with a strong programmatic orientation was associated to the majority, and the executive had a new Treasury minister who was more distant than his predecessor from the concerns of partisan politics. Moreover, a recent currency crisis underscored the urgency to reform the institutions governing public spending (Ricci, Salvemini, and Zaghini 1979, 16).

These conditions opened a window of opportunity for reform. The opportunity was seized by Stammati, who immediately after the formation of the new government set to work on the reform of the budget. In August 1978 this reform (law 468/78) was finally approved by Parliament, twelve years after the debate on the budget reform had begun.

5.2 THE CONTENT OF THE REFORM

The conclusions of the Paratore-Medici commission, and later of a inquiry by the Budget Commission of the Chamber (1969-1971), firmly connected the issue of planning to that of the budget, not only with reference to the connection between the funding obligation and the plan, but also by arguing that the executive should be able to modulate the actual yearly spending through the budget. Thus, in the debate planning would occur through the management of the budget, namely in the form of financial planning.

This reflected the growing realization among experts that the budget was increasingly rigid, namely that most spending was already committed (about 80% by the early 1970s, Gambale 1980, 87), and thus outside of the policymakers’ (executive and Parliament) ability to modify it in the yearly budget.

The new relevance of the connection between planning and the budget was also not lost on the planners of the MBEP. After they had had to give up on moving the RGS to the MBEP, they saw budget reform as an alternative avenue for effectively planning budgetary decision making (Carabba 1977, 184).

The main product of the reorientation of the planners’ thinking was the “Progetto 80,” published in 1969 (Ministero del Bilancio e della Programmazione Economica 1969). This report “true” amount of the deficit had made it impossible to control the creation of domestic credit: it was therefore necessary for the government to provide more accurate data on the deficit (Salvemini 1979, 18-19).
started from the assessment of the inadequacy of the budget as it was currently structured to provide the effective governance of spending that planning required. It proposed to introduce a five-year budget (a translation of the plan into accounting terms, which would be revised every year) that would supply the information necessary for the funding of multiyear spending, the introduction of a cash budget beside the existing accrual budget and the introduction of a “financial law” that would make it possible to modify the revenue and spending decisions recorded in the budget. The report’s suggestions for reform followed the 1966 Constitutional Court sentence and largely coincided with the conclusions of the parliamentary inquiries of 1968 and 1971.

Thus, by the early 1970s there was broad consensus in the expert community not only on the need to reform of the budget, but also on how to do it. The main point of difference regarded whether, following the French experience (Carabba 1977, 184), it was appropriate to introduce a new budget instrument, namely the “financial law” (LF). Most experts were against this solutions, as they believed that, in spite of the formal nature of the budget law, it was possible to increase its flexibility simply by giving the executive the power to modulate the yearly spending of multi-year legislation, for instance though a multi-year budget (Stammati 1968).

The planners, on the contrary, in the “Progetto ‘80” supported the LF as the locus for unitary decision making on spending and revenues. The purpose of the financial law was to provide an instrument that could act as a bridge between the five-year and the yearly budget by giving the budget process the flexibility needed for the implementation of planning and denied by the constitutional provision (Art. 81, paragraph 3) that “the law approving the budget cannot introduce new taxes or new expenditure.” The yearly LF, that is, would be the instrument through which the executive and Parliament would decide how to implement the plan year by year.

126 An accrual budget (the system followed in Italy until the 1978 reform) includes the revenues to which the State has a right and the expenditure to which the State has committed. A cash budget only includes the amounts that the State is likely to receive (revenues) and the amounts that the State is likely to spend (expenditure). The use of cash accounting is consistent with a planning approach in that it affords a better control of the effectiveness of the administration by allowing to compare the spending authorized by the plan with the spending that actually takes place (Barettoni Arleri 1984, 149; Colajanni 1977a, 37; Ricci, Salvemini, and Zaghini 1979, 37).

127 See also the study of the V Commission (Budget) of the Camera (Camera dei Deputati - Servizio Commissioni Parlamentari 1972). The same conclusion was reached by the Commissione programmazione settore pubblico, which included the future Treasury minister Stammati (Salerno 1983, 24-30).
As we saw in the previous section, even though by the early 1970s there was a consensus among many in Parliament and in the planning community connected to the MBEP regarding the need for and the general lines of the budget reform, the reform process did not advance until the mid-1970s.

In February 1975 the government presented a bill for the regulation of regional finance (a piece of legislation made necessary by the creation of the regions in 1970) which implemented most of the solutions that had been arrived at in the earlier debate, and in particular the introduction of a multiyear budget and of a cash budget alongside the accruals budget in order to increase the flexibility of the budget. This law (law 335/76) constituted the stepping stone between the debates of the late 1960s and early 1970s and the reform of the budget process at the national level. While limited to the subnational level, it was explicitly meant to provide a proving ground for the national reform of fiscal governance.128

Its content was based on the work of a commission chaired by Giuseppe Carbone (who had also been involved in the drafting of the 1964 Curti law when he was head of cabinet at the Budget ministry) and appointed by Giolitti when he again became Budget minister. In its composition the Carbone commission was a bridge between the old and new debates. Its members included Sabino Cassese, who had contributed to the “Progetto ‘80” report, Valerio Onida (a constitutional scholar author of an influential book on public spending that had come out in 1969) and Maria Teresa Salvemini, who was going to go on to work with Stammati on the reform of the budget at the national level.

Beside the issue of the extreme rigidity of the budget, and thus of the widely recognized need to increase its flexibility (Cassese 1974b, 237; Cavalcanti 1992, 48; Gambale 1980, 87-89), the other main issue that concerned reformers, and which was brought into further relief with the creation of the regions (Segretariato per l'organizzazione scientifica nella Pubblica Amministrazione 1978, 275), was the problem of the limited scope of the central government budget. In its reports to Parliament (1972-1976) the Corte dei Conti had advocated increasing the scope of the budget by creating a budget for the larger public sector. This issue was also taken up by the MBEP, which commissioned a study to Franco Reviglio, a public finance expert close to

128 See the intervention of the DC Tommaso Morlino, the minister for the regions who introduced the bill, in the parliamentary debate, Senato della Repubblica, Atti Parlamentari, VI Legislature, N. 1938, p. 228 (see also Barettoni Arleri 1986, 277-280; Gambale and Monorchio 1984, 369-372; Ristuccia 1980, 160).
the PSI (Segretariato per l'organizzazione scientifica nella Pubblica Amministrazione 1978, 277), and who also advocated the collection of information on the larger public sector (Reviglio 1977).

Stammati started to work on the issue of the budget’s scope in the fall of 1976, soon after he had become Treasury minister (Salvemini 1979, 14). By the spring of 1977 the Treasury had prepared a new long-awaited broader measurement of the government sector (the “larger public sector”) and a first, partial reform was already implemented in July 1977 (law 407/77). This law moved the presentation of the budget to September 30 (art. 1), thus merging the Nota preliminare (“preliminary note”) of the budget into the Relazione Previsionale e Programmatica (RPP, or “forecasting and planning report”). The law also introduced (art. 2) the provision that every three months the Treasury must provide to Parliament a cash accounting report covering the entire public sector (this was the first implementation in law of the larger public sector concept). Finally, law 407/77 also modified the treatment of the residual liabilities by reducing the time capital residual liabilities would be kept in the books.

The progression continued in the fall of 1977, when Stammati presented a first experimental financial law to Parliament in the context of the budget bill (See Senato della Repubblica, Atti Parlamentari, VII Legislature, N. 911) and the cabinet began discussing a broader overhaul of the budget process based on the new regional budget process (“Anno nuovo e bilancio vecchio.” L’Espresso October 10, 1977).

In January 1978 Stammati presented a bill for the reform of the budget process, which was approved by Parliament in August 1978. While the reform bill was Stammati’s initiative (Salerno 1983, 39; Salvemini 1979, 24), Parliament gave a significant contribution to the elaboration of the reform (Ristuccia 1980, 175-81), consistently with the then prevailing norm of

129 The bill was presented by Stammati in April 1977.
130 The RPP had been introduced by the Curti law of 1964 as the document (to be presented by September 30 of each year) in which the government would explain to Parliament its economic policies for the following year. Since the budget (and thus its “preliminary note”) was to be presented by July 31, there was too large a chronological gap between the two documents. In particular, by the end of September the Nota preliminare tended to be already outdated. This deprived the RPP of any concrete connection to the budget, and thus deprived it of any practical importance; see the discussion on the bill, in particular Camera Dei Deputati (1977a) and Camera Dei Deputati, Atti Parlamentari, VII Legislature, N. 1366, pp. 1-2.
131 This implied some reduction in fiscal governance fragmentation in that it increased the amount of resources that can be put to new uses, thus preventing the spending administrations from effectively appropriating them for an indeterminate length of time.
the “centrality of Parliament” (more on this later). This allowed a number of academics (often economists and budget experts) in Parliament to give a significant contribution to the reform.132

The new law (468/78), which brought together all the elements of the debate on budget reform that had emerged since the late 1960s, was hailed as “revolutionary” (Barettoni Arleri 1984, 155; Ristuccia 1980, 159; Salvemini 1979, 24). It introduced new instruments meant to radically change the purpose of the budget, from mere authorization to a document that actually sets the lines of the country’s economic policy. All the new features introduced by the law have the common purpose of increasing the maneuverability of the budget, and through it of economic policy. The main elements introduced by the reform were: a “financial law” (Legge Finanziaria, hereafter LF) that can modify taxes and expenditure (thus creating a way out of the strictures imposed by Art. 81 (3) of the Constitution); a multiyear budget (in two versions, namely a planning multiyear budget – Bilancio Pluriennale Programmatico, hereafter BPP – and a “current legislation” multiyear budget, Bilancio Pluriennale a Legislazione Vigente, hereafter BPLV); a cash budget alongside the accruals budget; standardized accounting rules for the budgets of the various government agencies that make up the public sector; and new reconciliation procedures, aiming to provide a coherent framework for new spending decided after the approval of the budget.

The LF modifies the “current legislation” budget (Bilancio a Legislazione Vigente, hereafter BLV) according to the guidelines set by the BPP. Thus it acts, as it were, as a “bridge” between the BLV and the BPP (Ristuccia 1980, 180). More specifically, the LF was to implement the fiscal “maneuver” of the government by modifying the revenues and the expenditure of central government and by setting the share of multiyear expenditure to be allocated to each year, in keeping with the BPP.133 The LF also sets the total amount of the “special funds” and of the public sector borrowing requirement.134

132 Among the most active participants to the debate were Siro Lombardini, a leftwing Christian Democratic economist, and Luigi Spaventa, an economist that had cooperated with the MBEP in the early 1970s and who had been elected as an indipendente di sinistra, namely in the electoral lists of the PCI but without being a formal member of the party.
133 By the early 1970s it had been recognized that the greater part of government outlays was made up of multiyear commitments. The setting of the yearly shares of multiyear expenditure by the LF was thus meant to reduce the rigidity of the budget, as every year it would “modulate” multiyear expenditure commitments (Della Cananea 1996, 131). The “maneuver” refers to the package of measures (on the revenue and expenditure side) introduced yearly by the LF. Over the years these packages have constantly aimed to reduce the government deficit, although individual measures may be meant to be expansionary. Thus, in public discourse the yearly maneuver is in fact synonymous
Although the BPP was in fact never going to be implemented (for reasons that will be reviewed in the next chapter), the multiyear budget was supposed to be drafted in two versions, a planning version (the BPP), and a current legislation one (the BPLV). Having a multiyear budget was aimed at lengthening the horizon of decision making, and having it in two versions would help Parliament define more exactly than in the past which of the new spending decisions simply refinance programs already in place (and that Parliament does not want to terminate, that need to have their funds adjusted for inflation, or that are permanent) and which of the new spending decisions are truly new (Ricci, Salvemini, and Zaghini 1979, 37-38; Salvemini 1984, 406-407).

Another important innovation of law 468/78 was that it defined the composition of the aggregate “public sector.” Until the reform, the broadest public finance aggregate was the “public administration” (central government, cities and provinces, social security providers). This aggregate is in fact rather limited in that it does not consider a large number of agencies (so called enti autonomi, or local public agencies) that receive their funds from the state and through which the state operates. By the early 1970s almost half government spending was actually occurring through these agencies (Cavalcanti 1992, 48), so that a budget that did not include them was hardly informative and in fact misleading (Ricci, Salvemini and Zaghini 1979, 16-7). The reform defined the public sector as public administration plus a number of these agencies, and introduced a requirement of common accounting standards for all the components of the new “public sector” aggregate.

Finally, law 468/78 introduced new reconciliation procedures. Prior to the reform, amendments to the approved budget would be introduced by the executive in a piecemeal fashion, and in a way that effectively deprived Parliament of the ability to control them. The usual practice was for the executive to present what were nicknamed “posthumous variations.” A few days before the end of the fiscal year, the executive would present amendments to the budget with “sacrifices,” so that a “small maneuver” means “few sacrifices,” and a “large maneuver” means “many sacrifices.”

The “special funds” (called “global funds” before law 468/78) are funds that are inserted into the budget to finance bills that “are expected to be approved into law in the course of the fiscal year” (Art. 10 of law 468/78). These funds, which were first introduced in fiscal year 1947-48 (Legislative Decree 195/48), starting in the 1960s began to be used as a way to circumvent the constitutional obligation that “every law [other than the budget] that introduces new or greater expenditure must indicate the means to fund it” (Art. 81 (4) of the Constitution). These funds, that is, began to be used as a formalistic way to meet this obligation by allowing proponents of new expenditure to have it formally “funded” in the budget, even though the means to finance it had not been defined (Battini 1984-249; De Ioanna 1984, 292, 297-300; Gambale 1980, 46, 54; Ricci, Salvemini, and Zaghini 1979, 62). Setting the total amount of the special funds in the LF was meant as a way to curb this practice.
for that year, forcing Parliament to approve them after the end of the fiscal year. Moreover these amendments (almost always worsening the balance of the budget) were financed by the executive through a practice of consistent strategic estimation of revenues: when the budget was originally presented to Parliament, the executive would be very prudent in its revenue estimates; then, at the end of the fiscal year, the executive would revise its revenue estimates upward, and use these new resources to fund the amendments that it was introducing (Gambale 1980, 40; Lanzillotta 1984, 97). In view of these problems, law 468/78 mandated that the amendments be presented to Parliament by the end of June (thus well before December 31, the end of the fiscal year), mostly through a single law, and that these amendments must aim to correct the fiscal developments that over the fiscal year may diverge from the objectives set in the budget (Lanzillotta 1984).

It should be stressed that many of the measures introduced by the reform, while reflecting the established expert consensus on budget reform, were also consistent with the goal of increasing the role of Parliament in the budget process, in particular by improving its access to information on government finance. Thus, measuring the financial flows of the larger public sector would provide new information to Parliament (Barca 1977, 13; Cassese 1974b, 264-265; Colajanni 1977b, 37-38), as would the introduction of a cash budget alongside the accruals budget (Andreatta et al. 1971, 13).

One point that merits particular discussion is the introduction of the LF with law 468/78. While all other major provisions of the reform reflected a long-standing consensus, the LF had originally been advocated only by the planners organized around the MBEP and close to the PSI. This minority position, moreover connected to a group that had lost all influence in the late 1970s as the PSI’s influence on the government had dramatically waned (interview with T, judge of the Corte dei Conti and member of the 1960s and 1970s planning community, February 16, 1995), nonetheless carried the day in the 1978 reform.

The explanation of this surprising outcome lies in party political rather than purely ideational considerations. The LF increased the standing of Parliament in the budget process, and thus it represented the point of contact between the planning purposes of the reform and the goal

135 And in fact Stammati during the debate in the late 1960s and early 1970s had expressed its opposition to the introduction of the LF.
of increasing the policy-making role of Parliament (Salerno 1983, 30-34, 42-43). In turn, the latter goal (the political discourse of the time referred to the need to emphasize the “centrality of Parliament”) served the purpose of including the PCI, participating in the parliamentary majority but not in the executive, in the definition of government’s policies, interview with Y, former minister for the Public Administration, February 2, 2005 (see also Cheli 1981).

As regards the impact of European-level factors on the content of the reform, this continued to be extremely limited. The conclusions of the domestic debate of the late 1960s and early 1970s were consistent with the EEC suggestions that Italy should have a multi-year budget and that instruments should be introduced that increase the government’s ability to modulate spending (Stammati 1968, 12). However, probably reflecting the still limited role of the European Community as a venue for the interaction of a community of experts, the main intellectual models for the Italian reformers came from France and the United States (Carabba 1977; Salerno 1983).

During the period in which the reform bill was drafted (1976-1978) the main international influence was that of the IMF. In March 1977 the Treasury signed a letter of intent with the IMF attached to the negotiation of a stand-by agreement. The letter posed conditions regarding the structure of Italy’s fiscal governance, in particular with regard to the inclusion of the larger public sector in the measurement of the government’s financial standing (Gambale 1980, 104; Reviglio 1977) and the use of a cash budget (interview with J, a close advisor to Stammati during the reform, February 16, 2005). However, even this influence was rather limited. Even though these elements came to be part of the reform, and the commitment to the IMF was mentioned in the parliamentary debate on the reform, they had been staples of the Italian debate on budget reform since the late 1960s. Moreover the Treasury had started working on the reform already in the summer of 1976 and by October 1976, months before the IMF letter of intent, the reform project was already advanced enough to be discussed in the cabinet.

136 As regards the connection between the LF and planning, in the intentions of the drafters of law 468/78 in Parliament the LF would facilitate planning by creating a unitary decision-making framework in which once a year the executive would propose and Parliament debate a coherent blueprint for the following year’s budget policy (Andriani and Barcellona 1981; Ricci, Salvemini, and Zaghini 1979, 29-30; Ristuccia 1980, 179-181; Spaventa 1981).

137 Moreover, the fact that Parliament had a major role in drafting the reform also played a part, in that it broadened the scope of the LF from the government’s proposal (Salerno 1983, 56).
5.3 CONCLUSIONS

The chapter has again shown the importance of the extension of the government’s parliamentary majority to a programmatic party for the opening of a window of opportunity for reform in a political system with limited orientation to substantive policymaking. By the early 1970s there was agreement in a reform community made up of experts and politicians on the need for and content of reform. However, the reform process only began in 1975, when a party with a strong programmatic orientation moved closer to joining the majority. The reform of the budget fit the broader strategy of the PCI, which aimed to use a better management of government spending to appeal to both the middle classes and its traditional working class constituencies.

The reform process accelerated in 1976, when the entry of the PCI into the parliamentary majority combined with a change of the guard at the Treasury, which temporarily reduced the influence of the DC party hierarchy on the ministry, and with a widespread sense of financial emergency.

With regard to the content of the reform, it largely reflected the domestic debate of the late 1960s and early 1970s. However, it was also influenced by the political realities of the time. The fact that the PCI participated in the parliamentary majority but not in the executive made it necessary to include Parliament into the policy-making process, and this shaped the content of the reform by favoring the introductions of instruments that, while only supported by a minority of the expert community, did strengthen the role of Parliament in the budget decision-making process.

In closing, the chapter has also considered the extent to which European factors have influenced the timing and content of reform, and has concluded that on both dimensions the impact of these factors has been minimal.
To some extent the narrative of the reform process in the 1980s mirrors that of the previous chapter. A long time of immobility, in spite of widespread dissatisfaction with the status quo, was followed by reform at the end of the decade. Like in the 1970s, this period of immobility was connected to a political context that minimized the likelihood of government alternation, inducing a “generalized belief that that there was no chance of government alternation in the short-medium term” (Pasquino 1996a, 74).\textsuperscript{138} The factors that explain the timing of reform, however, are somewhat different than in the 1970s.

In the 1970s law 468/78 was brought about by a combination of a diffuse sense of urgency due to a recent currency crisis and of partial government alternation, with the PCI joining the majority. In the 1980s, a sense of crisis was again a factor in explaining the timing of reform (law 362/88), as the insufficiency of the existing institutional arrangements increasingly became a political issue in Parliament. However, the reform took place in the context of the continuing hold on the government of a seemingly immovable coalition, namely when government alternation, partial or not, continued to seem well beyond the horizon.

In fact, law 362/88 is the earliest example of the impact of Europe on budget reform in Italy, specifically in the form of negative integration. After having dragged its feet for two years, the Treasury moved to the fore of the reform front soon after the European Community passed, over Italian objections, the capital liberalization directive, which exposed Italy to the rigors of an integrated capital market, thus threatening to make Italy’s financial position increasingly unsustainable.

\textsuperscript{138} The 1980s were marked from the long-term decline of the main opposition party, the PCI, and the establishment of a permanent, although conflict-ridden, five-party alliance (the Pentapartito) anchored around the PSI and the DC. There is a vast literature on the political history of this period; beside the work by Pasquino cited in the text, see for instance the work by Roberto De Felice (1996), Giorgio Galli (1991) Roberto Gualtieri (2001), Alessandro Pizzorno (1996), and Massimo Salvadori (2001).
As regards the content of law 362/88, it reflected the domestic debate that had unfolded in the first half of the 1980s. Like in the 1970s, what foreign influence there was, did not come from Europe, but rather from specific countries that the Italian reformers looked to as models, and in particular from the United States.

The next section discusses the timing of reform and section two discusses the content of reform. Section three briefly addresses a reform – the elimination of the secret vote in Parliament – which, while not directly part of the budget reform process, did contribute to the rationalization of parliamentary decision-making, and thus also to the rationalization of spending decisions. Section four concludes.

### 6.1 THE TIMING OF THE REFORM

Dissatisfaction with the results of, and especially with the elusion of, the 1978 reform was almost immediate. On the one hand, observers noticed that many of the key provisions of law 468/78 were not applied, applied improperly, or even if properly applied did not produce the desired outcomes.\(^{139}\)

On the other hand, by the early 1980s the fiscal crisis had become of the main concerns of both Parliament (Fichera 1986, 24-25; Salerno 1983, 81-82; Verzichelli 1999, 124) and the executive. As regards the latter, in 1980 the program of the Cossiga government still placed inflation as the central economic problem to face; in 1981 the program of the Spadolini I government included reducing the deficit among the government’s goals (Verzichelli 1999, 158-161). Moreover, in 1981 a new structure composed of academics (the *Commissione Tecnica per la Spesa Pubblica*, CTSP, or Technical Commission on Public Expenditure) was created within the Treasury specifically with the purpose of studying the problems connected to the growth of government spending.

Moreover, in contrast to the previous two decades, when the reform of the budget institutions had been considered an element in the context of broader “master ideas” (planning in the 1960s, financial planning in the 1970s), in the 1980s public finance and in particular, the

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\(^{139}\) See next section for a brief discussion of the unraveling of the 1978 reform.
control of government spending became a goal in itself (Fichera 1986, 25; Perez 2003, 594). In fact, there were indeed good reasons for this reorientation of the attitudes towards the budget. In the early 1980s current spending growth rapidly accelerated. Moreover, so did government deficit and government debt.

Already in February 1979, only a few months after the approval of the 1978 reform, the Senate opened an inquiry into the issue of the funding requirement for new legislation (Tosi 1990, 62).

The following years were marked by tinkering at the margin and continuous concern on the part of the reform community. In the years after the implementation of the 1978 reform the approval process for the LF and the budget had consistently failed to meet the statutory December 31st deadline, thus forcing Parliament to vote a bilancio provvisorio (“provisional budget”) that could authorize continued government spending until the approval of the budget. This created a consensus across most parties for the introduction of a dedicated budget session (Camera dei Deputati 1989b; Ristuccia 1984b, 137). In October 1982 the Camera dei Deputati standing orders committee approved a project of reform, which however could not be approved by that chamber due to the fall of the government in November 1982 (Marra 1983). In 1983 the reform project was taken up again and in the fall of that year the Camera changed its standing orders to introduce the budget session, while the Senate introduced it first informally and finally formally in 1985 (with a change in its own standing orders). Moreover, the changes in the standing orders also tried to directly tackle the question of the accumulation of extraneous content in the LF by giving the Budget Commission of the Camera the authority to remove from

140 This reorientation was in fact a generalized phenomenon internationally. For the US see for instance Ippolito (2003) and Wildavsky (1997). In the US it eventually led to the famous Gramm-Rudman-Hollings bill of 1985, which mandated the elimination of the federal budget over a five year period (Wildavsky 1997, 126). It should be noted that the increased political focus on the budget deficit did not imply that the budget would actually decrease (witness the sharp increase in the deficit during the Reagan years).

141 Current spending, net of interest payments, jumped from 32.6% of GDP in 1980 to 37.5% of GDP in 1983, the largest increase in the postwar period (Longobardi and Pedone 1994, 475).

142 In the 1980-85 period government deficit, including interest payments, was on average 11.5% of GDP (Longobardi and Pedone 1994, table 2). Government debt for the public sector was below 60% of GDP in 1980; in 1985 it was 84.3% of GDP (Longobardi and Pedone 1994, table 1) and on its way to equalize the GDP in 1990.

143 The inquiry is available in Senato della Repubblica (1983).

144 On occasion the budget was approved in late April, only a few days before the end of the validity of the bilancio provvisorio.
the LF content that does not pertain to the financial maneuver of the government (Brancasi 1984, 144; Capecchi 1995, 559; Ristuccia 1984b, 134).145

The early 1980s also saw improvements in the procedures regarding the special funds. These funds were supposed to finance bills that were expected to be passed in the following financial year. However, the fact that they could be directed to uses that differed from the list of bills presented by the government and that unspent funds from previous years could be used to fund expenditure in the current year (law 468/78, Art. 10 paragraphs 6 and 7), combined with the fact that they could be used to fund current spending (law 468/78, art. 10 paragraph 3), meant that they became a way to bypass the funding rules for current spending (Andreatta 1988b, 298-299; Finocchiaro 1991, 14).

Starting in 1984 (with the LF for 1985) the special funds were decided over a three-year span, with the indication of how much of the fund would impinge on each of the three years (Meschino 1989, 480). This aimed to provide a greater sense of how much could be spent yearly through the special funds consistently with the medium-term goals for public spending. Moreover, with the LF for 1986 the decision over the special funds was entirely placed in the LF, rather than being divided, as it had been the case until then, between the LF and the budget (De Ioanna 1989, 177).

All these changes, however, were rather minor. A first turning point, in the form of the first major attempt to, so to speak, “reform the reform” occurred in 1986, when the two branches of Parliament presented two identical resolutions urging the executive to modify the budget process and indicating the content of this new reform.

The immediate cause of the so-called June resolutions was a diffuse sense in Parliament that the 1978 reform was not working. The LF for 1986 had proved especially difficult. The government had to ask twice for provisional budget periods; moreover, and in spite of having requested a number of confidence votes, it was unable to defend either the content of its maneuver (which enlarged significantly from the original government proposal) or the deficit

145 The success of the 1983 reform of the parliamentary budget procedures was mixed. The reform was successful in reducing the time needed for the approval of the budget and the LF, thus reducing the number of times when it was necessary to resort to the provisional budget period.145 However, the reform of the standing orders failed in facing the issue of the omnibus nature of the LF. Neither the Senate inquiry nor the yearly debates on the LF had produced a definition of the “typical content” of the LF (Camera dei Deputati 1989b). Lacking an accepted definition of what was the typical content of the LF, the budget commissions could not exercise their authority to strike the extraneous content of the LF (Camera dei Deputati 1987b, 9, 174).
goals it had set (Boscaini 1985, 544-545; Camera dei Deputati 1987b, 106; Camera dei Deputati 1989b, 106; Verzichelli 1999, 171-179). This prompted the chairs of both chambers (Amintore Fanfani, DC, for the Senate and Nilde Iotti, PCI, for the Camera) to address their assemblies in order to underscore the need for improvements in the budgetary process.

In response to these invitations, both the Senate and the Camera started their own inquiry. The Senate set up a study committee whose final conclusions were presented in April 1986, and the Camera budget committee conducted an investigation whose final conclusions were approved in May 1986. Moreover, in the same period the RGS presented its position in a document that was endorsed by the Treasury. The positions expressed by these three documents was the foundation for two identical resolutions approved by the budget committees of Camera and Senate on June 10 and 11, 1986 (Camera dei Deputati 1989b, 141; Carabba 1986, 159; De Ioanna 1987, 173).

Two successive executives (the Craxi II government, August 1986-March 1987, and the Goria government, July 1987-March 1988), however, resisted their implementation. The measures advocated by the June resolutions were either introduced in a watered-down fashion or not introduced at all (Bassanini 1986b, 134-137; Camera dei Deputati 1989b, 149-156, 181-184; De Ioanna 1987, 181)

The budget process continued to be unsatisfactory. The budget session for 1988 (fall 1987) was a failure similar to that of the budget session for 1986 that had stimulated the June resolutions of 1986. Again, the government had to resort twice to asking a provisional budget and had to request a number of confidence votes.146 Even more than in the case of the budget session for 1986, the government suffered a complete defeat both in qualitative (content of the maneuver, see footnote 133) and quantitative (size of the projected deficit) terms: the projected deficit set by the LF was 13% greater than the projection presented by the government in the bill for the LF, the worst outcome since the introduction of the LF (Verzichelli 1999, 181) (Verzichelli, 1999: 181). In fact the debacle of the LF for 1988 was so large that “people still talk about that LF” (interview with parliamentary officials, January 18, 2004). However, beside the

146 In February 1988 there was even a brief government crisis (the government presented its resignation to Parliament, and Parliament rejected it) over the fact that Parliament failed to approve the budget of the Finance ministry (Camera dei Deputati 1989b, 172).
sheer size of this budgetary debacle, the LF for 1988 marked the “last straw” in a process of accumulating dissatisfaction with the way the system worked (Amato 1990, 27-28).

The LF for 1988 was approved in March 1988 (more than two months after the statutory deadline for its approval), and in April Parliament began to discuss the reform of the budgetary process. The connection between failure and reform was more than simply temporal, as it was also stressed by the participants in the parliamentary debate over the reform. Having lived through the debacle of the LF for 1988, the goal of both the Treasury and Parliament was to approve the reform by the end of summer 1988, in time for the upcoming budget session.

The unhappiness with the system combined with an event that occurred at the European level, and which coincided with the executive moving from opposing to supporting the reform.

In the spring of 1988 the EEC introduced a directive for the full liberalization of capital movements by 1990 (Council Directive 88/361/EEC), which was then given full political backing at the Hanover Council of June 1988. The main driver of capital liberalization was Germany, which even posed it as a condition for further moves towards Economic and Monetary Union (Gros and Thygesen 1998, 399).

Italy was not enthusiastic about rapid capital liberalization, but in the end – given its traditional preference for European integration and Germany’s insistence on linking capital liberalization to progress towards EMU – had to accede to German demands. In February 1988 Treasury minister Giuliano Amato had requested that Italy be at least guaranteed escape clauses if full liberalization was indeed introduced (Amato 1990, 126). In March, however, German Finance minister Gerhard Stoltenberg rejected the Italian request, and eventually the Council Directive on capital liberalization did not include any escape clauses (Gros and Thygesen 1998, 396-399).

As Amato stressed in a meeting of the majority parties, full capital liberalization meant that Italian investors would be free to invest their funds abroad, and thus that Italian government debt would have to compete for underwriters with foreign investment opportunities, a competition that would force interest rates on Italian debt to rise, potentially leading to the fiscal

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147 See the addresses by Giuliano Amato, Treasury minister (Camera dei Deputati 1988d), Alberto Ciampaglia and Gerolamo Pellicanò (Camera dei Deputati 1988b), Targisio Gitti, Treasury undersecretary (Camera dei Deputati), Guido Carli (Senato della Repubblica 1988). See also Floridia and Sicardi (1991, 274), and the parliamentary debate on institutional reforms held at the Camera and Senate on May 18 and 19, 1988, in particular the addresses by Gualtieri and Spadolini (Camera dei Deputati 1988f, 217, 287-289).
unsustainability of the debt (Camera dei Deputati 1988f, 263-264), thus giving new urgency to the need to achieve financial stabilization.

In April (a month after the approval of the LF for 1988, but also a month after the Stoltenberg memorandum that had dashed Italian hopes for an escape clause) Amato presented a proposal for the reform of the budget process (Camera dei Deputati 1988a), which endorsed some of the main solutions advocated by the June resolutions and that would become part of the final text of law 362/88.148

6.2 THE REFORM COMMUNITY AND THE CONTENT OF THE REFORM

6.2.1 The reform community

The 1980s saw a change in the reform community. This change was in part a change in the individuals involved, as some of the most important contributors to the 1978 reform moved on.149 In part, it was a change in the institutional actors. In the 1960s and 1970s the reformers working for the MBEP had played an important role. In the 1980s, as planning was finally put aside and the MBEP withered away, many of these reformers moved to other positions, and some of the most active ones (e.g. Manin Carabba and Giuseppe Carbone) moved to the Corte dei Conti, which became one of the main participants in the reform debate of the 1980s.

The other main actors were the Treasury (and in particular the RGS) and the Budget Commissions of the two Chambers of Parliament.150 The RGS had been strongly involved in the

148 This is all more significant considering that Amato had been Treasury minister in the Goria government, which had opposed the implementation of the June 1986 resolutions. I should stress that my conclusion regarding the impact of capital liberalization and the reform is based on the timing of the two events and the speeches of some of the main actors recorded in the parliamentary proceedings. However, some of the actors most involved in the reform and in the capital liberalization process explicitly deny any connection between the two developments, and rather emphasize that the reform was a response to yet another failure of the existing budget system, namely the infamous LF for 1988, which one of them called “a Calvary” (interviews with D and R, June 6, 2005).

