The Politics of the Italian Budgetary Process

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Abstract

The thesis presents a descriptive analysis of Italian budgetary politics during the 1980s and 1990s. This work explores the institutional and political contexts of budgeting, and updates the literature on the Italian budgetary process. The dissertation identifies three periods of budgeting. The first period, from 1979 to 1992, was characterized by *immobilism* in budgetary politics. In this era, successive Italian governments failed to realize deficit containment policies. The 1992-94 period was marked by a *transition* in budgetary politics. In the sphere of budgeting, there were important changes to budget behaviour and budget outcomes. At the political level, a crisis in Italy's political system gradually gave rise to a more adversarial party system. The post-1994 period witnessed more stable *executive governance* in budgetary politics. During these years, Italian governments more successfully realized public finance objectives than did governments during the era of immobilism.

This descriptive analysis of Italian budgeting highlights a number of key developments that took place over the course of the transition from immobilism to executive governance. These include growing treasury primacy in budget policy co-ordination, and the changing institutional and procedural circumstances governing parliamentary budgeting. Furthermore, the work presents two case studies to highlight these trends in Italian budgeting. The first is an examination of the politics of pension reform, and the second is a study of the politics of taxation.

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Chapter 1: Introduction: The Politics of the Italian Budgetary Process

Introduction

It is frequently noted by political observers that the Italian political system lacks the stability and predictability inherent in other liberal democracies. This has led scholars to treat Italy as a special or problematic case[1]. It also has resulted in the relative paucity of research that exists in the area of Italian public policy. While the policy processes of other large European countries have received considerable attention, there has been relatively little attention paid to Italian public policies[2].

One critical aspect of public policy that has been particularly neglected is Italian budgeting, despite the centrality of budgeting to the policy processes of all countries[3]. Its importance to the policy process is well-noted by Wildavsky:

> The victories and defeats, the compromises and the bargains, the realms of agreement and the spheres of conflict in regard to the role of national government in our society all appear in the budget. In the most integral sense the budget lies at the heart of the political process[4].

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[1] This widespread perception can be quickly confirmed just by a cursory examination of the various titles that deal with Italian politics. See, for example, P.A. Allum, *Italy: Republic Without Government?* (London: W.W.Norton and Co., 1973); G. Di Palma, *Surviving Without Governing: Italian Parties in Parliament* (Berkeley: University of California Press, 1977); F. Spotts and T. Weiser, *Italy: A Difficult Democracy* (Cambridge: Cambridge University Press, 1986); J. La Palombara, *Democracy: Italian Style* (New Haven: Yale University Press, 1987). See also, for instance, Van Loenen's 'Weimar-Byzantium' typology characterizing the Italian political system. G. Van Loenen, 'Weimar or Byzantium: Two Opposing Approaches to the Italian Party System', *European Journal of Political Research* 18 (1990), pp.241-256.

[2] M. Ferrera, 'Italian Political Science and Public Policies: A Late But Promising Encounter', *European Journal of Political Research* 21 (1992), p.469.

[3] Italy is the only large West European country that is not included in Wildavsky's comparative study of budgetary processes. See A. Wildavsky, *Budgeting: A Comparative Theory of Budgetary Processes*. Second revised edition (New Brunswick, USA: Transaction Books, 1986). Ott's more recent study also omits the Italian case. See Attiat F. Ott, ed., *Public Sector Budgets: A Comparative Study*. (Hants, Aldershot: Edward Elgar, 1993).

Recently Italian budgeting has attracted more widespread interest on the part of students of politics and Italian citizens alike, but the budgetary process remains little understood. As Italy's leading financial newspaper, *Il Sole-24 Ore*, notes:

> Many times readers of *Il Sole-24 Ore* have asked this newspaper to publish an "explanation" of the state budget - a draft, a chapter, an illustrative brochure that will allow them to finally understand the contours and contents of this "black hole" which swallows Italians' earnings and gives in exchange...what exactly? It is precisely this unknown that citizens and readers, justifiably, would like to understand[5]

The growing interest in Italian budgetary politics in recent years follows Italy's efforts to reduce its deficit and public debt levels, in compliance with the requirements for participating in economic and monetary union (EMU). The sound budget outcomes recorded in the 1990s contrast sharply with those of the previous decade. In the 1980s and early 1990s, Italy experienced annual public sector deficits that exceeded 10 percent of GDP on average. In 1991, Italy's ratio of public debt to GDP rose above 100 percent. On the eve of the signing of the Maastricht Treaty on European Union (TEU) in February 1992, it seemed unlikely that Italy would be selected to participate in EMU, set to begin at the end of the 1990s (see Tables A.1 and A.2).

By the end of 1992, however, the Italian government had successfully implemented its most ambitious and extensive annual budget package to date. Moreover, the government recorded its first primary budget surplus in that same year. In other words, Italy's annual budget balance, net of interest payments owed on the public debt, remained in surplus. Since then, Italy has consistently run primary budget surpluses.

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[4] A. Wildavsky, *The Politics of the Budgetary Process*. Second Edition. (Boston: Little Brown, 1975), p.5
[5] F. Galimberti and V. Schiavetti, 'Capire I conti pubblici,' *Il Sole-24 Ore* 24 Feb 1996,p.2.

Over the course of the 1990s, Italy's budgetary policies have continued to impress observers. Italy's consistent primary surpluses have brought down the country's debt-to-GDP ratio, which, after reaching a peak of 125 percent in 1994 (more than double the ratio stipulated by the TEU convergence criteria), has declined in subsequent years. Furthermore, in 1998, Italy's annual public sector deficit fell to below the three percent level required under the TEU (see Tables A.3 and A.4). Owing to its public finance efforts, Italy was selected to participate in the single currency alongside ten other EU member states in May 1998. The new European currency, the *euro*, was introduced in January 1999.

Yet, despite this extraordinary turnaround in public finances, the politics behind Italy's remarkable process of fiscal consolidation has received scant attention. In the Italian literature, studies of the Italian budgetary process tend to focus on the economic, technical and juridical aspects of budgeting, rather than on the *politics* of budgeting. This is a gap in the literature on Italian budgeting that the current dissertation intends to fill.

The dissertation is an examination of Italian budgetary politics over the past twenty years, covering the period from the late 1970s until the end of the 1990s. The work presents an integrated account of the politics of budgeting over the course of the 1980s and 1990s, in order to permit a better understanding of the changes in budgetary policies and budget outcomes. This study identifies the various political and economic constraints, the complex institutional and procedural developments, and the changing political circumstances that shaped budget choices during these years. In short, this work is a comprehensive study of the events that took place in budgetary politics over the past two decades.

The work periodizes Italian budgetary politics into three eras: *immobilism (1979-92)*, *transition (1992-94)*, and *executive governance (1994-1999)*. The first period of *immobilism* lasted from 1979, the year following the introduction of the finance law as an instrument of budgetary policy, until 1992. During this period, government budgetary policies were consistently resisted and watered down by cabinet and the Italian Parliament. The *transition* period in budgetary politics began in 1992, with the emergence of Giuliano Amato as prime minister, and lasted until the March 1994 elections. During this period, the Amato and Ciampi governments demonstrated greater autonomy in budgetary politics. The final period, which lasted from 1994 until 1999, was characterized by *executive governance*. During the post-transition period, Italian budgetary politics did not return to the immobilism of the previous era. Instead, the period witnessed more effective governance in budgeting matters and more favourable budget outcomes, although the degree of policy autonomy enjoyed by the different governments of this period varied considerably. These three periods of budgeting are discussed in greater detail below.

The current study identifies several salient budgetary developments that took place over the course of the three periods. The first is the growing pre-eminence of the treasury ministry in budget policy co-ordination. The enhanced autonomy of the treasury ministry, and of the executive more generally, was associated with the gradual decline in parliament's decisional role in budgetary matters. Another important development was the growing budgetary activism of what are identified in this thesis as *external guardians*. The activism of key external guardians, notably, the Bank of Italy, the Constitutional Court and the President of the Republic, was particularly strong during the

10th legislature, in the years leading up to the 1992 financial crisis. A final budgetary development identified here is the gradual reform of budget rules, instruments and institutions, the most important change being the novel use of the legislative instrument of the *delega* in combination with the *collegati* measures[6]. The key developments and changing characteristics of Italian budgetary politics during the three time periods are summarized in Table 1.1 at the end of this chapter.

This analysis of Italian budgetary politics makes two important contributions to the literature. First, it updates the literature on Italian budgeting. Various studies have examined Italian budgeting during the 1980s, but little has been written on the post-1992 period, particularly in the English language. Second, this study also contributes to the literature through its examination of the *politics* of budgeting. Many previous studies examine formal technical and institutional changes to the budgetary process, but fail to pay attention to the political context. While this study does not deny the importance of institutional and technical explanatory factors, it pays close attention to both the *institutional* and *political* factors that condition Italian budgeting. A detailed review of the literature on Italian budgeting is presented in the next section.

Owing to the complexities inherent to the study of Italian budgeting, and to study of budgetary processes more generally[7], the dissertation has not sought to subsume Italian budgetary politics under a particular theoretical model or framework. Furthermore, given the recent dramatic developments in Italian budgeting, it is also too early to fit events in Italy into a rigid theoretical structure. Instead, this thesis merely

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[6] The budget rules, instruments and institutions are addressed in detail in chapter two.

[7] See I. Rubin, 'Introduction', in I. Rubin, ed., *New Directions in Budget Theory*, (Albany: SUNY, 1988), pp.1-18.

provides the reader with a descriptive-narrative analysis of the dynamics of Italian budgeting over a defined period.

However, the theoretical literature on budgeting will not be ignored, for budgeting theory provides a useful background against which the developments of the Italian budgetary process can be clarified. This introductory chapter presents three important political theories of budgeting: *incrementalism*, *public choice*, and *macro/institutionalist* theories. Each theory, on its own, cannot satisfactorily account for all the key developments in Italian budgetary politics. Yet, the theoretical literature does provide insights into Italian budgeting in the 1980s and 1990s. Hence, these theories are surveyed at the outset of the dissertation, and theoretical concepts and terminology are again brought to the fore at various points throughout the work to help illuminate key points in the discussion.

In sum, the current study of Italian budgetary politics remains of significant scholarly importance, since, despite the centrality of budgeting to the Italian policy process, there have been remarkably few studies conducted on the politics of the Italian budgetary process. The chapter now turns to a review of the Italian literature on budgeting and public policy. This is followed by a discussion of the political theories of budgeting and their relevance to the Italian case. The chapter concludes with a presentation of the plan of the dissertation.