149 Many were no longer in Parliament after 1983 (La Loggia, Spaventa) or 1979 (Lombardini).

150 As in the reform debates during the 1970s, and as in the reform debates that would occur in the 1990s, the most respected economic institution in Italy, the Bank of Italy, kept to the sidelines, since direct participation in the debate may have seemed to encroach on the sovereignty of Parliament and the executive (interviews with AC and AB, senior Bank of Italy officials, February 14 and 15, 2005).
reform debate leading to the 1978 reform (and in fact Gaetano Stammati, the Treasury minister that had acted as policy entrepreneur in that occasion, was the former head of the RGS). As for Parliament, many of its members had had an important role in shaping the content of law 468/78; however, in the 1980s the parliamentary involvement in the reform process became qualitatively different. The Budget Commissions became the main drivers for the reform in a way that had not happened in the 1970s or the 1960s (Lanzillotta 1993, 502; Meschino 1991, 371).

The reason for this changed role is twofold. First, the power of the Budget Commissions in the budget process increased. Once the LF was introduced, its connection with the budget meant that the Budget Commissions took on the primary role in the approval procedures for new spending (even if formally their role had not changed).

Before the reform the main decision-makers for the spending laws were the sectoral commissions; however, after the reform the main decision-makers became the Budget Commissions. Given their primacy in the approval of the budget and of the LF, and given the fact that the LF became the main vehicle for new spending legislation, the de facto process of approval of new spending had the sectoral commissions making the proposal and the Budget Commission having the power to approve or reject it (Barettoni Arleri 1984, 160; Ristuccia 1980, 184; Salerno 1983, 71; Salerno 1984, 11-12; Senato della Repubblica 1983, 196).

The increasing relevance of the Budget Commissions was reflected not only in the increasing seniority of its members during the 1980s (Della Sala 1993, 231; Verzichelli 1999, 177), but also in a change in their composition: as the work of the commissions became more technical in content (Verzichelli 2001), it attracted members with technical expertise or interest in the budget (interviews with D, senior left politician, June 6, 2005; A, professor of administrative law, January 30, 2004; Z, senior parliamentary official, February 2, 2004; F, judge of the Corte dei Conti, February 5, 2004).

The second reason for the greater role of the Budget Commissions in the reform debate is connected to institutional changes that occurred in 1978. In that year, in the context of the

However, the Bank of Italy did, as it has always done, act as a behind-the-scene advisor. For instance, the increasing concern of the chairs of the two chambers of Parliament for the situation of government finance may have been stimulated by the then governor Carlo Azeglio Ciampi, not only through the yearly reports of the Bank of Italy (and in particular the governor’s very influential Relazioni Finali), but also through personal communications in which he conveyed to them in no uncertain terms that soon “there would be no money to pay their salaries” (interview with AB, February 15, 2005).

\[151\] Some of the major contributors among the MPs were Franco Bassanini (Independents of the Left), Giorgio Macciotta (PCI), Rodolfo Bollini (PCI) and Nino Andreatta (DC).
heightened involvement of Parliament in policy-making connected to the PCI’s participation in the parliamentary majority (see previous chapter), the Communist Chair of the Camera dei Deputati, Pietro Ingrao, moved to strengthen the existing research office of the Camera. This office (the *Servizio Studi*) had until then been largely detached from the day-to-day activities of Parliament. The head of the Camera *Servizio Studi*, Andrea Manzella (appointed by Ingrao) corrected this situation attaching officials of the *Servizio Studi* to the parliamentary commissions, to act as interfaces that could provide technical advice to the commission (interview with Z, senior parliamentary official, February 2, 2004). A parallel process took place at the Senate, and in fact the parliamentary officials attached to the Budget Commissions of both Chambers (in particular Paolo De Ioanna, Maurizio Meschino and Guido Salerno) came to be among the main contributors to the reform debate, strongly influencing its content.

The Budget Commissions in particular worked in cooperation with the Corte dei Conti.\(^{152}\) For instance, the 1984 reform of the procedures for the special funds implemented a Corte dei Conti proposal that had been included in the conclusions of the Senate inquiry of the early 1980s (Senato della Repubblica 1983, 20, 96). In the debate leading to the 1988 reform, the Senate Budget Commission (chaired by Andreatta) pushed for progress on the unresolved issue of the application of the funding obligation for the LF.\(^{153}\)

In October 1987 it requested the Corte dei Conti for an opinion on the issue. The Corte dei Conti gave its opinion in November 1987, and the opinion was then adopted by the Senate budget commission and introduced in the LF (law 67/88): art. 2, paragraph 5 of the LF mandated that, starting with the LF for 1989, the LF can increase current spending (including the use of current special funds) only within the limit set by reduction in other expenditure or increases in revenues introduced by the LF itself (Camera dei Deputati 1989b, 184; Meschino 1989, 497; Senato della Repubblica 1983). Moreover, also following the November opinion of the Corte dei

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\(^{152}\) The close cooperation is partly of institutional origin: reflecting the 19th century concept of Parliament as the defender of the taxpayers, the Corte dei Conti has historically had the role of auditing the accounts of the administration and reporting the results to Parliament. The cooperation between the budget commissions and the Corte dei Conti contrasts to some extent with the relationship between RGS and the budget commissions. While the RGS contributed to the debate on the further reform of the budget process (in particular from 1986 on), it seemed at times to be jealous of the information advantages that an especially complex budget process conferred to it (see in particular the RGS’ apparent reluctance to produce easily readable budget documents in its hearing with the Senate budget commission of July 22, 1981 (Senato della Repubblica 1983), and the ongoing *polemique* between the budget commissions and the RGS over the latter’s refusal to produce the multiyear planning budget).

\(^{153}\) Which had already been investigated by the Senate inquiry of 1981.
Conti, the Senate (art. 2 of law 67/88) finally introduced a quantification obligation (see section 3.2) with a detailed procedure for its fulfillment, which eventually became also part of law 362/88.

### 6.2.2 The content of the reform

As we saw in section 6.1, virtually immediately after the approval of law 468/78 Parliament started to study the problems connected to its implementation. A complete discussion of the unraveling of the 1978 reform would take up too much space; I will however provide some examples that are especially relevant to understand the content of the 1988 reform.

To begin with, the multiyear planning budget (Bilancio Pluriennale Programmatico or BPP), which was supposed to be keystone of the mechanism for the implementation of the funding obligation for new legislation, was never implemented.

As for the Legge Finanziaria (LF), the instrument that was supposed to act as a bridge between the plan and the yearly budget, it also suffered a rapid degenerative process which turned it into an omnibus law. The article instituting the LF (Art. 11 of law 468/78) divided its content into two parts, respectively called “admissible content” and “mandatory content” by Italian commentators (Meschino 1989; Perez 2003). The mandatory content, namely what the LF must include, is the maximum level of the borrowing requirement (Art. 11, paragraph 2). The admissible content, what the LF can include, refers to changes to laws “that have an impact on the budget of the State or [of the larger public sector]” (Art. 11, paragraph 1).

The mandatory content did not pose any problem of interpretation, but the admissible content did. The LF was meant to introduce changes to existing laws only inasmuch as these changes were part of the broader packet of yearly measures (the manovra, or “maneuver”) that the government was to take in order to implement its financial plan (the BPP) and to ensure that the deficit would stay within the “maximum level of the borrowing requirement.” However, defining which measures are part of the maneuver and which are not is an eminently political rather than legal issue (Meschino 1989, 494-495) and, since most legislation has “an impact on the budget of the State or of the larger public sector,” this opened the door to an inordinate increase in the scope of the “admissible content.” The incentive to this increase came from the connection between the LF and the budget: since the budget, and thus the LF, had to be approved
(contrary to the many bills that enter the legislative process but never come out of it), connecting a provision to the LF meant connecting it to “the only train that is sure to arrive at the station,” to utilize the expression often used by Italian commentators (e.g. Amato 1990, 15). Thus, the LF became a “magnet law” (Meschino 1989, 498) that attracted both micro-measures and “remedial” sectoral measures (Meschino 1989; Ristuccia 1980, 181; Salerno 1984, 12; Spaventa 1981), and thus facilitated horse-trading among the different interests advocating new or larger spending (Andreatta 1988a, 11).154

The impact on the financial balance was made worse by the fact that the LF operated in violation of the constitutionally mandated funding obligation (art. 81 paragraph 4, see discussion in previous chapter). We saw that law 468/78 finally codified the rules for the fulfillment of the funding obligation and that in the case of the LF the funding obligation was fulfilled by maintaining the deficit defined by the LF within the limits of the maximum level of the borrowing requirement, which in turn was to be consistent with the goals set by the BPP. However, the BPP was never presented by the government, which left no constraint on the LF setting the maximum level of the borrowing requirement, so that in practice the LF could authorize that any level of new or greater spending could be funded through greater deficit (Andreatta 1988b, 287-288; Camera dei Deputati 1987b, 5; Commissione Tecnica per la Spesa Pubblica 1984, 16; Finocchiaro 1991, 59; Senato della Repubblica 1983, 85).

In fact, even the setting in the LF of the maximum level of the borrowing requirement, which in the original intentions of the reform was meant to set an overall ceiling to the spending decisions, fell victim to a lax interpretation by Parliament. Parliament regularly decided to vote the article setting the maximum level of the borrowing requirement last and not, as the spirit of the law implied, first (Camera dei Deputati 1989b; Chimenti 1997, 177; Meschino 1989, 489). In so doing, the limit was no longer a preemptive ceiling, but simply the resultant of all the spending decisions made by Parliament.155

154 “Remedial sectoral measures” refers to the practice of using the LF for short-term regulation of a sector pending more comprehensive legislation, which however would never be introduced (Camera dei Deputati 1987b, 356; Salerno 1984, 12).

155 It has been observed that, in voting the budget, total spending must be voted before the spending for each ministry can be voted (as per law 62/64, art. 1 and law 468/78, art. 2). Since no such obligation exists for the LF, it was less apt to defend the government’s maneuver in Parliament, as the voting sequence adopted by Parliament showed (Brancasi 1984, 140-141). In fact, from 1981 every Treasury minister has (often unsuccessfully) requested that the deficit be voted first; however, this request lost some of its cogency in consideration of the fact that it came from members of executives that were themselves busy turning the LF into an omnibus (De Ioanna 1993, 97). The
In the early 1980s reformers also began tackling the question of how to provide an assessment (“quantification”) of the costs of new legislation. The question had already been posed by the Constitutional Court in 1966 (De Ioanna 1993, 111), but, absent the rules for the fulfillment of the funding obligation, the question of how to set up technically valid quantification procedures was never addressed. In fact, the lack of quantification ended up putting the Treasury, in its role as “guardian of the purse,” at a disadvantage vis-à-vis the spending administrations. The Treasury’s resistance to the spending increases requested by the ministries was weakened by the fact that the latter were under no obligation to motivate the amounts they requested (Della Cananea 1996, 218), and this proved to be especially disruptive for the public finances in the 1960s and 1970s, when major increases in the scope of the welfare state were decided without a proper idea of their cost (Meschino 1991, 365).

In 1981 a proposal for hiring public school teachers was presented by the Education Ministry. The representative of the ministry told Parliament that the new law would only cost 36 billion liras. In fact, it ended up costing 1,700 billion liras (Camera dei Deputati 1988e). This especially egregious example of the problems associated with the lack of a quantification procedure attracted the attention of reformers. One of the most active in the quantification debate was Franco Bassanini, a law professor and a member of the “Independents of the Left” group (after having been expelled from the PSI in 1981), who proposed the creation of a certification procedure for all new spending legislation and setting up an independent authority tasked with providing this certification (Bassanini 1985, 101-104). This and other proposals – such as the one presented by Andreatta in 1984 (Andreatta 1988b, 297) for establishing a quantification mechanism at first did not stir much interest in Parliament at large (Bassanini 1986a, 134).

This and the other issues briefly sketched above were finally addressed by the resolutions of June 1986. As we saw in the previous section, these resolutions were to constitute the foundation for law 362/88. The main proposals of the June resolutions were the presentation only years in which the deficit was voted first was 1981, 1986 and 1987 (LF for 1982, 1987 and 1988 respectively, see Camera dei Deputati, 1989).

However, it should also be noted that whether a top-down approach to the drafting of the budget (namely setting the aggregates first) actually helps to achieve fiscal discipline is disputed (von Hagen 1998, 5).

In fact the Treasury did try to request the quantification of the new spending proposals from the spending administrations, but – without the power of the law to back them up – its circulars requesting the quantification went unheeded by the administrations (Salerno 1984, 57).

The strong connection between the June resolutions (and also the content of the LF for 1988) and the content of the 1988 reform was in part due to the fact that the reform was meant to be introduced before the next budget.
of a Document for Economic and Financial Planning (*Documento di Programmazione Economica e Finanziaria*, or DPEF), limiting the LF to the modulation of quantitative measures and introducing structural changes through dedicated laws, modifying the rules regulating the use of the specials funds.

The DPEF is essentially a streamlined BPP, the multiyear planning budget that had never been introduced (Carabba 1986, 161; Meschino 1991, 371). Following both foreign examples and the government’s practice – started in the mid-1980s – to present *piani di rientro* (retrenchment plans), the DPEF would set the main economic and financial goals of the government, including the level of deficit and debt to be achieved (Meschino 1991, 371). It would be presented in a special spring session, the idea being to avoid the excessive concentration of decisions in the fall session. As the resolutions stressed, a discussion over the goals of the government’s program cannot mix with a discussion over the specific instruments for the implementation of the program. The anticipation of the debate over the multiyear plan (from September to the spring) would also allow more collegiality in the executive. We have discussed in other chapters how the budget is drafted by the Treasury and the supposed participation of the other ministries (including the MBEP) does not occur as they get the Treasury’s plans only a few days before the presentation of the bill to Parliament. Thus, setting a time well before the presentation of the budget and LF bills to Parliament was to create room for greater participation by the executive as a whole. As Rino Onofri, representing the *Commissione Tecnica per la Spesa Pubblica*, pointed out in the Camera’s inquiry on the implementation of the 1978 reform (Camera dei Deputati 1987b, 31-32).

In turn, increased collegiality and thus greater common political responsibility within the government would strengthen the position of

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158 The foreign experience that mostly served as an example for the DPEF was the First Concurrent Budget Resolution passed by the US Congress in May, which provides “an overall budget plan for the coming fiscal year” (Rivlin 1984, 135). Andreatta pointed to the US example as early as 1984 (Andreatta 1988b, 293). A parliamentary official, Maurizio Meschino, traveled to the US specifically with the purpose of gathering information on the US budgetary process (interview with C, member of the reform community in the 1980s and 1990s, February 2004).

159 While there was general consensus on the opportunity of introducing a spring session for the debate over the main goals of the government’s economic and financial plan, there was some disagreement on the nature of the final document that should be voted by Parliament. The Treasury preferred that it be voted as a law, so as to make it binding (Camera dei Deputati 1987b, 144). However, all other participants in the debate preferred a simple parliamentary resolution, not legally binding, so as to give government enough flexibility should changes in the economy warrant changes to the government program.

160 See also De Ioanna (1987, 176).
the Treasury in its role as defender of financial stability, as it could refer to specific financial goals agreed by all coalition parties (Bassanini and Macciotta 1988; Camera dei Deputati 1987b, 41).

The second issue tackled in the Senate and Camera inquiries was the omnibus nature of the LF. The problem hinged on the vexed question of the definition of the “typical content” of the LF. While there was general agreement of the need to come up with a clear definition of the LF’s content, there was some disagreement on how limited the scope of the LF should be. The majority leaned towards limiting the content of the LF to the simple modulation of quantitative measures, such as tax rates or quotas of multiyear spending laws to be allocated to the following year (Camera dei Deputati 1987b, 134), while all measures aiming to introduce structural changes to specific sectors of public intervention in the economy would be concentrated in sectoral bills “connected” to the LF, the so-called collegati (Camera dei Deputati 1987b, 135). To those who opposed this severe limitation of the LF’s content - in particular the Corte dei Conti and the PSI (Camera dei Deputati 1987b, 370-371, 375, 379) – it was countered that “a decisive cut” was needed to avoid that interpretive confusion would continue to foster the unmanageable increase in the scope of the LF (Bassanini and Macciotta 1988, 51-52).

Finally, the resolutions advocated introducing a new type of special funds, the “negative special funds.” The original formulation of the idea, in 1983, is due to the Corte dei Conti, but it was then largely reworked by Parliament and in particular by Bassanini, interview with Z, senior parliamentary official, February 2, 2004. The idea was to connect the actual use of the (positive) special funds to measures reducing spending or increasing revenues. The estimated amount of these measures would be set in the negative special funds, and the positive special funds would be freed only once the connected measures quantified in the negative special funds would actually be passed by Parliament (Camera dei Deputati 1987b, 118).

161 The problem of typifying the content of the LF had already been at the core of the 1981 conclusions of the Senate inquiry, and it was then at the center of the parliamentary debate over the implementation of the 1978 reform in every successive year (Camera dei Deputati 1989b).
162 This separation between LF and collegati was inspired by the 1974 reform of US budget process, which separated the decision over the macro-economic goals and the decision over specific sectoral measures (Camera dei Deputati 1987b, 120). An early (1984) proposal suggesting that the LF be limited to the quantitative tuning of existing spending and revenue laws was made by Andreatta (Andreatta 1988b, 294).
163 See also Camera dei Deputati (1987b, 10, 151).
The institutional solutions that Parliament had arrived at with the June 1986 resolutions and with the [LF for 1988] were implemented by law 362/88 (approved in August 1988) and by a change in the standing orders of Parliament (in 1988 for the Senate and in 1989 for the Camera). These solutions – the DPEF, the implementation of the funding obligation for the LF, the typifying of the LF’s content, the reform of the special funds, the introduction of the negative special funds and the quantification of the cost of new legislative proposals – responded to two logics: orienting the budget process towards deficit reduction and increasing the programmatic coherence of budgetary decision-making.

The DPEF (art. 1 of law 362/88) is a streamlined version of the BPP which focuses on setting the fundamental goals of the government’s fiscal policy, namely the value of the deficit, and on presenting the government’s economic program (art. 3). The government presents the DPEF by May 15. The wording (“the government” as opposed to specific ministers) and the choice of the date (well before the deadline, September 30, by when the bill for the LF is to be presented to Parliament) is important, because the purpose was to make this document the collegial expression of the government’s program and at the same time to give Parliament the opportunity to participate in the debate over the government’s maneuver, away from the cramped conditions of the budget session, when the bill for the LF and the collegati are presented and becomes difficult to disentangle the impact of the government’s measures from the impact of the evolution of revenues and spending in the BLV, see addresses by Bassanini and Carrus (Camera dei Deputati 1988c, 194) and by Aiardi (Camera dei Deputati 1988e).

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164 Law 362/88 resulted by the amalgamation of ten parliamentary bills (seven at the Camera and three at the Senate) and one presented by the Treasury minister Giuliano Amato. During the discussion of the bill it was frequently stressed that the new law should be followed by a consistent change in the standing orders of Parliament.

165 It should be noted that for the most part there was consensus among all parliamentary groups regards these innovations. The most important points of disagreement will be reviewed in the following paragraphs (the disagreement was over the points that had already proved contentious in the debate leading to the June 1986 resolutions).

166 It should be noted that the DPEF is a “document” and not a law. When the government presents it to Parliament, the two chambers approve a resolution that is politically, but not legally, binding for both the government and Parliament. As had already been argued during the discussion that would lead to the June 1986 resolutions, approving the DPEF as a law would make the approved economic program too rigid, while the ever-present possibility of unforeseen changes in economic and financial conditions made it necessary to maintain a degree of flexibility. The Treasury, however, repeated its preference for approval with a law.

167 The “unpacking” of budgetary decision-making was also pursued by anticipating the presentation of the bill for the BLV to July 31 (from September 30 as per law 468/78). Anticipating the presentation of this bill was consistent with a deficit-control orientation of the new budgetary procedures, as the early presentation was chosen so as “to assess more precisely the correction effects [on the deficit] of the financial law and the collegati” (De Ioanna 1993, 123). As for the collegiality of the decision over the DPEF within the executive, it should be noted that Bassanini
The LF’s content reflects the content of the DPEF. It contains the values of the deficit (in terms of both SNF and maximum level of the borrowing requirement) as set by the DPEF. In order to achieve these deficit values it can set the tax rates and the amounts of spending – originated by multiyear or permanent spending legislation – for the fiscal year, but it cannot introduce new taxes or new spending laws, or more in general introduce new legislation aiming to reform specific policy areas. Any sectoral reform that was to be introduced with the purpose of implementing the government’s financial plan to control the deficit – the “maneuver” – would be presented in separate bills, the collegati, that would be part of the budget session and thus benefit from a speedier approval process. This rigid delimitation of the content of the LF aimed to avoid the problems connected to the omnibus nature of the LF as it had been implemented post-law 468/78. However, the solution was far from perfect, as the risk remained that also the collegati may turn into omnibus laws, as was pointed out during the discussion over the reform (Senato della Repubblica 1988, 21).

The LF also sets the total amount of the special funds and apportions them among the bills that are expected to be approved in the following year. Their nature as the “translation of the government program into numbers” as the rapporteur Giorgio Macciotta put it (Camera dei Deputati 1988b) was strengthened by the tightening of the rules for the funding of spending laws, which effectively made them the sole source of funding for new spending during the fiscal year (Lanzillotta 1993, 493). Given the funds’ nature, the government’s proposal regarding the special funds was given special protection in the approval process, provided the parliamentary majority is cohesive. In particular, while in the system set by law 468/78 (art. 10) the funds were accompanied by a simple list (amendable by Parliament) of the bills to be approved, in the new law (art. 5) the list is no longer amendable by Parliament (Lotito 1989, 365) and the funds are presented a proposal to introduce a mechanism to increase the collegiality of budgetary decision-making within the executive by concentrating the decision within the Council of Ministers (Camera dei Deputati 1988e, 16553). The proposal was however opposed by the government and rejected by Parliament.

It should be noted that, since it is the government that presents the collegati, this provision gives it, provided its majority supports it, a new ability to implement its program. Making sure that the LF’s content conforms to the typology set by law 362/88 was entrusted to the chairs of the two chambers, as their institutional role places them in a better position to provide non-partisan evaluations than the ordinary MPs. Based on the new standing orders of Parliament, the chair of each chamber can remove from the bill for the LF all content that does not conform with the content as typified by law 362/88 (De Ioanna 1993, 125).

This is in fact what happened during the implementation of the reform in the late 1980s and early 1990s. In particular, law 362/88 eliminated “public savings” as a source of funding for spending laws (although it retained the concept of public savings for the funding of the LF). During the 1980s, lax application of the “public savings” concept had meant that it had become an easy way to fund new or greater current spending.
also aggregated in terms of the ministries that are supposed to use them and in terms of the policy programs for which they are to be used. Moreover, they can only be used in connection to the negative special funds (when the revenue-increasing or expenditure-reducing measures connected to the negative special funds are passed as law), so as to make the use of the special funds deficit-neutral.

As regards the possibility of diverting the funds to uses different than their approved destinations (a problem that, as we saw above, had proven significant and which had often made a mockery of the approval process of the funds), the reform was a partial improvement. It did not eliminate altogether the possibility of changing the destination of the funds after the LF had been approved, even though it made the change in destination more difficult.\textsuperscript{171} In particular, it ruled out both the possibility of moving special funds from capital to current spending and the practice (frequently used by the government until then) to issue decrees diverting the special funds from the uses that had been approved by Parliament.\textsuperscript{172} Moreover, the new standing orders of the Senate (art. 40, paragraph 10) increased the power of the budget commission with regard to changes in destination. In particular, if – during the fiscal year following the approval of the LF – a sectoral commission requests a change in the destination of the funds, the budget commission has the power to ask the opinion of the sectoral commission to which the funds had originally been assigned, thus making the change in destination more difficult (Capecchi 1995, 569-572).

The reform also finally closed the loophole relative to the lack of an effective funding obligation for the LF. In particular, art. 5 of law 362/88 mandated that new or greater current spending introduced by the LF must be funded by permanent reduction of other current expenditure or by new or greater revenues from taxes, thus effectively introducing a balanced budget requirement for current spending and revenues.\textsuperscript{173}

\textsuperscript{171} It should be noted that Bassanini, one of the MPs that was more involved in the reform, forcefully argued for the need to eliminate the possibility of changing the funds’ destinations altogether in order to protect their value for the implementation of the program (Camera dei Deputati 1988b, 16419-16420; Camera dei Deputati 1988e, 16603), but his position was opposed by all participants in the debate, both from the majority and the opposition (Camera dei Deputati 1988e).

\textsuperscript{172} The law (art. 5, paragraph 4) made an exception for the case of decrees issued to face emergencies such as natural disasters, threats to the country’s security or economic and financial emergencies. While this exception certainly stands to reason, some commentators lamented that it opened a dangerously large loophole for the government (Lanzillotta 1993, 497).

\textsuperscript{173} Note that reductions in mandatory expenditure are not acceptable as a form of funding. The law thus eliminated one of the way in which the funding obligation had been skirted in the past, namely by funding spending increases with reductions in mandatory spending, which then the government had to fund anyway precisely because of their mandatory nature.
The reference to “greater” revenues is crucial, because it implies that an acceptable source of funding is the “public savings” that may emerge from a better-than-expected development of revenues from the past fiscal year.\textsuperscript{174} However, in order to avoid some of the problems that had plagued the use of the “public savings” concept in the past (the concept can be problematic both in terms of defining the proper benchmark to measure these savings and in terms of the reliability of the measurements) the reform mandated that the bill for the BLV (which is defined as the benchmark for the measurement of the revenues) must be approved by July 31 and thus before the LF (which is presented to Parliament by September 30), so as to have a more precise assessment of the amount of public savings (if any) that may be used for the funding of the LF (De Ioanna 1989, 201).\textsuperscript{175}

Law 362/88 (art. 7, paragraph 2) also institutionalized the quantification mechanism for new legislation that had first been introduced by the LF for 1988, law 67/88 of March 11, 1988 (Camera dei Deputati 1989, 184-185). The quantification obligation applies to all government-initiated legislation (bills and amendments) which causes “new or increased expenditure or reductions in revenues.”\textsuperscript{176} Each administration proposing “costly” measures is charged with producing a \textit{relazione tecnica} (“technical report”). This report must pass through the RGS, which controls its quality, and then is transmitted to both chambers. The budget offices of each chamber (they were set up in 1988 – Camera – and 1989 – Senate – precisely for the purpose of implementing the new quantification procedure) then use the technical reports to provide information on the financial impact of the proposed legislation to the budget commissions. Finally, the Corte dei Conti is charged with overseeing the entire process and reporting every four months to Parliament on the implementation of the quantification procedure (De Ioanna 1993, 111-119; De Ioanna 1995, 360-375).

\textsuperscript{174} Note that this was a less strict requirement than the similar provision in the LF for 1988, where no allowance was made for funding through public savings (Meschino 1989, 530). This greater latitude granted to the LF for implementation of the funding obligation derived from the choice of limiting its scope and introducing the \textit{collegati} for all new sectoral legislation included in the government’s financial maneuver (De Ioanna 1989, 196).

\textsuperscript{175} Setting the approval of the BLV before the LF also served to prevent the practice of the “leapfrogging” amendments. Since the LF was approved after the BLV, it could no longer include spending increases that were supposed to be funded through measures to be later taken in the BLV (Bassanini in Camera dei Deputati, Bollettino Giunte e Commissioni, June 1, 1988, pp. 193-4; Finocchiaro, 1991: 66).

\textsuperscript{176} It should be stressed that the law exempts legislation proposed by Parliament, although the sectoral commissions of each chamber can ask the government to produce a technical report also on bills initiated by Parliament. As we will see in the following chapter, this exemption opened a significant loophole in the implementation of quantification, as the administrations could circumvent it by having friendly MPs introduce bills for them (note that this risk was known before the passing of law 362/88, Bassanini and Macciotta, 1988: 69).
Finally, the reforms of the Parliament’s standing order transposed the provisions of law 362/88 into the procedural rules adopted by each chamber for the regulation of the legislative process. For instance, the reformed standing orders of the Senate introduced the evaluation by the chair of the Senate of whether the bill for the LF conforms to the funding obligation before the parliamentary exam of the bill can begin, the mandatory approval of the articles of the LF setting the deficit (in terms of SNF and maximum level of the borrowing requirement) before all other articles of the LF, and the strengthening of the budget commission, which can give a negative opinion on proposed legislation that does not conform to the quantification or funding obligations and thus force moving the exam of the proposal from the sectoral committees to the floor, which in turn makes approval more difficult (De Ioanna 1989, 230-234).

6.3 THE ELIMINATION OF THE SECRET VOTE IN PARLIAMENT

In October 1988 the standing orders of Parliament were reformed to eliminate the possibility for its members of requesting secret voting in Parliament for all but a few matters (such as votes on individuals or matters of conscience).

The parliamentary standing orders of post-war Italy had adopted the voting rules of the pre-Fascist Parliament, which allowed a small number of members of Parliament to call for secret (instead of public) voting on all matters. This provision, originally introduced as a safeguard for the individual member of Parliament vis-à-vis pressure from the party organization, had proved to be a powerful factor of fragmentation, allowing as it did individual members of the parliamentary majority to vote (sometimes upon instructions of their own parties, or more often of factions within the parties) against their own government without fear of reprisals. Moreover, secret voting allowed the opposition (and in particular the largest opposition party, the PCI) to strike deals with parts of the majority over specific legislation (Cotta 1991, 220), thus giving it a chance to participate in the actual governing (Lippolis 2001, 620), and this was especially important for the PCI since the post-war agreement among all non-Communist parties never to ally with it made it impossible for the PCI to join the government.

177 These individuals were commonly called franchi tiratori, or “snipers.”
The elimination of secret voting thus reduced what Italian commentators called the “consociational” nature of Italian politics, with reference to the informal participation of the PCI in governing if not in government, which muddled the difference between opposition and majority (Chimenti 1997, 123-4). It also reduced the ability of groups within the majority to sabotage legislation that the majority ostensibly supported. Thus, the reform could bolster the ability of the government to control Parliament (Chimenti 1997, 120-1).\footnote{But only if the members of the coalition were ready to adhere to a common political program, even at the cost of limiting their ability to pursue their own preferred policies in specific areas, and thus to defend the interests of their own clienteles.}

The strengthening of the executive responded to a diffuse sense that it was necessary to improve the efficiency of the political system.\footnote{The byword of the decade, and especially of the PSI, was governabilità, with reference to reforms that would increase the governments’ “ability to govern” by emancipating them from the need to seek the support of the opposition (Caretti 2001, 598; Lippolis 2001, 630-641).} A window of opportunity for reforms aiming to increase the efficiency of the decision-making process in Parliament opened after 1987. The process of European integration played a role similar to that it played with regard to law 362/88: the agreement with the Single European Act of 1986 to complete the single European market by 1992 pushed the improvement of the government’s efficiency to the top of the agenda (Caretti 2001, 596-597).\footnote{See addresses by Stefano Rodotà (Independents of the Left), Paolo Battistuzzi (PLI), Antonio Cariglia (PSDI) and Nicola Capria (PSI) during the parliamentary debate on institutional reforms held on May 18 and 19 1988 (Camera dei Deputati 1988f). The new constraints imposed by the 1992 program were also mentioned in the debate on budgetary reform (Camera dei Deputati 1988c; Senato della Repubblica 1988) and in the program of the De Mita government (Camera dei Deputati 1988f, 48, 180).}

The tightening of the European constraint, moreover, coincided with the partial convergence of the positions of the three major parties (PSI, DC and PCI) on the question of the strengthening of the executive and of the elimination of secret voting.

The PSI, under the leadership of Bettino Craxi, had strongly pushed for the elimination of secret voting throughout the 1980s. Beside being a way to increase governabilità, Craxi saw it as a way to create an obstacle to possible DC-PCI agreements (which may marginalize the PSI, as it had happened during the national solidarity period in the 1970s) and, more aggressively, as a way to reduce the PCI to irrelevance (Craveri 1995, 937; Fusaro 1991, 60-61; Pizzorno 1996, 334-335).

As for the DC, it was divided on the extent of the reform needed (Fusaro 1991, 79), but the election of Ciriaco De Mita (of the party’s Left, and a supporter of institutional reform) to

party secretary in 1982 gradually moved at least some of the party towards a pro-reform stance (Hine 1993, 212-214).  

Finally, over the course of the decade the PCI moderated its position on the “centrality of Parliament” (see previous chapter). The PCI gradually abandoned the view that a strong executive was potentially anti-democratic, and came to support institutional reforms that would improve the ability of the government to address the most urgent societal issues, beginning with high inflation, which hit the more popular strata of society the hardest (Paggi and D'Angelillo 1986, 12, 115; Vacca 1987, 156), a view that was reinforced by the disappointing results of the June 1987 national elections (Fusaro 1991, 66, 85)

Moreover, as the Cold War appeared to be finally winding down, the PCI began to expect the final dissipation of the *conventio ad excludendum*, and thus, in spite of its declining electoral fortunes, that it would finally able to form a government coalition in the not too distant future (interviews with D, senior left politician, and R, former Communist member of Parliament, June 6, 2005).

The immediate stimulus for the change of parliamentary standing orders away from the then prevailing consensual rules and towards a greater emphasis on decisiveness came as response to their use for filibustering by small parties, and in particular by the Radical Party (Caretti 2001, 596; Labriola 2001, 412-413).

In December 1987 institutional reform entered the agenda of Parliament with an unprecedented agreement between the chairs of the two chambers (and supported by the presidents of all parliamentary groups) to coordinate work on institutional reform including the abolition of secret voting (Camera dei Deputati 1988f, 144). The institutional reforms included in the agreement then entered the program of the new government formed by the DC Ciriaco De Mita in April 1988 (Camera dei Deputati 1988f, 245-246).