Review of the Italian Literature on Public Policy and Budgeting

This section reviews the Italian literature on budgeting, indicating where the current study makes a contribution to the field. As noted earlier, studies on Italian budgeting are few, and tend to concentrate on formal technical and institutional features of the budgetary process. This attention to juridical and institutional features prevails not only in studies of Italian budgeting in particular, but also in the field of Italian public policy more generally. Traditional Italian political studies tend to examine the formal rules governing political and economic institutions, exploring issues largely from the academic perspectives of administrative law and economics[8]. As Ferrera notes:

> Public policies have commanded increasing attention since the 1960s, leading to debate at both the political and the academic levels. The role of political scientists in this debate was, however, marginal until the beginning of the 1980s and remains relatively circumscribed today...Italian political science has lagged behind its Anglo-Saxon counterparts in fostering a *politological* approach to the study of public policies[9]

During the 1970s, there was a shift away from the study of formal rules and institutions, and towards the study of policy *processes*, owing to the economic difficulties of these years and the need for governments to implement policies to address rising public expenditure and deficit levels[10]. While the Italian literature did not eschew its focus on institutions and legislative norms, the politico-institutional analyses of that period examined the interactions between the Italian political party system and the state's formal institutions[11]. By the 1980s, American 'new institutionalist' theories had begun to infuse Italian scholarship with a broader understanding of institutional

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[8] Bellanca, *La teoria della finanza pubblica in Italia, 1883-1946*, pp.11-12; Ferrera, 'Italian Political Science and Public Policies,' p.470.
[9] Ferrera, 'Italian Political Science and Public Policies,' p.469.
[10] Ibid., pp.470-475.
[11] See, for example, U. Ascoli, ed., *Welfare state all'italiana* (Bari: Laterza, 1984); M. Ferrera, *Il welfare state in Italia. Sviluppo e crisi in prospettiva comparata* (Bologna: Mulino, 1984); B. Dente, *Le politiche*

arrangements. For instance, the volume edited by Lange and Regini explored the role of institutions and institutional arrangements, both formal and informal, in constraining and conditioning policy processes and political outcomes[12].

This institutional focus continued into the 1990s. Goodman's cross-national study of central banking in Germany, France and Italy is an important example. This study examines how monetary policy responses of national central banks differ as a result of the historical development of the institutional relationships between executives and the central banks[13]. Moreover, in the collection of essays on Italian public policy edited by Cotta and Isernia, there is an emphasis on the importance of party government and institutional factors in determining public policy choices during the 1980s and early 1990s[14].

While many contemporary studies of public policy often incorporate loose definitions of institutions, broader notions of social and economic constraints, and an attention to the political context[15], the existing literature on Italian budgeting has retained its focus on more formal legislative rules and institutions. For instance, studies of Italian budgeting published in the 1970s, prior to the implementation of the finance law, focused on the constitutional and institutional rules that govern budget preparation,

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pubbliche in Italia (Bologna: Mulino, 1990); G. Regonini, 'L'analisi delle politiche pubbliche,' in G. Freddi, ed., *Scienza dell'amministrazione e politiche pubbliche* (Rome: NIS, 1989), p.332.

[12] P. Lange and M. Regini, 'Introduction: Interests and Institutions- Forms of Social Regulation and Public Policy-Making,' in P. Lange and M. Regini, eds., *State, Market and Social Regulation: New Perspectives on Italy* (Cambridge: Cambridge University Press, 1989).

[13] John B. Goodman, *Monetary Sovereignty: The Politics of Central Banking in Western Europe* (Ithaca, NY: Cornell University Press, 1992).

[14] M. Cotta, 'La Crisi del governo di partito all'italiana,' and M. Cotta and P. Isernia, 'Conclusioni,' in M. Cotta and P. Isernia, eds., *Il gigante dai piedi di argilla: La ragioni della crisi della prima repubblica: partiti e politiche dagli anni '80 a Mani pulite* (Bologna: Mulino, 1996).

[15] P. Furlong, *Modern Italy: Representation and Reform* (London: Routledge, 1994); M. Bull and M. Rhodes, eds., *Crisis and Transition in Italian Politics* (London: Frank Cass, 1997).

the formal budget approval process and public expenditure management[16]. This was perhaps inevitable during that period, since constitutional constraints imposed on budgeting ensured that pre-1978 budgeting remained what Cassese's terms a 'pointless ritual'[17].

Nevertheless, after the implementation of law 468 of 1978 and the introduction of the finance law, studies of budgeting did not shift away from their focus on formal institutions and procedures. Yet, the literature on Italian budgeting did begin to examine the *co-participation* relationship that existed between government and parliament in the budgetary process, a relationship in which the budget reforms of law 468 structured the roles and interactions of government and parliament[18]. Della Sala highlights the fact that law 468 increased the Italian parliament's *co-participant* role in the co-ordination of budgetary policy[19], just as other West European parliaments were becoming less central to their respective policy processes[20]. Yet, although this approach pays attention to the important legislative and procedural changes from 1978 onwards, co-participation fails to address other salient factors that influenced budget choices. These include party

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[16] V. Onida, 'The Historical and Constitutional Foundations of the Budgetary System in Italy,' in D. Coombes, *et al.*, eds., *The Power of the Purse: The Role of European Parliaments in Budgetary Decisions* (London: Allen and Unwin, 1976); V. Mortara, 'The Italian Parliament's Role in Expenditure Decisions,' in Coombes *et al.The Power of the Purse*; Stephanie K. Holmans, 'The Italian Public Expenditure System,' *Treasury Working Paper* n.3 (Public Services Economic Division, HM Treasury, May 1978).

[17] S. Cassese, 'Special Problems of Budgetary Decision-Making in Italy,' in Coombes *et al.*, *The Power of the Purse*, p.254.

[18] See V. Della Sala, 'The Italian Budgetary Process: Political and Institutional Constraints,' *West European Politics* 11:3 (1988), pp.116-122; D'Alimonte also discusses the '*compartecipazione*' or 'co-participation' between government and Parliament in the budgetary process. See R. D'Alimonte, 'Il processo di bilancio in Italia,' in G. Freddi, ed., *Scienze dell'amministrazione e politiche pubbliche*, pp.188-189; R. Onofri, 'The Italian Budgetary System,' *Review of Economic Conditions in Italy* 33:2 (1979).

[19] Della Sala, 'The Italian Budgetary Process: Political and Institutional Constraints,' p.116-118.

[20] See V. Della Sala, 'The Italian Parliament in the 1980s: Challenge and Response'. (Unpublished D.Phil. Thesis, University of Oxford, 1989), p.123.

politics, changes to parliamentary procedures, the strengthening of the treasury ministry within the Italian executive, and the activism of external guardians[21].

More recent studies of Italian budgeting continue to downplay the political context of budgeting[22]. Verzichelli, for instance, applies a more comprehensive politico-institutional analysis to the study of budgetary politics in Italy, but the author still maintains that the budgetary process is conditioned by the 'necessary co-participation between government and parliament'[23]. Verzichelli's work is greatly concerned with institutional and procedural variables, what are termed 'institutional factors of efficacy'[24], rather than on the political dynamics of budgeting. In short, Verzichelli's analysis of budgeting during the 1980s and 1990s remains too formal an examination of the changes to budget legislation and institutions, and concentrates too little on the evolving political context. Yet, it is critical to grasp the political side of budgeting in order to fully comprehend the developments of the 1980s and 1990s. Hence, the current work makes its contribution not only by updating Italian budgetary developments in the 1990s, but also by moving beyond the prevailing attention to institutional and procedural aspects of budgeting.

Before reviewing the plan of the dissertation, the chapter presents a discussion of the *political theories of budgeting*. Though neither the current study nor previous studies

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[21] D'Alimonte's study in particular focuses on legislative and procedural changes to the exclusion of politics. See D'Alimonte, 'Il processo di bilancio in Italia,' pp.180-190.

[22] See L. Verzichelli, *La politica di bilancio* (Bologna: Mulino, 1999); see also L. Verzichelli, 'Le politiche di bilancio: il debito pubblico da risorsa a vincolo,' in M. Cotta and P. Isernia, eds., *Il gigante dai piedi di argilla* (Bologna: Mulino, 1996); A more recent piece by Salvatore Vassallo also maintains this strong institutional focus. See S. Vassallo, 'La politica di bilancio: le condizioni e gli effetti istituzionali della convergenza' in G. Di Palma, S. Fabbrini and G. Freddi, eds., *Condannata al successo? L'Italia nell'Europa integrata* (Bologna: Mulino, 2000).

[23] L. Verzichelli, 'Le politiche di bilancio: il debito pubblico da risorsa a vincolo,' in M. Cotta and P. Isernia, eds., *Il gigante dai piedi di argilla*, p.191.

of Italian budgeting systematically employ formal theoretical models, budgeting theories and concepts are of important heuristic value to any study on budgeting. Hence, the following section will familiarize the reader with the existing theoretical literature on budgeting, evaluating the relevance of existing theories and concepts to the Italian case.

Review of Political Theories of Budgeting

The existing literature on Italian budgeting does not strictly adhere to a particular theoretical model or framework. This is a result of the complex nature of Italian budgetary politics, which makes it difficult to subsume Italian budgeting under a single theoretical model. It is also a result of the fact that most political theories of budgeting developed in the United States, and it is more difficult to employ them in the Italian context. Therefore, the purpose of this discussion is to acquaint the reader with budgeting theories and concepts, and their relevance to the case of Italy. The conceptual tools and ideas discussed here will again be referred to during the course of the analysis.

The study of budgeting lies at the crossroads of a number of academic disciplines, including economics, public administration, accounting, public finance and public policy. However, the current work limits itself to an examination of the *political theories of budgeting*. Political theories of budgeting fall within the sphere of public

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[24] Verzichelli, *La politica di bilancio*, p.135.

policy, which, according to Heidenheimer, *et al.*, addresses 'the study of how, why and to what effect different governments pursue particular courses of action or inaction'[25].

Political theories of budgeting can be broadly categorized as *incrementalist*, *public choice*, and *macro/institutionalist* theories. All three frameworks can be discussed within the context of Italian budgetary politics, but no single theoretical perspective is sufficient on its own to accurately encompass all the observed budgetary developments of this era. The evolution of budgeting theory is addressed below.

Early theories of budgeting could more easily be delineated as either *normative/idealist* or *positive/realist*[26]. Generally speaking, budgeting theories of nineteenth century continental Europe were normative in approach, while the early Anglo-American literature on budgeting was grounded in economic and public finance theory. In continental Europe, new important policy questions emerged in the middle of the last century. Scholars were concerned with the role of the state in the distribution of public expenditure and in producing capital. With the onset of industrialization on the continent, leading continental economists of the period argued in favour of a larger role for the state in economic production and welfare[27]. The Austrian economist Adolf Wagner argued in his *law of expanding state activity* that urbanization, industrialization, advances in communications, and increases in national income would inevitably lead to greater state activity in the social welfare sphere. Wagner and other economists argued

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[25] Arnold J. Heidenheimer, Hugh Heclo, and Carolyn Teich Adams, *Comparative Public Policy: The Politics of Social Choice in America, Europe and Japan*. Third edition. (New York: St. Martin's Press, 1990), p.3.

[26] See Dirk-Jan Kraan, *Budgetary Decisions: A Public Choice Approach* (Cambridge: Cambridge University Press, 1996), pp.1-8.