Afraid that it would lose a channel for influencing legislation, the PCI, while supporting other efficiency-enhancing institutional reforms, remained publicly opposed to the elimination of

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181 As already seen in the previous chapter, the left wing of the DC was the only segment of the party that was interested in moving forward a program of reforms. The think-tank AREL (which was saw active in the debate on the 1978 reform of the budgetary process) was also involved in the debate on institutional reform (Ristuccia 1980, 71).
secret voting. However, its defeat at the national elections of June 1987 (when the PSI and the DC increased their electoral support by 1.4% and 2.9% respectively, while the PCI lost 3.3% of its votes, Craveri 1995, 958) weakened it enough to allow the government to press ahead over the PCI’s objections (Chimenti 1997, 219). Secret voting was finally eliminated in October 1988.

6.4 CONCLUSIONS

Law 362/88 is the first occasion in which Europeanization, in the form of negative integration (the liberalization of capital movements), has played a significant role in the reform process. This chapter has argued that the timing of reform can be explained by the interaction of a diffuse recognition of the inadequacy of the existing budget process (policy failure) with the new pressure coming from Europe. This combination of factors only partly overlaps with the factors explaining reform in the 1960s (partial government alternation) and the 1970 (a combination of policy failure and partial government alternation).

In comparing these three decades, the 1988 reform stands out both for its additive innovation (the role of Europe) and its subtractive innovation (the absence of the extension of the government majority to include a programmatic party) compared to the causal factors of the major reforms of the previous decades. On the additive side, the new causal factor (Europe) testifies to the acceleration of European integration in the second half of the 1980s, which policy entrepreneurs (e.g. Giuliano Amato) could use to force through the reform.

On the subtractive side the fact that reform could occur even in the context of an unchanging government majority testifies to the substantially limited scope of the reform. In the previous decades the reforms of the budget process had been connected to broader reform designs. In the 1980s, however, this connection was lost under the pressure of a mounting financial pressure. The reform of the budget process did not aim to improve it so as to make the

182 In the text I stress that the PCI “publicly” opposed the reform. In fact, the party was internally divided on the issue, and many within it supported the elimination of secret voting (interviews with D, senior left politician, and R, former Communist member of Parliament, June 6, 2005).
183 Note the difference with the reform of the budget procedures, which saw the full participation of the PCI (in fact the rapporteur of the reform bill in the Camera was the Communist Giorgio Macciotto).
budget and instrument for the introduction of other reforms. Rather, the reform simply aimed to finally bring spending under control. As such, it did not need to be part of a larger programmatic turn of the governments, as had been the case in the 1960s and 1970s, in order to be passed.

As regards the content of reform, Europe did not play a role. Rather, much like in the previous decades, the content of the reform largely reflected the domestic debate. Non-domestic influences came from other national models rather than from EU models.

A number of individual actors contributed to the debate and to the actual passage of the reform. Even more than in the 1970s, Parliament played a crucial role in the reform. As in the case of the 1978 reform, however, an important role was played by the Treasury minister. If Stammati had kick-started the reform process in 1976, Amato’s changing attitude towards the reform contributed to the difference between the non-implementation of Parliament’s June 1986 resolutions by the executive in 1986 and 1987 and the passage of law 362/88 in August 1988.
7.0 THE BUDGET REFORM OF THE 1990S – NEW PUBLIC MANAGEMENT, PARTY CRISIS AND NEW ELECTORAL RULES

The first goal of this chapter is to explain the timing of fiscal governance reforms in the 1990s. Why did reforms occur at certain times and not others during the decade, even though the pressure to reform – high government deficits and debt, which threatened not only Italy’s ability to join the Economic and Monetary Union (EMU), but even its financial stability – was roughly the same throughout the period? The answer to this question lies in the institutional context in which the government parties, the veto players with regard to any reform proposal, acted. My conclusion is that the adoption of a plurality electoral system increased the likelihood of reform, while under the proportional representation electoral system in use until the early 1990s reform could only occur under special circumstances.

In the context that had prevailed for most of the postwar period and which obtained until 1992 government parties had no incentive to introduce large-scope policy changes, which was ultimately due to the lack of government alternation. In turn this was due to the “uncoalitionable” nature of the main opposition party and the use of a proportional representation electoral system, which made it possible for the main government party (the Christian Democratic party, DC) to strike post-electoral bargains with a number of smaller parties, thus ensuring its participation in every postwar government. Since the government coalition faced no realistic threat to its permanence in power, it had no incentive to introduce wide-ranging policy changes that may negatively impact some of the member parties’ constituencies. Rather, each member of the government coalition competed with the other coalition partners to increase its share of the vote relative to them, so as to increase its share of cabinet and sub-cabinet posts. This competition was based on providing the parties’ constituencies with tailored benefits and on protecting them from unwanted policy changes. With reference to fiscal governance institutions, the government parties had little incentive to allow their reform, even in the face of mounting financial problems,
since reform would reduce their ability to control micro spending legislation and, if connected to broader reforms of government governance, negatively affects some of their key constituencies (in particular public employees).

This context only changed in 1992, when a fast-spreading investigation into political corruption, coupled with a currency and fiscal crisis, virtually erased the legitimacy of and the electoral support for the government parties. Although still in the government (the scandals erupted after the government coalition had retained its majority in the 1992 elections) the parties could not veto reform. This created an opportunity for the proponents of reform. They had unsuccessfully proposed reforms in the past, and only when the parties’ veto power was neutralized were they able to implement their proposals. Thus, the period that saw the “eclipse of the parties” (1992-1993) also saw a concentration of reforms.

However, the institutional context essentially returned to its pre-1992 state after the 1994 elections. These were the first elections held with a new mixed (but mostly plurality) electoral system. However, the novelty of the system meant that it did not have the time to influence the nature of the party competition. The winning coalition was a purely electoral coalition, namely it was composed of parties that not only did not have a common program, but that in some cases even defined their political identities in opposition to one another. In these conditions, the implementation of further reforms was impossible, and the reform process came to a standstill.

The institutional context changed again in 1996, when new elections were held. In the two years after the first implementation of the new electoral system the party system had development along bipolar lines, with two coalitions each campaigning on a common electoral program. The winning coalition then proceeded to implement its reform program, and a new season of reforms ensued (1996-1999).

The second goal of this chapter is to explain the content of the reforms. I show that the content of reforms can only be explained in terms of the ideas of a reform community composed of actors that were often close to, but independent from, the parties. In particular, this reform community shared a common commitment to a broader reform of the public administration (based on the tenets of New Public Management, or NPM), of which the reform of fiscal governance was only an element. This account shows the central role of ideas in explain the content of policy change, and runs counter to institutionalist accounts of fiscal governance.
reform that explain the content of reform in terms of the electoral incentives of the government parties, and thus ultimately deduce the reform content from the institutional context.

Finally, this chapter addresses the question of the extent to which the timing and content of reform was influenced by the pressure generated by the process of European integration. The conclusion is that European integration was a contributing factor, but not the main cause explaining the content and timing of reforms.\textsuperscript{184} As regards content, the overall influence of Europe was rather small. Most major measures introduced with the reforms were the implementation of the ideas of the domestic reform community rather than the adaptation of domestic institutions to European standards.

As regards timing, the answer is more complex. European pressure, in the form of the 1992 currency crisis which forced the Italian lira out of the European Monetary System, contributed to the legitimacy crisis of the government parties and thus to the erosion of their veto power. However, the main cause of the inability of parties to influence the reform program of the government was their embroilment in a massive wave of scandals, which gave the reform-oriented government the upper hand over Parliament, as it would threaten to call new elections if Parliament would not acquiesce to the government’s reform program.

The successive pattern of reform (no reform in 1994-1995, reform in 1996-1997) is to some extent consistent with the ebb-and-flow of European pressure: in 1994-1995 the EMU project seemed to be losing steam, but the EMU prospect began to look brighter from late 1995 on. However, a more in-depth look at the relationship between European pressure and the implementation of reform leads to observe, first, that the reform wave of 1996-1999 began independently of the government’s decision to try to qualify for the final stage of EMU (although the government did play the EMU card to help the reform through Parliament), second, that the reforms, given their content, were not directed to the achievement of the short-term fiscal savings needed to qualify for EMU, and, third, that the extent of the European pressure was mediated by the partisan composition of the governments.

\textsuperscript{184} It should be stressed that my research focuses on changes in the institutions of the budgetary process, namely the laws organizing the internal work of Parliament, defining the relationship between Parliament and the executive and the relationship between the “core executive” and the rest of the executive in matters regarding fiscal governance. Thus, my argument does not apply to short-term policies, for which the impact of European pressure was certainly large.
This last point deserves further elaboration: the lower influence of European concern in the 1994 Berlusconi government was in part due to that government’s “Euroskeptic” orientation; conversely, the higher salience of European integration concerns from 1996 on was in part due to the pro-European orientation of the center-left governments in power between 1996 and 2001. Moreover, it should be noted that the Berlusconi-led coalition that lost the 1996 election retained its rather negative position towards European economic integration in the 1996 electoral campaign. Although we do not know what policies it would have implemented had it won the elections, it is reasonable to suspect that the pressure to qualify for the final stage of the EMU would have been felt less strongly by a Berlusconi government.

In sum, this chapter points to the fact that the potential pressure stemming from European integration may weigh differently on the same country over time depending on domestic factors such as the political orientation of the government, a conclusion that is not normally emphasized in the current literature on the impact of European pressure on policy and institutional change in the new and old member states of the European Union.

In the next section I address the timing of the reforms. In particular, section 1 discusses the role of institutional/coalitional factors in making the reforms possible. I will show that the reformers were able to implement their ideas concerning budgetary and administrative reform a two different times: when the parties lost their veto power (in 1992-1993) and when the change in electoral rules increased the incentives for parties to produce policy change.

The following two sections will show the role of the NPM paradigm in defining the content of the reforms. In particular, section 2 will describe the reform community, and section 3 will describe how some members of the reform community acted as “carriers” of the NPM paradigm and were able to shape the reforms. In section 4 I will compare the content of the crucial reforms of the decade (the reforms introduced by the center-left government in 1996-1999) with ideas of the reformers and with the content hypothesized by an institutionalist, non-ideation account. In section 5 I will assess to what extent the reforms were the result of adaptation to European pressure and section 6 will conclude.
7.1 EXPLAINING THE TIMING OF THE REFORMS: PARTIES AND THE ROLE OF INSTITUTIONAL FACTORS

As we will see in section 3, parties had for a long time been factors of policy immobility, both in general and in particular with regard to reforms of the public administration (as we will see in the following two sections, the fiscal governance reforms of the 1990s were part and parcel of a broader program of administrative reforms). Even when reformers had been in the executive, no reform was forthcoming. In the 1990s, however, certain executives chose and were able to restructure both the administration and the budget.

In order to explain the timing of reforms, then, we must turn to role of the parties in the two reform clusters (1992-1993 and 1996-9). As this section will show, in the first case parties played an entirely passive role – the reforms happened in spite of them – while in the second reform push reform parties endorsed reform. What stands between the first and the second reform episode is a change in the electoral system that deeply affected the nature of the government coalitions and thus the nature of the relationship between parties and the executive.

I begin this section with a brief description of the new electoral law, and then I move to describe the prevailing impact of the new electoral law on the party system, the nature of the electoral competition and the nature of the executives. I will argue that the overall impact has been to favor a bipolarization of the party system, competition between coalitions formed before the elections, and a greater orientation of the government coalition to implement its electoral program.

However, the impact of the new electoral rules has been mitigated by specific features of the Italian party system. I will then provide a discussion of countervailing factors that have reduced the impact of the new electoral law on the nature of the electoral competition and on the cohesiveness of the executives. As it will appear from this discussion, the pre-existing fragmentation of the party system has interacted with the new electoral rules in a perverse way, thus reducing executive cohesiveness compared to what the logic of the majoritarian electoral rules would lead us to expect. However, the overall impact of these rules has been to increase government cohesiveness compared to the extremely low levels that characterized the executives
of the First Republic. The rest of the section will describe how the legitimacy crisis of 1992-1993 and then the new electoral law and the ensuing bipolarization of the party system affected the timing of the reforms.

7.1.1 The new electoral law

The electoral referendum amounted to an external shock for the existing party system. It was promoted by actors largely peripheral to the party system (Pasquino 1997, 35-36), who convinced the electorate that the PR system had made government alternation impossible and thus facilitated the spread of corruption (Gilbert 1995, 147). In the climate of anger against the parties, this argument was sufficient to guarantee a large majority for the abolition of the PR system. More precisely, the referendum only referred to the rules for the election of the Senate. Since according to the Constitution referendums can only repeal laws (or parts of laws), the referendum canceled from the text of the existing electoral law the provisions that apply a PR system to the Senate elections. As a result, the referendum changed the electoral law for the Senate into a mixed system (75% of the seats would be allocated through plurality vote and 25% through PR). However, Parliament was at liberty to change the system, as long as it did not simply reinstate the provisions eliminated by the referendum. In fact, Parliament’s intervention was necessary, as the change in the electoral law for the Senate made it necessary to also change the electoral law for the Camera dei Deputati. In the event, the rules that were approved in early August 1993 were essentially an implementation to both chambers of the default mixed system that had been created by the

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185 I am using the terms First Republic and Second Republic as short-hand for “with a PR electoral system,” and “with a mixed-plurality system” respectively. I point to this use of the terms to stress that they do not (as sometimes they have in the literature and in newspapers) imply a clean break between political systems before and after the introduction of the new electoral law. For a critique of this broader usage see Ignazi and Katz (1995, 29-35).
186 The movement for changing the electoral system began in the late 1980s, and included a number of backbenchers and intellectuals led by the DC Mario Segni (Chimenti 1997, 96). Segni was then among the promoters of the 1991 referendum that canceled the multiple preference system and grew increasingly estranged from the DC over the issue of electoral reform (Craveri 1995, 976). Eventually, (March 1993) he would leave the DC (Gilbert 1995, 147).
187 Voter turnout was 72%; the “yes” were 82.7% (Chimenti 1994, 18; Istituto Nazionale dell’Informazione 2000, 891).
188 In a perfectly bicameral parliamentary system like Italy’s, different elections rules for the two chambers risk making the system unworkable. The executive is responsible to both chambers, namely it has to receive the confidence of both of them. Since two chambers elected with different rules may have different majorities, this may lead to the executive receiving the confidence of only one chamber (Chimenti 1994, 25; Katz 2001, 99).
The almost perfect correspondence between the electoral reform and the default situation created by the referendum can be explained by the fact that the default situation was a focal point in the bargaining that occurred among the parties, with the PDS advocating a two-round majority system and the DC trying to hold on to proportionality as much as possible. The DC opposed “bipolarizing” systems (Chimenti 1997, 97), as it feared that such systems as a two-round majority system would put at a disadvantage a party located at the center of the political spectrum (Sartori 1995, 48), especially if it could not or would not form alliances in the second round (that this was indeed a problem for the DC was proven by the local elections held with a new two-round system in June 1993, Katz 2001, 108-109). The DC thus proposed single-round plurality systems with a heavy proportional correction (40% in its first proposal, Pappalardo 1994, 293-294). In the end, the parties converged on a mixed system with a 25% proportional correction which, while close to the preferences of the DC, also enjoyed greater legitimacy as the one that, if only by default, had already been chosen by the voters (Chimenti 1997, 55).

7.1.2 The impact of the electoral law

I argue that a connection can be observed between the occurrence of reform and institutional factors, and in particular between reform and the type of electoral law. Under the PR system used until 1994 the parties that were likely to form the next government (which had to include the DC along with a variable number of smaller parties) had no incentive to run on a common program during the electoral campaign, since the seats in Parliament were going to be distributed proportionally and there was effectively no minimum vote threshold for parliamentary representation.

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189 The mechanism has however lost importance over time as parties have developed strategies to limit its impact (Baldini and Pappalardo 2004, 55-62; Katz 2001, 115-117).
Moreover, the PR system interacted with an informal – but very powerful – rule that governed government formation. The standing agreement among non-Communist parties was that the PCI would never be allowed to join the government. Since the PCI was by far the largest opposition party, this meant that the responsibility of government was left to the main moderate party (the DC), which after each election would bargain for the formation of a new government with a number of small parties to its right and its left. Since there was no possibility of alternation in government, government parties did not have to compete with a viable opposition over major policy choices, but were able to appease various fractions of the electorate with distributive policies, namely narrowly targeted policies that would bestow benefits on specific interest groups while minimizing the negative impact on other groups.\textsuperscript{190}

Thus, the government agenda emerged well after the presentation of the government to Parliament, as the outcome of the negotiations between the government and various interest groups and among the members of the government coalition representing those groups (Merlini and Guglia 1994, 483). Whatever policymaking the government produced was haphazard and reactive rather than the implementation of a coherent program aiming to address major socio-economic questions (Della Sala 1997, 19).

In this context the government parties acted solely as obstacles to the introduction of any wide-ranging policies, since these policies would likely hurt some of the interests they represented and no party had a particular stake in the government as a whole and in the policies that could be associated with it. Thus, broad reforms could not occur unless exceptional circumstances insulated the executive from the government parties, which is what happened in 1992 and 1993.

The electoral reform of 1993, imposed by referendum, changed the electoral system, making it mostly majoritarian. In the short-hand used in this chapter, the electoral reform marked the change from the First to the Second Republic. The new electoral system had an impact on the party system, as the new law created an incentive for parties to run together, so as to overcome the hurdle posed by the first-past-the-system used to allocate 75% of the seats. Thus, instead of coalitions forming after the elections (as it was the case in the First Republic), with the new law they are created before the elections (Chiaramonte and D’Alimonte 2004, 107), an arrangement

\textsuperscript{190} So as not to damage the interests represented by other parties in the coalition (Cotta 1996, 31-32; Kreppel 1997; Vassallo 1994, 256-257).
that tends to favor campaigning on the basis of the common program that the coalition aims to implement once elected. Compared to the First Republic, where the PR system gave parties no incentive to formulate a common program and where alternation between majority and opposition was effectively impossible, presenting a coherent electoral program and implementing it while in government became thus more important for the electoral success of the parties. Under the new electoral system, parties had a greater stake in the performance of the government, and thus became invested in the reforms.

Concisely, the impact of electoral institutions can be summarized as follows: under a (mostly) majoritarian electoral law parties coalesce into two coalitions; bipolar competition forces each of the two coalitions to stress its common electoral program (and to downplay the differences among the parties that compose them); once elected, the winning coalition has an incentive to implement its common program in order for the coalition members to be able to run successfully together in the next elections.¹⁹¹

### 7.1.3 Countervailing factors

If the the overall impact of the move to a mostly plurality electoral system has been to increase government cohesiveness and the government’s incentive to deliver on the its electoral program, we should also bear in mind that the interaction between the new electoral rules and the existing party system (and thus also the nature and behavior of governments) has in reality been less linear than what we have so far described.

To begin with, it should be noted the fragmentation of the party system has increased after the introduction of the new electoral law.¹⁹² At first sight, this fragmentation may seem puzzling, considering that majoritarian electoral rules usually favor the development of a two-

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¹⁹¹ Using the veto player framework developed by George Tsebelis, we can describe this situation as one where the ideal points of partisan veto players have to get closer, thus increasing the winset of the status quo and reducing policy stability (Tsebelis 2002, 30-32).

¹⁹² The effective number of parties (Laasko and Taagespera 1979) in the Camera dei Deputati has increased from 4.6 in 1987, to 6.6 in 1992 (the year of the last election with the PR system) to 7.6 in 1994. In 1996 it was 7.1 and in 2001 it fell to 6.4, lower than in 1992, but still higher than in 1987 (Chiaramonte and D’Alimonte 2004, 114). Using Sartori’s “relevant party” criterion produces similar results, as the number of relevant parties increased from 6 to 12 between the First and Second Republic ([Sartori 2000, 236]).
party system. In fact, the new electoral law has indeed led to a bipolar system, but one where the two poles are not single parties but coalitions composed of a large number of parties. In order to explain this outcome we need to take into account the context in which the new electoral system was implemented, and in particular the geographical distribution of the vote and the nature of the preexisting party system. Specific features of the law (in particular the PR quota), moreover, have contributed to the electoral viability of the smaller parties.

Traditionally the vote in Italy has been unevenly distributed across the country. In the First Republic the DC was predominant in the South and the Veneto, and the PCI in the Center. With the rise of the LN, the distribution of the vote has become more fragmented. The LN has taken the place of the DC vote in the North, AN (heir to the Neo-Fascist Movimento Sociale Italiano) has supplanted the DC in the South, the PDS/DS (heir to the PCI) does especially well in the center, while Berlusconi’s party (Forza Italia, FI) tends to be more evenly distributed geographically (Mrolino 1996, 23-24). In these conditions, a majoritarian system tends to produce more than two electorally viable parties, in proportion to the number of parties that have a significant share of the vote in specific geographical areas (Sartori 1995, 53-54; Sartori 1996, 40). In the Italian case, this would mean a total of four viable parties (the three with a strong geographical orientation plus FI). However, the number of parties is significantly higher than that. In order to explain this, we need to turn to the second contextual element, namely the nature of the pre-existing party system.

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193 Here I am referring to Duverger’s “law” as reformulated by Giovanni Sartori (Sartori 1995, 29-48); see the same locus for a brief review of the critiques that have been made regarding the impact of electoral institutions on party systems. The “usually” in the text is a reminder that the impact of electoral rules on party systems is the product of the interaction between these rules and the structure of society (first of all the number and geographical distribution of cleavages). In fact, in part the fragmentation of the Italian party system in the Second Republic is the result of the interaction of a majoritarian rule with a complex cleavage structure (see later).

194 In fact, the tendency to this “coalitional bipolarization” has increased over time. Parties or coalitions unattached to the center-left and center-right coalitions have done increasingly worse, as the share of votes and seats going to the two main coalitions has tended to increase over time. For the votes (in the majoritarian share) the trend has been: 80.1% in 1994, 85.2% in 1996 and 89.7% in 2001; for the seats the trend has been: 91.9% in 1994, 89.8% in 1996 and 97.6% in 2001 (Chiaramonte and D’Alimonte 2004, 108).

195 It should be stressed that the main cause of fragmentation was the interaction of the plurality rule with the geographical and party system context (Chiaramonte and D’Alimonte 2004, 115-116). The fact that the electoral law provides for a PR quota simply strengthens this interaction effect.

196 For the geographical overlap between the DC and the LN vote see (Diamanti 1993). Note, however, that some research has found that the geographical distribution of the vote has grown more even over time (Pappalardo 2001, 594).

197 As the following discussion makes clear, the nature of the party system is defined by the number of parties and the behavior of the electorate (in particular its volatility).
The new law was introduced in the context of a highly fragmented party system, with parties, especially those on the extreme wings, cultivating a strong ideological identity and appealing to a faithful electoral core. Under these conditions, the majoritarian component of the new electoral rule (the law assigns 75% of the seats through a first-past-the-post system) has given significant blackmail power to the smaller parties.\(^{198}\) Small parties – especially in marginal constituencies (namely constituencies that could easily go to either coalition) – can determine the electoral result by switching from one coalition to the other (Chiaramonte and D’Alimonte 2004, 115-116; D’Alimonte 2001, 335; Fabbrini 2000b, 28; Hine 1996, 317).\(^{199}\)

The two poles (the PL already in 1994, the Olive Tree from the 1996 elections on) have developed highly centralized mechanisms for the allocation of constituencies among the members of the coalition (Di Virgilio 1997, 98; Di Virgilio 2002, 96-117; Di Virgilio 2004, 198).

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\(^{198}\) I should stress that the use of the term “blackmail” is not related to the use made by Giovanni Sartori, which speaks of “blackmail potential” with reference to large, anti-system parties (Sartori 1976, 122-123).

\(^{199}\) Note that the increased fragmentation of the party system is the result of the interaction of a plurality system with a preexisting fragmented party system, rather than the direct effect of the proportional quota. In fact, given the presence of a threshold, if the PR system had been applied to the totality of the seats the number of parties in Parliament after every election would have been lower than it actually was (Chiaramonte and D’Alimonte 2004, 115-116).

However, the PR quota has an indirect influence on party strategies which does favor fragmentation. The PR quota, in fact, reduces the cost of defection from the coalition for the small parties, as long as they can overcome the threshold, and thus it increases the credibility of their threats to defect, thus increasing their blackmail power and, potentially, the number of candidacies they will win from the coalition partners. In fact, even if its coalition partners do not accept the bargain, a small party can have an incentive to run alone, in the hopes that it would win enough seats in the PR quota to be able to become decisive in the post-electoral phase if neither of the two coalitions has an absolute majority of seats in both chambers (for an example of this type of strategy in the 2001 elections, see Di Virgilio 2002, 89).

Importantly, the behavior of voters, in particular their loyalty to certain small parties, may allow them to defect in one election, thus losing all or almost all parliamentary representation, well knowing that they will retain their electorate at the next election, where they will be able to extract concessions from the coalition they join. An example of this was observed between the 1996 and the 2001 elections. A small extreme right-wing party with electoral support concentrated in the South did not strike a deal with the PL in the 1996. The share of the vote of this party (5% on average in the South) did not allow it to win any seat in the majoritarian quota, but it was enough to cost the PL 36 majoritarian seats in the Camera dei Deputati and 26 in the Senate. In the 2001 election the party struck a stand-down agreement with the PL and won a majoritarian seat in Sicily (D’Alimonte 2001, 335; Di Virgilio 2002, 93). This type of phenomenon, which also occurred in the US in the 1800s (D’Alimonte 2001, 327), should caution against drawing hasty conclusions on how electoral institutions affect voters. As this example shows, voters (especially the voters of extreme, highly ideological parties) can vote “doubly strategically,” accepting that their vote may be wasted in the current election so as to give their preferred party more bargaining power in future elections. In fact, this behavior may also explain the defection of parties from the coalition that has won the elections (as was the case with LN in 1994 and RC in 1998): they know that they will retain their electoral support (or even increase it, if the defection was couched as a defense of their ideological “purity”) and they will be able to strike a new, advantageous bargain for the next election. This interpretation of the behavior of the Italian voters is, however, not unanimous. In particular Adriano Pappalardo (2001) has argued that the ideological (i.e. non-strategic) vote has in fact been declining over the course of the 1990s and in fact is lower than in countries such as Britain, New Zealand and Australia (Pappalardo 2001, 578-579).
and in this process small parties have been able to obtain enough “high quality” candidacies (that is, candidacies in relatively safe constituencies) to win a number of seats in the majoritarian share at least proportional to (and often much greater than) their votes in the proportional share, thus effectively causing a “proportionalization” of the majoritarian law (Sartori 1995, 71).

This proportionalization is the root of the unsolved tension that still exists in the party system, and thus also in the executive, between two types of competitive logics (Cotta 2002, 29-30): majoritarian elements (competition between alternative coalitions, direct electoral investiture of the leader of the executive) coexist with PR elements (veto power of small parties, continuous bargaining among the parties to hold the coalition together).

This tension has meant that the passage from cohesive electoral coalitions to cohesive government coalitions has not been easy, as the latter rests on whether inter-coalition competition can balance the centrifugal tendencies generated by intra-coalition competition (Bartolini and D’Alimonte 2002, 13). The former tends to spur the coalition parties to cooperate to implement their common program, while the latter pushes parties to differentiate

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200 The centralization of the candidate selection process has been the result of learning on the part of the coalitions, and in particular of the Olive Tree. After the defeat in the 1994 election the center-left realized that it was imperative to increase the size of the coalition (Di Virgilio 1997, 75), which required managing large (in terms of number of parties) coalitions. The need for a centralized (as opposed to one where the local parties decide the candidacies for their constituency) mechanism for the allocation of the candidacies in fact arose from the necessity to strike an agreement among a large number of parties that would then hold nationally. The need for centralization has been compounded by the fact that constituencies are of differing quality (namely they offer different chances of success for the coalition candidate) and this has required a complex compensatory mechanism so that the members of the coalition can agree both on the number and on the quality of the candidacies that each receives (D’Alimonte and Chiaramonte 1995, 55; Di Virgilio 2002, 97). Centralized agreements, moreover, have become somewhat easier over time as the results of previous elections have given the participants a clearer sense of their relative electoral weight (the PR quota in particular provides this type of information to the parties, Chiaramonte 2002, 166) and of the quality of the constituencies (Di Virgilio 1997, 107; Di Virgilio 2004, 197).

It is interesting to note that the centralization of the candidate selection system has had a consequence that the proponents of electoral reforms had not expected (Katz 2001, 103-104), namely a separation between the candidates and their constituencies: in the three majoritarian elections held so far, candidates have run more than once in the same constituency only in one fifth of the majoritarian constituencies for Senate and Camera dei Deputati (Di Virgilio 2004, 198; see also Chiaramonte and D’Alimonte, 2004, 112-5 and Di Virgilio 2002, 117-125).

201 In the 1994 election the LN, with 8.4% of the votes in the proportional share, obtained 18.6% of the seats of the Camera dei Deputati and 19% of the seats of the Senate (Di Virgilio 2004, 196).

202 In turn, this depends not only on the structure of the party system, but also on the electoral behavior of voters, and in particular on the electoral volatility across and within coalitions. Observers have not come to an agreement on whether the system is moving towards greater cross-coalition volatility, which would be an incentive for the coalition parties to stress the electoral appeal of the coalition itself more than their individual identity. A number of studies have shown much higher electoral volatility within than across coalitions (Cartocci 2004; Chiaramonte 2002, 185; Corbetta and Segatti 2004, 125-126; Natale 1997, 218-220). However, Pappalardo 2001 has reached the opposite conclusion.
their positions from those of the government as a whole and to act, as was the case in the First Republic, to defend the interests of the constituencies affected by possible reforms.

In fact, the incentives for greater coaltional cooperation seem to have prevailed over intra-coalitional competition in the governments that have followed the first “mature” majoritarian election (in 1996). This increased cohesiveness translated into greater support for the government’s reform program in Parliament compared to the First Republic. When the party system was still shaped by proportional representation rules, the reforms took place at times when, due to exceptional circumstances, parties were essentially excluded from policy-making namely in spite rather than because of the parties (this was the case of the Amato and Ciampi).

Conversely, after the first mature majoritarian election reforms were part of the program of the government coalition and the parties of the coalition acted in concert to ensure their passage in Parliament. In fact, during the Prodi government the reforms could pass through Parliament thanks to the fact that the parties supporting the government voted in a compact fashion thus overcoming the opposition.

However, as we will see, the prevalence of these incentives was reduced from late 1998 on, when the crisis of the Prodi government (formed on the basis of the results of the 1996 elections) led to the formation of a new government (headed by the DS Massimo D’Alema). The fact that the new government had not emerged from an election weakened the programmatic bonds of the coalition, resulting in greater intra-coalitional conflict and greater difficulties for the reforms.

### 7.1.4 The Amato government (1992-1993)

The parties that supported the Amato (June 1992 – April 1993) and Ciampi (April 1993 – April 1994) governments, namely the governments that carried out the first cluster of reforms, were, minus the PRI, the same (DC, PSI, PLI, PSDI) that had acted as obstacles to reform in the 1980s.\(^{203}\) Their attitude towards reform had not changed. However, their ability to oppose reform

\(^{203}\) These five parties formed the *Pentapartito* coalition that was in government throughout the 1980s. The PRI dropped out of the coalition in the Spring of 1991 due to contrasts with the DC and PSI over the appointment to be minister for telecommunications in the Andreotti VII government, Craveri 1995, 1020)
disappeared in 1992 and 1993, as in these two years the governments were able to operate largely autonomously from their parliamentary majority.

The autonomy of the Amato government from its parliamentary majority was the result of a combination of factors that included a judicial investigation into widespread financial malfeasance committed by politicians belonging to especially the government parties, a currency crisis, and a fluke (the election of a new President of the Republic that would play a large role in defending the autonomy of the executive from party influence).204

This combination of factors, moreover, occurred in the context of a more general weakening of the legitimacy of the government parties (Bull 1997, 3-4; Salvati 1994, 369-372).205 On the one hand the rise of the tax pressure throughout the 1980s, made necessary by the governments’ inability to limit their spending in the context of high government debt and deficit, by the early 1990s spurred increasing public dissatisfaction (especially in the North) with a system that combined high taxes and low-quality public services (Craveri, 1995, 1010-11).206

204 Parliament elected the Christian Democrat Oscar Luigi Scalfaro President of the Republic in May 1992, a month before the appointment of the Amato government. Scalfaro had had a distinguished political career, being minister in a number of governments (including minister of the Interior in the Craxi I and II governments) and vice-chairman of the Camera dei Deputati. However, a strict Catholic (as the legend has it, in his youth he slapped a woman for being indecorously dressed in a café), he was not in the top ranks of his party. When President Cossiga decided to resign before the end of his mandate, the parties found themselves in the position of having to decide over the Presidency before the time they had expected it to become available. Based on the pre-electoral agreement between the DC and the PSI, a Christian Democrat was supposed to become President and Craxi to become PM. However, the agreement on the premiership having been nullified by the developments in the corruption investigation, the post of President became the object of fierce competition. Parliament voted 15 times, and the candidates always failed to win the mandated majority (under the Italian Constitution – articles 83 and 85 – the President is elected by the two chambers – voting as a single body – and by a number of representatives of the regions; in order to be elected candidates must receive two thirds of the votes in the first two attempts and the absolute majority from the third attempt on). The first vote took place on May 13, and ten days later the stalemate had not been broken yet. On May 23 the stalemate was broken by a dramatic development, as the Mafia killed a well-known judge with a roadside bomb. The scale of the bombing and the status of the victim made of this assassination a veritable “attack on the State.” Under pressure to show responsibility in these circumstances, the government parties finally agreed on a fallback candidate, Scalfaro. Scalfaro, an “institutional” candidate since he had just been elected chair of the Camera dei Deputati, was elected on the 16th vote (Barucci 1995, 21; Bufacchi and Burgess 1998, 66; Galli 1993, 395-3396; Gilbert 1995, 122; Hellman and Pasquino 1993, 43; McCarthy 1995, 142).