[27] R.A. Musgrave, 'A Brief History of Fiscal Doctrine,' in Alan J. Auerbach and Martin Feldstein, eds., *Handbook of Public Economics* (New York: North-Holland, 1990), pp.7-8.

that the state had a responsibility to direct resources to satisfy social policy objectives[28]. Contemporary political theories of budgeting find their roots in normative ideas that envisage a role for the state in the economy and society.

It was not until the 1930s, however, that British and American scholars began to favour stronger state participation in the economy and social policy. As late as the inter-war period, Anglo-American scholarship continued to focus on formal accounting principles, technical-legal aspects of budgeting, and cost analysis, rather than on redistributive issues involved with social welfare[29]. However, after the onset of the Great Depression and the proliferation of Keynesian ideas of social welfare, American theorists began to consider more seriously the political side of budgeting. In 1940, V.O. Key's seminal article 'The Lack of a Budgeting Theory' formally defined budgeting as a problem of political science[30].

Key argued that the study of budgeting could not be confined to the realm of economics and public accounting because it involves normative political questions concerning the reallocation of the state's resources. Issues relating to the redistribution of these resources had to be addressed by policy-makers and students of politics. Key's article prompted the development of a number of political theories of budgeting during the post-war period, particularly within American political science[31]. By the 1950s,

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[28] Alan T. Peacock and J. Wiseman, *The Growth of Public Expenditure in the United Kingdom* (Princeton: Princeton University Press, 1961), pp.16-20.

[29] Edward E. Lehan, 'Public Budgeting,' in Robert T. Golembiewski and Jack Rabin, eds., *Public Budgeting and Finance: Behavioural, Theoretical and Technical Perspectives.* Revised third edition (New York: Marcel Dekker, 1983), p.12; N. Bellanca, *La teoria dell finanza pubblica in italia, 1883-1946* (Florence: Leo S.Olschki, 1993), pp.5-6.

[30] V.O. Key, 'The Lack of a Budgeting Theory,' *American Political Science Review* 34 (Dec. 1940), pp.1137-1144.

[31] see Lehan, 'Public Budgeting', pp.15-17.

political scientists began to explore 'who gets what' in the budgetary process[32]. From the 1960s onwards, three important political theories of budgeting emerged. These theories are addressed below.

The Theory of Incrementalism

The most influential and best known contribution to budgeting theory is *incrementalism*[33]. This theory of budgeting came to the fore during the 1960s and 1970s, coinciding with the behavioural revolution in American political science[34]. Incrementalism encompasses positive and normative elements, since it attempts both to explain budgetary *processes* and to prescribe and predict budget *outcomes*. Incrementalist scholars argue that budget procedures are not neutral, and that the nature of the budgetary process and actors' budget behaviour help shape budget outcomes[35].

Grounded in pluralist political theory, incrementalism takes issue with the traditional Anglo-American economic models and assumptions of the inter-war period. Lindblom, an early exponent of incrementalism, rejected economic assumptions of budgeting such as the existence of 'comprehensive rationality' and the notion that actors possess 'perfect information'. Lindblom argued that the annual budget cannot be

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[32] H. Laswell, *Politics: Who Gets What, When, How?* (New York: P. Smith, 1950); Verne B. Lewis, 'Toward a Theory of Budgeting,' *Public Administration Review* 12 (Winter 1952), pp. 42-54; Arthur Smithies, *The Budgetary Process of the United States* (New York: McGraw-Hill, 1955).

[33] Lance T. LeLoup, 'The Myth of Incrementalism: Analytic Choices in Budgetary Theory,' in T. Golembiewski and J. Rabin, eds., *Public Budgeting and Finance* 1983, p.62.

[34] Early incrementalist works include Charles Lindblom, 'The Science of Muddling Through' *Public Administration Review* 19 (Spring 1959), pp.79-88; I. Sharkansky, 'Four Agencies and an Appropriations Subcommittee: A comparative Study of Budget Strategies,' *Midwest Journal of Political Science* (August 1965), pp.254-281.

[35] See J. Burkhead, *Government Budgeting* (New York: Wiley, 1956).

reviewed in a comprehensive manner each year, and that the budget is fought over in a budgetary process that involves interactions between competing groups making mutual behavioural adjustments, resulting in a behavioural pattern of *successive limited approximations* in the assessment of budget alternatives[36].

The best known exponent of incrementalist theory is Aaron Wildavsky[37]. Like other incrementalists, Wildavsky makes the assumption that the budget cannot be reviewed as a whole each year, and that changes to budget expenditure result from conflicts over requests that are based on the previous year's budget. In his work, Wildavsky identifies two sets of actors, *advocates* and *guardians*, who are involved in a tug-of-war over budget expenditure. Advocates are agencies that submit annual requests for expenditure increases over the previous year's *base*, while guardians are the state's central control organs that seek to implement cuts to these expenditure requests. The reciprocal expectations and mutual adjustments of advocates and guardians drive the budgetary process. Advocates pad their requests because they expect to receive less than they ask for. Guardians expect advocates to pad their requests and cut spending accordingly. The outcomes of these mutual adjustments are consistent *incremental* rises in annual budget expenditure.

The simple elegance of incrementalist theory makes it an appealing tool for scholars. The incrementalist framework simplifies the complex interactions observed in

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[36] Lindblom, 'The Science of Muddling Through'; T. Golembiewski and J. Rabin, 'Some Conceptual Contexts: What is 'It'? How Does 'It' Get Done?' in T. Golembiewski and J. Rabin, eds., *Public Budgeting and Finance* 1983,pp. 7-9.

[37] A. Wildavsky, *Budgeting: A Comparative Theory of Budgetary Processes*, pp.10-13.

the annual budgetary process, and has been applied to a variety of different contexts[38]. Aspects of incrementalist theory and its advocate/guardian typology can readily be applied to the case of Italian budgeting. Budget behaviour and budget outcomes were incremental in nature during the 1980s, with the budgetary process being characterized by continuous conflict between the treasury ministry, the main *guardian* of the public purse, and spending *advocates* in cabinet and parliament. As is addressed later on in the work, during the period of immobilism the treasury found itself increasingly isolated in cabinet, while Italy's budget outcomes continued to display incremental increases. The persistence of incremental budget outcomes resulted in a growing crisis in public finances, and led to mounting pressure for Italy to address its financial imbalances by the early 1990s.

Italian budget behaviour and budget outcomes became non-incremental during the 1990s. After 1992, Italy witnessed tightening financial constraints and a rapidly deteriorating domestic political situation. As is addressed in subsequent chapters, the financial and political developments of the 1992-94 period ended the incremental pattern of resource allocation. The post-1992 era was one of greater guardian control of the budgetary process, with the treasury ministry emerging as the pre-eminent actor in budget policy co-ordination.

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[38] Joseph White, 'Much Ado About Everything: Making Sense of Federal Budgeting,' *Public Administration Review* 44:5 (Sept-Oct 1985), pp.623-630; T. Anton, *The Politics of State Expenditure in Illinois* (Urbana: University of Illinois Press, 1966); A. Cowart, T. Hansen and Karl-Erik Brofoss, 'Budgetary Strategies and Success at Multiple Decision Levels in the Norwegian Urban Setting,' *American Political Science Review* 69 (June 1975), pp.543-558; Francis Hoole, Brian Job and Harvey Tucker, 'Incremental Budgeting and International Organizations,' *American Journal of Political Science* 20 (May 1976), pp.273-301; G. Lord, *The French Budgetary Process* (Berkeley: University of California Press, 1973); Donald J. Savoie, *The Politics of Public Spending in Canada* (Toronto: University of Toronto Press, 1990).

The transition from incremental to non-incremental budgeting occurred not only in Italy, but also in other advanced industrialized countries from the 1970s onwards. This led to growing criticism of incrementalist theory by scholars and practitioners. As countries moved to trim public expenditure during this period, incrementalism ceased to reflect budgeting reality[39]. Policy-makers no longer viewed incrementalism as an inevitable or desirable outcome of the annual budgetary process. Medium-term budget plans, implemented to deal with the adverse economic conditions of the 1970s, made the annual budgetary process increasingly dependent on medium-term economic and financial choices. Non-annual budgeting is not accounted for by incrementalist theory. In short, since medium-term planning, characterized by the implementation of spending caps and deficit targets, increasingly constrained annual budget choices[40], it became evident that broader 'macro' political, economic, social and cultural factors influenced the budgetary process at least as much as the interaction of advocates and guardians. Yet, medium-term planning and larger 'macro' and institutional conditions are ignored by incrementalist theory[41].

Nevertheless, despite the growing criticism levelled against incrementalism since the 1970s, this theoretical perspective still provides important insights into the budgetary

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[39] See J. Bailey and Robert O'Connor, 'Operationalizing Incrementalism: Measuring the Muddles,' *Public Administration Review* 35 (Jan-Feb 1975), pp.60-66; LeLoup, 'The Myth of Incrementalism', pp.62-72.

[40] The economic conditions that prevailed in the 1970s are addressed below. On budgeting developments in the 1970s, see Naomi Caiden, 'The Myth of the Annual Budget,' *Public Administration Review* 42:6 (Nov-Dec 1982), pp.516-523; Lance T.LeLoup, 'From Microbudgeting to Macrobudgeting: Evolution in Theory and Practice,' in Irene Rubin, ed., *New Directions in Budget Theory* (Albany: SUNY,1988), pp.23-28; LeLoup 1983, p.69

[41] In his second edition of *Budgeting,* Wildavsky does address the role of political culture as an external influence on budgetary processes. see *Budgeting*, p.18. For other criticisms of incrementalist theory, see A. Schick, 'Systems Politics and Systems Budgeting,' *Public Administration Review* 29 (March-April 1969), pp.137-151; J. Wanat, 'The bases of budgetary incrementalism,' *American Political Science Review* 68 (Sept 1974), pp.1221-1228.

process in Italy. Throughout this dissertation, concepts and terminology borrowed from incrementalist theory and other theoretical frameworks will be employed to illustrate different aspects of Italian budgeting. The discussion now turns to public choice theory.

Public Choice Theory and Budgeting

In contrast to incrementalism, a theory of budgeting grounded in pluralism, the framework of rational/public choice is derived from neo-classical economics. It has also been applied to the study of budgeting and to public policy more generally. In the 1960s, public choice became the principal alternative to pluralist group theory. It explained political outcomes in terms of the rational self-interest of political actors. Downs, an early exponent of the public choice approach to politics, examined the exchange relationship that exists between politicians seeking public office and voters who make policy demands[42]. Similarly, Olson applied public choice theory to the study of collective action problems[43].

Public choice has also been applied to the study of the growth of public expenditure. Buchanan and Tullock's analysis explores the trade-off that exists between self-interested individuals who demand public goods from the state and the state's capacity to coerce individuals[44]. Niskanen examines the trade-off that exists between self-interested public sector bureaucrats and politicians. He argues that bureau chiefs, acting according to rational self-interest, pursue strategies aimed at increasing the size of

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[42] A. Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957).
[43] M. Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1965).
[44] J. Buchanan and G. Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan, 1962).

their programming budgets in order to increase their status and power. These bureau chiefs are able to pursue particular strategies and gain concessions from politicians since they possess monopolies over unpriced public goods and information[45].

In another study, Breton examines the factors that determine public policies and government programmes, analyzing the trade-offs that exist between politicians who seek re-election and bureaucrats who seek to expand programmes and functions[46]. Other more recent studies of budgeting in the United States explain the growth of public expenditure and deficit spending in terms of electoral orientation and the internal fragmentation within the U.S. Congress[47].

Certain features of the Italian case be examined from the public choice perspective, such as the self-interested behaviour of the political parties of the *pentapartito* coalition during the 1980s and early 1990s, or the party system's support for the technical governments of the post-1992 era. During the 1980s, for example, politicians within the *pentapartito* coalition remained unwilling to pursue fiscal retrenchment, for they feared that reducing expenditure and changing the pattern of resource allocation would weaken their electoral support base, and the relative influence of their parties and/or factions within the governing coalition. A public choice analysis of the interests and preferences of political parties and intra-party factions can shed light on the question of why, in spite of the growing crisis in public finances, the parties of the

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[45] W. Niskanen, *Bureaucracy and Representative Government* (Chicago: Aldine-Atherton, 1971).
[46] A. Breton, *An Economic Theory of Representative Government* (London: Methuen, 1974).
[47] See, for instance, the work of Shepsle and Weingast. Kenneth Shepsle and Barry Weingast, 'Legislative Politics and Budget Outcomes,' in G. Mills and J. Palmer, eds., *Federal Budget Policy in the 1980s* (Washington, DC: Urban Institute, 1984), 343-366; K. Shepsle and B.R.Weingast, 'Positive Theories of Congressional Institutions,' *Legislative Studies Quarterly* 2 (1994), pp.149-179; See also Kraan, *Budgetary Decisions: A Public Choice Approach* 1996, pp.8-11.

pentapartito coalition did not risk taking the necessary steps to alter spending habits and prevent the onset of a full-blown financial crisis in 1992.

Public choice analysis may also help contribute to an understanding of why political parties from both sides of the political spectrum initially chose to support the technical governments of Carlo Azeglio Ciampi and Lamberto Dini. It can be argued that in these two cases political parties sought to demonstrate their commitment to substantive policy issues through their support of these technical governments, since displaying their commitment towards substantive budget reforms and sound fiscal management would restore credibility to the political class. The Ciampi government, moreover, provides a particularly clear example of self-interested politicians preferring a non-partisan government in order to permit time for organizing and strengthening political party formations in anticipation of new elections in 1994. In short, for reasons of strategic self-interest, political parties sought to support these two technical governments during the 1990s. The Ciampi and Dini governments will be discussed in greater detail in chapters four and five.

Nevertheless, while a number of budgetary developments can be illuminated by employing public choice, this approach, with its insulated deductive reasoning and attention to the self-interested behaviour of individuals, ignores broader economic, social and political constraints on the actions of budget actors[48]. In the case of Italy, public choice cannot account for the structural and institutional causes of the political and financial crises that gave way to the transition in Italian budgetary politics. Furthermore,

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[48] Peter Self, *Political Theories of Modern Government* (London: Allen and Unwin, 1985), pp.6-18, 68; P. Dunleavy, 'Bureaucrats, Budgets and the Growth of the State. Reconstructing an Instrumental Model' British Journal of Political Science 15:3 (1985), pp.299-328.

the convoluted nature of Italian politics makes it difficult to employ public choice's economic assumptions, such as perfect information, ordered preferencing and rational self-interest. In short, while public choice can help contribute to a better understanding of Italian budgetary events, and will be referred to at certain points in this work, the theory remains unable to adequately explain the transition in Italian budgetary politics.

'Macro' and Institutionalist Approaches to Budgeting

While the two theories presented above are bottom-up approaches to budgeting, top-down *macro* and *institutionalist* approaches pay greater attention to the broader social, economic, political and cultural phenomena that condition budget choices. These theoretical perspectives have attracted more widespread attention since the 1970s. The past twenty-five years have witnessed rising public sector deficits, which followed the financial instability and economic slowdown that took place with the collapse of Bretton Woods and the oil price hikes of the 1973-74 period[49].

The post-1973 period witnessed changes to the budget strategies of advanced industrialized countries, and the implementation of strict medium-term budget programmes and *macro-budgeting* targets in order to control public expenditure. In West Germany, five-year plans setting out medium-term budget targets had already been introduced by the West German economics minister in 1967, following the first economic slowdown the previous year[50]. In the United States, legislators imposed new

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[49] See chapter three for a discussion of the effects of these external shocks on the Italian economy.
[50] R. Overy, 'The Economy of the Federal Republic Since 1949,' in K. Laures and P. Panayi, eds., *The Federal Republic of Germany Since 1949* (London: Longman, 1996), p.11.

macro-budgeting targets following the oil price hikes of 1973-74[51]. The U.S. Congress' *Budgeting and Impoundment Act* of 1974 created new congressional budget committees responsible for formulating resolutions that outlined the government's annual financial objectives. The resolutions set out budget targets for total spending, revenue, the public sector deficit and public debt. Additional budget reforms were implemented by the U.S. Congress during the 1980s, the most notable being the Gramm-Rudman *Balanced Budget and Emergency Deficit Control Act* of 1985. This legislation sanctioned across-the-board cuts to expenditure in order to control deficits.

This transition from *micro-budgeting* to *macro-budgeting* within advanced industrialized countries paralleled the growth in the academic study of broader 'macro' factors that condition budget choices[52]. While incrementalism and public choice focus on group and individual interests, respectively, macro studies emphasize the social, economic, cultural and political factors that condition budgeting. These top-down theories better explain the economic policy responses and budget choices observed in the 1970s. Furthermore, the macro-budgeting literature was accompanied by a return to the study of comprehensive forms of budget management such as *planning-programme-budgeting system* (PPBS) techniques. These budgeting concepts and tools better reflected deficit containment priorities and policies[53].

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[51] For a discussion of macro-budgeting policies pursued by the U.S. in this period, see Allen Schick, 'Macro-Budgetary Adaptations to Fiscal Stress in Industrialized Democracies,' *Public Administration Review* 46:2 (March-April 1986), pp.124-134; Lance T. LeLoup, 'From Microbudgeting to Macrobudgeting: Evolution in Theory and Practice,' in I. Rubin, ed., *New Directions in Budget Theory*, pp.19-42.

[52] LeLoup, 'From Microbudgeting to Macrobudgeting', pp. 25-26; N. Caiden, 'The New Rules of the Federal Budget Game,' *Public Administration Review* 44:2 (March-April 1984), pp. 109-117; Schick, 'Macro-Budgetary Adaptations to Fiscal Stress in Industrialized Democracies,' pp.124-134.

[53] Other comprehensive budgeting techniques developed during this period were 'zero-based budgeting' (ZBB) and 'management by objectives' (MBO). See Kraan, *Budgetary Decisions*, p.194.

This attention to top-down 'macro' studies of budgeting, which examined the broader constraints on governments in their pursuit of deficit containment, paralleled changes in the discipline of political science more generally. Specifically, political science witnessed the resurgence in the study of institutions[54]. Since the 1980s, there has been greater heed paid to the role of social, economic, political and institutional arrangements in conditioning political outcomes. The 'rediscovery' of institutions has given rise to the 'new institutionalism' within the social sciences[55].

The new institutionalism moved beyond the behavioural approaches of the 1960s, of which incrementalism was a part. This 'new' institutionalism examines not only formal institutions but also informal institutional arrangements, as well as the broader social, economic and political forces that impact on institutional arrangements[56]. This looser definition of institutions and institutional arrangements has appealed to students of politics, and has resulted in the proliferation of new institutionalist studies. Hall and Taylor have identified three distinct branches of new institutionalist literature within the social sciences[57]. In the sphere of public policy, the new institutionalism examines how institutions and institutional arrangements shape and refract policy choices[58]. Recent

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[54] See P. Evans, *et al.* , *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985); P. Katzenstein, *Between Power and Plenty* (Madison: University of Wisconsen Press, 1978).

[55] See the contributions of March and Olsen to the field. J. March and J. Olsen, 'The New Institutionalism: Organizational Factors in Political Life,' *American Political Science Review* 78:3 (Sept 1984), pp.734-749; J. March and J. Olsen, *Rediscovering Institutions*, (New York: Free Press, 1989).

[56] K. Thelen and S. Steinmo, 'Historical Institutionalism in Comparative Politics,' in K. Thelen and S. Steinmo, eds., *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992), 1992, p.2.

[57] These branches are historical institutionalism, rational choice institutionalism, and sociological institutionalism. See P. Hall and R. Taylor, 'Political Science and the Three New Institutionalisms,' *Political Studies* 44 (1996), pp.936-957.

[58] See important works on the role of institutions in shaping economic policies by Zysman and Hall. See J. Zysman, *Governments, Markets and Growth* (Berkeley: University of California Press, 1983); See also P. Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (Oxford: Polity Press, 1986).

institutionalist studies of budgetary processes have examined how procedures and institutions constrain budget behaviour and shape budget outcomes[59].

Nonetheless, the new institutionalism suffers from the shortcoming of being conceptually vague in its definition of institutions and institutional arrangements. Moreover, institutionalism's focus on broader social and institutional factors comes at the expense of its consideration of lower level *micro-political* conflicts, which are more adequately treated by public choice and incrementalism. However, the various institutionalisms of political science remain powerful tools by which to examine the broader factors that structure political conflict.

In short, what emerges from this brief discussion of macro/institutionalist budgeting theory is that both lower level political conflicts and larger macro-institutional factors must be examined in order to reach a comprehensive understanding of budgetary developments, and it is necessary to examine both *institutional* and *political* factors in conditioning domestic budget choices. French budgetary politics provides an instructive example in this regard. The French case is not dissimilar to the Italian one, since both budgetary processes underwent significant institutional changes, although France has witnessed a profound constitutional transformation while Italy has not. Still, budgetary conflict in the French Fourth Republic greatly resembled Italian budgeting in the 1980s.

During the era of the Fourth Republic, The French parliament repeatedly employed the annual budget as a tool to gain concessions from a fragmented coalition

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[59] J. Von Hagen, 'Budgeting Procedures and Fiscal Performance in the European Communities,' *Economic Papers* 96 (Commission of the European Communities, October 1992); Gian Maria Milesi-Ferretti, 'Fiscal Rules and the Budget Process' *IMF Working Paper* 60 (June 1996); A. Alesina and R. Perotti, 'Budget Deficits and Budget Institutions,' *IMF Working Paper* 52 (May 1996); J. Von Hagen and I. Harden, 'Budget Processes and Commitment to Fiscal Discipline' *IMF Working Paper* 78 (July 1996).

government, threatening not to approve the government's budget measures by the end of the year if modifications were not introduced[60]. Moreover, the final years of the Fourth Republic saw the implementation of procedural reforms to French parliamentary budgeting, which curtailed the amount of time that parliament could consider the government's budget measures. These changes, like the procedural changes in Italy during the 1980s, largely proved ineffective[61]. In short, despite the implementation of institutional and procedural changes, political factors, notably the fractured government coalition and the obstreperous and divided parliament, were responsible for the incremental budget outcomes observed during the final years of the French Fourth Republic. This was also the case during the period of immobilism in Italy.