205 An early symptom of the impending legitimacy crisis of the parties was also the resounding success of the 1991 referendum for the abolition of multiple preferences in national elections, which had been opposed by the government parties (Gilbert 1995; Fabbrini 2000, 22). The organizer of the referendum, Mario Segni, was a dissident DC who would also be among the proponents of the electoral referendum of April 1993 (Bufacchi and Burgess 1998, 128; Gilbert 1995, 94-102; Ginsborg 1996, 25; Parker 1996, 41).


1987: 90.5
1988: 92.6
1989: 95.6
1990: 97.9
1991: 101.3
On the other hand anti-Communism, the traditional electoral bulwark of the government parties (and especially of the DC), crumbled in 1989 along with the Berlin Wall (Bufacchi and Burgess 1998, 21; Cotta 2002, 22; Waters 1994). The voters that were unhappy with the government and did not want to vote for the PCI, still the main opposition party, began to look for alternatives. Not coincidentally, the first large scale victory of the “Northern League” (NL), the party that before all others rode the dissatisfaction of the Northern regions of the country towards the combination of high taxes and poor public services (Bufacchi and Burgess 1998, 52; Newell 2000, 77), occurred after the fall of the Berlin Wall, at the regional elections of 1990, and it was then confirmed at the national elections of April 1992, where its electoral share jumped to 9.4% from 0.7% in the 1987 national elections (Bull and Rhodes 1997, 4; Craveri 1995, 980; Fabbrini 2000, 21-23).

In fact, in the 1992 elections the government coalition lost the majority of the votes, although it retained the majority of seats in Parliament. DC, PSI, PSDI and PLI, therefore, would still be able to form a new government, and at first it was expected that they could form it based on the pre-existing agreements between the two major parties in the coalition (DC and PSI), whereby the new government would be led by the PSI’s party secretary, Bettino Craxi, while a Christian Democrat would be elected President of the Republic (McCarthy 1995, 142).

1992: 108.4
1987: 11.0
1988: 10.7
1989: 9.9
1990: 10.9
1991: 10.2
1992: 9.5

207 A partially different interpretation of the switch of the political allegiances of the North from the DC to the LN is proposed by Miriam Golden, who argues that this switch should be explained as the result of changing economic opportunities for the Northern regions after the signing of the Maastricht Treaty. In view of ever-deepening European integration, and following the disappearance of a Communist threat, Golden argues that the producers of the most internationally oriented areas decided that the LN was going to represent their interests better than the DC (Golden 2004). It should be noted that the LN draws most of its electoral support from the private sector (Knutsen 2005, 607), which is inherently more exposed to the pressure of international competition than the public sector.

208 The four parties (DC, PSI, PSDI and PLI) had received 53.6% of the votes in 1987. In 1992 they received 48.8% of the votes (the data refer to the votes for the Camera dei Deputati; source: Banca dati dell’Istituto Cattaneo). Nonetheless, they retained a majority of the seats in both chambers (331 out of 630 seats in the Camera dei Deputati, 163 out of 315 seats in the Senate, see Bufacchi and Burgess 1998, 40 and Newell 2000, 24).

209 The term of the then President Francesco Cossiga was to expire in early July 1992.
However, spreading financial scandals in which the PSI figured preeminently, forced Craxi to take a step back.\textsuperscript{210} In a first signal that the government parties were beginning to lose their grip, Craxi, as the secretary of the party that in that moment seemed to be the most tainted by the scandals, could not be appointed PM (Galli 1993, 398; Hellman and Pasquino 1994, 46; McCarthy 1995, 143).\textsuperscript{211} While he could not take the position himself anymore, however, he retained veto power over the new appointment. In June he thus presented to Scalfaro a list of three names that he was ready to accept. Among these, Scalfaro chose Giuliano Amato (Galli 1993, 398). The role of the President of the Republic in the formation of the new executive, however, went beyond selecting Amato from Craxi’s shortlist. He imposed a reduction of the size of the executive,\textsuperscript{212} and blocked the appointment as ministers of some politicians that appeared most likely to come under investigation (Hellman and Pasquino 1994, 48-49).

From this point on, things for the government parties only grew worse. In the summer of 1992 the corruption investigation pressed on, implicating mostly the government parties (the PCI/PDS was also touched, but to a much lower degree, McCarthy 1995, 146-147).\textsuperscript{213} At the same time, the country appeared to be careening towards a financial and currency crisis.

The financial and currency crisis (culminating in the Lira being indefinitely suspended from the European Monetary System in September 1992) had been in the making for some time. The Lira had been in the European Monetary System (EMS) since its inception in 1979, but until the late 1980s periodic depreciations had ensured that the country’s higher inflation rate compared to the other EMS members would not excessively hamper the competitiveness of Italian firms. From 1987 on, however, the system moved to de facto fixed rates. As Italy’s inflation rate continued to be higher than those of the other EMS members, its competitiveness

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\textsuperscript{210} The first arrest in what would become famous as the Clean Hands investigation took place in February 1992, in Milan. The arrested was a local socialist politician, but the investigation at first moved slowly, for fear it could be accused of interfering with the upcoming national elections. A spate of arrests followed immediately after the April elections, mostly among the socialist, many of whom were very close to Craxi (Bufacchi and Burgess 1998, 65; Gilbert 1995, 126-30; Newell 2000, 54-5; McCarthy 1995, 140). Craxi himself would come under investigation in December 1992 (Newell 2000, 55).

\textsuperscript{211} In fact, apparently the decision to withdraw his candidacy to the PM post was not Craxi’s choice, but it was imposed on him by Scalfaro (Maccanico 1994, 21).

\textsuperscript{212} The previous government (the Andreotti VII government) had 32 ministers and 70 undersecretaries, which meant that more than one in five MPs of the government coalition were in the executive; as Hellman and Pasquino note, this was “a very inefficient way to hold together a majority prone to infighting” (Hellman and Pasquino 1994, 48).

\textsuperscript{213} The composition of the executive underwent significant changes in the months following its formation, as a number of ministers came under investigation. At every change the executive became more distant from the parties, as the political ministers under investigation were substituted by non-political ones (Pasquino and Vassallo 1994, 70).
began to slip. By the early 1990s there had been a major loss of competitiveness that created an expectation that the Lira would have to be devalued (De Grauwe 1997, 106-107). Expectations of devaluation were also fanned by the continuously increasing government debt (by 1991 the size of the government debt had overtaken GDP, and by 1992 the debt/GDP ratio was 108%, Della Sala 1997, 23).214

Finally, the crisis was precipitated by a series of developments in the summer of 1992. The first was the Danish “No” to the Maastricht Treaty on June 2. The doubt that the process leading to European monetary integration may come to a halt had an immediate impact on Italy, as soon as the Danish results came in, the Lira lost value against the Mark and the stock and government bond prices fell considerably (Barucci 1995, 22-23; Rossi 2000, 97). In the following weeks, the situation remained tense as Italy failed to win a lowering of the interest rates from Germany (Barucci 1995, 31 and 35), thus forcing Italian interest rates up and further increasing the interest payments on the government debt. Finally, the market pressure on the Lira became unbearable in the run-up to the French referendum on Maastricht, set for September 20 (Barucci 1995, 58). On September 13 the Lira devalued by 7%, and a few days later it was suspended sine die from the EMS.215

It soon became imperative for the government parties to stave off the risk of early elections (Bufacchi and Burgess 1998, 69; Capano 2000, 178), as their support in the electorate evaporated in the face of the unfolding scandals and the currency crisis. As administrative elections in November and December 1992 abundantly showed, the government parties would be decimated at the polls if new national elections were to be called.216 Moreover, an electoral debacle had a very personal implication for many MPs of the sitting Parliament: with the loss of their seat came also the loss of parliamentary immunity and thus the risk of ending up in jail.

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214 As the debt increased, so did the expectation that the government would reduce its real value through a devaluation of the Lira, the currency in which the debt was denominated.
215 For public relations reasons, the devaluation was presented as a 3.5% devaluation of the Lira and a 3.5% appreciation of the Mark; between September 1992 and April 1993 the Lira would devalue by almost 30% (Graziani 1994, 11).
216 In Mantua, the DC went from 27% of the votes at the 1990 administrative elections, to 21.7% at the 1991 national elections to 14% in November. At the same elections, the PSI went from 14.5% to 12.9% to 7.2%. Conversely, the LN went from 12.1% to 22.1% to 33.9%, with a further 6.7% of the votes going to another regional party founded by Bossi’s sister and brother-in-law (Galli 1993, 400). The local elections of December 1992 show a similar tumble of the government parties, both in the North and, although to a lesser extent, in the South (Galli 1993, 403-404).
The combination of financial pressure and of a Parliament that could not face a new election increased the bargaining power of the government, both towards Parliament and interest groups. In the summer of 1992, in what proved to be an unsuccessful attempt to avoid the September currency crisis, the government reached an agreement with the unions which would de facto eliminate the existing wage indexation mechanism in order to moderate labor cost growth (Barucci 1995, 113-114; Ferrera and Gualmini 1999, 270).

Moreover, in the context of the financial “maneuver” for 1993, the government introduced a bill that would delegate it to reform four of the sectors that most had contributed to the deterioration of the public finances, health services, local finances, social security and public administration. The delegation bill was approved into law (law 412/92) by Parliament on October 23, 1992 (Vassallo 2000, 307). Law 412/92 and legislative decree 29/93 represented a fundamental novelty not only for their reform content (on this see section 3), but because of the role played by the executive. Throughout the republic period Parliament had been the main actor in all major attempts to reform the administration (Capano 2000, 157). With the Amato government, on the contrary, the main actor became the executive, which designed and imposed the reform to the parties and Parliament by exploiting their weakness in the context of an economic and judicial crisis (Dente 1995, 14-15).

In fact, it should be stressed that the financial crisis was not the only factor that ensured that government would pass the LF and the delegation bill through Parliament. In spite of the crisis, the unions threatened a general strike against the LF (Bufacchi and Burgess 1998, 79; Barucci 1995, 61), Parliament refused to give the government special economic policy making powers in order to face the financial emergency (Barucci 1995, 53) and in September there was the usual free-for-all in the Council of Ministers over the LF bill, with spending ministers requesting more spending than the Treasury could allow (Barucci 1995, 151). Thus, the

Note also that the maneuver for 1993 was the harshest ever introduced by any government (Salvati 2000, 86). The delegation bill was presented as a “collegato” to the legge finanziaria (financial law, LF) for 1993. The LF and the collegati (“connected bills”) are the yearly laws which introduce the changes to the government budget. A collegato is part of the yearly financial maneuver and thus enjoys faster approval times than a normal bill. D. lg. 29/93 was introduced based on this delegation. Also, in October the government requested a loan from the European Union (Barucci 1995, 66). Since the condition for its concession was that the government should introduce structural reforms (Vassallo 2000, 308), one may suspect that – as it had happened in the past (for instance in the case of the IMF loans t Italy in the 1970s) – the government used loan conditionality as a way to pressure Parliament to approve the reforms.
government – by on several occasions requesting a confidence vote in order to get the legislation approved (Barucci 1995, 79; Bufacchi and Burgess 1998, 146-147; Lacava and Vecchi 1995, 158) – had also to play the card of threatening early elections in order to get Parliament’s support.  

In this it had the decisive support of the President of the Republic. This support was needed as it is the President of the Republic that has sole power to dissolve Parliament and call new elections (Art. 88 of the Constitution). Under normal conditions, this power is exercised simply to ratify the will of the parties of the government coalition, and if anything the Presidents have always seen it as their duty to try the utmost to facilitate the formation of a new government and avoid early elections (Hine 1993, 99). However, the period under consideration was not normal, with the government parties suffering the double onslaught of the spreading scandals and the currency crisis, and President Scalfaro made it clear that he would use its powers to defend the Amato governments from attempts to form other governments that he would not approve of (Hellman and Pasquino 1994, 49), thus establishing a fundamental bulwark for the government’s autonomy from the parties.

In closing, it should be noted that while the parties in the formal majority were hostile to the reform, the PDS supported it (Capano 2000, 176). This support was partly a response to the

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221 it should be noted that the durability of the Amato government was also aided by an unprecedented decision of the outgoing DC secretary Arnaldo Forlani, who during the talks for the formation of the government declared that participation in the executive would be incompatible with the parliamentary mandate, so that the DC ministers would have to give up their seat in Parliament (Hellman and Pasquino 1994, 47). This decision (probably motivated by a combination of motives, including wanting to appear reform-oriented to an increasingly restive electorate and aiming to weaken Andreotti and his faction in the party by effectively preventing him from joining the new executive) increased the stakes of the DC politicians that chose to be in the executive, as in the occurrence of a government crisis they would no longer have a parliamentary seat to return to.

222 On the constant consultations between Scalfaro and members of the executive regarding economic policy (in particular Amato and the Treasury minister Piero Barucci) see Barucci 1995, 49 and passim.

223 To be precise, this power developed in the early years of the Republic. Although the Constitution formally gives the power to dissolve Parliament to the President of the Republic, the Constituents seem to have meant that this power was subject to the decision of the PM (who thus was to be the real titular of the power). However, on the first occasion of an early (i.e., before the natural end of the legislature) dissolution of Parliament, the then PM, Alcide De Gasperi, for political reasons preferred that the dissolution act be initiated by the President (Calderisi 2004, 90-91). Only after this first experience did the power of the President to dissolve Parliament become commonly accepted.

224 In fact it has been observed that the power of the President is inversely related to that of the parties. Fabbrini, attributing the phrase to Amato, speaks of an “accordion rule” (Fabbrini 2000a, 55). In crisis situations, when parties are incapable to form governments because of their weakness or inability to come to an agreement, Presidents take on more power, moving the working of the political system towards a sort of semi-presidentialism (Fabbrini 2000a, 55; Fabbrini 2000b, 86). Interestingly, a similar relationship between Parliament and the head of State obtained during the monarchy. When Parliament could not express a majority in support of a government, the king assumed greater power by appointing the government himself (Rogari 1998, 4).
context created by the Maastricht treaty, as the party supported reforms that would contribute to meeting the EMU convergence criteria (Schiavone 2000, 198), but it also reflected a long-standing orientation of the former PCI in support of reforms that would increase the efficiency of the public administration.\textsuperscript{225}

7.1.5 The electoral referendum and the Ciampi government (1993-1994)

The parties’ power probably reached its nadir in April 1993. In that month a referendum did away with the existing PR electoral law,\textsuperscript{226} and for the first time a new government (the Ciampi government) was formed without party influence.

After the victory of the “yes” in the referendums, Amato (who had criticized them as incostituzionalissimi, or “most unconstitutional,” Pasquino and Vassallo 1994, 69) resigned. In the climate of legitimacy crisis of the political system, which the referendums had underscored, there was a diffuse sense that the new PM should not be a professional politician (Pasquino and Vassallo 1994, 71-72). Scalfaro’s choice was the governor of the Bank of Italy, Carlo Azeglio Ciampi. Ciampi offered a reputation of personal honesty (a definite plus in those days) and his own personal prestige in the international financial community, an attribute that would be useful in the current context of financial difficulties for the State (Pasquino and Vassallo 1994, 72).

The government was a first in many ways. For the first time its formation followed the letter of Constitution, with the President of the Republic choosing the PM rather than ratifying the choice of the parties. It was the first to be led by a non-MP, it was the first in which parties were largely excluded from the choice of the ministers (Bufacchi and Burgess 1998, 147, Chimenti 1997, 20; Gilbert 1995, 148; Merlini and Guiglia 1994, 485; Pasquino 1997, 38),\textsuperscript{227}

\textsuperscript{225} Since the 1970s the PCI supported policies aimed at reining in wasteful public spending and making the public sector more efficient [(Furlong 1982, 184-5)]. This orientation was based on the concern for the competitiveness of Italy’s industrial sector, where the PCI had its core constituency, but is also consistent with Left parties worldwide being increasing concerned with finding savings in government spending that could be used for the continued funding of the welfare. Note also that already in the 1980s the CGIL, the PCI-dominated labor union, had supported the privatization of public sector employment contracts along the lines of the reforms introduced by the Amato and Ciampi governments (interview with E, senior official of CGIL, 6/26/03).

\textsuperscript{226} As we saw above, this referendum was one of eight held on April 18 1993.

\textsuperscript{227} This did not mean, however, that the executive was non-political. Its official majority was still DC, PSI, PSDI and PLI (and originally also the PDS), and thus its program had to be agreed with them (Chimenti, 1997, 28) and most of the ministers belonged to these parties, although they were the least tainted of the old political personnel (the Ciampi government, for instance, saw the return of Beniamino Andreatta, a left DC who had suffered a long
and it was the first since 1947 in which representatives of the heir to the PCI, the PDS, were included in the executive. This last element, however, was extremely short-lived as the three PDS ministers stood down on the same day the new government was sworn in.\textsuperscript{228} The PDS, nonetheless, although formally no longer in the majority, proved to be a better supporter of the government than its formal majority, for instance voting in favor of law 537/93, the main vehicle for the implementation of the government’s administrative reform program (Morlini and Guiglia 1994, 505).\textsuperscript{229}

The Ciampi government set as its principal goal to lead the country to new elections as soon as Parliament would pass a new electoral law complying with the results of the electoral referendum (Bufacchi and Burgess 1998, 147; Pasquino and Vassallo 1994, 77;). In this the government was again supported by Scalfaro, who made it public that he thought it his duty to ensure that the citizens could soon vote with a new electoral law (Chimenti 1997, 38-39; Pasquino and Vassallo 1994, 77). Against the wishes of many in Parliament (Chimenti 1997, 35), Scalfaro thus made it clear that he would oppose elections with the old PR system and that at the same time he would expect Ciampi to resign as soon as it would be possible to have elections with the new system.

This context was extremely favorable for a reform-oriented executive. The government parties of the First Republic, which held a majority of seats in Parliament, remained in a state of utter weakness, which meant that they had an interest in postponing the elections as much as possible. In turn, this gave the Ciampi government, supported in this by Scalfaro, significant leverage in imposing reforms, as it could resort to the threat of resignation (leading to early elections if Scalfaro so decided) to overcome the opposition of the parties. In fact, parties chose exile from the government since his conflict with some elements of his party and with the Church due to his role in uncovering a financial scandal which had involved some prelates in the early 1980s, Pasquino and Vassallo 1994, 74; see also the previous chapter). The new distance from the parties of the coalition was underscored by the fact that, contrary to what had been the practice of the Pentapartito governments of the 1980s, the executive did not have vice-PMs (which in the Pentapartito days acted as counterweights to the PM) and that the executive did not resort to the “Cabinet Council,” an informal institution bringing together the leaders of the parties (Pasquino and Vassallo 1994, 83).

\textsuperscript{228} The issue that caused the resignation was a vote by the Camera dei Deputati, whereby its members had, by secret vote, voted to maintain parliamentary immunity for Craxi, who thus could not be tried in court (Bufacchi and Burgess 1998, 148; Gilbert 1995, 149;[Mershon and Pasquino 1994, 59]).

\textsuperscript{229} In fact, as substitutes to the PDS ministers Ciampi selected figures (mostly from academia) who were close to the PDS (and often members of the party), such as Professor Luigi Spaventa (formerly a MP for the “Indipendenti di Sinistra,” or Independents of the Left; on Spaventa see also Chapter 4), Professor Augusto Barbera and Professor Vincenzo Visco (both MPs for the PCI and then the PDS). It should also be noted that Ciampi’s personal political orientation is towards the left (Pasquino 1996, 167).
to minimize the obstacles to the implementation of the government’s program so as not to risk precipitating the elections (Chimenti 1994, 46).

Once again, as had been the case in the Amato government, the Ciampi government took the leading role in designing and implementing administrative reform, while parties and Parliament were marginalized (Dente 1995, 14-15). Beside the reform of the electoral law, administrative reform was in fact central to the program of the Ciampi government, and the reformers could count on Ciampi’s continuous support to help the reform through the Cabinet and in the bargaining with actors external to the executive (Cassese 1995, 141-142; Dente 1995, 17; Marconi 1995, 112-113; Salvemini 1995, 5).\(^{230}\)

Moreover, the reform was framed as part of the necessary drive to reduce government spending. While the savings were actually expected to be relatively minor and to occur anyway in the medium-long term (Marconi 1995, 115-116; Marconi, Mercati, and Montebugnoli 1998, 129-130; Roccella 1995, 171; Salvemini 1995, 6) – thus much reducing the actual connection of the reform with the immediate financial problems of the State – the stated link between administrative reform and financial retrenchment allowed the government to include the reform in the financial maneuver and thus to give it fast-track status in Parliament. Tellingly, for the first time ever the minister for the PA had a central role in drafting the government’s financial maneuver for the following year (Cassese 1995, 141-142; Marconi 1995, 112-3; Salvemini 1995, 5).

Furthermore, the executive’s autonomy from the parties allowed it to introduce reforms aimed at increasing the ability of the PM to guide the action of the government (Morlini and Guiglia 1994, 486). In fact, already in 1988 law 400/88 had finally formalized the structure of the Council of Ministers,\(^{231}\) but the institutional context (persisting fragmentation in the government coalition and among the different ministries) had largely prevented the implementation of the measures aiming to increase the coordination powers of the PM.\(^{232}\)

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\(^{230}\)Ciampi’s support carried a lot of weight, given his personal prestige. It should also be noted that he had a reputation as an impartial broker with the unions (interview with E, senior official of the CGIL, 6/26/03). I do not have evidence that he was directly involved in the bargaining with the unions, but if he was this reputation may have had a positive impact on the government’s dealings with the unions.

\(^{231}\)Article 95 of the 1948 Constitution stated that the structure and organization of the government should be defined by law. It took exactly 40 years for the approval of such law.

\(^{232}\)Among the provisions that the law introduced but that were not carried out in practice were the power for the PM to control the introduction of the government’s legislative program in Parliament and the requirement that all public statements of the cabinet members must be preemptively approved by the PM (Barbieri 2003, 142; Bassanini 1991,
Among these measures, one of the most important was the introduction of a set of procedures regulating the activity of the Council of Ministers (Chimenti 1997, 142; Manzella 1991, 39). However, none of the Pentapartito governments that followed the introduction of law 400/88 managed to pass these regulations. It was the Ciampi government, five years after the introduction of law 400/88, that finally passed the code of regulations for the Council of Ministers. This code (Decreto del Presidente del Consiglio dei Ministri – Decree of the President of the Council of Ministers – of November 10, 1993) introduced a number of measures aiming to increase the collegiality of the cabinet and the ability of the PM to coordinate the activity of the government, such as the formal establishment of a “pre-council” meeting, namely a preparatory meeting chaired by a fiduciary of the PM where representatives of each ministry, of the RGS and of the DAGL come together to coordinate their positions on the agenda to be discussed in the upcoming Council of Ministers (Barbieri 2003, 149-150; Chimenti 1997, 142; Merlini and Guglia 1994, 493-494; Tripaldi 2001, 189); the attribution to the PM of the sole responsibility over the government agenda in Parliament (namely it is the PM, having consulted the other cabinet members, that decides which pieces of legislation the government will introduce in Parliament, the order of priority of the bills and the type of procedure for their discussion in Parliament that will be used, Barbieri 2003, 141; Morlini and Guiglia 1994, 505-6); and the attribution to one minister (the minister for relations with Parliament) of the task to follow the progress of government-initiated legislation through Parliament and to alert the PM if there are problems so that he can take the necessary measures (Barbieri 2003, 141; Chimenti 1997, 142-143).

Law 400/88 also aimed to strengthen the organizational resources at disposal of the PM. Thus, it created the Dipartimento per gli Affari Giuridici e Legislativi (DAGL, Department for Legal and Legislative Affairs) with the task to provide legal support to the PM for the coordination of the government’s legislative program. However, the government was slow in actually setting up the DAGL (Guiglia 1989, 384), and the structure hardly functioned until the Olive Tree governments (Catelani 2002, 83-84; D’Auria 1995b, 705-706).

This marked a stark contrast to the First Republic practice of entrusting each minister with the control over the agenda pertaining to the policy areas of his/her ministry (Cocozza 1989, 368; Merlini and Guglia 1994, 506-507). Like the preceding provision, this measure was in contrast with established practice, whereby each minister was responsible for following the progress of the legislation pertaining to his/her policy sector (Morlini and Guiglia 1994, 507).
7.1.6 The Berlusconi and Dini governments (1994-1996)

The connection between majoritarian electoral rules and increased cohesiveness of the government coalition around the government program did not operate in the first two governments that followed the first application of the new electoral law in the spring of 1994. The Berlusconi government (May 1994 – December 1994) emerged from the very first elections with the new rules and thus it was the product of a party system that had not yet fully adapted to these new rules. The Dini government (January 1995 – February 1996) was entirely formed of non-elected personnel and was supported by a political majority that did not coincide with either of the two major coalitions. As such, it was isolated from the influence of the new electoral law.

As regards the Berlusconi government, in 1994 the electoral competition was not yet bipolar. Beside the two main center-left and center-right coalitions, a centrist coalition (the Patto per L’Italia, or Pact for Italy, whose main component was the heir to the DC, the Partito Popolare Italiano or PPI) received more than 15% of the vote, which however translated into a much smaller proportion of the seats due to the operation of the majoritarian system.

Moreover, the center-left and center-right coalitions were characterized by extreme fragmentation, which meant that they were bound together by the need to gain a majority of votes in the new first-past-the-post constituencies rather than by a common government program (Sartori 1995, 58-59). The center-left coalition, the Progressisti (Progressives), included Rifondazione Comunista (Communist Refoundation, RC), the far left party that had emerged from the break-up of the PCI, along with the PDS and a number of smaller centrist parties. Especially fragmented was the center-right, which won the elections. The center-right in fact fielded two electoral coalitions, one in the North (Polo delle Libertà, Freedoms Pole or PL,

235 In the vote over the new government in February 1995 the center-left, the Popular Party and the LN voted yes and the center-right abstained (Caciagli and Kertzer 1996, 41; Pasquino 1996b, 161).
236 The Patto per l’Italia won 15.7% of the votes for the Camera dei Deputati and 16.7% of the votes for the Senate, but obtained only 7.3% of the Camera dei Deputati seats and 9.8% of the Senate seats (Bartolini and D’Alimonte 1995, 320-321).
237 As we saw above, the passage from electoral coalition to government coalition has remained problematic to the present day. However, it is fair to say that from 1996 on progress has been made in the cohesiveness of the government coalitions compared to both the first Berlusconi government and the governments of the First Republic.
whose main components were FI and LN) and one in the South (Polo del Buongoverno, Good Government Pole, whose main components were FI and Alleanza Nazionale).\textsuperscript{238}

When Silvio Berlusconi, the head of FI, formed his government, he was thus confronted with the challenge of bringing together LN – North-based, supporting a reduction of government intervention in the economy and federalist (if not secessionist) – with AN, which was especially strong in the South and which retained from its fascist precursor a preference for greater state intervention in the economy and for a more centralized government (Carioti 1995, 76).\textsuperscript{239}

Berlusconi briefly managed to hold the two awkward partners together and thus to form a government, but after a few months of increasing tension LN finally left the government (December 1994), leading to the fall of the Berlusconi government and to the formation of a “technical” government led by a former Bank of Italy director, Lamberto Dini. This government, the first in postwar Italy to be entirely composed of non-MPs, was a solution imposed by the President of the Republic Scalfaro to the center-right, which after the “betrayal” of LN demanded either that Scalfaro give Berlusconi the task to try to form a new government or that new elections (whose results the center-right expected to punish LN) be immediately held (Caciagli and Kertzer 1996, 40-41; Ignazi and Katz, 1995, 44-45; Pasquino, 1996 159-160).

The new government was created with a very limited time horizon. Initially the center-right demanded that new elections be called as early as the end of May, but the continuing support of the President of the Republic and the need to meet important political deadlines (in particular the presentation of the LF for the following year) eventually extended the life of the government until early 1996 (Caciagli and Kertzer 1996, 41). Under these precarious conditions, the Dini government stuck to its original, limited program, which did not include budgetary and administrative reform.

\textsuperscript{238} National Alliance or AN was the heir to the neo-fascist MSI (Movimento Sociale Italiano, Italian Social Movement). AN was constituted in early 1994 as a political movement that would be broader than the MSI (Carioti 1995, 78-79). In January 1995 the MSI was officially disbanded and AN became the new party of the right (Caciagli and Kertzer 1996, 44).

\textsuperscript{239} To give an idea of the ideological distance between LN and AN it may be useful to report that Umberto Bossi, the secretary of LN, with the colorfulness of language that has become his trademark, defined AN a “fascist pigsty” (Galli 2001, 395).
The April 1996 national elections came on the heels of greater bipolarization of the party system. In 1995 the centrist Popular Party – which had run as a “third force” in the 1994 elections (Ignazi and Katz 1995, 33) – broke in two, one part joining the center-left and the other joining the center-right coalition (Caciagli and Kertzer 1996, 46; D’Alimonte and Nelken 1997, 27). As for the two coalitions, they retained or increased their ideological cohesiveness compared to the 1994 elections. The center-left coalition – the Olive Tree – included the PDS, part of the Popular Party plus a number of small parties that had run separately in the previous elections, but did not include the extreme left of Rifondazione Comunista (RC), which had been part of the coalition in 1994 (Bull 1995). The center-right coalition – the PL – increased its cohesiveness compared to the 1994 elections as it no longer included the LN.

Moreover, ideological consistency in the eyes of the electorate was fundamental to achieve victory. The winning coalition, the Olive Tree, received more votes in the plurality ballot than in the proportional ballot, indicating that the coalition provided “added value” which attracted voters beyond those who voted for the individual parties. Conversely, the PL received fewer votes in the plurality ballot than in the proportional ballot (Di Virgilio 1997, 133; Fabbrini 2000b, 127).

Furthermore, the elections showed further progress towards the bipolarization of the electorate, in the 1994 elections the two coalitions had received together 80.1% of the votes and in 1996 they totaled 85.2% of the votes (Bartolini, Chiaramonte and D’Alimonte 2002, 365).

Finally, the electoral campaign saw an increased relevance of the coalitions’ programs in deciding the final outcome. On the one hand the voters were able to associate the leaders of the two coalitions (Romano Prodi for the Olive Tree and Silvio Berlusconi for the PL) with their programs and the credibility of these programs, and on the other victory in many marginal constituencies – namely constituencies where the core support for the two opposing coalitions

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240 The chapter only considers the first two Olive Tree governments (thus excluding the D’Alema II and the Amato II governments of 1999-2001) since the reform community considered the reform of the budget process essentially achieved with the reforms introduced by the D’Alema I government. It was only with the Berlusconi II government that the budget process was again the object of reform, although, as we saw previously, the direction of reform changed drastically from the reforms of the Olive Tree governments.
was very close – was decided by voters who voted based on specific policy concerns rather than ideological considerations (Fabbrini 2000b, 126-7).241

In all, therefore, the Prodi government (April 1996- October 1998) was the first “mature” majoritarian government, in that it had emerged from a party system that, compared to the 1994 elections, had more fully adapted to the new majoritarian electoral law and that had produced a more coherent bipolar electoral competition.242

The maturity of the Prodi government was expressed in an increased cohesiveness of the executive. Faced with the tensions within his majority, Prodi could for some time exploit his own direct electoral legitimation to present the coalition as whole, namely the Olive Tree, as an entity independent from its constituents (namely as a “programmatic electoral party” rather than as an electoral party cartel) and to some extent the members of the executive did act consistently with this characterization, emphasizing their collective responsibility to implement the government program rather than their individual responsibility towards their own parties (Fabbrini 2000b, 148, 156, 170-173).

Moreover, a further factor supporting the cohesiveness of the government was its decision – in the late summer of 1996, namely about four months after its inauguration – to pursue Italy’s entry in the EMU at the same time as the other European partners. This decision heightened the weight of budgetary considerations in the government policy-making and strengthened the position of the Treasury within the executive (Fabbrini, 2000, 136-139).243

241 The relevance of government programs was underscored by the salience of substantive policy issues in the media coverage of the campaign, as opposed to ideological issues or questions related to the party composition of the future governments which were at the center of media attention in the First Republic (Sani and Segatti 1996, 19). Substantive issues also increased their relevance compared to the 1994 elections (in 1994 they represented 36% of the issues covered and in 1996 they were 47% of the issues covered, Sani and Segatti 1996, 20).

242 The government had the parliamentary support of the Olive Tree (PDS, the Partito Popolare Italiano or PPI, Rinnovamento Italiano or RI – a small centrist party founded by Lamberto Dini – the Socialisti Democratici Italiani or SDI and the Unione Democratica) plus RC (the support of RC was needed in the lower chamber).