Unlike Italy, however, France experienced a dramatic overhaul of its political institutions and its budgetary process, owing to the implementation of the new constitution of the Fifth Republic and additional reforms to France's financial procedures. Among the key constitutional innovations was article 47, which gave parliament a limit of 70 days to consider the executive's budget[62]. Moreover, the reform legislation of 1959 took away parliament's right to propose expenditure, it reorganized the committee system, and it imposed restrictions on parliamentary voting[63]. The changes of the 1958-59 period drastically reduced the role of the French parliament in budgetary matters. These changes 'complemented in budgetary matters a deep

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[60] See Philip M. Williams, *Crisis and Compromise: Politics in the Fourth Republic* (London: Longman, 1964), p.266.

[61] The procedural changes to Italian budgeting are discussed in chapter two. On the French procedural changes, which culminated in the decree of 19 June 1956, see Williams, *Crisis and Compromise*, p.268; Guy Lord, *The French Budgetary Process* (Berkeley: University of California Press, 1973), pp.13-15.

[62] J. Hayward, *Governing France*, p.194.

[63] Lord, *The French Budgetary Process*, p.14-15.

modification of the political system'[64]. The Fifth Republic no longer experienced the budgetary chaos that had been commonplace during the Fourth Republic[65].

Nevertheless, in spite of the emergence of a more centralized executive-directed budgetary process in France, the institutional and procedural changes did not always guarantee a more tranquil budgetary process for governments of the Fifth Republic, particularly when stable majorities were not returned to parliament, as Prime Minister Rocard's experience during the 1988-91 period illustrates. Leading only a minority government in 1988, Prime Minister Rocard chose not to risk the customary parliamentary vote on his government's general budget policy objectives, although this vote had been undertaken during the Mauroy governments of 1981 and 1983, the Fabius government of 1984 and the Chirac government of 1986. The Rocard government was also forced to accept numerous parliamentary amendments to the finance law in order to have parliament pass the 1988 budget measures, resulting in significant changes to the government's policy objectives[66].

More recently, the French parliament has taken steps to enhance its role in budgetary politics. For example, the parliamentary finance committee set up special working groups to come up with proposals for the government's finance bill *before* the finance ministry formally draws up the legislation[67]. In short, while the modifications introduced during the first years of the Fifth Republic did significantly strengthen executive budget institutions in France, the efficiency of annual budgeting still depends

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[64] Ibid., p.14.
[65] Philip M. Williams and Martin Harrison, *Politics and Society in De Gaulle's Republic* (London: Longman, 1971), pp.228-229.
[66] F. Dreyfuss, 'The Control of Governments', in P. Hall, J. Hayward and H. Machin, eds., *Developments in French Politics. Revised Edition* (London: MacMillan, 1994), pp.136-7.

on both *institutional* and *political factors*, particularly whether or not the government enjoys adequate support in parliament.

In the case of Italy, a crisis brought about the end of incrementalism and the transition in budgetary politics. The 1992-94 period entailed important institutional and political changes to budgeting. While Italy did not experience constitutional changes as had occurred in France in 1958, Italy did witness dramatic financial and political upheaval in 1992 that helped bring about a more executive-directed budgetary process.

In the 1980s, Italy, like the French Fourth Republic in its final years, witnessed procedural changes that failed to bring about a turnaround in public finances. Subsequently, however, Italy witnessed significant institutional changes to its political party system and to its budget institutions and instruments. While a more centralized budgetary process was formally institutionalized in France during the 1958-59 period, the changes to Italian budgeting resulted from specific financial and political developments of the 1992-94 period. In particular, the use of budget instruments such as the hybrid *delega-collegati* increased executive control of budgeting, and the efficiency of the Italian budgetary process. The financial and political features, of the transition and the institutional changes accompanying the transition, are discussed in chapter four.

What is critical to note here, however, is that the crust of incremental budgeting in Italy was broken as a result of both institutional and political factors. While Italy did not witness constitutional reform as had occurred in France at the end of the 1950s, the institutional and political developments in Italy did produce a dramatic turnaround in

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[67] Ibid., p.138.

public finances. Hence, both Italy and France illustrate the importance of both institutional factors in conditioning budget choices and budget outcomes.

In sum, it is clear that macro/institutionalist theory can help explain the transition in Italian budgeting. In order to grasp budgetary events during the 1980s and 1990s, one must examine the broader budgeting and political contexts[68]. However, top-down social, economic and cultural factors alone cannot fully explain Italian budgetary history in the 1980s and 1990s. It is also necessary to focus on the micro-*politics* of budgeting and the interaction of budget actors. Unlike incrementalism and public choice, the perspective of macro/institutionalist theory often fails to explore the important low-level political conflicts that help shape budget outcomes.

In concluding this discussion of political theories of budgeting, it should be restated that while all three frameworks can help contribute to our understanding of Italian budgetary politics, none is able to adequately capture all the complexities and idiosyncrasies of Italian budgeting during the 1980s and 1990s. Italian budgeting cannot easily be subsumed within a particular theoretical framework. The idea that no single grand theory can fully explain the politics of budgeting remains true not only for Italy but for all countries. Consequently, since 'a multiplicity of theories vie for scholarly attention and statistical support'[69], a descriptive-narrative approach remains the most useful means by which to examine Italian budgeting history over the past two decades.

Therefore, this work presents a *descriptive analysis* of Italian budgetary politics, bringing

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[68] I. Rubin, 'Introduction,' in I. Rubin, ed., *New Directions in Budget Theory*, p.2; A. Schick, 'An Inquiry Into the Possibility of a Budgetary Theory,' in I. Rubin, ed., *New Directions*, pp.65-68.
[69] A. Schick, 'An Inquiry into the Possibility of a Budgetary Theory,' p. 59.

theory to the fore at certain points in this dissertation to illustrate more clearly particular budgetary events. The chapter now turns to a summary of the dissertation's contents.

Summary of the Contents

The dissertation is divided into eight chapters. Chapter one provides the reader with an introduction to the work. It outlines the contribution of this work to the existing literature on Italian politics. The chapter reviews the existing literature on Italian budgeting and public policy, pointing out the formal technical and legal nature of existing studies. It notes that too much attention has been paid to legislative, procedural and institutional aspects of budgeting, and too little to the political side of budgeting. The chapter then presents three theories of budgeting: *incrementalism*, *public choice* and *macro/institutionalism*. The discussion highlights their relevance to Italian budgeting, but contends that Italian budgeting cannot be subsumed within a particular theoretical slant. Hence, the work remains a descriptive analysis of budgeting.

Chapter two is an in-depth *static* 'snapshot' of Italy's budget rules and institutions. While the overall objective of the dissertation is to provide a *dynamic* account of Italian budgeting over the past two decades, a more *integrated* perspective of budgeting is only possible once Italy's budget institutions, legislation and parliamentary procedures are identified, and their functional roles better understood. Thus, chapter two is of significant heuristic value, providing the reader with a *static* view of the budgetary process that is not obstructed by the confines of shifting political events. This view also acquaints the reader with terms and concepts employed throughout the thesis, and will be

of assistance in the subsequent analysis of the dynamics of Italian budgetary politics. The first part of the chapter is a discussion of the historical development of the Italian budgetary process. The chapter then proceeds to a detailed discussion of the procedures, actors and institutions of the budgetary process.

Chapter three is an analysis of the first period of budgeting, which lasted from 1979 until 1992. This period was characterized by budgetary *immobilism*. The chapter examines both external and domestic developments that shaped Italian budgeting. At the international level, the chapter explores the key changes in the international system and the global economy that contributed to the worsening of Italian public finances during the 1980s. In particular, it documents the growing international and European constraints on Italian budgeting. These constraints became most acute during the period of the 10th legislature, from 1987 to 1992, and helped contribute to the end of incremental budgeting and the onset of the transition in budgetary politics.

The chapter then analyzes several key domestic developments in budgetary politics in this period. The first and most important change is the strengthening of the treasury ministry's role in budget policy co-ordination. The treasury, the key guardian of the budgetary process, gradually achieved greater institutional autonomy during this period, owing to legislative changes, prime ministerial directives, and internal treasury initiatives. The treasury's growing pre-eminence in budgeting in this period heightened tensions between this ministry and spending advocates, particularly during the 10th legislature, when the treasury more visibly criticized government and parliament's budget choices. The conflicts between the treasury and advocates within cabinet and

parliament served to reduce the credibility of the government's budgetary policies during the final years of immobilism, and helped bring about the political and financial crises.

Also explored in this chapter are the growing institutional constraints placed on parliamentary budgeting. While law 468 of 1978 initially increased parliament's role in budget policy co-ordination, parliament's role in budgeting gradually declined during the 1980s as a result of further institutional and procedural changes. Yet, these institutional developments did not break the crust of incremental budgeting or prevent the gradual deterioration of Italian public finances and the onset of financial crisis in 1992.

Another important feature of budgetary politics in this period was the growing activism of *external guardians*. These actors, though external to the formal budgetary process, increasingly criticized both government and parliament in public finance matters, particularly during the final years of budgetary immobilism. The activism of the President of the Republic, the Bank of Italy and the Constitutional Court is addressed here.

The President of the Republic at times refused to counter-sign spending legislation, returning laws to parliament for review because they violated constitutional provisions. These actions became more frequent during the 10th legislature, heightening the visibility of the crisis in public finances. Similarly, the growing institutional independence of the Bank of Italy during the 1980s made the central bank a more effective critic of government policies. The central bank's warnings over Italian public finances more strongly influenced policy-makers as the crisis in public finances became more acute during the 10th legislature. Finally, the rulings of the Constitutional Court also influenced budgetary decisions to a greater extent towards the end of the period of

immobilism. The Court's rulings and criticisms, specifically concerning multi-year spending legislation that violated constitutional provisions, forced greater financial austerity on Italian governments. In short, these three external guardians increased the visibility of the crisis in public finances, thereby acting as catalysts for change in budgetary politics.

The final section of chapter three is a detailed *analysis* of budgetary politics during the 1979-92 period. The section documents the growing crisis in public finances and the worsening immobilism in budgetary politics. It highlights the key budgetary conflicts in order to explain how incremental budget outcomes persisted until 1992, paying particular attention to the events of the 10th legislature. The growing instability in the political party system, the worsening conflict between the treasury and spending advocates, and the growing intervention of external guardians during the final years of immobilism are brought to the fore. Furthermore, the critical budgetary conflicts between Prime Minister Andreotti and Treasury Minister Ciampi are highlighted in this section.