243 It is important to stress, however, that the increase of government cohesiveness was only relative, namely compared to the 1994 Berlusconi government and the First Republic governments. The coalition was riven by constant contrasts among its components and especially by the tension between those, led by Prodi, who wanted to defend the autonomous nature of the Olive Tree and those, such as Massimo D’Alema, the secretary of the PDS, the largest party in the coalition, who wanted to keep the coalition ancillary to the parties (Cartocci 1997, 162-163; Cotta 2002, 33; Fabbrini 2000b, 129-130; Ignazi 2002; Massari and Parker, 1999). Moreover, the Olive Tree had not been able to get a majority of seats in both chambers. This made it dependent on the support of the far-left RC, which had not subscribed to the electoral program, did not enter the government, but was able to keep a steady pressure on it through its threat to withdraw its parliamentary support (Bartolini and D’Alimonte 2002, 33; D’Alimonte and Nelken 1997, 33-34; Massari and Parker, 1999). In fact, a few months after Italy had managed to qualify for entry in the EMU, it was precisely the choice of RC to withdraw its support to the government that led to the fall of the Prodi government in October 1998.
In sum, electoral factors as well as the constraint posed by the decision to join the EMU increased the cohesiveness of the government around its program. Along with Italy’s participation in the EMU, this program had among its main components administrative and budgetary reform (Marconi, Mercati, and Montebuognoli 1998, 148; Parker 1997, 157-158). Administrative reform was not only closely linked to the wider program of reorganization of the State along federal or at least decentralized lines which the coalition had endorsed (Battini 1998, 81-82; Bertonazzi 1998, 229-233; Torchia 2000, 358-361), but had also been supported by the PDS, the main party in the coalition, since 1992 (Capano 2000, 176).244

Furthermore, the increased cohesion of the government coalition and the greater political relevance of the government program meant that the government could enjoy the compact support of its parliamentary majority in the implementation of its reform program. In contrast to the Amato and Ciampi reforms, which these governments had imposed on their own majorities, the administrative and budgetary reforms of the Prodi government (laws 94/97 and 59/97) passed through Parliament thanks to the compact vote of the majority (Battini 1998, 86; Marconi, Mercati and Montebuognoli 1998, 148).245

Finally, it should be noted that in the context of the changes brought about by the new electoral law, and in particular the new emphasis on the realization of the government program, the organization of both Parliament and the executive changed to give, respectively, the parliamentary majority and the executive greater control on the implementation of the program. As regards Parliament, in 1997 the Camera dei Deputati approved changes to its standing orders that made it easier for the majority to determine the program of parliamentary work and thus to implement its program (Caretti 2001, 602-603; Ceccanti 1998; Gianniti and Lupo 2004; Morrone 1998; Rivosecchi 2002, 30, 49-53).

As regards the executive, law 59/97, beside authorizing – as we saw – the merger of ministries, also gave the executive delegated powers to introduce legislation that would

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244 The centrality of the PDS in the Olive Tree was due to its electoral size (it was by far the largest party in the coalition and it was also the largest party in the country, Chiaramonte 1997, 50), but also to its greater organizational resources (since it was the heir to the old PCI). The PDS could not claim the premiership lest it would scare the moderates (Parker 1997, 153; Bardi and Rhodes 1998, 33), but it obtained 9 out of 20 ministerial posts (Hellman 1997, 105). The dominance of the PDS was not only quantitative, but also political as the party and his secretary (D'Alema) were the dominant actors in the coalition (Bardi and Rhodes 1998, 32; Di Virgilio 1997, 104).

245 In fact, the opposition (FI, CCD, AN) complained against the fact that, in their view, the government and the majority had largely imposed their views (Senato della Repubblica 1996d-a, 61-62).
strengthen the position of the PM (articles 11 and 12), with the expressed purpose of increasing the PM’s ability to coordinate the activity of the government towards the realization of its program (Bonetti 2000, 865; Criscitiello 2003, 167; D’Orta 2000, 8; Pajno 2000, 66).\footnote{246}

When the Prodi government fell in October 1998, it was left to its successor, the government led by Massimo D’Alema, to exercise these delegated powers, which it duly did in 1999, with legislative decree 303/99.\footnote{247} Following the lines set in the delegation, this decree gave the PM the power to intervene for the coordination of the policies that are considered strategic for the realization of the government program (Bonetti 2000, 903; Criscitiello 2003, 170) and to send to the Council of Ministers for decision policy issues over which there are conflicts among administrations (Bonetti 2000, 883-7; Pajno 2000, 102-103); eliminated the direct involvement of the PM in many specific policy areas (Criscitiello 2003, 169; D’Orta 2000, 6-7; Sciuullo 2000, 34);\footnote{248} gave the PM Office budgetary autonomy, meaning that the PM Office is no longer subject to many of the budgetary and accounting rules applied to the public administration and can thus act with greater flexibility (Battini 2000, 155; Bonetti 2000, 868; Criscitiello 2003, 170-171; D’Orta 2000, 14; Midiri 2000, 465; Sciuullo 2000, 95). Moreover, the flexibility of the organization directly serving the PM has also been increased by giving the PM the authority to modify it according to his policy interests (Bonetti 2000, 867-868, 876-880; Roselli 2000, 66-67; Roselli 2001, 150-151).\footnote{249}

\footnote{246} It should be noted the Pajno, Secretary General of the PM Office in the Prodi government, explicitly connected this reform to the fact that the electoral reform had given new political relevance to the government program (Pajno 2000, 66). The same connection between electoral reform and reform of the central administration was made in the report that the government presented to the Camera dei Deputati along a draft of the decree on June 9, 1999. See also Corte dei Conti (1996, 13).

\footnote{247} RC withdrew its support to the Prodi government in October 1998, causing it to fall. Massimo D’Alema (\textit{Democratici di Sinistra} – DS – the new denomination assumed by the PDS in 1998)) was able to form a new government with a majority similar to the one that had supported the Prodi government, but which suffered from greater fragmentation: beside the Olive Tree, it brought together the Partito dei Comunisti Italiani (PDCI), a group that had left RC over the decision of withdrawing support from the Prodi government, and the UDR, a small group of MPs led by former President of the Francesco Cossiga who switched sides, from the PL to the center-left.\footnote{248}

\footnote{248} Over time, a number of operative tasks had accrued to the PM Office, with the result of making it more difficult for it to carry out its own role as the office coordinating the activity of the government (Battini 2000, 111; Battini 1998, 208-209).

\footnote{249} A first attempt to increase the power of the PM was done with law 400/88. The law for a large part formalized already existing practices, but it also aimed to increase the power of the PM by improving the organization of its offices (Chimenti 1997, 141-142; Pajno 2000, 52-62). However, in the context of the “fielldom governance” (whereby each minister would define the policy of his/her ministry independently of a common government position) prevalent during the First Republic, the implementation of the law was limited (Amato 1991, 50; Bassanini 1991, 191; Rizzoni 1997, 378-380). In particular, one of the central measures of the law – the issuing of a regulation defining the powers of the PM within the Council of Ministers and the organization of the PM Office – had to wait five years before it was finally issued by the Ciampi government, at the initiative of Ciampi himself (Criscitiello 143
Furthermore, the D’Alema government acted to increase the organizational and personnel resources available to the PM for the coordination of government policies. In particular, the D’Alema government greatly increased the analytical capacities of the Dipartimento per gli Affari Economici (DAE, Department for Economic Affairs) of the PM Office by allocating to it 35, mostly foreign-trained, young economists, who provided constant support to the PM minister in his direction of government activities; interview with P, former head of the DAE, 6/10/04 (see also Barbieri 2003, 151; Lanzillotta 2002, 168-169).\footnote{It should be noted that this strengthening of the DAE was based on the Prodi government policy to introduce new technical capabilities into the PA. The 35 economists were part of 200 new hires that had been done based on a measure passed by the Prodi government in 1996 with the LF for 1997 (interview with P, former head of the DAE, 6/10/04).} It also re-organized the Dipartimento per gli Affari Giuridici e Legislativi (DAGL, Department for Legal and Legislative Affairs), making it the office in charge of coordinating the legal and legislative activities of the government (Catelani 2002, 84; Tripaldi 2000, 112-115; Roselli 2001, 153-157),\footnote{The DAGL had been created by law 400/88, but just like many other provisions of that law its operation had been minimal until the Olive Tree governments (Catelani 2002, 83-84; D’Auria 1995b, 705-706).} and created within the PM Office a “taskforce for the simplification of legislation and procedures” (Nucleo per la semplificazione delle norme e delle procedure) for the coordination of the activities aiming to simplify and reduce the number of existing laws (Tripaldi 2001, 194-195).

In all, in terms of the implementation of the reform lines set by law 59/97, the D’Alema government followed closely in the steps of the Prodi government, introducing the merger of the ministries with legislative decree 300/99 and strengthening the PM both with legislative decree 303/99 and with the organizational changes described above, which strengthened the structures tasked with aiding the PM in the coordination of government policies.

This continuity was based on the personnel continuity between the two governments, with the people most involved in the reform in the Prodi executive moving to positions in the D’Alema executive that allowed them to continue to oversee the reform. Ciampi initially maintained his position as Treasury minister (until he was elected President of the Republic by Parliament in May 1999); Bassanini, the minister for PA in the Prodi government, became

250 It should be noted that this strengthening of the DAE was based on the Prodi government policy to introduce new technical capabilities into the PA. The 35 economists were part of 200 new hires that had been done based on a measure passed by the Prodi government in 1996 with the LF for 1997 (interview with P, former head of the DAE, 6/10/04).

251 The DAGL had been created by law 400/88, but just like many other provisions of that law its operation had been minimal until the Olive Tree governments (Catelani 2002, 83-84; D’Auria 1995b, 705-706).
Undersecretary for the PM Office in the D’Alema government and was tasked by D’Alema with coordinating the implementation of administrative reform, while De Ioanna, head of cabinet for Ciampi at the Treasury in the Prodi government, became Secretary General of the PM Office. Moreover, the reform orientation of the D’Alema government was further strengthened by the participation of Amato as minister for institutional reforms (until he was appointed Treasury minister in 1999 after Ciampi’s election as President of the Republic), who had been involved in the attempts to strengthen the PM since the early 1980s (Criscitiello 2003, 176).

However, continuity between the Prodi and the D’Alema governments was not complete. The D’Alema government, contrary to the Prodi government, had a non-electoral origin, since it came into being when a new majority – which even included some MPs transferring from the ranks of the opposition – was put together to make up for the defection of RC (Hine and Vassallo 1999; Ignazi 2002, 196).

The non-electoral origin of the D’Alema government weakened the programmatic bonds of the coalition, precisely because the coalition – which spanned from ex-PL MPs to the Communists of PDCI – had not campaigned together over a common program, and gave new strength to the parties as the true masters of the Olive Tree coalition (Fabbrini, 2000b 70-3; Fabbrini, 2000 152-3; Ignazi, 2002, 205-206).

This, in turn, had an impact on the implementation of budgetary and administrative reform. As we saw above, the RGS was supposed to complete the work of defining the new UPB so as to make them consistent with the new emphasis on projects within the administration, but after the fall of the Prodi government work on this final reclassification of the budget stalled (interview with C, one of the main reformers in government, 6/13/05). Moreover, the need to accommodate the coalition partners in the allocation of government posts led to splitting the responsibility for the reform of central administration between Bassanini (DS) and Angelo Piazza, causing repeated clashes between the two (Antonio Vittorio Sorge and Alessandro Spinelli, “Pubblica amministrazione - Il ministro, in polemica con Bassanini, chiede a D'Alema pieni poteri sulla riorganizzazione della macchina burocratica,” Il Sole 24 Ore, 6 May 1999, p. 2 and Antonio Vittorio Sorge and Alessandro Spinelli, “Pubblica amministrazione - Al Forum ’99
In the 1990s, as in the previous decades, the reformers formed a coherent “discourse community.” Members of this community agreed on both the need for reform and the content of the reform. They coincided to a very large extent with the reformers of the 1980s (and even of the 1970s and 1960s), not only in that they belonged to the same organizations and institutions, but also – strikingly – in that they were often actually the same individuals.

The community was composed of university professors (some of them doubling as politicians) and of members of a few organizations within the State, in particular the Treasury’s Commissione Tecnica per la Spesa Pubblica (Technical Commission on Public Spending, CTSP), the offices of the budget commissions of the two chambers of Parliament, and the judiciary (the Corte dei Conti, Court of Accounts, the accounting magistrate).

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253 A discourse community brings together actors sharing “a specific knowledge base” and “some common level of understanding of a problem, its definition, and its causes” (Howlett and Ramesh 2003, 153-154). The concept is similar to but broader than that of “epistemic community” (Haas 1992) in that the latter refers to a network of experts who do not have direct policy-making responsibilities, while the former encompasses policy-makers and thus applies to the Italian case, where experts often also double as elected officials or are otherwise involved in policy-making. In the case of the budget, this mostly refers to Corte dei Conti judges and officials of the Parliament’s budget commissions.

254 This agreement amounts to sharing a common “policy core,” which is the hallmark of an “advocacy coalition.” However, I refrain from using the concept of “advocacy coalition” due to the lack of explicit cooperation among its members. According to the ACF an advocacy coalition must “show a nontrivial degree of coordinated activity over time” (Sabatier 1993, 25; for a definition of “coordinated activity over time” see Zafonte and Sabatier 1998, 480). However, the evidence presented in this chapter will show that a set of actors sharing a common diagnosis and prescription for a certain policy area can affect change even in the absence of explicit cooperation among them (see also Heclo 1974). In fact, the ACF admits the possibility of non-explicit cooperation, based on “weak coordination,” which “occurs when organizational actors monitor each other’s political behavior, and then alter their actions to make their political strategies complementary with respect to a common goal” (Zafonte and Sabatier 1998, 480, emphasis omitted); however, this definition may risk “concept stretching” (Sartori 1970).
The members of this community had a common political (but not necessarily partisan) orientation and disciplinary base. Politically, most of them shared a left, non-Marxist, orientation. In some cases this led them to direct participation in a party (this was for instance the case of Franco Bassanini, university professor of constitutional law and a MP first for the PSI, then for the SI and finally for the PDS/DS); more often, however, their partisan activity, if there had ever been, had long ceased (this was the case of Giuseppe Carbone and Manin Carabba of the Corte dei Conti, who had been active in the PSI in the 1960s and 1970s).

They also shared a common disciplinary base, as they were mostly trained in law (often legal scholars) and in particular in administrative and constitutional law. The few non-lawyers tended to be economists with an expertise in public finance (especially in the CTSP) who belonged to an “old guard” of Italian economists that tended to have a long academic acquaintance with legal studies (interview with A, professor of administrative law, 1/30/04). The members of the community contributed to the same academic journals and edited books and had frequent occasions to meet at conferences and professional meetings, such as those organized, for instance, by the Corte dei Conti or the Scuola Superiore di Pubblica Amministrazione, Higher School of Public Administration.

The Ragioneria Generale dello Stato (RGS, the accounting office within the Treasury), as in the previous decade continued to play a key role in the reform process, even though it was in an off-center position in relation to the reform community: it participated actively in the formulation and implementation of the reform, but its position was at odds with that of the other reformers. In terms of personnel the RGS, again in an eccentric position, was made up mostly of accountants; see the hearing of Giuseppe Monorchio, head of the RGS (Camera dei Deputati and Senato della Repubblica 1997a, 16). The background of the RGS personnel explains why it was less receptive than the reform community to NPM: while the RGS’ accountants were focused on keeping their control on the financial decisions made by the administration, the administrative lawyers that made up the bulk of the reform community had the goal of changing the structure of the administration.
With the partial exception of the RGS, these actors developed a common view regarding one further issue that the 1988-1989 reform had not addressed: the structure of the budget.\(^{255}\) The budget was based on approximately 6,000 basic units (capitoli), each of which had to be approved by Parliament. The content of these units was the result of the accretion of layers upon layers of new laws, so that the units – widely varying in size – did not give a meaningful representation of either the actual structure of the administration or of how it used its resources.

That the budget structure had to be reformed was widely accepted. Where there was disagreement between the reformist community – which aimed to connect the reform of the budget to the reform of the administration – and the RGS was on the nature of the reform. On the one hand, the RGS was part of the administration and as such it looked askance at administrative reform proposals (Capano 2000, 157). On the other hand, it was afraid that the reform would force it to loosen its traditional grip on public finance. Its position had traditionally been, and continued to be, in favor of administrative controls of expenditure, so as to keep its ability to mediate and bargain with the spending administrations (Bassanini in Camera dei Deputati 1998, 16419; Cassese 1995, 147), exactly the opposite of the calls for the responsabilization of public administrators that came from the reformist camp.

The consensus in the reformist community was that the current structure gave Parliament at the same time too little and too much control over the budget, which had consequences that affected both the role of Parliament in the budgetary process and the behavior of the administration. On the one hand the extreme detail of the budget gave too much control to Parliament over minute spending decisions, thus facilitating micro spending legislation. On the other hand the budget did not provide an overall picture of the government’s spending priorities, so that MPs could not discern – much less influence – the policies of the government based on the budget document (Andreatta 1988a, 41; De Ioanna 1993, 41). Moreover, the fact that each basic unit had to be approved by Parliament deprived the administration of any flexibility in the management of its resources, thus also making sure that the administrators would not be held accountable for how they would use these resources. Thus, changing the structure of the budget was considered to be an instrument for the reform of the administration.

\(^{255}\) The reforms of 1988-89 had left out an important element of the original reform bill. In the parliamentary debate that preceded the approval of law 362/88 Parliament decided to excise the part of the bill regarding the structure of the budget document.
The reform of the administration was based on the principles of New Public Management (NPM), and these principles therefore also informed the content of the reforms of the budgetary process in the 1990s.\textsuperscript{256} We conclude this section by briefly outlining the NPM and how its principles were articulated in the Italian case.\textsuperscript{257}

NPM is one of many different names given to a set of reform proposals for the PA that began to gain currency in the early 1980s.\textsuperscript{258} Reflecting both the political and intellectual orientation of the early 1980s (the rejection of government in favor of the market as the best way to meet society’s needs) and the drive to increase the efficiency of the PA in a time of tightening budget constraints, the overarching orientation of these proposals is to make the functioning of the PA as similar as possible to the managing of firms in the private sector, even creating quasi-markets in place of the traditional hierarchical structures of the public administration (Dunleavy and Hood 1994, 9; Gow and Dufour 2000, 579; Kaboolian 1998, 190; Peters 1996, 21 and 28; Peters 1997; Terry 1998, 195).\textsuperscript{259} Beyond this common point, prescriptions have sometimes diverged, reflecting the influence of two different intellectual approaches, namely public choice and management theory (Aucoin 1990, 126-129; Sheingate 2004, 224).

In spite of the tensions created by the fact that NPM rests on two not completely aligned intellectual pillars, it is possible to identify the main prescriptions of the NPM.\textsuperscript{260} The following table shows the main features of the NPM and how they were implemented in the Italian case.

\begin{table}
\begin{tabular}{|l|l|}
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\textbf{Main Features} & \textbf{Implementation in the Italian Case} \\
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\begin{itemize}
\item A description of the NPM-based “managerial revolution” that swept the Italian public administration in the 1990s is in Capano 2003, who is however rather skeptical regarding the extent to which the 1990s reforms were truly revolutionary. An assessment of the reforms as a truly innovative implementation of NPM principles is given by Vincent Wright, who in fact argues that Italy was one of the European countries that went farthest in the implementation of NPM (Wright 1994)). An explicit characterization of the administrative reform introduced by the Prodi government as based on “the British and the Clinton-Gore model” (the latter a reference to the NPM-based reform program introduced by Vice-President Gore during the Clinton administration) was given by Vincenzo Cerulli Irelli, rapporteur for the government bill in the Constitutional affairs Commission of the Senate (Senato della Repubblica 1997a, 10).
\item One of the main conduits of the NPM in Italy was Sabino Cassese (Wright 1994, 108), who was to become minister for the public administration in the Ciampi government (see later). Cassese is one of the leading Italian experts in public administration, and he has long been interested in public administration developments abroad (e.g. Cassese 1994a; Cassese and Franchini 1989).
\item Other names in use are managerialism, neo-managerialism and also simply public management (Gow and Dufour 2000, 577-8).
\item The term “management” itself originates from the private sector (Aucoin 1990, 118).
\item Within NPM there is disagreement on whether the administration should be insulated from the political decision-makers (management theories) or rather be made responsive to the impulses coming from elected officials (public choice). Within the Italian reformist community, this tension has played out in the contrast between (and the different policies implemented by) two academics turned ministers for the public administration. Sabino Cassese (minister of the public administration in the Ciampi government) supported establishing a clear separation between the bureaucracy and the political decision-makers, while Franco Bassanini (minister of the public administration in
\end{itemize}
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<th>Features of NPM</th>
<th>Implementation of NPM in Italy</th>
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<td><strong>Evaluation:</strong> The evaluation procedures of administrative action should focus on the effectiveness of the administration rather than on the formal adherence to rules (Chevallier and Loschak 1982, 75; Pierre 1995, 226-231). This prescription derives from the outcome orientation of NPM: The results achieved, the ‘value for money’, are more important than the process of achieving them. (Chevallier and Loschak 1982, 694-695; Gow and Dufour 2000, 580; Pollit 1995, 203).</td>
<td>In 1994 law 20/94 introduced a major reform of administrative controls, which shifted the focus of control from ex-ante legality controls to ex-post controls over the efficiency of government spending.</td>
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<tr>
<td><strong>Separation of administration and politics</strong> (Peters 1996, 29; Wright 1994, 112-3): It should be noted that this prescription is controversial within NPM, reflecting one of the instances when public choice and management theories conflict. According to public choice the root problem of public</td>
<td>One of the aims of the administrative reforms carried out by the Amato and Ciampi governments in the early 1990s (legislative decree 29/93 and law 537/93 respectively) was to create a clear distinction between the role of administrators and that of politicians, with</td>
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the Prodi government) in the reforms of the public administrations bearing his name introduced a spoil system in the appointment of top civil servants.
administration is the excessive autonomy of bureaucrats (the “agents”) from their democratically accountable masters (the political “principals”), consequently reform should increase rather than reduce political control over the bureaucracy. Conversely, according to management theory public administration suffers from excessive meddling on the part of politicians, so that administrative reforms should enhance the autonomy of public managers (Aucoin 1990, 126-127)

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<th>Government decentralization: government should be decentralized, in order to empower managements. This can be done either horizontally, for instance through the creation of semi-independent regulatory agencies (consistent with a view of the government as a regulator rather than as a service provider), or vertically, through the devolution of decision-making powers to lower levels of government (Aucoin 1990, 122-123; Peters 1996, 31-33; Sheingate</th>
<th>politicians defining the broad goals of government policy and the public managers being responsible for achieving them. However, in a clear example of the tension existing within the reform community over the issue of the separation of politics and administration, the Prodi government has moved to create a spoil system for the high echelons of the administration, whereby the top public administrators are bound by a fiduciary relationship with the political apex of the administration</th>
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<tr>
<td>In the 1990s the PA has undergone both horizontal and vertical decentralization. Horizontal decentralization has occurred through the creation of independent regulatory agencies (“authorities”) that are largely autonomous from the rest of the administration and the creation of independent administrative units (“agencies”) within the existing ministerial structures. The first independent regulatory agency</td>
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(the anti-trust authority) was set up in 1990. Other independent regulators were set up in 1995 and 1997 (the gas and electricity authority and the television and telecommunication authority respectively). As for the agencies, the most notable example is the 1998 reorganization of the Finance ministry (the ministry in charge of taxation until its merger with the Treasury ministry in 2001), which involved the creation of four agencies (enjoying patrimonial and personnel autonomy from the ministry as well as a separate juridical status) tasked with the direct administration of taxes, tariffs and revenues from the public domain.

Regarding vertical decentralization (devolution), law 59/97 mandated the government to reorganize the relationship between local governments and the central government.

The mandate was carried out in 1998 with a number of legislative decrees that
transferred a significant number of government functions from the center to different local government levels (regions, provinces and cities). Note however that the parallel transfer of resources has been very contentious, with a framework agreement among the different levels of government being reached only in 2001 (and in fact still being the source of yearly conflict between central government and the regions and between richer and poorer regions).

Also note that, although devolution fits the NPM agenda, in the case of devolution probably the political pressure exerted by the LN’s federalist or even secessionist agenda had a greater impact on the reform than the influence of NPM principles.

Creation of quasi-markets: connected to decentralization is the replacement of traditional hierarchical structures with quasi-market relations among government agencies, especially among providers and consumers. The creation of agencies within the central administration had the explicit purpose of creating “quasi-contractual” relationships between the political and the administrative layers (for instance allowing a single
purchasers of services (Dunleavy and Hood 1994, 9; Peters 1997; Wright 1994, 113)

<table>
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<tr>
<th><strong>Centralization/coordination:</strong> this refers to an increase in the powers of, typically, the PM and/or the Treasury minister, so as to increase their ability to coordinate the action of the government, both centrally (power over the other members of the executive) and over the various government agencies, by both increasing their formal powers and their staff resources (Aucoin 1990, 129-131; Sheingate 2004, 228-229); this prescription is apparently in contrast with decentralization indicating the tensions existing within NPM from its roots in both public choice (favoring centralized control over the bureaucrats in order to reduce the risk of bureaucratic capture by interest groups) and management theory (supporting decentralization as to increase bureaucratic responsiveness to their policy constituencies, Aucoin 1990, 128). Note, agency to enter into contracts with different ministries)</th>
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<tr>
<td>The 1990s saw a number of reforms aimed at increasing the coordination powers of the PM (with regard to the executive as a whole) and of the Treasury (with regard to fiscal policy). In 1993 the Ciampi government regulated the operations of the PM Office. In 1997 law 59/97 gave mandate to the government to reorganize the PM Office and reform the relationship of the PM with the executive so as to increase the ability of the PM to coordinate government policy (this reform was carried out in 1999 with legislative decree 300). The same law also delegated the government to reorganize the central administration, including the merger of a number of ministries. Based on this mandate, legislative decree 303/99 merged the Treasury and Finance ministries (the smaller Minister for Budget and Economic Planning was merged with the Treasury)</td>
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however, that coordination can also be consistent with decentralization, considering that if decentralization occurs, greater coordination powers are needed by the center (Aucoin 1990, 120-121)

| Increasing the autonomy and accountability of public managers: managers should be held accountable for their ability to pursue their missions, which also implies that they should be given the control on the resources needed to perform the mission (Aucoin 1990, 123-124; Kaboolian 1998, 190). This point is connected to deregulation and merit pay (see below) |
| The responsabilization of public managers for the achievement of their units’ objectives was first introduced in 1993 (legislative decree 29/93) and further specified in 1997-1999 (law 59/97 and the legislative decrees based on it). |

| Deregulation: Procedural norms should be kept to a minimum, in order to give the managers the discretion that comes with their greater responsibility for achieving their goals and to prevent the use of existing regulations to justify low |
| The first measures for the simplification of administrative procedures were introduced by law 241/90. However, a broad program of administrative simplification aimed at rationalizing government regulations was only begun in 1993 (law 537/93). After |
efficiency in achieving these goals (Aucoin 1990, 124; Dunleavy and Hood 1994, 9; Kaboolian 1998, 190)
faltering in the 1994-1995 period, it received new impetus in 1997 (with law 59/97, which created a program of yearly “simplification laws” which indicate which laws can be simplified and how this simplification should be carried out). In 1999 (law 50/99), the PM Office has been tasked with coordinating the program of administrative simplification (however, from 2001 on the coordinating role of the PM Office in the simplification process has been weakened)

| Merit pay or pay per performance: Pay should be connected to the achievements of the administration’s goals (Kaboolian 1998, 190; Peters 1996, 35; Pierre 1995, 218-220); | Introduced for the managers by the Prodi and D’Alema governments (law 59/97 and legislative decrees based on it) |
| Privatization of government employment contracts, namely elimination of the traditional constraints posed by civil | The privatization of employment contracts in the public sector began with the Amato government (legislative decree 29/93) and |
service contracts on personnel matters, such as hiring, firing or promotions (Peters 1997; Wright 1994, 114-115;)

continued with the Ciampi government (law 537/93 and modifications to legislative decree 29/93). It has however met with strong resistance from within the bureaucracy, which has limited the extent of the reform (for instance limiting the extent to which promotion is based on open competitions rather than mechanisms of internal promotion)

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<tr>
<th>Consumer orientation: Users of public services should be treated as consumers/customers (Kaboolian 1998, 190; Peters 1996, 42; Pierre 1995). This implies the adoptions of citizen charters akin to consumer rights codes and initiatives aiming to facilitate the access to the PA, such as “one-stop window” programs (Peters 1997; Sheingate 2004, 226-7).</th>
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<tr>
<td>A first turn towards a consumer-oriented PA was law 241/90, which introduced, among others, the principles that citizens should be notified of the maximum length allowed for the administrative procedure and should know the name of the person responsible for the procedure. However, in the first few years after the introduction of this law its implementation was stalled by the resistance of the bureaucracy. Under the Amato government there was a rekindling of the interest in a more “user-friendly” administration (one of the provisions of legislative decree 29/93</td>
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mandated the implementation of a 1968 law allowing citizens to provide self-certified statements to the administration, but the implementation of law 241/90 only gained new momentum with the Ciampi government. This government also passed a Public Services Charter that spells out the rights of the citizens when dealing with the PA and the duties of the PA.

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<tr>
<th><strong>Bulk budgeting</strong>: budgeting rules should allow greater flexibility in the use of allocations by the spending administrators, so as to make them responsible for how the money is spent (Peters 1997; Pierre 1995, 209-214)</th>
<th><strong>Law 94/97</strong> carried out the most significant reform of the government budget structure since the 1920s. One of the main goals of this law was to increase the budgetary autonomy of government units.</th>
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<td><strong>Purchase deregulation</strong>, in order to allow individual government units to purchase services and goods rather than having to rely on centralized procurement (Peters 1997)</td>
<td>The restructuring of the budget into cost centers was accompanied in 1997 by the attribution of responsibility to the individual administrations for the purchasing decisions. The results of the new system, however, were not satisfactory, and in 2000 there was a partial reversal to centralized procurement: a</td>
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Goals: the core goals of NPM are “the three Es,” namely effectiveness, efficiency, and economy (Aucoin 1995; 127; Chevallier and Loschak 1982, 695; Gow and Dufour 2000, 579; Wright 1994, 112).

The terms “efficacia, efficienza, economicità” have probably been first used in an Italian legal text with law 241/90 (Lacava and Vecchi 1995, 232). Ever since they have become a staple of the administrative discourse.

**Figure 2** New Public Management

### 7.3 EXPLAINING THE CONTENT OF THE REFORMS: IDEAS

This section will show the overlap between administrative and budget reform. While these two reform strands remained separate throughout the 1980s, they came together in the 1990s, thus shaping the content of budgetary reform in the past decade.\(^{261}\) Administrative reform has been a perennial issue in post-war Italy (Calandra 1978; Capano 1992; Cassese 1974b; Franchini 1994; Melis 1996; Sepe 1995; Serrani 1979).\(^{262}\) However, until the early 1990s the debate on the reform did not translate into any significant reform. Indeed laws affecting the public administration were passed very frequently, but they were haphazard reforms of specific sectors.

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\(^{261}\) It is interesting to note that the one time before the 1990s when administrative reform and budgetary reform, while kept separate, came close was in the 1960s, namely during the “planning period” of the early center-left governments (Franchini 1994, 190; Sepe 1995, 127-132; see also chapter 3 of this dissertation). The deep connection between budget and administrative reforms meant that there was a significant overlap between the budget reform community and the administrative reform community. On the cohesiveness of this community and on the primacy of administrative law as its “knowledge base” see (Capano 2000, 159-162; Capano 1992, 65-6; Dente 1995, 6).

\(^{262}\) As indeed it had been throughout the period since the country’s unification. The first government report advocating far-reaching administrative reform (including the merging of ministries, the reduction of personnel and the simplification of the administrative process) dates to 1892 (Battini 1998, 63). The creation of a “minister for bureaucratic reform” (which will become the minister for public administration in 1979) dates to 1951 (Capano 1992, 94).
which in most cases had to do with the treatment of personnel (Franchini 1989; Pajno and Torchia 2000, 15).

The last major contribution to the reform debate was the “Giannini Report,” named after Massimo Saverio Giannini, the minister for the public administration that coordinated it and presented to Parliament in 1979. Once again, however, the proposals presented in this report failed to have any practical impact. In fact, the years following the publication of the reports were characterized by the abandonment of any attempt to introduce a broad reform of the public administration (Capano 2000, 157; Capano 2003, 787; Franchini 1994, 192-193). However, some of its recommendations would contribute to the set of ideas prevalent in the reform community in the following years, and would eventually be implemented in the 1990s.

As for the budget reform, the late 1980s saw major changes in the budget process and instruments. Law 362/88 introduced innovations such as new funding rules, limits for content of the *legge finanziaria* (financial law, LF), the *Documento di Programmazione Economica e

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263 These features of administrative change were the result of the combination of a specific cultural orientation of the would-be reformers – who were still anchored to a 19th century-type concept of the public administration based on a rigid division in ministries (so that new problems were dealt with sectorally or through the creation of a new ministry) – with the increasing influence of the personnel on any reform attempt, both directly (through what effectively amounted to the participation of unions to the management of the administration from the early 1970s on, Capano 1992, 116, 141-142) and indirectly through the patronage offered by the government parties and especially the DC. It is noteworthy that the post of minister for the public administration, formerly minister for bureaucratic reform, was in the vast majority of cases held by Christian Democratic politicians that had no commitment to reform (see list of the ministers in Capano 1992, 113).

In fact, administrative reform was caught in a catch-22. The party that had the greatest influence on the bureaucracy also had the least interest in reform. In the few instances when a reformer did receive the post (Giannini’s case, minister for the public administration in 1979-80, was typical in this sense), he lacked the party connections necessary to influence the behavior of the bureaucracy (Capano 1992, 115).

264 Giannini, who was one of the most eminent Italian experts of public administration, after the presentation of the report proceeded to set up a number of sectoral commissions charged with studying specific aspects of administrative reform. Most relevant for the present research was the commission chaired by Franco Piga, which focused on the reform of the central administration. The Piga report examined the possibility of merging the economic ministries (Finance, Treasury and MBEP), but concluded against it, arguing that in the context of a coalition government it was necessary to maintain “pluralism” in economic policy-making by allowing different parties to have influence on it through their control of different ministries. The text of the Giannini and Piga reports can be found as respectively Giannini (1982) and Piga (1981).