Chapter four is an analysis of the transition in budgetary politics under the Amato and Ciampi governments, from 1992 until early 1994. The principal focus of the chapter are the conflicts surrounding the Amato government's July mini-budget and 1993 annual budget package. 1992 marks a turning point in Italian budgeting history, with Italy recording its first primary budget surplus, following the implementation of ambitious fiscal measures by the Amato government. The strategies by which the government implemented these provisions are documented in this chapter. Yet, while the turnaround in public finances began under the Amato government, the political side of the transition

was completed during the Ciampi period. Hence, the chapter also treats budgetary politics under the Ciampi government of 1993-94.

The chapter begins by examining the factors that gave rise to the transition of the 1992-94 period. It examines the growing pressures on Italy to curb public spending following the signing of the Treaty on European Union (TEU). It also explores the deteriorating domestic political situation, resulting from the judicial investigations into corruption, the discrediting of the political class, and the poor showing of the governing parties in the April 1992 election.

The chapter then turns to budgetary politics under the Amato government. It first examines the July mini-budget, and then turns to the September currency crisis that prompted the implementation of an extensive budget package for 1993. The chapter examines the Amato government's financial objectives and budget measures for 1993, as well as the novel tools and political strategies that the prime minister employed to force the 1993 budget provisions through the cabinet and parliament. The discussion highlights the Amato government's extraordinary policy autonomy during the budget session of autumn 1992, and the prime minister's use of the *delega-collegati* instruments to permit far-reaching substantive budget reforms.

The final part of chapter four discusses budgetary politics in 1993. It analyzes the final months of the Amato government. The chapter then discusses the technical government of Carlo Azeglio Ciampi. The second government of the transition period provided both political stability and continuity in budgetary policies. On the political side, the government permitted time for the political class to reorganize itself in

preparation for a vote in early 1994, thus allowing for the completion of the political transition towards a more adversarial party system.

Chapter five addresses budgetary politics during the post-1994 period of *executive governance*. It analyzes budgetary politics under the Berlusconi, Dini and Prodi governments. Under these three governments, Italy continued the process of fiscal consolidation, which led to its eventual entry into the single currency. The chapter first discusses the persistent external constraints that governed Italy's budget choices, notably, the European constraint and the strong scrutiny of Italy's fiscal policies by financial institutions and markets. The so-called *vincolo esterno* served to strengthen the autonomy of the executive and its control of the budgetary process during this period.

The chapter then turns to a consideration of the characteristics of domestic budgetary politics during this period. It first compares the degree of autonomy enjoyed by the Berlusconi, Dini and Prodi governments. The chapter also examines the pre-eminent political and institutional position of the treasury ministry in budget policy co-ordination, and the continued activism of external guardians in budgetary matters. The final part of chapter five analyzes budgetary politics during the period of *executive governance*. It highlights the principal conflicts that took place in this period, and the key budget measures that were implemented. The governments of this period continued to make use of the *delega-collegati* instruments to put into place substantive deficit-cutting provisions. What emerges from this analysis is that while a fundamental shift towards *non-incremental* budgeting has indeed occurred, there are limits to executive governance in Italy.

Chapter six presents the first of two case studies. The case studies are presented in order to illustrate, at a more microscopic level, the general trends in Italian budgeting. Chapter six is a sectoral study of the politics of pension reform in Italy. Pension spending is the largest component of public expenditure in Italy, and the structural reforms to Italy's pension system were among the most significant budgetary reforms of the 1990s. The chapter begins with a discussion of the development of Italy's pension system, and then addresses the principal changes to Italy's pension system in the 1970s.

During the 1980s, successive labour ministers were unable to implement legislative changes that would reduce pension spending, since pension reform initiatives were blocked by spending advocates in cabinet. By contrast, the transition period in Italian budgetary politics witnessed important changes in the pension sphere. In 1992, the Amato government carried out the first important reform of the pension system. The key changes to the pension system and the politics surrounding the Amato reform are addressed in the chapter. While the weakness of this reform remained the long transition period required for the measures to fully take effect, these pension changes still marked a critical turning point in Italian pension politics.

The chapter then examines pension politics under the Berlusconi, Dini and Prodi governments. While the pension reforms proposed by Berlusconi failed to receive cabinet and parliamentary backing, principally owing to coalition infighting and trade union opposition, the technical government of Lamberto Dini, borrowing from the proposals of the previous government, did succeed at implementing a second pension reform. However, again the effects of the reform were weakened by the long transition period accompanying the measures. Finally, the Prodi government's policies are

examined. While the Prodi government did not risk further structural reforms to the pension system for fear of antagonizing trade unions in the run-up to EMU, it did make one-off cuts to the pension system as part of the government's overall strategy of bringing the deficit down to the level required under the EU convergence criteria.

Chapter seven is a case study of the revenue side of budgetary politics. This sectoral examination of Italy's tax politics highlights the fiscal initiatives and structural changes to Italy's tax system that took place during the transition period and the era of executive governance. The chapter begins with an introduction to Italy's tax system, which has historically been characterized by a low tax base and an inefficient tax administration. These attributes have created problems for Italy's public finances, since Italy's relatively low tax intake contributed to the worsening of the country's financial situation during the 1970s and 1980s. While the country experienced the largest increase in personal tax rates among Western European countries during the 1970s and 1980s, this was not accompanied by structural reforms that would ensure more efficient tax yields.

During the period of immobilism, attempts by the finance ministry to implement substantive tax changes were blocked in cabinet and parliament. As a consequence, Italian coalitions consistently opted to raise tax and social contribution rates, rather than risk more significant structural reforms to increase the tax base and reduce tax evasion, particularly among self-employed workers. One-off tax measures and tax amnesties were repeatedly employed by governments to keep pace with the growth of public spending in this period. Tax amnesties proliferated during the period of 10th legislature, as the crisis in public finances became more acute.

Nevertheless, Italy's overall public finance position improved in the post-transition period. While the government did succeed at implementing measures to reform the tax administration and improve tax yields, the most notable being the Visco reform of 1997, tax amnesties and temporary tax measures, such as the Prodi government's Eurotax, have remained important strategies for recouping revenue losses due to inefficient tax enforcement or spending overshoots.

Finally, chapter eight concludes the dissertation with a brief summary of the findings of the dissertation. It recapitulates the main characteristics of budgetary politics during the 1980s and 1990s, and highlights the contribution to knowledge that is made by this study. It then suggests areas for further research in the field of Italian budgeting and Italian public policy more generally.

Having concluded chapter one with a sketch of the plan of the dissertation, the work now turns to a static analysis of budget rules and institutions. This discussion is presented in chapter two.

Table 1.1 The Three Periods of Budgetary Politics, 1979-98

	Policy Immobilism (1979-92)	**Transition Period (1992-94)**	**Executive Governance (1994-98)**
External Budgeting Constraints:	Worsening public finance crisis, particularly during the 10th legislature (1987-92). Strong international and European pressures on Italy to curb public expenditure in run-up to the 1992 Maastricht Treaty.	Acute financial crisis, as lira exits from the ERM. Intense international and EU pressures on Italy to curb public expenditure and carry out structural reforms	Public finances show dramatic improvement, but subject to close financial market scrutiny. Convergence criteria constrain and guide budget policy choices in this period, while calls continue for structural reforms.
Characteristics of Domestic Politics:	Weak governments unable to implement substantive policies geared toward deficit containment	Prime ministers Amato and Ciampi demonstrate greater autonomy in budget policy co-ordination. The *delega-collegati* is first employed by the Amato government.	Governments more easily pursue budgetary policies geared towards deficit containment.
Autonomy of the treasury ministry	Gradual institutional strengthening of the treasury ministry's role in budget policy co-ordination, leading to greater conflict between the treasury and spending advocates.	Close coordination between the prime minister and treasury. Treasury provides technical and political support to Prime Minister Amato during financial crisis.	Treasury enjoys political and institutional pre-eminence in budget policy co-ordination.
Parliamentary budgeting	Budget packages delayed and watered down during period of immobilism, while budget outcomes are incremental. Parliament's formal budgeting role gradually diminished by changes to budget rules and institutions (law 362 of 1988, parliamentary procedures introducing the budget session in 1983 ,and additional changes in the 1988-89 period). Incremental budget outcomes continue throughout period.	Budget packages for 1993 and 1994 are approved with little parliamentary resistance. Parliament and political parties are weakened by judicial investigations, electoral losses and the financial crisis. The *delega* removes legislative powers from parliament, while the *collegati* are now fewer and presented at an earlier phase of the budgetary process. A shift from incremental to non-incremental budgeting takes place.	Emergence of adversarial political party system after 1994 election. Parliament generally does not obstruct government budget measures (Berlusconi government is exception), while the *delega-collegati* remain the main instrument of budgetary policy. Budget outcomes are non-incremental.
External guardians	Growing activism in budgetary politics, particularly during 10th legislature.	Visible support for Amato's policies and for Ciampi's technical government.	Continued support for deficit containment policies and structural reforms. President of Republic acts to appoint technical government of Lamberto Dini.

Chapter 2: The Development of the Procedures of the Budgetary Regime

Introduction

The Italian budgetary process is a complex one. It has undergone many modifications over time, with new procedures and institutions gradually implemented to improve the efficiency and effectiveness of budgeting. This chapter presents an in-depth description of Italy's budget institutions, legislation and procedures. Although the principal focus of this dissertation is a *descriptive analysis* of the *dynamics* of budgetary politics over the course of the 1980s and 1990s, an integrated picture of Italian budgeting cannot emerge until the relevant rules and institutions are examined in isolation from the political context. Hence, this chapter is of heuristic value because it presents a *static* analysis of budgeting that is not obstructed by shifting political circumstances. The chapter opens with a discussion of the evolution of budgeting in Italy, and then presents an overview of the budgetary process as well as the key budget institutions and documents. This static analysis of Italian budgeting will permit the reader to more easily comprehend the political dynamics discussed in subsequent chapters. The chapter begins with a discussion of the development of Italy's budgetary process and institutions.

The Development of Budgetary Procedures and Institutions

A budgetary *process* formally emerged following the implementation of law 468 of 1978[1]. This important legislation introduced the *finance law* as a policy instrument to enable Italian decision-makers to modify the annual budget law. Specifically, the finance law offered policy-makers a way to circumvent constitutional restrictions on budgeting[2]. Since 1978, the finance law has been presented each year alongside the annual budget, with the former document modifying the contents of the latter. Since 1988, however, the budget package has also included other substantive legislative provisions, the *collegati*. The components of the *annual budget package*, namely, the budget, the finance law and the *collegati*, are addressed in the next section.

While the introduction of law 468 was intended to offer government a means by which to modify the annual budget in order to better achieve policy objectives, the finance law's introduction gave rise to intense political conflict within cabinet and parliament. The resultant inefficiencies and conflicts inherent to the annual budgetary process forced the Italian government to search for new institutional and political devices to improve annual budgeting. Before addressing the key changes to budget rules and institutions of the past twenty years, the chapter considers Italian budgeting before 1978.

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[1] Law 468 of 1978 is discussed in detail below. There is a considerable literature on the legislative changes of 1978. See R. Onofri,'The Italian Budgetary System,' *Review of Economic Conditions in Italy* 33:2 (1979); P. De Ioanna, 'Dalla legge n.468 del 1978 alla legge n.362 del 1988: Note sul primo decennio di applicazione della "legge finanziaria" ', *Quaderni costituzionali* 9:2 (1989), pp.205-227; D. Da Empoli, P. De Ioanna and G. Vegas, *Il bilancio dello Stato: La finanza pubblica tra governo e parlamento* (Milan: Edizione del Sole-24 Ore, 1988); V. Della Sala, 'The Italian Budgetary Process,' pp.110-125; R. D'Alimonte, 'Il processo di bilancio in Italia,'pp.172-175.

Budgeting in Liberal Italy

Italian financial history repeatedly has witnessed periods of unrestrained deficit spending, followed by periods of rigorous fiscal retrenchment and administrative centralization. The Italian State's first efforts to control public spending and to centralize the administration of public expenditure date back to the *Risorgimento*. During this era, Italy was forced to borrow large sums of foreign capital to maintain its military commitments, compelling the newly unified country to quickly harmonize the diverse financial practices of its constituent regional territories. At the time of Italian Unification, 'the differences in the economic policies pursued by the individual pre-Unification states...were reflected in the diversity of tax systems and the size of the outstanding per capita debt in 1859'[3].

The spending and taxing procedures of the Italian states were first harmonized under the right-wing governments that ruled Italy from Unification until 1876[4]. The Bastogi law of 1861 and the Cambray-Digny legislation of 1869 reformed public finance and accounting procedures, imposing Piedmontese financial practices on the rest of the peninsula and introducing a register of public debt owed by the various territories[5]. Although the new country's consolidated public debt rose from 40 percent of GDP in

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[2] The constitutional provisions governing budgeting are addressed in greater detail below. See Della Sala, 'The Italian Budgetary Process,' pp.110-125.

[3] G. Toniolo, *An Economic History of Liberal Italy, 1850-1918*. Translated by Maria Rees. (London: Routledge, 1990), p.55.

[4] L. Ganapini and A. De Bernardi, *Storia d'Italia, 1860-1995* (Milan: Mondadori, 1996), pp.74-80; See also C. Duggan, *A Concise History of Italy* (Cambridge: Cambridge University Press, 1995), pp.143-157; G. Carocci, *Storia dell'Italia moderna: Dal 1861 ai nostri giorni* (Rome: Tascabili economici Newton, 1995), pp.11-21.

[5] Da Empoli, De Ioanna and Vegas, *Il bilancio dello Stato*, p.108.

1861 to 92 percent in 1876, the fiscal policies pursued by the right during this period brought the budget into balance by 1876, the year that the left assumed power in Italy[6].

Whereas the right prioritized deficit containment, the left sought to modernize the new state's administrative apparatus. New public accounting rules were introduced in 1883 and 1884 to create a more rigid and comprehensive system of expenditure controls[7]. However, these more centralized administrative controls also increased the complexity and inflexibility of public expenditure management. By the end of the nineteenth century, this rigid system of spending controls increasingly prevented policy-makers from realizing their spending objectives. As a consequence, politicians increasingly circumvented formal bureaucratic controls, making use of 'extraordinary' budget funds to satisfy growing military and social welfare demands in this period. The Libyan conflict and the first world war, for example, were financed by parliament in this manner[8].

The De Stefani Budgeting Legislation

After World War I, new budget measures were adopted in order to curtail the growing use of extraordinary budget funds by policy-makers. During the 1923-24 period, under the direction of Finance Minister De Stefani, new budgeting and accounting norms were implemented, resulting in further administrative centralization of public

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[6] Toniolo, *An Economic History of Liberal Italy*, pp.55-62.
[7] Da Empoli, De Ioanna and Vegas, *Il bilancio dello Stato*, p.108.
[8] For a discussion of the development of social welfare in Italy, see chapter six. See also V. Fargion, 'Stato e previdenza in Italia: Linee evolutive dell'intervento pubblico in prospettiva comparata,' in G. Freddi, ed.,

expenditure management[9]. The De Stefani legislation consolidated into a more rigid framework the budgeting and accounting practices that had developed over the previous decades. These included the procedures for budget preparation, budget management and public expenditure oversight[10].

A significant *technical* reform brought about by the 1923-24 provisions was assigning the administrative control of public expenditure to the institution of the *Ragioneria generale dello Stato* (RGS), or the General Accountancy Office. This central accounting body within the executive first resided at the finance ministry, but, since 1944, has been part of the treasury ministry[11]. The RGS, together with its local *Ragionerie centrali* (RC) branches, located within the various spending ministries, were responsible for transmitting financial information between the ministries and the central accounting offices, overseeing the formulation of public expenditure, and monitoring spending once it had been approved by parliament. The RGS could block spending legislation already approved by parliament if the legislation violated the technical-legal procedures governing public expenditure formulation and management[12].

In short, the De Stefani legislation represented a further attempt by the Italian executive to reassert its control over public expenditure management. Yet the De Stefani norms ensured that budgeting remained a purely technical exercise that prioritized formal public accounting practices over policy planning objectives such as welfare transfers to

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Scienze dell'amministrazione e politiche pubbliche, pp. 214-215; See also Da Empoli, De Ioanna and Vegas. *Il bilancio dello Stato*, p.108.

[9] The De Stefani reform includes law 2440 of 1923 and its enabling legislation, law 827 of 1924. See P. De Ioanna and G. Fotia, *Il bilancio dello Stato: Norme, istituzioni, prassi* (Rome: NIS, 1996), pp.24-25.

[10] Furlong, *Modern Italy*, pp.204-205.

[11] De Ioanna and Fotia, *Il bilancio dello Stato*, pp.24-25.

[12] R. Perez, 'Finanza, bilancio e contablita pubblica,' in S. Cassese and C. Franchini, eds., *L'amministrazione pubblica italiana: Un profilo* (Bologna: Mulino, 1994), p.58

citizens and investments in infrastructure projects[13]. Furthermore, these technical changes to budgeting once again prompted policy-makers to devise alternative strategies to fund their policy objectives. In particular, it led to the proliferation of *para-state* agencies within the *enlarged public sector*, whose expenditure was not recorded in the state budget.

By the 1930s, agencies of the enlarged public sector were receiving large government transfers without being asked to submit their accounts for RGS (or finance ministry) scrutiny, as central government ministries were required to do. This era witnessed the rapid growth of holding companies such as the *Istituto per la ricostruzione industriale* (IRI), an agency whose huge spending operations were not subject to RGS procedural controls[14]. As is discussed in the next section, off-budget transfers to the para-state sector persisted into the post-war years, since the restrictive nature of Italy's budgeting rules and institutions prompted policy-makers to continue employing para-state agencies to achieve their spending objectives[15].

The Post-War Republic and Article 81 of the Constitution

The formal and technical nature of budget preparation and public expenditure management within the executive was further reinforced by article 81 of the new Italian Constitution. The four clauses that specifically address Italian budgeting effectively

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[13] Furlong, *Modern Italy*, pp.204-205.
[14] On the origins and growth of the IRI and the para-state sector, see P. Bianchi,'The IRI in Italy: Strategic Role and Political Constraints,' *West European Politics* 10: 2 (1987), pp.269-290; See also Ganapini and De Bernardi, *Storia d'Italia, 1860-1995* , pp.140-147.
[15] D'Alimonte, 'Il processo di bilancio in Italia,'p.172.

prevent the government from employing the annual budget document as a policy-making tool[16]. Clauses one and two of article 81 require that the government present to parliament each year its budget estimates and the final budget accounts. These clauses also state that the government may employ a provisional budget for a period of up to four months if parliament does not approve the budget by the beginning of the new financial year. Clause three stipulates that no new expenditure or spending increases can be added to the annual budget law while parliament is considering the document. All spending must be proposed in separate expenditure laws presented throughout the financial year. Finally, clause four stipulates that all individual expenditure laws must indicate how they will be financially covered.

The provisions of article 81 severely limited the relevance of the annual budget to the policy process. Clause three essentially prevented government and parliament from considering new spending provisions and modifications to existing spending measures during parliament's examination of the budget. The budget had to remain a summary of the expenditure laws approved throughout the financial year. Hence it could not be used as an instrument to co-ordinate fiscal policy.

The ambiguous final clause of article 81, clause four, has been interpreted in various ways during the post-war period. It was inserted at the insistence of liberals during the Constituent Assembly in order to ensure that financial equilibrium be maintained each year. Yet clause four has been interpreted loosely by the Italian government and parliament over the years. Financial cover for individual spending laws

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[16] V. Onida, 'The Historical and Constitutional Foundations of the Budgetary System in Italy,' pp.225-226; See also G. Della Cananea, *Indirizzo e controllo della finanza pubblica* (Bologna: Mulino, 1996), pp.92-107.

frequently was found through creative means. Often, official annual budget totals were not directly impacted, but Italy's overall financial balances (which includes state and para-state sector operations) and the government's future spending commitments were affected. As will be addressed in chapter three, these behaviours were increasingly criticized by external guardians such as the Constitutional Court and the President of the Republic, particularly during the closing years of the 10th legislature.

Over the course of the post-war era, several proposals to modify the last two clauses of article 81 were put forward[17], and other reforms were introduced to improve budget planning. For instance, the *Curti law*, law 62 of 1964, reformed the structure of the budget, increasing its transparency and relevance to policy-makers. The Curti law also introduced the *Forecasting and Planning Report* in an attempt to link annual budgeting to Italy's medium-term planning goals[18]. Yet these piecemeal changes failed to address the key problem of budgeting, that of the government's inability to employ the budget as an instrument of policy.

Post-war governments consistently employed large decree laws, or *decretoni*, rather than the annual budget, to achieve some semblance of cohesiveness in budget strategy and to effect changes in particular policy sectors[19]. Financing for the government's *decretoni* was met through the use of special reserved budget funds called *global funds*. From the 1960s onwards, these funds were incorporated into the budget itself, thereby marginally increasing the discretionary funds available to policy-makers.

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[17] A. Chiancone, 'Some Thoughts on the Reform of Article 81 of the Constitution', *Review of Economic Conditions in Italy* 2 (May-Aug 1992), pp.253-260; see also Della Cananea, *Indirizzo e controllo della finanza pubblica*, pp.93-99 and 150-156.

[18] See below for a description of the *Relazione previsionale e programmatica* or Forecasting and Planning Report. De Ioanna, Da Empoli, Vegas, *Il bilancio dello Stato*, pp.109-110.

Global funds were frequently used improperly to cover long-term and off-budget expenditure, often distorting the overall financial equilibrium in violation of clause four of article 81[20]. In sum, the restrictions imposed on budgeting and public expenditure management by the De Stefani laws and the post-war Constitution, and the inability of the government to employ the budget as a policy tool, resulted in the growth in the incorrect use of budget funds, and an increase in off-budget transfers and the para-state sector during these years[21]. As a result of this trend, by the 1970s almost 50 percent of Italy's public expenditure was not recorded in the state budget[22].