265 Among the reform proposals that were presented by the 1979 Giannini report and that were implemented in the 1990s are measures to increase the transparency of the administrative procedures, the use of administrative acts rather than laws for the implementation of administrative reform, the reduction of contract categories for the personnel of the public administration and the substitution of private sector contracts for the public sector contracts, the substitution of ex-post controls (aimed at assessing the efficacy and efficiency of the administration) for the traditional ex-ante controls (aimed at assessing the formal legality of the acts of the administration), the reduction in the number of ministries, the separation between the political and the administrative levels(Aurisicchio and Bianco 1984; Sciullo 2000, 27-30; Sepe 1995, 137).
Finanziaria (Economic and Financial Planning Document, DPEF) and the “collegati.”\(^{266}\) The question of the reform of the budget structure, however, was not addressed, in spite of widespread dissatisfaction with it. To be sure, this reform was part of the original bill for law 362/88 (which was supposed to give the executive delegated powers to reform the budget structure), but was then excised from it. The official motivation for postponing the reform of the budget structure was that the wording of the proposed delegation was too vague and that thus more time was needed to clarify the terms of the delegation (Camera dei Deputati 1988, 18676).\(^{267}\)

A parliamentary commission (the Giannini commission, from the name of its chair) was charged with studying the issue, while the RGS also began to work on the restructuring of the budget, producing test budgets from 1990 on (Camera dei Deputati 1997a; De Ioanna 1993, 42; Pacifico and Seguiti 2000, 375). While the work of the Giannini commission did not have any impact on the further developments of the reform,\(^{268}\) the RGS was to provide the major alternative to the proposals coming from the reformist community.

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\(^{266}\) The DPEF is the yearly document that outlines the government’s economic and financial plan for the following three years and which sets the deficit limit for the budget. A brief description of the LF and the collegati is given in footnote 36.

\(^{267}\) However, one of the main members of the reform community (at the time a parliamentary official in the Senate Budget Commission) has argued with me that the reform of the budget structure was excised because of the opposition of the RGS, which did not want to lose its control over the formation of the budget (interview with C, 6/13/06).

Moreover, it was already recognized that the reform of the budget structure was profoundly connected to administrative reform (D’Orta 1998, 99), and one may suspect that this connection may have further weakened the prospects of the reform budget structure by raising the opposition of those who would be affected by the administrative reform, namely the RGS and the bureaucracy.

\(^{268}\) Massimo Saverio Giannini, one of the most eminent Italian experts on public administration (he had also coordinated the Giannini report, see before, when he was minister for the public administration in the early 1980s), was 76 at the time of the publication of the commission’s report in 1991 and was one of the animators of the movement for the electoral referendums of 1991-1993 (see later), which presumably left him with little energy to pursue the implementation of the report’s conclusions. The vice-chair, Beniamino Finocchiaro, was a retired Socialist Senator who had been Treasury undersecretary in the Craxi II government. In the following years he would fiercely attack Sabino Cassese (the author of the 1993 reform, see later) not only on the merits of the reform (Gog. 1994), but also accusing him, Ciampi and their collaborators of personal improprieties during the Ciampi government (interview with A, professor of administrative law and member of the 1993 Cassese group).
7.3.1 The reforms of the Amato and Ciampi governments (1992-1994): Legislative decree 29/93 and law 537/93

The years between 1990 and 1992 – the last of the “Pentapartito” rule\textsuperscript{269} – marked a continuation of the reform lull, both on the administration and budget fronts.\textsuperscript{270} The first step towards a broad reform of the administration was taken by the Amato government (June 1992 – April 1993). Amato (himself a professor of constitutional law who had written extensively on the problems of the Italian administration, see Amato 1976a, 1976b and 1980) was directly involved in the drafting of the reform and in bargaining with the unions (Dente 1995, 17).

Amato connected the reform of the administration to the need to control government spending from the start of his government by giving the Treasury minister the brief for the public administration. Consistently with this approach, the Amato government introduced the administrative reform in Parliament as part of the financial maneuver for 1993 and, exploiting the diminished veto capabilities of the parties following the political and financial crisis of 1992 (see following section), he was able to receive from Parliament delegated powers for the reform (law 421/92). Based on this delegation, the government introduced the reform in 1993 (legislative decree 29/93).

A detailed examination of this reform is beyond the scope of this work. However, among its main aims was to implement one of the proposals of the original Giannini report, namely the privatization of the employment contracts in the public administration (so that employment relations would be regulated according to the rules applied in the private sector).

\textsuperscript{269} To be more precise, 1991 was the last full “Pentapartito” year, as the PRI abandoned the government in that year. However, the last government before the 1992 crisis was a mere continuation of the old political formula, minus the PRI.

\textsuperscript{270} On the administrative front, a major law (law 241/90) was indeed passed in 1990, which aimed to increase the transparency of the administrative process (Falcon 1995, 112-113; Sorace 1995, 49). However, on one hand it was an isolated innovation, namely one that was not integrated into a broader reform project (Capona 2000, 158; Della Cananea 1997, 203), and on the other its implementation was very slow, due to bureaucratic opposition, until the Ciampi government of 1993-94 (Battini 1998, 64-65; Lacava and Vecchi 1995, 196-198; Melis 1996, 529; Sorace 1995, 50).

On the budget reform front, there were a few reform attempts, but beside the fact that they did not go far in Parliament, they either were essentially “rearguard” proposals (such as Camera dei Deputati bill C1154, aimed at introducing modifications to some aspects of the recently approved law 362/88) or they proposed constitutional changes (in particular changes to Art. 81, Senate bill S2974 and Camera dei Deputati bills C0135 and C5854) that, given the aggravated procedure for constitutional reform, made them likely to be non-starters. In sum, these reform attempts were “dead branches” in the development of the budget  institutions.
Most importantly for the focus of this work, legislative decree 29/93 gave public managers autonomy in the management of the public resources allocated to them and made them accountable for the achievement of the goals set for them (Capano 2000, 163; Porro 1993, 209). This provision was intended to contribute to the separation of responsibilities between politicians and public manager (Dente n.d.), one of the tenets of NPM (D’Orta 1998, 98). While not directly addressed to the reform of the budget, this provision was the first link connecting administrative reform to the further development of budget reform, with regards to both the budget document and the budgetary process: it implied a restructuring of the budget away from the current pulverization to larger items representing an administrative unit responsible for the achievement of specific goals, and the substitution of incrementalism with zero-base budgeting, namely constructing the budget based on a new assessment of objective and costs of every administration instead of allocating resources simply as a percentage increase over what every administration had received the previous year.  

The Amato government was followed by the Ciampi government (April 1993 – April 1994), a government headed by the former governor of the Bank of Italy and with an unusually high number of “technical” ministers. Administrative reform had an important place in the new government’s program (Marconi, Mercati and Montebugnoli 1998, 143) and in fact the Ciampi government accelerated the pace of reform compared to the Amato government (Capano 2000, 181-182). As minister for the Public Administration Ciampi chose Sabino Cassese, one of the leading members of the reform community. Cassese, professor of administrative law at the “La Sapienza” University of Rome, was the driver of administrative reform in the Ciampi government.

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271 In fact it should be noted that legislative decree 29/93 explicitly connected administrative reform (which was its focus) with future budget reform. Two provisions (in articles 14 and 64) mandate the drafting of special budgets for each administration which would lay the groundwork for the evaluation of the connection between costs and benefits of each project (D’Orta 1998, 99-100).

272 Technical ministers are ministers that are not members of Parliament and that are chosen for their expertise in a certain policy area. Technical ministers were very much the exception in the First Republic (at most one or two in the executives of the 1980s). However, there were six technical ministers in the Amato government and thirteen in the Ciampi government (Istituto Nazionale dell’Informazione, 1998, hereafter INI).

273 Some of the provisions of legislative decree 29/93 were based on the recommendations of a study coordinated by Sabino Cassese in 1991 (Melis 1996, 530). Cassese had cooperated with the ministry of PA for the previous 25 years and had also coordinated a major research project on the public administration, which produced a number of reports on public administration in Italy and abroad (Dente 1995, 17). One much-cited report came out in March 1993 (thus shortly before Cassese’s appointment as minister for the PA) and argued for a consumer-oriented administration (Lacava and Vecchi 1995, 194-195), one of the main points of the reform program that the minister Cassese would present (Lacava and Vecchi 1995, 160). Cassese had also been involved in the planning experiments of the late 1960s and in the budget reforms of the 1970s.
government. He moved further down the road opened by legislative decree 29/93 by assembling a group of experts – composed of experts in administrative law drawn from the academia and the Corte dei Conti – that modified parts of legislative decree 29/93 to accentuate the private nature of employment contracts in the public sector. He also introduced a delegation law, law 537/93, which delegated the government to introduce a broad reform of the public administration, including the merger of a number of ministries.

The government’s reform program emphasized privatization, separation of administration and politics, increase in the decision-making autonomy of the administration, moving from legalistic, procedural criteria to an output-oriented administration and the ability to assess the efficiency of the administration (Lacava and Vecchi 1995, 160-161, 194-195).

This program followed on the path opened by legislative decree 29/93, deepening and broadening its content. The reform, moreover, had many “procedural” points of contact with the Amato reforms: the government, like the Amato government before it, stressed the connection between administrative reform and the need to control government spending (Bassanini 2000, 230; Della Cananea 1997, 195; Lacava and Vecchi 1995, 160; Marconi 1995, 110; Marconi, Mercati and Montebugnoli 1998, 142; Roccella 1995, 165; Salvemini 1995, 3); it introduced the core of the reform (law 537/93) as a “collegato” to the LF; and most of the reform itself was introduced as delegated legislation, which gives the government greater autonomy from Parliament in the drafting of the reform (Lacava and Vecchi 1995, 183).

Again, a detailed description of the reforms is beyond the scope of this work. However, the main points, as described by Cassese himself, were: making the administration “consumer oriented,” reducing the number of bureaucratic organizations, making the administration more cost-effective, efficient and transparent and reforming the control system (Cassese 1994b and Cassese 1995). As regards the last point, the system of controls of the operation of the administration, the change was particularly profound (and most important for the ability to control government expenditure, as both the Bank of Italy and the IMF had pointed out, Salvemini 1995, 11). Again moving on the base on a more limited provision in legislative decree 29/93 (D’Orta 1998, 103), the Ciampi government revolutionized the systems of administrative controls (law 20/94), de-emphasizing ex-ante legality controls (which had been the norm since the 19th, and which had traditionally been ineffectual in assessing how the administration actually used its resources) and strengthening the role of ex-post controls focusing on the effectiveness of government spending (Cogliandro 2000; D’Auria 1994; D’Auria 1995a; D’Auria 2002a). It should also be noted that the reform of controls met with strong opposition (eventually overcome) from the affected offices, and in particular from the Corte dei Conti (D’Auria 1995a, 271-272; Dente 1995, 15). In fact bureaucratic opposition was to characterize the administrative reforms introduced by the Ciampi government.

The delegation to merge the ministries was meant to be carried out by the following government, as the reformers were well aware that it is much easier to eliminate government positions with a new executive than to eliminate them when they are already occupied (Dente 1995, 15; the same reasoning was behind the mergers carried out and planned by the Olive Tree governments, see later).
The Cassese reforms were met with hostility by certain parties (in particular the DC, Chimenti 1994, 70; within the executive, in fact, the only cabinet member that was explicitly opposed to the reform was the Christian Democrat Nicola Mancino, Barucci 1995, 181-182), by the bureaucracy (interview with B, member of the group that worked with Cassese on the reform, hereafter “Cassese group,” 6/14/04) and by the RGS (Dente, 1995: 16). However, the government – as we will see in the next section – was largely shielded from the influence of the parties, as the Amato government had been before it, and it was thus able to carry the reform through Parliament. Moreover, the fact that the reform was drafted from experts external to the bureaucracy strongly limited the latter’s ability to influence it (Capano 2000, 177). As for the RGS, given its role as a major component of the administration, it could not be too openly opposed to the decisions of the government. However, its opposition transpired in the polemique that it engaged with the minister for public administration regarding the extent of savings that the administrative reform was supposed to provide, with the RGS’s estimates being much more conservative than those of the public administration ministry (Salvemini 1995, 5)

7.3.2 Stall in the reform process: The Berlusconi and Dini governments (1994-1996)

In any event, the drive to reform the administration had a setback with the end of the Ciampi government, which also marked the end of the first experience of government participation for the reform community. Administrative reform came almost to a halt with the Berlusconi government (May 1994 – December 1994), which let expire the delegated powers conferred to the government by law 537/93 and the Dini government (January 1995 – February 1996).277

The Berlusconi government was the first government following the adoption of the new electoral law in August 1993 (see following section), and the Dini government was the first post-war government entirely composed of non-elected personnel. What the two governments had in common was the lack of attention to administrative reform, which did not figure in the programs

276 The RGS has a tradition of defending the interests of the bureaucracy against any reform proposal (Capano 2000, 157).
277 Paralleling the quasi-stasis on the administrative reform side, budget reform also came to a standstill. In the XII legislature (the one comprising the Berlusconi and Dini governments) there was only one bill regarding budget reform (Senate bill S1593), and even that concerned a relatively minor point of law 362/88 (and it never went beyond the Budget Commission).
of either government (Battini 1998, 66, 73; Della Cananea 1997, 202; Marconi, Mercati and Montebugnoli 1998, 143). This lack of interest was reflected by the people that took the posts of ministers for public administration. The Berlusconi government lacked organic relations with the reform community, and in fact the minister for public administration was Giuliano Urbani, a political scientist with no experience of public administration (Capano 2000, 175). As for the Dini government, the minister for public administration was Franco Frattini, who – in spite of his previous experiences as judge in the regional administrative court (TAR) of Piedmont and as a member of the Council of State (the appellate administrative court) – was not part of the reform community (personal communication from F, a judge of the Corte dei Conti who had been a member of the 1993 “Cassese group,” 7/29/05).

Moreover, the Berlusconi and Dini governments had in common the fact that – even though they both stressed the improvement of the government’s fiscal position in their programs (see respectively Senato della Repubblica 1994; and Senato della Repubblica 1995) – they broke the connection – established by the Amato and the Ciampi governments – between administrative reform and the need to rein in government spending (Battini 1998, 69; Marconi, Mercati and Montebugnoli 1998, 145). In particular the Berlusconi government aimed to reduce spending through cuts in social programs rather than through increases in the efficiency of the public administration (Marconi, Mercati and Montebugnoli 1998, 144), while the Dini government, a purely technical government that had not received an electoral mandate, had a narrow scope of action that did not include administrative reform.278

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278 The Dini government defined its program around a few points and announced that it would resign once these points would be achieved, or if it did not receive Parliament’s support in achieving them (Senato della Repubblica 1995, 20). The core points of the Dini government were improving the state of government’s finances, implementing a reform of social security, regulating the use of the media during electoral campaigns and introducing a new electoral law for regional elections (Senato della Repubblica 1995, 10). These points were of two types: urgent measures (action on government finances; regulation of the political use of the media – given the awkward situation of a media magnate, Berlusconi, founding a political party and becoming PM in 1994 – and new electoral law for the regions – which would apply the majoritarian system to the upcoming regional elections) and measures that brought to conclusion the activity of the previous government (in particular social security: the Berlusconi government had struck a framework agreement with the unions regarding the reform of social security in December 1993).

These points thus reflected the nature of the government (not only unelected – after all a common occurrence in a parliamentary system – but also entirely composed of non-elected personnel, a first in Italy’s postwar history), which did not see itself as having the mandate for broad programs that were not rooted in urgency or based on the action of the previous government. This attitude entailed that, given the limited activity on administrative reform on the part of the Berlusconi government, the Dini government also downplayed administrative reform.
7.3.3 The new reform season of the Prodi government (1996-1998): Laws 94/97 and 59/97

With the Prodi government (April 1996 – October 1998) the pace of reform – both on the administrative and the budget side – picked up again (Capano 2000, 166). The core of the government’s action on administrative and budget reform were law 94/97 and law 59/97. The former conferred the government delegated powers to reform the structure of the budget and to carry out the merger of the Ministero del Bilancio e della Programmazione Economica (Ministry of the Budget and Economic Planning, MBEP) with the Treasury, while the latter conferred the government delegated powers to reform the structure of the central administration.

In fact, administrative reform was a central part of the Prodi government’s electoral program (Parker 1997, 160; Prodi 1995) (Prodi 1995; Parker 1997, 160), of the program the new government presented to Parliament (Senato della Repubblica 1996a, 13) and of the first economic plan presented to Parliament in the DPEF for 1997-99, see Senato della Repubblica 1996b, 16; see also Camera dei Deputati 1997b, 12366). In fact, administrative reform was connected to two other central planks of the government’s program, namely decentralization and the creation of a “light State” (Battini 1998, 81-82; Capano 2000, 166-167; Senato della Repubblica 1996a), and fiscal consolidation (Senato della Repubblica 1996b, 16; Senato della Repubblica 1996a, 16).

The administrative reform program of the Prodi government was closely connected to the reforms of the Amato and Ciampi governments, in that reformers and observers saw it as the completion of the reforms started in those two governments, interview with C, one of the main designers of the reform in government, 6/13/05(see also Bassanini 2000, 250; Battini 1998, 83, 94; Bertonazzi 1998, 235-236; Felsen 1999, 191; Forte 1998, 197, 203-204; Marconi, Mercati, and Montebugnoli 1998, 148; Torchia 2000, 355). Moreover, both sets of reforms followed the broad lines set by the Giannini Report on administrative reform (see above).

279 It should be noted that, on the contrary, administrative reform did not figure prominently in the electoral program of the PL (Polo per le libertà 1996).
280 Francesco Battini was head of cabinet for Cassese; Franco Bassanini was minister for the public administration in the Prodi government, Pia Marconi and Luisa Torchia were part of the Cassese group that had worked on the 1993 reform.
For the connection between law 94/97 and legislative decree 29/93 see Camera dei Deputati 1996a, 91; Camera dei Deputati 1996b, 79; Camera dei Deputati 1997b, 12374; Senato della Repubblica 1996c, 5; Senato della Repubblica 1996d-b, 7; Senato della Repubblica 1996e.
In this context, budget reform was conceived as the necessary complement to administrative reform: the structure of the budget would be changed so as to allow a more outcome-oriented management of public resources (Borgonovi and Canaletti 1998; D’Auria 2002a, 97-98; D’Orta 1998, 100; De Ioanna 2002, 37-38; Fiorentino 2002, 45; Marchetta 1998, 506; Marconi, Mercati, and Montebugnoli 1998, 148; Pacifico and Seguiti 2000, 397-380; Perez 1997, 910-911).282

As regards the reform of the budget, the core piece of legislation was law 94/97. The law defined two versions of the budget, one subject to approval by Parliament (the “political budget”) and one for administrative control, which was not subject to political approval.283 The main innovation of the political budget was that it was no longer based on capitoli. Rather, its structure was based on the Unità Previsionali di Base (UPB, Basic Budget Units), which became the basic items of the budget voted by Parliament and which were much larger than the previous capitoli.284 The capitoli remained for the administrative budget, and law 94/97 authorized public managers to shift funds among capitoli within the same UPB. As Paolo De Ioanna, the main driver of law 94/97 within the government, pointed out, the introduction of the UPB was indeed the core of law 94/97: it would increase the transparency of the budget for Parliament (which would be called to decide over allocations for policies rather than over tiny capitoli) and it would

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For the connection between law 59/97 and legislative decree 29/93 see the introductory government report to the Senate attached to bill A.S 1124.
For the connection between law 59/97 and legislative decree 537/93 see Camera dei Deputati 1996b, 13 and Senato della Repubblica 1997b, 39.
The continuity between the Amato/Ciampi reforms and the Prodi reforms was in part also a continuity in terms of the people involved in the actual design of the reforms. This is in particular the case of Domenico Marchetta, a judge of the Corte dei Conti, who participated in the drafting of the two sets of reforms. In 1999, when Ciampi became President of the Republic, Marchetta was appointed as the President’s financial affairs advisor.

281 For the reforms of the Prodi government this especially applies to law 59/97, which implements the Giannini Report’s suggestions regarding the restructuring of the central administration, in particular with regard to the reform of the PM Office and the merger and restructuring of the ministries (Sciullo 2000, 30).

282 See also Senato della Repubblica 1996c, 4; Senato della Repubblica 1996d, 7; Camera dei Deputati 1997b, 12267; hearings of Giorgio Macciotta (Treasury undersecretary) and Paolo De Ioanna (head of cabinet of the Treasury; Camera dei Deputati and Senato della Repubblica 1997b; Corte dei Conti, 1996.

283 Law 94/97 was a delegation law, namely it gave government the powers to introduce legislation to reform the budget according to the criteria set in the delegation law. The implementing legislation (namely the legislation that actually introduced the reform of the budget structure) was legislative decree 279/1997.

284 Approximately 1000 UPB were identified, against the approximately 6,000 capitoli that constituted the basic units of the budget before the reform.
increase the operational flexibility, but also the responsibility, of the administrators (De Ioanna 2002, 36-38).

This last point is worth stressing as it marked a significant departure from the traditional “dirigiste” attitude towards the control of public spending (which is still the attitude of the RGS): rather than controlling through top-down mechanisms (essentially turning on and off the spigot of government funds), the emphasis on operational flexibility in the budget structure (so-called bulk budgeting) points to the responsabilization of government managers as the best way to control spending.

The new structure of the budget would also imply a new type of decision-making for the budget, with the shift from an incremental to a zero-base budget. Once the budget defines the goals and the resources to achieve them, the allocation of resources can be decided based on the cost and benefits of different uses, rather than simply as a percentage increase over the previous year (Camera dei Deputati, 1997b, 12384; report of the Budget Commission of the Senate to the Assembly, Senato della Repubblica 1996e; Corte dei Conti 1996, 8; Forte 1998 199; see also hearing of representatives of the CTSP at the Budget Committee of the Camera dei Deputati, Camera dei Deputati 1997c, 25)

The final text of the law was largely the result of a debate between the reform community and the RGS (Parliament did not introduce major changes to the projects presented by these actors). The reform community (which included the CTSP, some officials working for the budget offices of Parliament, the members of the government tasked with the reform, and the Corte dei Conti) explicitly connected the reform of the budget structure to the reform of the

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285 Adopting the typical language of NPM, some commentators have summed up the purpose of the UPBs as allowing greater control on “the effectiveness, efficiency and economy of administrative action” (Ferro and Salvemini 1999, 11). See also the hearing of Bank of Italy representatives at the Budget Commission of the Camera dei Deputati, Camera dei Deputati 1996b, 65.

286 This implied connecting prizes and penalties to the performance of the managers, an issue that in fact provides a good example of the connection between the Amato/Ciampi reforms and the Prodi reforms. The first mention of the managers’ responsibility with regard to performance was in legislative decree 29/93 (article 20), which also set penalties in cases when the performance is “negative” (article 21). However, legislative decree 29/93 left vague the issue of defining what constitutes negative performance (Porro 1993, 209) and did not connect the pay of managers to results. The Prodi reforms (in particular the legislative decrees issued by the government based on the delegated powers conferred to it by law 59/97) addressed both issues (see law 59/97, article 17 for the delegation to the government to set up a measurement system for the performance of the administration and legislative decree 80/98, article 16, which connects part of the pay of public managers to their performance).
administration along managerial lines: the administration would have greater autonomy in implementing policies, and the budget would be structured around these policies.  

In this view, the UPB were to coincide with “centri di costo” (cost centers, as per the proposal of the CTSP and the budget office of the Senate, see the report of the Budget Commission of the Camera dei Deputati to the Assembly, Camera dei Deputati 1997d) or “unità operative” (operative units, as per the proposal of the Corte dei Conti, see report of the Budget Commission of the Camera dei Deputati to the Assembly, Camera dei Deputati 1997d; report of the Budget Commission of the Senate to the Assembly, Senato della Repubblica 1996e), namely with the offices responsible for specific policies/goals (or funzioni-obiettivo according to the terminology used in the law and in the debate that preceded it).  

The connection between UPB, offices and policies/goals would increase transparency (Parliament would have a better idea of government policies through the budget) and administrative accountability, as it would clarify the connection between the resources allocated by Parliament, their use by the administration and the results achieved (Corte dei Conti 1996: 8, Forte 1998, 199). Moreover, the greater transparency and accountability afforded by the budget would allow the implementation of the underlying principle underlying budget and administrative reform, namely the responsabilization of managers as an alternative to top-down control over government spending.  

The RGS, on the other hand, was more conservative, in that it was less interested in affecting a change in the structure of the administration than in strengthening its position in the budgetary process. The RGS adhered to its traditional view that the control of spending was best ensured by its own role as master of the budgetary process and its ability to regulate the flow of government spending through administrative means.  

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287 The main actor was Paolo De Ioanna, head of cabinet for Ciampi (minister of Treasury in the Prodi government). Previously he had been a parliamentary official working for the Budget Commission of the Senate and in that role had been active in the drafting of law 362/88 (see previous chapter). Representing in the parliamentary hearings the position of the Corte dei Conti, which was to be the principal “anti-RGS,” was Manin Carabba, who had been an official of the MBEP during the planning season of the 1960s. See also the 1996 Corte dei Conti report drafted by Carabba (Corte dei Conti 1996).  

288 We saw above that the RGS started to work on a new budget structure already in 1990. Both the CTSP and the Corte dei Conti began working on alternative budget structures a few years later. The CTSP presented its proposal in two documents in 1993 (in June and October), while the Corte dei Conti presented its in July 1995 (D’Orta 1998, 111).  

289 The use of administrative/procedural means has been the principal instrument to control or at least defer government spending in the Italian administration since the unification of the country, and the RGS – as the
Its proposal could at first sight appear very close to those of the members of the reformist camp. It accepted the concept of UPB and referred to *centri di responsabilità amministrativa* (report of the Budget Commission of the Camera dei Deputati to the Assembly, February 13, 1997), or administrative responsibility centers, which could be interpreted as similar to the cost centers or the operative units of the other proposals. However, in the proposal of the RGS the administrative responsibility centers ended up coinciding with the existing directorates general of the ministries (Pacifico 1998, 202). These are very large structures whose activities normally tend to encompass a number of policies. Since, moreover, each UPB would correspond to a directorate general, the link between policies, offices and UPB envisioned by the reform community would largely be lost (Carabba 1998, 210-211; Commissione Tecnica per la Spesa Pubblica 1996).290

In the event, the RGS had a significant influence over the final text of law 94/97. The structure of the new budget is articulated – moving from the highest to the lowest level of aggregation – in *funzioni-obiettivo*, UPB and, only for the administrative budget, *capitoli*. However, only the UPB (which are identified with the directorates general, as was originally suggested by the RGS, Degni and Salvemini 2001, 112) are subject to parliamentary vote: the *funzioni-obiettivo* (which should set the policies/goals of government spending) are ill-defined and their relationship with the UPB has not been clarified (Corte dei Conti 1996, 4-5; Forte 1998, 207-208; Perez 1997, 913; Virno 1998, 274). In the tug-of-war over the structure of the budget, between the functional criterion favored by the reform community and the administrative criterion (based on the administrative responsibility centers, namely the existing directorates general), favored by the RGS, the latter has been able to limit the extent of the reform (Forte 1998, 212; interview with A, professor of administrative law, 6/14/05).291

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290 In fact, the main confrontation during the debate over the reform was between the RGS and the Corte dei Conti, precisely over whether the new structure of the budget should emphasize cost centers/administrative responsibility centers (the position of the RGS) or policies/goals (the position of the Corte dei Conti). See the hearing of Giuseppe Monorchio, head of the RGS, at the Budget Committee of the Camera dei Deputati, Camera dei Deputati 1996c, and hearing of Manin Carabba, judge of the Corte dei Conti, with the Consultative Commission on the Reform of the Budget (Camera dei Deputati and Senato della Repubblica 1997c).

291 It should be noted that the RGS has been able to put to good use its position as the bureaucratic structure that is tasked with drafting the budget: no reform could easily be implemented without its approval. Moreover, the RGS has been able to affect the reform through its role in defining the UPB. The reformers were aware of the importance and the difficulty of defining the basic units of the budget, and they intended the UPB that were originally identified only as a first step of a longer process that would lead to a more effective reclassification of the budget that would
However, by 1999 (with the approval of law 208/99, see later) there was a sense in the reform community that the budget process was satisfactory and thus not in need of further major changes (Degni 2003, 198; Degni, Salvemini, and Virno 2000, 379-382).

Law 94/97 was not only concerned with the reform of the budget. It also gave the government delegated powers to merge the Treasury with the MBEP. The delegation was implemented with legislative decree 430/97, whereby the MBEP was essentially absorbed into the Treasury, where it now constitutes the Department of Development and Solidarity Policies. As we saw in previous chapters, the MBEP had been created to coordinate government policies for the implementation of the government’s economic plan. However, it had never done that and the last attempt to revive it, with law 468/78, had not been successful. In the 1980s it had become, in spite of its name, a spending minister, tasked with the administration of development funds for certain geographical areas and coordinating the European funds for the Mezzogiorno (Marchetta 1998, 5005-5006).

In fact, Ciampi, Treasury minister in the Prodi government, strongly wanted the merger in order to bring the management of these funds under the control of the Treasury; interview with C, a close collaborator of Ciampi during his tenure as Treasury minister, 6/13/05 (see also Fiorentino and Pajno 2000, 263). Ciampi thus took the interim post of MBEP minister so as to make the merger easier, since in this way there would not be anyone that would lose his/her seat due to the merger.292

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292 In the same interview C stressed that the merger was so important for Ciampi that he kept it separate from the rest of the administrative reform (and in particular the restructuring of central administration carried out by law 59/97) because the latter was the responsibility of a minister with less weight in the executive (the minister for the public administration, who is a minister without portfolio), while he wanted to give the merger his own political weight. In fact, there was no significant opposition to the merger, either from the bureaucracy or from the parties (interview
As for the extent to which law 94/97 and the merger increased the centrality of the Treasury in fiscal governance, one ought to distinguish between the short term and the long term.\footnote{Here the distinction between short term and long term intends to introduce a ceteris paribus condition. In the short term the factors affecting the role of the Treasury in fiscal governance (in particular the position of its bureaucracy, and especially the RGS, vis-à-vis the spending administrations and the political weight of the Treasury minister vis-à-vis other ministers) are supposed to be constant, and thus the question regards the effect the reform has on fiscal governance if we assume that these contextual factors are constant. In the long run, these contextual factors can change, and thus the question regards the effect of the reform assuming these contextual factors are not constant.} In the short term the impact was limited. The merger concentrated in one office the tasks of macroeconomic analysis and of preparation of planning documents (such as the DPEF), which heretofore had been divided between the Treasury and MBEP. However, the vast difference in resources and skills between the Treasury and the MBEP had always given the former primacy in economic analysis and in the preparation of the DPEF.\footnote{As late as 1988 the ministry still lacked access to the public finance information network of the Treasury (Corte dei Conti 1989, 81). As a former head of cabinet of the MBEP put it, the bureaucracy of that ministry was “unsubstantial.” She remembers that once she asked the offices for a copy of the government budget, and they did not have it (interview with J, 2/16/05).}

Also, law 94/97 (article 3) for the first time spelled out the role of the Treasury in the budget process, but in doing so it simply stated what was already the established practice (see the report of the Budget Commission of the Camera dei Deputati to the Assembly, Camera dei Deputati 1997d; Forte 1998 216-218). The most important part of article 3 reads as follows (my translation): “The Ministers, also based on the proposals made by the managers in charge of each UPB, present the draft budget for their ministry and within it they indicate the goals and plans of the ministry. The Treasury Minister assesses the costs associated to each UPB, with reference both to the operational costs [i.e. the costs needed for the maintenance of the administrative structure] and the costs of the plans and projects presented by each ministry. The Treasury Minister also evaluates the progress of the current projects in order to assess whether to carry over the capital funds appropriated for the projects and that have not been spent. Finally, the Treasury Minister prepares the draft budget of the State.”\footnote{It is interesting that with reference to the budgetary process the RGS was not as successful as it had been with reference to the structure of the budget in defending the legal basis of its primacy. In the original bill this article gave the RGS the responsibility to assess the proposals coming from each ministry, while in its final version (drafted with H, Treasury undersecretary at the time of the reform, 3/16/04; the parliamentary documents on the reform also show that the merger was widely accepted).}

It should be noted that the small size of the MBEP (the ministry that in effect was going to be eliminated) compared to the Treasury may have made bureaucratic opposition impossible (and note that the legislative decree for the unification of Treasury and MBEP was prepared by a group constituted and coordinated by the cabinet of the Treasury, Marchetta 1998, 507).
In relation to this text, two points are worth noting. First, the law underscores the centrality of the Treasury in the budget process, but this centrality was already firmly established in practice, and actually had been the modus operandi of the administration throughout the postwar period (see chapter 2). The point of departure from the past is the omission, due to the merger, of the co-decision role that the MBEP had had until the reform. This role, however, had always only existed on paper, the Treasury firmly holding the reins of the budget process. Thus, under normal circumstances – and even more so with a Treasury minister as prestigious as Ciampi and in the face of the constraints arising from the criteria for participation in the final stage of EMU – the formal elimination of the MBEP from the budget process was not bound to have an impact on fiscal governance (interview with G, professor of administrative law, 24/3/03).

The second point to note is the mention of zero-base budgeting procedures aimed at the yearly reassessment of spending (“The Treasury Minister assesses [...] the costs of the plans and projects presented by each ministry”) and, consistent with this provision, the Treasury’s role in

by the Budget Commission of the Senate) the article gives this responsibility to the Treasury Minister, thus formally increasing the autonomy of the political decision-maker over the bureaucracy (Forte 1998, 217). In practice, however, it is still the RGS that deals directly with each spending administration (Perez 2001, 7). It should be noted that it was no chance that law 94/97 for the first time specified the process of budget formation within the executive. As we saw, this law aimed to introduce zero-budgeting procedures in the formation of the budget thus moving away from “inertial” budget formation whereby yearly allocations are essentially determined as increments over the previous year’s allocations. It was thus “appropriate” that the law would spell out the procedures to be used by the executive in drafting the budget (Corte dei Conti 1996, 8).

Thus on this point I do not agree with those who see this article as a dramatic development supposedly giving the Treasury minister veto power over the spending decisions of the other ministers (Fabbrini 2000b, 138). Not only did the article merely state established practice, but the centrality of the Treasury in the budget process did not give it veto power over spending: on the one hand, as we saw in chapter 2, the allocation of resources to the ministries is decided on the basis of what effectively amounts to bargaining between the individual administration and the RGS; on the other hand, law 94/97 in fact increased the autonomy of the administration from the Treasury/RGS by allowing each minister to shift allocations among capitoli within each UPB.
determining the extent of residual liabilities (for investment expenditure) of each UPB.\textsuperscript{297} However, in reality zero-base budgeting has never been implemented.\textsuperscript{298}

If in the short term the practical significance of the merger was limited, in the long term the reform secured the centrality of the Treasury in fiscal governance. As we saw, until the reform the MBEP retained co-decision powers over the budget. Moreover, the MBEP minister was also the chair of the CIPE (the committee of ministers formally charged with formulating the economic policies of the government).\textsuperscript{299} Under normal circumstances these powers were simply vestigial remains that did not affect the position of the Treasury, the real master of the budget. However, these powers meant that a combination of a forceful MBEP minister and a less pugnacious Treasury minister (as had been the case in the late 1980s with Paolo Cirino Pomicino as MBEP minister and Guido Carli as Treasury minister) or differences in experience between the MBEP minister and the Treasury minister (as had been the case with Franco Reviglio and Luigi Spaventa as MBEP ministers and Paolo Barucci as Treasury minister in the 1992 Amato government and the 1993 Ciampi government) had on occasion reversed the traditional relationship between the Treasury and the MBEP.\textsuperscript{300} Thus, the merger of the two ministries (which also transferred to the Treasury the task of chairing the CIPE) eliminated the possibility

\textsuperscript{297} The provision regarding the residual liabilities did imply a somewhat significant change from the past. At least formally, the power to determine the extent of residual liabilities had already been given the Treasury by the original legislation governing public finance (Royal Decree 2440 of 1923). However, in the postwar period the practice had prevailed of automatically carrying over capital expenditure (Forte 1998, 219), although time limits (with reference to the number of years expenditure could be carried over) had been imposed from the 1970s on and greater transparency in the management of the residual liabilities was achieved by the late 1980s (law 362/88). Thus, law 94/97 at least emphasized that carryovers should not be automatic, and that the Treasury has a role in determining them.

\textsuperscript{298} The RGS was very skeptical about the possibility of implementing zero-base budgeting (hearing of Giuseppe Monorchio, head of the RGS, for the Budget Commission of the Camera dei Deputati, Camera dei Deputati 1997d), a skepticism that was in fact reasonable considering the lack of success of zero-base budgeting in other countries.

\textsuperscript{299} The chair of the CIPE (\textit{Comitato Interministeriale per la Programmazione Economica}, namely Interministerial Committee for Economic Planning) was by law the PM, but the MBEP minister was the vice-chair that was had the mandate to preside over the actual work of the committee. The CIPE was, like the co-decision role of the MBEP in the budget process, the remnant of the past attempts to implement forms of planning, but it did give the MBEP minister an institutional base from which he/she could potentially exert influence on the government’s spending decisions.

\textsuperscript{300} As Spaventa put it, the MBEP was a “clothes hanger,” namely an implement that would take on the personality of its minister. Carli’s inability to rein in the spending propensities of the government – and of Pomicino in particular, who became a master in inventing new ways to authorize spending – has often been noted (Chimenti 1997, 138; Dyson and Featherstone 1999, 459-460; interview with D, former Treasury minister, 6/6/05). As regards the cases of the Amato and Ciampi governments, in these two governments it was the MBEP minister rather than the Treasury minister that designed the government’s financial maneuver (Barucci 1995, 139 and 170).
that another minister may challenge the role of the Treasury minister in the governance of government spending.\textsuperscript{301}

The merger was also part of the broader reform of the central administration that was started by the other core piece of legislation introduced by the Prodi government, namely law 59/97 (the law is associated with Franco Bassanini, minister for public administration of the Prodi government; the reader may remember from the previous chapter that Bassanini had been very active in the debate that led to the budget reform in law 362/88).

The law had a broad scope, including as it did the devolution of powers to lower levels of government and the restructuring of the central administration.\textsuperscript{302} The two were in fact connected, as devolution was thought to make it possible, as well as necessary, to reform the central administration in order to make it lighter and less cumbersome (Cassese 1999, 3; Pajno 2000, 64; Pajno and Torchia 2000, 22-23; Bassanini, minister for the public administration, hearing for the Parliamentary Commission on Administrative Reform, Camera dei Deputati and Senato della Repubblica 2000, 6; see also the introductory government report to the Senate attached to bill A.S 1124). Part of this reform was the merger of existing ministries, and the merger of the MBEP with the Treasury – although carried out by a different law – was part of this broader reform drive aiming to reduce the costs and increase the efficiency of the administration (Marchetta 1998, 506; interview with G, professor of administrative law, 24/3/03).\textsuperscript{303}

\textsuperscript{301} Law 94/97 also delegated the government to restructure the CIPE in order to strengthen its role in the actual determination of the government’s economic policy (note that the Cassese reform – law 537/93 – had already tried to make it the place for the coordination of the government’s economic and financial policies, but the attempt had been impaired by the failure of the following Berlusconi government to carry out the measures indicated by law 537/93, Maiorino 1998, 39).

In particular law 94/97 mandated the elimination of technical tasks that had accrued over time to the CIPE, diverting it from its original focus, and restricted the participation in the meetings of the committee, which had grown to be essentially coterminous with the entire cabinet, to the ministries competent for the issues of the order of the day (Maiorino 1998, 47-48; Marchetta 1998, 507).

Furthermore, the law also strengthened the coordination capabilities of the Treasury ministry by restructuring the organizations that provide support research and technical to support to the Treasury. In particular the law merged two previously separated research institutes (one of which was associated with the MBEP) into a unified research institute (ISAE, Istituto di Studi ed Analisi Economica, Institute for Economic Studies and Analysis) and better defined the role and powers of the CTSP (Marchetta 1998, 509).

\textsuperscript{302} Among other measures, law 59/97 also continued along the path of separating politics and administration started by law 29/93 and continued the move – started by the Cassese reform – to change administrative controls from ex-ante and legalistic to ex-post and focused on the efficiency of administrative action (Bertonazzi 1998).

\textsuperscript{303} Since they were seen as integral to the effort to improve the administration, there was no substantial political opposition to the mergers during the debate on law (interview with K, former senator of the Independent Left and economic editorialist, 5/13/04). In fact, it was the opposition that insisted for the mergers to be explicitly included in the reform (see text of the bill as modified by the I Commission of the Senate; Bassanini, minister for the public administration, hearing for the Parliamentary Commission on Administrative Reform, 15/11/2000, p. 5; Pajno and
Among the mergers, the law also mandated the merger of the Treasury with the Finance minister, which would finally bring together the management of spending (the Treasury) and of revenues (Finance).\textsuperscript{304} Like the merger between MBEP and Treasury, the merger between Finance and Treasury was strongly wanted by Ciampi (Bertonazzi 1998, 234). However, it was not carried out immediately. Rather, law 59/97 (art. 11) delegated the government to introduce legislation that would merge the two ministries.\textsuperscript{305} In turn, this legislation (legislative decree 300/99, introduced by the D’Alema government) set the merger of the two ministries (along with all other mergers) for the beginning of the new legislature, namely 2001.\textsuperscript{306}
7.4 ASSESSING THE IMPACT OF IDEAS

Mark Hallerberg (2004) has developed a model that links the electoral formulas, via the party system, to the type of budget process. His work provides precise predictions as to the content of budget process reform we should expect as a country moves from an electoral formula to another and this impacts its party system.

In particular, his hypothesis is that as a country develops a competitive party system (namely one in which there is a reasonable expectation of alternation between the incumbent and the opposition parties) and adopts a plurality electoral system that favors the creation of a bipolar party system, or a party system based on two relatively homogeneous and permanent coalitions, the budget process should move to a model of centralization based on delegation.

The competitiveness of the party system matters, since if the system is not competitive parties do not have an incentive to curb deficits. The type of party system matters because it defines the most politically viable strategy to centralize the budget process. In a delegation strategy the decision-making power at all stages of the budget process is delegated to a single actor, typically the finance minister (or, to use the Italian terminology, the Treasury minister). This is politically feasible only if the other actors in the budget process (spending ministers, the prime minister, members of Parliament) can trust the Treasury minister not to use this power for partisan advantage, which in turn depends on there being only one party in government, or at least a cohesive party coalition that expects to run together in the future (so that the party holding the Treasury should not be tempted to use this position to get an advantage over the parties that will be its partners at the next elections).

The conditions for the move to a delegation system, namely a competitive party system based on two cohesive and long-term coalitions, were met in Italy in the mid-1990s. After more that forty years of uninterrupted rule by the Christian Democratic party and its allies, the party system was wiped out by scandals in 1992-1993 and a new, mostly plurality electoral formula took the place of the proportional representation system that had been used throughout the postwar period.\(^\text{307}\) The party system finally became competitive, with center-left and center-right

\(^{307}\) Based on the new system, in both chambers 75% of the seats would be allocated through a first-past-the-post rule and 25% through proportional representation.
coalitions alternating in government between 1994 and 1996. Moreover, as we saw, by 1996 the bipolarization of the party system was completed.

Thus, the budget reforms that the center-left government carried out in the 1996-1999 period are a very good test for the predictions of the delegation model. The model provides specific predictions for all three stages (formulation, approval and implementation) of the budget process (Hallerberg 2004; von Hagen 1998).

At the formulation stage the Treasury drafts the budget (namely it is the agenda setter); the cabinet cannot overturn the Treasury proposals (hence the Treasury minister is superior to the other cabinet ministers).

At the approval stage, Parliament should have limited or no amendment power, namely the budget proposed by the executive can only be voted up or down.

At the implementation stage, the Treasury must be able to monitor the implementation of the budget, and thus the behavior of the spending ministers. Also, it should have the power to impose cash limits, to limit disbursements, to limit carry-overs of unspent funds from one year to the next and to approve transfers across budget items. Moreover, supplementary budgets should be truly exceptional, lest the decision-makers in Parliament and in the spending bureaucracies may discount the spending decisions made in the budget document.

Finally, the budget document (or documents) should be as transparent as possible, so as to maximize the monitoring capabilities of the Treasury and of the public, who can thus wield the threat of electoral punishment for irresponsible fiscal behavior.\(^{308}\)

In this section I will assess the extent to which the predictions of rational choice institutionalism fit the content of the 1996-1999 reforms and the extent to which the consideration of the reformers’ preferences contributes to improve this fit. This assessment will be performed along the four dimensions previously identified, namely formulation, approval, implementation, and transparency of the budget.

At the formulation stage the prediction is an increase of the agenda setting power of the Treasury, namely a greater role of the Treasury in drafting the budget, possibly coupled with the attribution to the Treasury minister of a special position in decision-making at the cabinet level, so that the cabinet cannot overturn the Treasury’s budget proposals.

\(^{308}\) Hallerberg and von Hagen do not focus on this feature of the budget process, but a transparent budget is a necessary condition for a delegation model (Alesina and Perotti 1999; Stein, Talvi, and Grisanti 1999).
Law 94/97 merged the MBEP with the Treasury. The extent to which this actually increased the centrality of the Treasury at the formulation stage requires some discussion. In particular, it should be stressed that this centrality was already firmly established in practice, and actually had been the *modus operandi* of the administration throughout the postwar period.  

The merger concentrated in one office the tasks of macroeconomic analysis and of preparation of planning documents, which heretofore had been divided between the Treasury and MBEP. However, the vast difference in resources and skills between the Treasury and the MBEP had always given the former primacy in economic analysis and in the preparation of the planning documents.  

Law 94/97 (article 3) also explicitly gave the Treasury sole responsibility for drafting the budget, a responsibility that until then was theoretically shared with the MBEP. As we have seen, however, this innovation was less than it might seem, considering that throughout the postwar period the Treasury had always managed to exclude the MBEP from the formulation of the budget.  

This, however, does not mean that the merger was entirely inconsequential. The elimination of the MBEP meant the elimination of an alternative voice in the cabinet, a voice that

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309 Throughout the postwar period the Treasury has been the “fulcrum of the administration” (Serrani 1979, 87), in particular through its oldest directorate, the *Ragioneria Generale dello Stato* (RGS). It is the RGS, through its network of *ragionerie centrali* in each ministry that actually drafts each ministry’s budget (Perez 1978, 186-187). Also, every new bill having financial consequences must be “concerted” with the Treasury, and this in practice means that it must be vetted by the RGS. As an observer and member of the reform community put it, the budget process before the 1997 reform was “an extraordinary instrument of domination of the RGS on the other administrations” (Della Cananea 1996, 187).

The position of the RGS was further strengthened in 1988, when law 362/88 introduced a new requirement for all bills proposed by the government: the proposing administration must present a *relazione tecnica* (“technical report”) for every bill that causes new or higher spending or lower revenues. The technical report must provide a quantification of the financial impact of the bill as well as of the means adopted to cover this impact, and the RGS is charged with evaluating the technical reports (and in fact very often it is the RGS itself rather than the proposing administration that prepares them). In this phase the RGS has the “right of life and death” over the bills. If it does not approve the technical report (providing the so-called *bollinatura*, or “stamping”), it effectively kills the bill. In fact, it is not uncommon for the RGS to refuse the *bollinatura* and thus block the bill even after it has been approved by the Council of Ministers (Barucci 1995, 143-144; D’Auria 1995b, 711).

Moreover, it is the RGS the *bilancio a legislazione vigente* (BLV, budget draft under the assumption of unvarying legislation). The BLV sets the forecast values for spending and revenues based on the effects of existing legislation. Thus, it provides the benchmark values on which the government’s budget is based, and the RGS’s role in drafting it gives it a further instrument for influencing the budget process (Camera dei Deputati 1987a, 154-155; Camera dei Deputati 1989a; Fotia 1995, 430-436; Lanzillotta 1986, 105-107).

310 As late as 1988 the ministry still lacked access to the public finance information network of the Treasury (Corte dei Conti 1989, 81). As a former head of cabinet of the MBEP put it, the bureaucracy of that ministry was “unsubstantial.” She remembers that once she asked the MBEP officials for a copy of the government budget, and they did not have it (interview with J, 2/16/05).
in the past had at times been able to challenge the position of the Treasury in the cabinet (as had been the case in the late 1980s with Paolo Cirino Pomicino as MBEP minister and Guido Carli as Treasury minister).  

Moreover, law 94/97 restructured the CIPE (Comitato Interministeriale per la Programmazione Economica, Interministerial Committee for Economic Planning), the committee of ministers formally charged with formulating the economic policies of the government. In particular, the law mandated the elimination of technical tasks that had accrued over time to the CIPE, diverting it from its original focus, and restricted the participation in the meetings of the committee, which had grown to be essentially coterminous with the entire cabinet, to the ministries competent for the issues of the order of the day (Maiorino 1998, 47-48; Marchetta 1998, 507). Streamlining and limiting its membership strengthened the role of the CIPE, and thus of the Treasury, in the cabinet, since with the merger the Treasury became the chair of the CIPE.  

Furthermore, the law also strengthened the coordination capabilities of the Treasury ministry by restructuring the organizations that provide support research and technical to support to the Treasury. In particular the law merged two previously separated research institutes (one of which was associated with the MBEP) into a unified research institute (ISAE, Istituto di Studi ed Analisi Economica, Institute for Economic Studies and Analysis) and better defined the role and powers of the CTSP (Marchetta 1998, 509).

In sum, the reform, while not as profound as the elimination of the Budget ministry may have indicated, did increase the power of the Treasury at the formulation stage of the budget process, and is therefore consistent with the expectations of rational choice institutionalism.  

311 As Luigi Spaventa put it, the MBEP was a “clothes hanger,” namely an implement that would take on the personality of its minister. Carli’s inability to rein in the spending propensities of the government – and of Pomicino in particular, who became a master in inventing new ways to authorize spending – has often been noted (Chimenti 1997, 138; Dyson and Featherstone 1999, 459-460; interview with D, former Treasury minister, 6/6/05).

312 The chair of the CIPE is by law the Prime Minister, but the MBEP minister was the vice-chair that was had the mandate to preside over the actual work of the committee. With the merger this role was taken by the Treasury.

313 However, it should also be noted that the merger of first the MBEP and then of the Finance ministry with the Treasury can also be interpreted as an isomorphic adaptation to European standards (DiMaggio and Powell 1991; Radaelli 2000). The merger was also strongly influenced by the misfit between the economic governance structure of the central government with that of Italy’s European partners. Until 1997 Italy had three ministries covering the policy purview of a single ministry – the Finance ministry – in the other member states, and this discrepancy was brought in sharp relief by the operation of the EU governance structure, which requires frequent interaction among representatives of the executives at different hierarchical levels (Battini 2003, 2761; Marchetta 1998, 505-6, hearing of the minister for the public administration before the Parliamentary Commission on Administrative Reform,
At the approval stage, the conclusions are mixed. On the one hand, the restructuring of the budget document into larger UPB did deprive the members of Parliament of the opportunity to micro-manage spending, thus strengthening the hand of the executive. Inasmuch as it reduced parliamentary micro-managing, the reform also strengthened the position of the cabinet collectively against individual spending ministers, since spending ministers often “use” members of Parliament to introduce amendments for spending that had been rejected by the cabinet (Chimenti 1997, 178; Forte 1998, 147).

On the other hand, the reformers were steadfast in their defense of the role of Parliament in the budget process, and in particular of Parliament’s overall ability to amend the government’s budget proposals (De Ioanna 1993, 16, 71-72).

The implementation stage is where the predictions of rational choice institutionalism are in greatest need to be complemented with the consideration of the ideas of the reformers. To be sure, consistently with these predictions, law 94/97 and its implementing legislation (legislative decree 279/97) stressed that the spending administrations’ residual liabilities must be examined for the opportunity of the committed expenditure before they can be kept for the new fiscal year, which not only strengthened the Treasury vis-à-vis the spending administration, but also increased the power of the executive to effectively change Parliament’s decisions on expenditure (Forte 1998, 219-220).

However, the main drive of the reform of the implementation stage goes directly against the institutionalist delegation model. Rather than increasing the control of the Treasury over the decision affecting the spending flows, the purpose of the reform was exactly the opposite,
namely to decrease the Treasury’s control of the flows so as to increase the autonomy and accountability of the spending administrations.\textsuperscript{316}

The purpose, that is, was to move away from a purely financial control of spending, which simply regulates the spending flows, to achieve – in the language typical of NPM - greater “effectiveness, efficiency and economy of administrative action” (Ferro and Salvemini 1999, 11).\textsuperscript{317}

By changing the structure of the budget, namely by creating UPB that are connected to specific “cost centers” in charge of specific policies, the reform aimed to give the administration greater autonomy in the use of its resources and greater accountability for the achievement of its goals, as the new structure would clarify the connection between the resources allocated by Parliament, their use by the administration and the results achieved (CortedeiConti 1996, 8; Forte 1998, 199).\textsuperscript{318} While this was at cross-purposes with short-term control of government spending (Forte 1998, 204), it aimed to foster a more outcome-oriented management of public resources (Borgonovi and Canaletti 1998; D’Auria 2002a, 97-98; D’Orta 1998, 100; De Ioanna 2002, 37-38; Fiorentino 2002, 45; Marchetta 1998, 506; Marconi, Mercati, and Montebugnoli 1998, 148; Pacifico and Seguiti 2000, 379-380; Perez 1997, 910-911).\textsuperscript{319} Consistently with this approach, but at odds with the delegation model, law 94/97 also authorized public managers to shift funds

\textsuperscript{316} A development that apparently contradicts what stated in the text was the creation, at the initiative of another member of the reform community (Piero Giarda, professor of public finance at the Cattolica university in Milan and Treasury undersecretary in the Prodi government), of a new monitoring and control system for the cash flows of the public administration (Camera dei Deputati 1997c, 116-118; Camera dei Deputati 1997d, 205-206, 208) However, the system, implemented by the “Giarda group” was a temporary and ad-hoc structure that did not become a permanent part of the administration, interview with RGS official, 7/19/04; interview with P, senior ISAE official, 3/3/04 (see also Camera dei Deputati 1997a, 10).

\textsuperscript{317} See also the hearing of Bank of Italy representatives at the Budget Commission of the Camera dei Deputati (Camera dei Deputati 1996b, 65).

\textsuperscript{318} This implied connecting prizes and penalties to the performance of the managers, an issue that in fact provides a good example of the connection between the Amato/Ciampi reforms and the Prodi reforms. The first mention of the managers’ responsibility with regard to performance was in legislative decree 29/93 (article 20), which also set penalties in cases when the performance is “negative” (article 21). However, legislative decree 29/93 left vague the issue of defining what constitutes negative performance (Porro 1993, 209) and did not connect the pay of managers to results. The Prodi reforms (in particular the legislative decrees issued by the government based on the delegated powers conferred to it by law 59/97) addressed both issues (see law 59/97, article 17 for the delegation to the government to set up a measurement system for the performance of the administration and legislative decree 80/98, article 16, which connects part of the pay of public managers to their performance).

\textsuperscript{319} See also Senato della Repubblica 1996c, 4; Senato della Repubblica 1996d, 7; Camera dei Deputati 1997b, 12367; hearings of Giorgio Macciotta (Treasury undersecretary) and Paolo De Ioanna (head of cabinet of the Treasury; Camera dei Deputati and Senato della Repubblica 1997b; Corte dei Conti, 1996.
among capitoli within the same UPB, thus enabling them to make resource allocation decisions outside of the Treasury’s control.

Furthermore, again going against the grain of the delegation model, law 94/97 and legislative decree 279/97 dismantled the Tesoreria Unica (Unified Treasurer), namely the unified management by the RGS of the funds that the central administration must transfer to regions and other agencies receiving public funds.\footnote{The Tesoreria Unica had been set up in the 1980s (law 720/84) in a political climate that emphasized the need for immediate control of the flows of government funds. Its elimination in 1997 (in the context of the “federalization” of the State) is especially relevant, since by concentrating the management of these funds in the hands of the RGS, the Tesoreria Unica had provided it with greater scope to decide the amounts that would actually be disbursed, thus increasing its ability to govern the cash flow in the short term (Barbieri and Giannini 1984; Barettoni Arleri 1986; Della Cananea 1996, 209-211).

It is important to stress that law 94/97 was the culmination of a long period of criticism of the role of the Treasury in the budget process. In particular, through the RGS the Treasury was the master of the budget process, especially at the formulation and implementation stage.\footnote{We have already seen the role of the RGS at the formulation stage. At the implementation stage, the RGS, through the ragionerie centrali, holds the power to delay the registration of the act, thus delaying the provision of the funds pertaining to that act (Cassese 1974b, 249; Colarullo 1983, 423; Della Cananea 1996, 202-205; Perez 1978, 293; Serrani 1979, 89). Moreover, another channel through which RGS can control expenditure is through its power to authorize the use of the so-called global (or special) funds, namely funds in the budget whose destination is left undefined so as to guarantee flexibility to the administration, and which constitute the main way of covering new or increased expenditure (Cassese, 1974: 252; Perez, 1978: 188).} However, this implied the sole focus on financial aggregates and on the short-term and not on the rationale or efficiency of the spending (interview with S, senior Treasury official, 7/22/04). In sum, the overweening power of the Treasury was seen as the other side of the government’s inability to have a coherent economic program (De Ioanna 1986, 67). At the same time, the focus on controlling the flows stimulated forms of elusion from the spending administration (Fichera 1986, 44-45), bargaining between the RGS and the spending advocates (Cassese 1974b, 263-264; Della Cananea 1996, 201-202),\footnote{So that the RGS would “meet halfway” the requests for spending, with no consideration of their opportunity. Heclo and Wildavsky in their classic study of the budgetary process in Britain made a similar observation with reference to the relationship between the monitoring offices of the Treasury ministry and the bureaucracy of the spending ministries (Heclo and Wildavsky 1974). It is interesting to note that the observations made by the Italian reform community coincide almost verbatim with the conclusions of the NPM approach: “When objectives are not sufficiently specific, and a centralized system is used, the central executive is forced to use formal authority rather than policy directives – an approach that is likely to invite prolonged bargaining or end-runs around the formal system” (Aucoin 1990, 130).} and lack of transparency in the RGS’s management of funds (Andreatta 1988a, 16).}

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Finally, the reforms of 1997-1999 increased the transparency of the budget documents. Law 94/97 (article 4) mandated the broad application of the SEC95 accounting system to the central government budget from 1999, thus making it compatible with the documents regarding broader aggregates (state sector, public sector, public administrations) which also use this accounting system (Degni 1999, 50-51). Moreover, law 208/99 changed the reference aggregate for the main planning document from settore pubblico allargato (larger public sector) to amministrazioni pubbliche (public administrations). 323

For an assessment of this last development, it should be noted that the increase in the transparency of the budget, while certainly consistent with the delegation model, in fact responded to changes requested by the European Union. The SEC95 system was defined at the European level (regulation CE 2223/96), and the change in the relevant aggregate from the government planning document was a modification explicitly requested by the European Union to harmonize the aggregate considered by the main programmatic document of the Italian government with the aggregate considered by the Stability and Grow Pact (Camera dei Deputati 1999b, 33; Lupo 1999, 538-539; Palanza 1999, 647). 324

7.5 THE ROLE OF FISCAL AND EUROPEAN PRESSURES

The analysis carried in this chapter has emphasized the domestic causes of institutional development in the 1990s. The conclusion that we have reached is that the reforms of the budgetary process occurred when ideational factors (the ideas of the reform community) interacted with the “right” institutional conditions, namely when parties were stripped of their

323 The two aggregates are basically analogous in terms of scope, as they are the broadest public finance aggregates, covering the central government, all government agencies and local and regional governments. The main (although not the only) difference between the two aggregates (and thus in the government balances calculated on their basis) is that the values for the larger public sector are calculated in cash terms while those for the public administrations are calculated in accrual terms.

324 According to the European Council Resolution on the Stability and Growth Pact (SGP), the relevant aggregate is “general government” (see Resolution 97/C 236/01, available at http://europa.eu.int/comm/economy_finance/about/activities/sgp/scp_en.htm). In the Italian context, “general government” corresponds to the public administrations aggregate (Battini 2003, 2759). In fact, even before the agreement on the SGP, the need to fulfill the Maastricht criteria for monetary integration (which referred to the entire public administration sector) had directed the attention of Italian policymakers to the public administrations as the aggregate that they need to control (Camera dei Deputati 1997a, 34).
veto power or when policy platforms and their implementation became central to the parties’ electoral prospects. However, our argument would not be complete if we did not take into account alternative hypotheses: what if the content and/or the timing of the reforms was influenced or even determined by factors other than the ideas of domestic actors or domestic institutional conditions?

In particular, an account of the reform of the budgetary process in Italy in the 1990s cannot fail to take into consideration the role 1) of the fiscal and currency crisis that enveloped Italy in 1992, 2) of the Prodi government eventually successful attempt to meet the fiscal criteria for participation in the final stage of the Economic and Monetary Union (EMU), and 3) of the need to comply with the Stability and Growth Pact (SGP) after entry in the EMU.\textsuperscript{325} In all these cases it may in fact be argued that exogenous factors decisively shaped or even imposed the reforms, namely that the reforms were mostly or entirely the unavoidable response to external pressure (the risk of government bankruptcy in 1992, of being excluded from the EMU, a politically unacceptable outcome for the Prodi government, in 1997, and of breaching the GSP parameters from 1998 onward).

In this section we proceed to assess whether and to what extent these external factors affected the content and timing of the reforms. As regards content, external influence could be relevant in two ways. First, it could take the shape of pressure to produce the fiscal results required by the need to stave off a fiscal crisis, to join the EMU or to abide by the rules of the GSP. Since in particular the first two (the fiscal crisis and EMU qualification) required immediate fiscal improvements, the impact of external factors on the institutional reforms will be assessed in term of the extent of short-term savings that the reforms were meant to produce. Second, external influence could also come in the form of the borrowing or adaptation of institutions developed at the European level. We will therefore also scrutinize the reforms for the extent to which they introduced European institutions into the Italian system.

As regards timing, we will ask whether external pressure affected the ability of the reformers to introduce the reforms, either by affecting the institutional context in which they

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\textsuperscript{325} The SGP was adopted in July 1997 in order to ensure the continued adherence to “the objective of sound government finances” (Council Regulation 1466/97). Among other provisions, the SGP confirmed the limit of the 3% deficit/GDP ratio which had already been among the Maastricht criteria and mandated that member states breaching that threshold should take prompt action to bring their deficit within the limit. However in the spring of 2005 the SGP was modified by Council Regulation 1056/2005, which increased the time allotted countries in breach of the SGP parameters to take corrective action.
operated (namely, in the terms of the institutional analysis we propose, by contributing to weaken the veto power of the parties in 1992-93 and by increasing the cohesiveness of the government coalition in 1996-99) or by making parties more willing to support reform.

In closing, a point that emerges from the following narrative is that – far from exerting uniform influence on domestic actors – Europeanization (the pressure to adapt member state policy and institutions in response to European-level decisions, Héritier 2001, 3) may affect domestic partisan actors differently, depending on their attitudes towards European integration: ceteris paribus, the pressure to “comply with Europe” will be stronger on pro-European parties than on parties that harbor significant “Euroskeptic” elements.

The context in which the Amato government operated was strongly marked by the currency crisis that led to Italy’s forcible abandonment of the EMS in September 1992, rather than by the approval of the Maastricht Treaty, which set the convergence criteria for participation in the final stage of the EMU. In fact, while the deadline for the EMU was too far in the future (according to article 109j.4 of the Maastricht Treaty, the EMU was to be launched by, at the latest, January 1, 1999) to create immediate concern in the Andreotti government that preceded the Amato government (the proximity of a general election took precedence over that distant deadline: two months before the April general elections the minister for the public administration, the DC Remo Gaspari, announced a new plan to hire in the public administration the personnel being laid off by the private sector in the North of the country, Stefano Lepri, “Italia cicala, hai scordato l’Europa,” La Stampa 14 February 1992, p. 27), the increasing

326 The two events were in fact linked. The pressure on the Lira had begun to mount since the late 1980s, with the fixing of the exchange rates within the European Monetary System (EMS; the EMS had been created in 1979 to regulate exchange rate oscillations among its members – initially Belgium, Denmark, France, Germany, Ireland, Italy and the Netherlands, later joined by Spain, the United Kingdom and Portugal). The persistence of a positive differential between the Italian inflation rate and that of the other EMS members had progressively reduced the ability of Italian exporters to compete internationally, thus feeding expectations of devaluation. These expectations were further intensified by the size and continuing growth of the Italian government debt, whose size in 1992 reached 108% of GDP. This meant that the financial markets were given a safe bet regarding the fact of a future Italian devaluation, the only uncertainty regarding the timing. When the failure of the Danish referendum on the Maastricht Treaty in early June 1992 seemed to indicate that the plan for monetary integration might in fact fall through, the uncertainty over the “when” began to dissipate, and market pressure on the Lira sharply increased (Barucci 1995, 22-23). Emergency measures briefly forestalled a crisis, but when it appeared that the French electorate might vote against the treaty, thus effectively killing it, in the upcoming referendum scheduled for late September 1992, the pressure on the Lira became unbearable for the Treasury and the Bank of Italy (Barucci 1995, 48-52). On September 13, the government was forced to devalue the Lira and a few days later it had to indefinitely withdraw it from the EMS.
difficulties of the Lira forced the Amato government to take immediate action in the summer of 1992 (Barucci, 1995 135-136).

In the fall of 1992 the near-failure of the French referendum for the ratification of the Maastricht Treaty made the completion of European monetary integration appear highly unlikely, but in the aftermath of Italy’s exit from the EMS the Amato government imposed the largest ever financial maneuver, equivalent to 5.8% of GDP (Bernardi 1993, 17; Salvati 2000, 86), to a greatly weakened Parliament.\textsuperscript{327} Included in the maneuver was a broad reform mandate (law 412/92) regarding four of the sectors that most had contributed to the deterioration of the public finances: health services, local finances, social security and public administration. However – and despite the dramatic climate of the fall of 1992, when even the consolidation of government debt appeared within the realm of the possibilities (Barucci 1995, 63-64; Alessandro Penati, and Guido Tabellini, “La sottoscrizione dei BOT è una scelta economica non un atto di patriotismo,” Il Sole 24 Ore, 14 October 1992, p. 6) – the fiscal constraint had relatively little direct impact on the reform’s timing and content. In spite of the link it made between the fiscal crisis and reform, the government was only able to push the reform through Parliament by threatening early elections. Moreover, although the urgency of the administrative reform had been justified in terms of the savings it would immediately produce, when the reform was finally introduced (legislative decree 29/93) these savings had already been achieved through other measures (Dente 1995, 10).

The connection between the need to control government spending and reform was also emphasized by the Ciampi government (Bassanini 2000, 230; Della Cananea 1997, 195; Marconi 1995, 110; Marconi, Mercati and Montebugnoli 1998, 142; Pajno and Torchia 2000, 14; Roccella 1995, 165; Salvemini 1995, 3; Torchia 2000, 352).\textsuperscript{328} While this connection allowed the reform to be part of the financial maneuver (Salvemini 1995, 4), and thus to enjoy fast track approval procedures, in actuality the extent of the expected savings was relatively minor, and moreover most of the savings were predicated on the continuation of the reform program in the

\textsuperscript{327} Beside the scandals that were engulfing so many of its members, Parliament’s legitimacy had also been weakened by the currency crisis and the Lira’s withdrawal from the EMS, which symbolized to the public the wastefulness and ineptitude of the current political class (Di Quirico 2003; Gilbert 1995, 133).

\textsuperscript{328} It should be noted that during the Ciampi government (and also during the following Berlusconi government), the pressure to put under control spending was due mostly to the difficult situation of the government’s finances than to the need to meet the Maastricht convergence criteria. In the aftermath of the 1992 currency crisis and of the political difficulties that had met the Maastricht Treaty (bare approval by the French electorate, rejection in Denmark) there were strong doubts as to when or indeed if the EMU would actually be launched (Spaventa and Chiorazzo 2000, 19).

In fact, the push of the Ciampi reforms (as well as of the reforms of the Prodi and D’Alema governments) was towards the creation of a fiscal governance system that would give autonomy to the spending administrations. Namely, the reform aimed to move fiscal governance away from the centralized system that had been in place until then and replace it with a system where the spending administrations would have responsibility for the achievement of the government’s goals, whether they be financial (spending control) or substantive (the implementation of the government program). This system, however, reduced the ability of the central financial administration (the RGS) to control spending in the short run, and thus risked being counterproductive for the achievement of short-term savings goals (Forte 1998, 204).

Moreover, just as had been the case for the Amato government, making the case of a connection between reform and the need to control spending was not sufficient in itself to win parliamentary approval: as we saw above, the government had to resort to threatening to resign and cause early elections in order to overcome Parliament’s opposition.

During the Berlusconi and Dini governments the reform process came to a standstill, and the pressure exerted by European integration continued to be low. The pressure to abide by the Maastricht criteria continued to be weak, at least until the prospects for EMU – which had been bleak throughout 1993 and 1994 after the 1992 currency crisis – began to look brighter from 1995 on (Spaventa and Chiorazzo 2000, 79). Moreover, the Berlusconi government in particular had a strong “Euroskeptic” component (Di Quirico 2003, 30; Schiavone 2000, 198), which meant that the risk of being excluded from the EMU would not exert as strong a pressure on it as it would in the following Olive Tree governments.329

329 According to De Quirico, FI feared that European integration would be an obstacle to the intended return to the “DC economic model” – the use of government resources to favor its clients – while AN was driven away from the European project by its traditional nationalism and the hostility of the other European partners; only LN was originally favorable to European integration, which it saw as the chance to create a model of governance based on the regions rather than the nation states, even though by the end of the 1990s it also had become hostile to the perceived “meddling by Bruxelles” (Dastoli 1996, 208-209; Di Quirico 2003, 32; Quaglia 2005, 281-282). A noteworthy indication of the attitude of the Berlusconi government towards Europe was the appointment of a “euroskeptic,” Antonio Martino, as Foreign Affairs minister (Quaglia 2005, 279; Vassallo 2000, 310). In a comparison between the Ciampi and the Berlusconi governments with regard to the relevance of the pressure exerted by European integration (the run-up to the EMU) one could observe that this pressure was similarly low on both governments (given the low expectations regarding the completion of EMU during both governments). However, this pressure could have potentially played out differently on the two governments. The Ciampi government was much more enthusiastic about European integration than the Berlusconi government, which meant
The Olive Tree coalition had a strong pro-European inclination, which it emphasized in its manifesto for the 1996 general elections (Ferrara and Gualmini 1999, 55; Vassallo 2000, 311). For the left, which had been in the opposition throughout the postwar period, the qualification for the EMU symbolized sweeping away the morally bankrupt system centered around the DC, which had done much to make that qualification almost impossible (Di Quirico 2003, 28). Moreover, for the main party of the left, the PDS, which was the heir to the Communist party, supporting European integration was integral to its strategy of consolidating its democratic credentials (Quaglia n.d.).

However, while it had stressed in the DPEF for 1997-1999 (presented to Parliament at the end of June 1996) that – depending on “the conditions of the economy and of the financial markets” in the coming fall (DPEF for 1997-1999, quoted in Spaventa and Chiorazzo 2000, 22) – it would seek to secure Italy’s entry in the EMU at the same time as the other member states, the Prodi government had originally hoped that it could win a more lenient interpretation of the qualification criteria if it could create a common front with other countries, signally Spain. However, when it became clear (in September 1996) that Spain was not going to ask for a softening of the criteria the Prodi government decided to accelerate its retrenchment plan so as to meet the full qualification criteria by the 1997 deadline (Spaventa and Chiorazzo, 2000, 23-24).

Since the administrative and budgetary reforms of the Prodi government occurred in the context of the run-up to the EMU, what was the impact of the EMU qualification process on the

that the risk of being left out if the EMU were indeed to move forward would have exerted a greater pressure the Ciampi than on the Berlusconi government.

In his 1995 manifesto, Prodi stated (“Thesis n. 32” in Prodi, 1995) his intention to bring Italy into the EMU in 1998, namely at the same time as the other member states, even if this had to mean making heavy sacrifices in order to achieve the 1997 reference deadline. On the contrary, in its 1996 manifesto, the PL criticized “the obsessive attention to the Maastricht criteria regarding public finance” and advocated modifying the Maastricht Treaty so as to emphasize the political dimension of European integration (“Commitment n. 92,” in PL 1996). The Maastricht criteria and the entire convergence program had also been criticized by Antonio Martino, both during and after his tenure as Foreign Affairs minister (Dastoli, 1996 200-201).

In fact, by the mid-1970s the PCI had moved from its original position of stark opposition to the European project to one of support, both as a way to increase its “coalitionability” with the government parties in view of a possible grand coalition strategy (the “historic compromise, see chapter 4) and following the increasing support for European integration among the Italian public (Schiavone 2000, 196; Quaglia, n.d.).

In the DPEF for 1997-1999 the Prodi government had forecast that in 1997 the general government deficit would be 7.1% of GDP before corrective measures (Bernardi 1997, 14), marking a gap from the Maastricht criterion for the deficit/GDP ratio (3%) that seemed impossible to bridge.

The decision on the countries that would be admitted in the final stage of the EMU was made in May 1998 with reference to their performance by the end of 1997.
reforms? As regards the content of the reforms, the general orientation of the measures contained in laws 94/97 and 59/97 was long term rather than short term (see section 3), and thus they were not directly aimed at achieving qualification in the EMU.

In the bill that would become law 94/97 the main provision that would have had an immediate impact on the control of the deficit regarded the tightening of the funding rules for spending legislation (a measure that had already been proposed in the previous legislation, Senato della Repubblica 1996d, 8; report of the Budget Commission of the Senate to the Assembly, Senato della Repubblica 1996e), but the provision was eventually excised from the final version of the bill (report of the Budget Commission of the Camera dei Deputati to the Assembly, Camera dei Deputati 1997d). 334

Rather than under the guise of pressure to meet the convergence criteria, the influence of the European level on the content of the Prodi government reforms played out as direct adoption of European standards (art 4 of law 94/97 adopted the SEC95 accounting system defined by EU regulation 2223/96). Also, the merger of first the MBEP and then of the Finance ministry with the Treasury (as per law 94/97 and law 59/97 and its implementing legislative decree), while a leitmotiv of the administrative reform attempts of the postwar period (see section 3 and chapters 3 and 4), was strongly influenced by the misfit between the economic governance structure of the central government with that of Italy’s European partners. Italy had three ministries covering the policy purview of a single ministry – the Finance ministry – in the other member states, and this discrepancy was brought in sharp relief by the operation of the EU governance structure, which requires frequent interaction among representatives of the executives at different hierarchical levels; Battini 2003, 2761; Marchetta 1998, 505-6, hearing of the minister for the public administration for the Parliamentary Commission on Administrative Reform, (Camera dei Deputati and Senato della Repubblica 2000, 5); interviews with L, former minister for the public administration, 5/17/04, and with B, professor of administrative law, 6/14/04). 335

334 This was done because after the set up of a bicameral commission for constitutional reform it was felt that this type of innovation (connected to the implementation of Art. 81 of the Constitution) would be influenced by the possible constitutional changes and thus should be tackled later on (Camera dei Deputati, 1997b, 12364 and 12386).
335 This misfit created embarrassment in myriad ways, even in the participation to dinners at the ECOFIN: since only one minister from each country was expected to attend, should the Finance or the Treasury minister represent Italy? (interview with L, former minister for the public administration, 5/17/04).
As regards timing, on the one hand the reform began before the Prodi government decided in September 1997 to make the push for the 1997 EMU deadline. On the other hand, once the decision was made, the government did stress the connection between the budgetary reform and EMU qualification (Senato della Repubblica 1996d, 7), a connection that probably did facilitate the passage of the reform in Parliament (interview with C, one of the main designers of the reform in government, 6/13/05). Also, the goal of EMU qualification helped rally the government majority in more than one occasion. While there was no major disagreement within the majority regarding the administrative and budgetary reforms, the government had to face opposition from within its own majority (in particular from RC) on the extent of the spending cuts that it would carry out in order to meet the Maastricht convergence criteria (Massari and Parker 1999; Parker 1997). However, given the broad popularity of European integration in Italy (Hine 1993, 498), RC was forced to realize that it could not threaten to abandon the majority, which would have meant taking the responsibility for a government crisis that could jeopardize the achievement of the EMU goal (Legrenzi 1998). Thus, the risk of failure increased the cohesiveness of the majority in Parliament, which meant that administrative and budgetary reforms were not endangered by the possibility of a crisis over the more divisive elements of the government program.

The impact of EMU qualification on the cohesiveness of the government majority was apparent when, having achieved that goal (May 1998), RC eventually withdrew from the majority causing the fall of the Prodi government in October 1998. However, the D’Alema government that replaced the Prodi government continued on the reform path opened by its predecessor and implemented all the reform mandates that the Prodi government had received with law 94/97 and 59/97, even though the non-electoral nature of the D’Alema government (which lacked the electoral legitimacy and the strong programmatic bond among the majority parties to the coalition by having campaigned on a common program, Fabbrini 2000b, 163-166; Ignazi 2002, 206) and the lack of an external pressure for cohesiveness (such as the EMU for the Prodi government) did affect the reform process.

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336 The reform of the budget and of central administration was one of the goals indicated by the DPEF (presented on June 28, 1996). The government presented the bill for law 59/97 on July 29 and the bill for law 94/97 on August 7).

337 RC was part of the government majority because the Olive Tree coalition had not been able to win a majority of the seats in the April 1996 elections. RC had not campaigned as part of the Olive Tree coalition and had not shared its electoral program (D’Alimonte and Nelken 1997, 33-34).
Beside continuing the reform program of the Prodi government, the D’Alema government also passed a further reform of fiscal governance (law 208/99). While the innovations introduced by this law were relatively minor in terms of their influence on the system of fiscal governance, they were also the clearest cases of direct influence of the European level on Italian institutional development.

Law 208/99 introduced some minor modifications to the fiscal governance system put in place by law 94/97 (interview with R, representative of the government during the debate on the law, 6/6/05). It changed the reference aggregate for the DPEF from “settore pubblico allargato” (larger public sector) to “amministrazioni pubbliche” (public administrations), extended the reform of the state budget structure (based on UPB after law 94/97) to the other components of the PA and in particular to the regions; it changed the deadlines for the presentation of some of the budget documents; it changed the criterion used for measuring the trend values of government spending in the DPEF – necessary to define the extent of the government’s yearly maneuver – from “constant policies” to “constant legislation”, introduced the obligation for the government to present to Parliament a report on the policies that it has committed to in the Stability and Convergence Program; it changed the scope of the LF and it reorganized the collegati.

Some of these innovations clearly bore the mark of European influence. Beside the report to Parliament on the Stability and Convergence Program, the change from the aggregate “larger public sector” to the aggregate “public administration” in the DPEF was also directly connected to the European level as it was a modification explicitly requested by the EU to harmonize the aggregate considered by the main programmatic document of the Italian government with the

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338 In contrast to the approval of laws 94/97 and 59/97 along partisan lines, law 208/99 was the product of cooperation between the majority and the opposition, both in the drafting of the law (Lupo 1999, 524-525) and in ensuring the final passage of the law, when both FI and AN voted in favor (Camera dei Deputati 1999, 40 and 42).

339 The two aggregates are basically analogous in terms of scope, as they are the broadest public finance aggregates, covering the central government, all government agencies and local and regional governments. The main (although not the only) difference between the two aggregates (and thus in the government balances calculated on their basis) is that the values for the larger public sector are calculated in cash terms while those for the public administrations are calculated in accrual terms.

340 The constant policies criterion estimates trend spending on the assumption of unchanged levels of government services provided to the public, while the constant legislation criterion estimates trend spending on the assumption of unchanged legislation. The move from the former to the latter criterion aimed to unify the criteria used in the DPEF with those used in the drafting of the budget (Degni and Salvemini 2001, 126-127 and Lupo 1999, 539).

341 Based on the SGP, starting in 1999 all members states are to submit to the Council of Ministers a Stability and Convergence Program in which they report how they plan to reach or maintain a “budgetary position of close to balance or in surplus” (http://europa.eu.int/comm/economy_finance/about/activities/sgp/sep_en.htm).
aggregate considered by the SGP (Camera dei Deputati 1999, 33; see also Lupo 1999, 538-539; Palanza 1999, 647). Also, the nature of the DPEF changed, even if the statutes did not change. Since the SGP now constituted the main legal constraint on the size of government deficit, the DPEF could switch its focus from being a financial program (setting the limit of the deficit) to a policy program, namely to present the reform program of the government for the upcoming years (Degni, Salvemini and Virno 2000, 387-388).

Moreover the change in the scope of the LF and in the collegati was also directly connected to the European level. In particular, the achievement of entry in the EMU and the continuous improvement in the fiscal situation on the one hand, and the anemic growth rates of the Italian economy on the other convinced lawmakers that it was possible and necessary to fiscally stimulate the economy (Camera dei Deputati 1999, 31; Degni and Salvemini 2001, 129; Senato della Repubblica 1999, 45). The changes introduced in the LF by law 208/99 aimed to make this fiscal stimulus easier (Forte 1999, 117-119; Lupo 1999, 533). The 1988 reform (law 362/88, see previous chapter) had limited the content of the LF, by restricting it to measures directed at achieving the goals of deficit reduction set in the DPEF. Law 208/99 expanded this content by allowing the LF to have measures increasing spending or reducing taxes if they are directly aimed at stimulating the economy.

As for the collegati, law 362/88 had introduced two types of “connected laws,” namely connected laws that would be included in the budget session and connected laws –containing the sectoral policies for the implementation of the government program – that would not. However, the first type of collegato (the collegato di sessione) immediately assumed primacy, in that it was the preferred vehicle used by legislators to introduce new legislation since its connection with the

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342 According to the European Council Resolution on the SGP, the relevant aggregate is “general government” (see Resolution 97/C 236/01, available at http://europa.eu.int/comm/economy_finance/about/activities/sgp/SCP_en.htm). In the Italian context, “general government” corresponds to the public administration aggregate (Battini F. 2003, 2759).

In fact, even before the agreement on the SGP, the need to fulfill the Maastricht criteria for monetary integration (which referred to the PA) had directed the attention of Italian policymakers to the PA as the aggregate that they need to control (Camera dei Deputati, Budget Commission, hearing of representatives of ISTAT, ISCO, ISPE and CTSP, March 13, 1997, p. 34).

343 Between 1990 and 1998 the general government deficit fell from more than 10% to 2.7%; government debt, after peaking at almost 125% of GDP in 1994 began to decline in 1995, and in 1998 was down to slightly more than 115% of GDP (see DPEF for 2000-2003, pp. 16 and 18).

344 Between 1995 and 1998 the average real GDP growth rate in Italy was 1.95%, compared to a 2.5% average in the then 15 EU members states, and it was only 1.8% in 1998 compared to a 3% EU average (source: Eurostat, http://epp.eurostat.cec.eu.int).
budget session meant that it would enjoy the fast track procedures applied in the session. Moreover, the fiscal necessities originated by the 1992 fiscal crisis first and by the need to fulfill the EMU criteria later had led to the practice of presenting a single collegato di sessione which would only contain measures implementing the financial maneuver of the government.\footnote{This limit to the content of the collegato was first introduced in 1993 (in the parliamentary resolutions on the DPEF for 1994-96); moreover, in the fall of 1992 a change in the standing orders of the Camera dei Deputati limited the possibility to amend the collegato by declaring inadmissible amendments that would worsen the budget balance compared to the government bill (Zangani 1998, 141-142).}

Law 208/99 reformed the collegati system by eliminating the collegato di sessione and re-introducing – since in practice they had never been utilized – the sectoral collegati, which would be the legislative vehicle for the sectoral reforms already outlined in the DPEF (Degni, Salvemini and Virno 2000, 393). This part of the reform aimed to modify the role of the parliamentary commissions in policymaking, in particular reducing the role of the budget commissions and increasing that of the sectoral commissions (Degni 1999, 62; Forte 1999, 123). The collegato di sessione, given its strong financial orientation, had fallen within the purview of the budget commissions of the two chambers, thus effectively “expropriating” the commissions competent over specific policy areas from the policy process (Senato della Repubblica 1999, 44-5). Its elimination and the return to sectoral collegati thus meant to involve the sectoral commissions in the government’s reform program (Senato della Repubblica 1999, 46).

In closing, the narrative indicates that the development of budget institutions proceeded largely independently from the pressure coming from the fiscal and currency crisis and from European integration. The content of the reforms was in most cases unrelated to the immediate fulfillment of the fiscal and European requirements. When European integration had a clear impact, either it was in conjunction with domestic factors (as was the case for the merger of the economic ministries), or it influenced relatively minor elements of the fiscal governance institutions (law 208/999).

As regards the timing of reforms, it is true that there indeed was coincidence between the stall in reforms during the Berlusconi and the Dini government and the ebbing of the pressure coming from European integration (since the EMU project seemed unlikely to come to fruition). However, when reforms did succeed, the role of European pressure seems to have been a contributing factor facilitating the success of reforms, along more important domestic factors. Amato and Ciampi governments emphasized the connection between the reforms and the need to
cut government spending (both as a response to the fiscal and currency crisis and so as to meet the EMU convergence criteria). However, the actual connection was much weaker than what was claimed by the reformers, and the reforms could pass Parliament only when the government could exert pressure on it by threatening early elections. As for the Prodi government, the need to qualify for the EMU contributed to the cohesiveness of the government, but government cohesiveness was also bolstered by the dynamics of the majoritarian system.

7.6 CONCLUSIONS

This chapter has shown under which institutional conditions the ideas of the reformers could be translated into reforms of the budgetary process. Under the PR electoral system that had been in place throughout the postwar period, government parties acted as veto players defending the interests of their constituencies and thus forestalling reform. Ideas that had been discussed for years became viable a first time during the 1992-93 legitimacy crisis. Reform was again possible under the operation of the new mostly majoritarian electoral rules. First used in 1994, the majoritarian system had fully matured by the 1996 election, which saw a truly bipolar competition between a center-left and a center-right coalition. Faced with a bipolar competition, each coalition had to present a common program, and faced with the possibility of alternation in the next elections (a possibility that had been absent before 1994) the winning coalition had to be concerned with the implementation of that program. The new electoral dynamic (having to present a common program, and having to deliver on it) increased the programmatic orientation of the parties.

Figure 1 summarizes my theoretical argument. The main factor explaining the time of reform was the type of electoral rules. The possibility of reform depended on the government parties’ electoral incentives, which in turn depended on the electoral system (column 2). The parties had an electoral incentive to implement reforms when the electoral system was prevalently majoritarian (MAJ), while they did not have an electoral incentive to implement reforms when the electoral system was based on proportional representation (PR). However, reform could also occur in a PR system if the parties were faced with a legitimacy crisis.
<table>
<thead>
<tr>
<th>Electoral System</th>
<th>Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAJ</td>
<td>YES</td>
</tr>
<tr>
<td>PR</td>
<td>NO</td>
</tr>
<tr>
<td>PR+ CRISIS</td>
<td>YES</td>
</tr>
</tbody>
</table>

**Figure 3** Electoral Systems and Reform
Figure 4 summarizes the fit of my argument to the evidence for the reforms of the 1990s.

As regards the content of the reforms, I have shown that the reforms of the fiscal governance institutions were deeply entwined with broader attempts to reform the structure of the public administration based on the principles of the NPM. This conclusion is relevant for the study of administrative reform, in that it shows the impact of the NPM paradigm to Southern Europe, whose administrative traditions (based on legal formalism and the centrality of law production and implementation in public administration) may seem to be most inimical to the managerial spirit of NPM.

Moreover, this conclusion engages the fiscal institutionalist literature, which tends to explain the structure of fiscal governance in essentially functionalist terms, namely as the response of rational actors (the parties) to the electoral incentives generated by the existing...
institutional context. On the contrary my account, while agreeing on the importance of the institutional context in explaining the timing of the reforms, shows that the content of the reforms cannot simply be deduced from the incentives of the parties acting to maximize their electoral success. Rather, the content of reform is shaped by reformers looking for the best institutional arrangements for fiscal governance, where the definition of what constitutes the best arrangement is dependent on the ideas prevailing in the reform community regarding the causal mechanisms linking different variables and the overall goal of government activity. As this study has shown, the institutional architecture that the reformers envision may be strikingly different than what institutionalist accounts would expect.

Finally, the chapter has addressed the role of the pressure stemming from European explanation in explaining the timing and content of the reforms. As regards the timing, the conclusion is that, while European pressure was a factor that facilitated the success of reforms, it did so in an indirect way and in conjunction with other factors. The following figure summarizes these findings. Before the 1992 Maastricht Treaty the European pressure to reform the Italian fiscal governance institutions was low, since no European-level sanctions were attached to the poor performance of these institutions. The 1992 Maastrichty Treaty introduced sanctions in the guise of exclusion from the final stage of EMU. However, the 1992 EMS crisis and the near-failure of the French ratification referendum in September of that year induced a widespread perception that European monetary integration was in jeopardy. These conclusions are summarized as LOW European pressure during the Amato and Ciampi governments. During the Berlusconi and Dini governments European pressure continued to be LOW, in conjunction with the continuing dim prospects for the European monetary integration. During the Prodi government European pressure was HIGH, given the new relevance of exclusion from EMU as a sanction for poor fiscal governance. During the D’Alema government European pressure was MEDIUM: once EMU qualification had been achieved, exclusion was no longer a possible sanction; however, the Stability and Growth Pact (SGP) introduced new sanctions for the financial misbehavior of the countries participating in the EMU, so that the government retained an incentive to ensure good fiscal governance.

As regards the impact of European pressure on the success of reform, this was clearest in the case of the 1996-1999 reforms. The connection between the reforms and the EMU qualification eased the reforms’ passage through Parliament. However, the Prodi government
had started them before it decided to push for the EMU qualification, and the D’Alema government continued the reform program of the Prodi government (the overall impact is summarized as CONTRIBUTING FACTOR).

<table>
<thead>
<tr>
<th>Impact on Success of Reform</th>
<th>NO</th>
<th>NO</th>
<th>NO</th>
<th>CONTRIBUTING FACTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Pressure</td>
<td>LOW</td>
<td>LOW</td>
<td>LOW</td>
<td>HIGH</td>
</tr>
<tr>
<td>Government</td>
<td>Pentapartito</td>
<td>Amato</td>
<td>Ciampi</td>
<td>Berlusconi</td>
</tr>
<tr>
<td>Year</td>
<td>89</td>
<td>90</td>
<td>91</td>
<td>92</td>
</tr>
</tbody>
</table>

Figure 5 Impact of Europe

Furthermore, this chapter indicates that an important role in explaining the extent to which European pressure actually weighs on domestic decision-makers is the orientation (in favor or against) of the government parties towards European integration. In particular, if the members of the government coalition are critical of European monetary integration, as many members of the Berlusconi government were, then the sanction for failing to adapt to European pressure, such as the exclusion from the final stage of the EMU, would lose much of its potential ability to constrain the choices of the government coalition. Interestingly, the Berlusconi coalition retained its “Euro-skeptic” stance even after the completion of European monetary integration became increasingly likely (from late 1995 on), indicating that party orientation towards European integration may be independent from the “objective” level of European pressure, and thus potentially an important mediating factor in explaining the relevance of European pressure on domestic policy and institutional change. The evidence on this point is not conclusive, since the research design did not include a case of high European pressure and anti-European government orientation, but this provisional conclusion certainly warrants further research into the possibility that government orientation may affect the susceptibility of a country’s domestic institutions to European pressure, a hypothesis that has not yet been addressed by the Europeanization literature.
With regard to the impact of European pressure on the content of reform, the overall conclusion is that, while it was high with regard to relative minor reforms, the impact was low with regard to the most important reforms. As regards the reforms introduced by the Amato government (law 421/92 and legislative decree 29/93) the impact was low, since the goal of the reforms (privatization of employment contracts in the PA, responsibilization of public managers) was to introduce changes that would take effect in the medium to long-term and thus would not be useful to address the problems raised by the country’s fiscal and currency crisis.

The impact was again low in the case of the reforms introduced by the Ciampi government (law 537/93 and modifications to legislative decree 29/93): like the reforms of the Amato government, the main measures of the Ciampi government (e.g. increase in the decision-making autonomy of the administration, separation of administration of administration and politics) aimed to produce effects in the medium to long-term.

As regards the reforms of the Prodi government (laws 94/97 and 59/97) the connection between European monetary integration and the content of the reforms was low (the reform of the budget structure aimed to increase the responsibility of public managers, which would not help achieve the immediate savings needed for EMU qualification) to medium (the merger of the economic ministries had often been considered in the past, but it was given new emphasis by the need to fit the structure of the Italian representation at the European level with that of the other member states).

Finally, the content of law 208/99, passed by the D’Alema government, was certainly shaped by European standards and by the consideration of institutional developments at the European level. However, the relevance of this reform in Italy’s overall fiscal governance structure was relatively minor.
8.0 CONCLUSIONS

8.1 THE TIMING OF REFORM

This research has tackled the puzzle of budget reform in Italy to address the broader puzzle of policy and institutional reform in a political context characterized by policy stability. By studying Italy, this research has brought to the fore those explanatory factors whose causal impact is strong enough to offset the strong immobilism of the context in which they operate.

As regards the timing of reform, I have argued that it depends on the preferences, and thus the identity, of the veto players, namely of the parties in the government majority. Given a government majority composed of predominantly distributive parties, reform will occur if programmatic parties are associated to the majority, or if the government parties change their preferences, thus becoming more programmatic.

For most of the postwar period – the “First Republic,” characterized by lack of government alternation and a proportional representation electoral formula – reform could only occur when programmatic parties, first the Socialists and then the Communists, were associated to the Christian Democratic-led majority.

Conversely, in the “Second Republic” – the period characterized by government alternation and plurality electoral rules that began in the early 1990s – reform became easier, as the increased cohesiveness required by the new electoral rules translated into a greater programmatic orientation of the parties.346

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346 However, it should be noted that the electoral rules and the party system are not sufficient to ensure the unity and the stability of the budget process. Although the developments of the early 2000s are not covered in this research, one should note that the budget institutions, which seemed to have become relatively robust by the end of the 1990s, had to face renewed pressure towards fragmentation in the more recent past. Preliminary observations, not included in this research, suggest that a key variable in ensuring the cohesiveness of the government coalition, and thus the robustness of the budget process, is the nature of the program of the government coalition, which in turn depends on the relative bargaining power of the coalition members. If the coalition is roughly a coalition of equals, as was the
Furthermore, a policy window for reform could also open when the government parties were forced to change their preferences regarding the status quo by exogenous pressures, namely pressures emerging outside of the policy arena. In this case, however, the role of policy entrepreneurs is crucial in bringing these pressures to bear on the government parties, thus changing their electoral calculus regarding the electoral costs and benefits of the status quo to make them support, or not oppose, reform.

Among these exogenous pressures, this research has paid special attention to Europeanization. This research has adopted a “bottom-up” approach to the study of the Europeanization of the Italian budget process. This has meant taking a long-term view and treating European pressure as one, not the only or even the main factor explaining institutional reform.

This approach has produced significant payoffs. By treating European pressure on a par with other, domestic-level factors it has been able to move beyond a dichotomous treatment of policy and institutional change in the EU member states. Rather than being either the adaptation – more or less refracted through the national institutional context – to European pressure or a purely domestic process, domestic institutional change is influenced by both European and domestic factors.

As was to be expected, the impact of “Europe” on the timing of institutional reform has increased with the progression of European integration. However, in general the impact of European constraints (negative and positive integration) have been limited, reflecting the fact that the reform of the budget process has in most reform episodes been intended as the foundation for broader governance reforms, from the planning attempts of the 1960s to the reform of public administration in the 1990s.

Thus, the timing of reform has mostly reflected domestic developments, such as legitimacy crises, partial government alternations and, in the 1990s, changes in the electoral
rules. The one reform episode in which European factors, through the mechanism of negative integration, seem to have played a significant role in bringing about reform is in 1988, with law 362/88, which – not coincidentally – was also the only reform that was purely concerned with controlling government spending, namely that did not have a broader scope.

A further issue connected to the impact of European factors on the reforms is the extent to which the reform process can be conceived of as a “nested game,” namely the extent to which Italy’s consistent choice of being part of the group of countries at the forefront of European economic integration has affect reforms in the budget arena.

This question is especially relevant with regard to the connection between budget reform and monetary integration, and the answer should be nuanced. European monetary integration has mostly played an indirect role, but a role nonetheless, in constraining the choices of the veto players in the budget arena.

Thus, the Italian government had to acquiesce to capital liberalization in the late 1980s because Germany linked it to the progress of monetary integration, a goal pursued by Italy, and capital liberalization in turn played an important role in convincing the government to speed up budget reform. Italy’s participation in the European Monetary System (EMS) eventually became unsustainable in 1992, and the 1992 currency crisis, while it did not directly spur reform, contributed – interacting with the corruption scandals that embroiled the government parties – to the legitimacy crisis that made it impossible for the veto players to oppose reform.

In sum, the European game did at times affect the preferences of the veto players by affecting their cost/benefit analysis of the status quo, but it did so indirectly: capital liberalization reduced the sustainability of high government debt; participation in the EMS required high interest rates which in turn further reduced the sustainability of the debt; the 1992 currency crisis, combined with the risk for many legislators to end up in jail, counseled prudence in opposing reform.

The conclusion that Europe did not generally play a major direct role in the introduction of the reforms also has a somewhat comforting implication with regard to the solidity of the reforms: since they were not, for the most part, a simple coping mechanism to respond to European requirements, their robustness is, at least formally, largely independent from the stringency and enforceability of European fiscal rules.
At the same time, however, a *leitmotiv* of this narrative has been the non-application and misapplication of the budget rules. The extent to which they are open to subversion and circumvention may indeed depend on the credibility of European requirements. The evidence presented in this research on this point is limited, as it mostly applies to the implementation of the 1996-1999 reforms after Italy qualified for the EMU and thus, presumably, European pressure decreased. However, these reforms seem to have been robust, namely they did not suffer from non-application or misapplication even when the pressure to abide by the European standards weakened.

### 8.2 THE CONTENT OF REFORM

The main contribution of this research with regard to the explanation of the reform content has been to show that this can largely be explained by the ideas of the relevant policy communities. It is important to stress, however, that this research has also been very sensitive to the “powering” aspect of policymaking, and has not limited policymaking to “puzzling.” After all, the ideas that this research has focused on are *causal* ideas, which affect policymaking by instructing decision makers on how to maximize their utility. Inasmuch as the utility of political decision makers is connected to their electoral success, ideas matter if parties can be convinced that their implementation will pay off electorally. In this research I have not only shown when parties are more open to new ideas (when programmatic considerations are especially important, namely at times of government alternation and with majoritarian electoral systems) but also traced how policy entrepreneurs have acted as go-betweens to connect the ideas developed by the policy communities to electorally motivated politicians.

I have also concluded that, rather than responding to institutional imperatives, such as the nature of the party system, the reforms should generally be understood as part and parcel of broader attempts to improve government, through planning in the 1960s, financial planning in the 1970s, and New Public Management in the 1990s.

It also important to stress the conclusion that these “master ideas” on how to improve the institutional performance of the Italian State have *generally* mattered, not only because in certain cases – signally the 1988 reform – the ambition of the reform has been more limited, but also
because this research has been able to provide a measurement of *how much* they have mattered, at least with regard to the 1996-1999 reforms. As chapter 6 has shown, non-ideational factors (namely the institutional context, and in particular the change in electoral rules and the connected bipolarization of the party system) are sufficient to explain certain aspects of the reforms. Other aspects, however, do not fit the expectations of the institutionalist model, but fit well with the ideas expressed by the reform community in the years immediately preceding the reform.

8.3 FUTURE RESEARCH

This research has shown that the “idea carriers” will have an impact on policy, in particular affecting the content of new policies, if they can get to the “ear of the Prince.” This opens an intriguing question, namely whether the political orientation of the “Prince” matters in explaining which policy community will be able to connect with the government.

Throughout the period covered in this research reforms have mostly occurred with center-left governments or governments supported by a center-left majority. The policy communities that have shaped the reforms have mostly been composed of administrative or public accounting experts, generally sharing a disciplinary base in law and a left-leaning political orientation.

Over time, their prescriptions have diverged from those suggested by economists, and especially foreign-trained economists. This was particularly evident in the 1990s, when the reforms implemented by the center-left governments were met with hostility by a number of Italian economists (Alesina, Mare', and Perotti 1998). Interestingly, the center-right coalition that won the 2001 elections has turned to the economists’ prescriptions to further reform the budget process, and in particular to further increase the power of the Finance minister.

This points to the possibility that, even in policy areas that do not have obvious redistributive implications, the political orientation of governments may play a role in explaining the relative influence of different policy communities. An opportunity for introducing considerations of partisanship is offered by the study of policy transfer in the European Union, which has so far paid insufficient attention to this issue in the research on the determinants of policy convergence and divergence among the EU member states.
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