The 1970s and Law 468 of 1978

In response to growing financial instability and the slowdown in the world economy, many advanced industrialized countries introduced important budget reforms in the early 1970s[23]. In this period, Italy witnessed only piecemeal legislative changes to budgeting, principally geared towards strengthening centralized budget accounting. Law 70 of 1975 brought the accounting procedures of the enlarged public sector into line with those of the state sector. Laws 62 and 335 of 1977 established greater central government control over local and regional spending, while law 407 of 1977 increased treasury ministry monitoring of public expenditure by instructing the treasury to produce

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[19] D'Alimonte, 'Il processo di bilancio in Italia', p.192.
[20] Cassese, 'Special Problems of Budgetary Decision-Making' p.259.
[21] D'Alimonte, 'Il processo di bilancio in Italia,' pp.172-173.
[22] Cassese, 'Special Problems of Budgetary Decision-Making', pp.263-264.
[23] See chapter one; See also Overy, 'The Economy of the Federal Republic Since 1949, p.11; LeLoup, 'From Microbudgeting to Macrobudgeting', pp.28-31.

quarterly reports on the public finance balances of the state and the enlarged 'para-state' sector[24].

The first comprehensive budget reform, however, was law 468 of 1978. Law 468 was implemented to increase the state's control over public expenditure to contain the public sector deficit, and to make the budget relevant to the overall policy process[25]. Law 468 updated the De Stefani budgeting norms of the early 1920s, consolidated the piecemeal changes of the early 1970s, and created the possibility for more coherent budgetary policies[26].

The finance law was the principal innovation of law 468, becoming the key instrument of budgetary policy from 1978 onwards. The original finance law, presented to parliament each year alongside the budget law, not only contained annual macroeconomic and financial targets, but also included the specific expenditure and revenue measures that would modify the annual budget. It offered the government a flexible tool by which to get around the restrictions imposed by article 81, and to implement coherent policies during the parliamentary phase of budgeting[27]. Hence, the

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[24] *Associazione italiana per gli studi sul parlamento*, 'Parliament and Economic Affairs,' in D.Coombes and S.A.Walkland, eds., *Parliaments and Economic Affairs: Britain, France, Italy and the Netherlands* (London: Heinemann,1980), pp.180-2; See also Della Cananea, *Indirizzo e controllo della finanza pubblica*, p.173.

[25] G. Fazio, *Il bilancio dello Stato: La funzione e la gestione del bilancio nel sistema giuridico ed economico*. Fourth Edition (Milan: A. Giuffre, 1992), pp.45-46; M. Meschino, 'Il parlamento di spesa,' *Quaderni costituzionali* 11:2 (Aug 1991), pp.369-371; Da Empoli, De Ioanna and Vegas, *Il bilancio dello Stato*; De Ioanna and Fotia, *Il bilancio dello Stato*, pp.45-47; D'Alimonte, *Il processo di bilancio in Italia*, pp.172-175.

[26] M. Salvati, 'Muddling Through: Economics and Politics in Italy, 1969-1979,' in P. Lange and S. Tarrow, eds., *Italy in Transition: Conflict and Consensus* (London: Frank Cass, 1980), pp.31-48; E. D'Albergo, 'Rendimento istituzionale e logiche di azione organizzativa nella politica di bilancio', in F. Bassanini and S. Merlini, eds., *Crisi fiscale e indirizzo politico*, pp.697-698.

[27] The finance law is discussed in detail below. See De Ioanna, 'Dalla legge n.468 del 1978 alla legge n.362 del 1988,' pp.205-216.

finance law replaced the *decretoni* as the principal means to carry out extensive policy changes[28].

Law 468 also introduced a multi-year budget to provide policy-makers with a long-term perspective of the effects of spending legislation[29]. The budget reform also placed new restrictions on the use of discretionary budget funds in order to control spending. In particular, it introduced *special funds* to replace the existing global funds. The new funds were subject to stricter treasury (and RGS) controls than global funds[30]. Furthermore, law 468 imposed state budgeting guidelines on the enlarged public sector in order to bring about greater financial transparency in the enlarged public sector[31].

In the end, however, law 468 did not result in greater government control over public finances during the 1980s. Owing to political and institutional factors that are addressed in the following chapters, the finance law became the key locus of political conflict in parliament. While budgeting did become more relevant to the policy process, it quickly developed into an inefficient annual routine each autumn. An analysis of budgetary politics during the period of immobilism is presented in chapter three.

Modifications to the Budgetary Regime during the 1980s

As noted earlier, budgetary politics entered a period of immobilism after the implementation of the budget reforms of 1978. Yet throughout the 1980s, policy-makers

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[28] D'Alimonte, 'Il processo di bilancio in Italia',p.192.
[29] Fazio, *Il bilancio dello Stato*, pp.45-47.
[30] Da Empoli, De Ioanna and Vegas, *Il bilancio dello Stato*, pp.239-245; See also M. Degni, 'I fondi speciali nella riforma introdotta con la L.362/88', in F. Bassanini and S. Merlini, *Crisi fiscale e indirizzo politico*, pp.449-460; Perez, 'Finanza, bilancio e contabilita pubblica,'pp.61-62.

sought to improve the efficiency and effectiveness of budgeting by way of further procedural and institutional changes. In 1983, the *budget session* was introduced into the parliamentary rules to more efficiently govern parliament's examination of the annual budget and financial documents[32]. The budget session's rigid ninety-day timetable, which runs from October to December, was intended to permit both chambers of parliament adequate time to consider budget and financial legislation. Nonetheless, as is addressed in chapter three, these institutional and procedural developments did not prevent the late approval of the 1986 and 1988 finance laws and budget packages.

In 1986, following a difficult budget session, there were calls for further institutional and procedural reforms. The two budget committees of parliament adopted a joint resolution articulating the need to revise law 468 in order to 'eliminate some of the imbalances that impede its optimal application'[33]. The most important reform proposal was to rationalize and simplify the finance law, preserving its function as a document setting out annual and medium-term financial and macroeconomic targets, but removing from it the substantive measures that had become the focus of political conflict[34].

In 1988, these proposals were adopted as part of law 362, legislation that updated the budget changes of 1978. The substantive budget measures were removed from the

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[31] Meschino, 'Il parlamento di spesa', p.370.
[32] E. Colarullo, 'Le funzioni del ministro del Tesoro all'interno del Governo nella formazione del bilancio e della spesa dello Stato,' in F. Bassanini and S. Merlini, eds., *Crisi fiscale e indirizzo politico*, pp.393-422.
[33] Camera dei deputati-servizio commissioni parlamentari, 'Indagine conscitiva sui problemi connessi alla riforma delle norme sulla contabilita generale dello Stato (legge n.468 del 1978), *Indagini conoscitivi e documentazioni legislative* n.12 (Commissione V-bilancio e programmazione, partecipazioni statali, 1987), p.108.
[34] M. Zangani, 'I provvedimenti collegati alla finanziaria nel regolamento della camera: Disegno normativo ed evoluzione interpretiva,' (Camera dei deputati-servizio studi, 1998), pp. 1-22; P. De Ioanna *et al.* 'La riforma del bilancio: una prima verifica ad otto anni dalla sua entrata in vigore,' *Relazione al Presidente del Senato* (Senato della Republica, IX legislatura, January 1986); De Ioanna, 'Dalla legge n.468 del 1978 alla legge n.362 del 1988',pp.210-211.

finance law and inserted into new policy instruments accompanying the budget package, the so-called *collegati* legislation, discussed in greater detail below. The 'new' finance law became a more streamlined document that only contained the government's annual and medium-term financial targets, but not the government's annual substantive budget measures[35].

Law 362 also improved medium-term planning by introducing the *Documento di programmazione economica e finanziaria* (DPEF), the Economic and Financial Programming Document. This document, produced by the treasury ministry and approved by parliamentary resolution, was meant to bind government and parliament to previously agreed upon financial targets. These targets, approved by the end of spring, were supposed to guide parliament's choices during its autumn budget decision. In other words, this medium-term document was intended to place annual budget decisions within a longer term financial context.

Parliamentary rules were also modified in this period to accommodate the introduction of the DPEF. *Spring* budget session rules were introduced, which reserved a period on the legislative timetable for the examination of the DPEF. Moreover, new procedural restrictions were placed on the introduction of budget amendments to parliament[36]. Despite these legislative and procedural changes to budgeting, the 1989-92 period continued to witness immobilism in budgetary politics and the delayed approval

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[35] F. Cavazzuti, 'Public Finance and Public Administration: Characteristics of the New Finance Bill,' in R. Catanzaro and R.Y. Nanetti, eds., *Italian Politics: A Review* (London: Pinter, 1990), pp.21-35; D'Alimonte, 'Il processo di bilancio in Italia,'pp.188-189; Meschino, 'Il parlamento di spesa',pp.371-373; De Ioanna, 'Dalla legge n.468 del 1978 alla legge n.362 del 1988, pp.212-217; Perez, 'Finanza, bilancio e contabilita pubblica,'pp.62-64; Fazio, *Il bilancio dello Stato*, pp. 56-60; De Ioanna and Fotia, *Il bilancio dello Stato* pp.67-70.

of the substantive measures of the budget package. Although the finance law was approved by the end of the budget session, many of the *collegati* measures were adopted late, if at all.

In short, the changes to Italy's budgetary regime simply shifted the locus of political conflict from one part of the budget package, the finance law, to another, the *collegati*[37]. Moreover, with little time reserved for parliamentary consideration of the *collegati*, the measures contained within the *collegati* did not receive adequate attention during the budget session. The *collegati* only became more effective budget instruments during the transition in budgetary politics.

Procedural and Institutional Developments in the 1990s

Although a dramatic turnaround in Italian public finances took place in the 1990s, the period did not see significant reform of budget institutions. The changes in budgetary politics largely resulted from changes in Italy's political and financial circumstances, and due to the new budget strategies employed by the Italian government. The most notable budgetary developments of the post-1992 era took place during the Amato period, specifically the Amato government's use of a *legge delega* in conjunction with the budget *collegati*. The *delega* transferred a significant amount of legislative power to the

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[36] A. Palanza, 'L'informazione tecnica nelle procedure parlamentari: La esperienza dei servizi del bilancio della camera e del senato,' *Rivista trimestrale di diritto pubblico* 3 (199), pp.755-756; Meschino, 'Il parlamento di spesa,' pp.371-374.

[37] Perez, 'Finanza, bilancio e contabilita pubblica,'pp.63-65; Cavazzuti, 'Public Finance and Public Administration, pp.27-30; See also Zangani, 'Provvedimenti collegati alla finanziaria nel regolamento della camera,' pp.5-7; Camera dei deputati-servizio studi, 'Provvedimenti collegati,' pp.1-3; Meschino, 'Il parlamento di spesa,' pp.371-372.

executive, permitting the government to carry out clearly defined substantive modifications in particular policy sectors over a defined period of time. The hybrid *delega-collegati* procedural instrument is addressed in chapter four's discussion of the transition period in budgetary politics. In addition to the *delega-collegati* innovation, from 1992 onwards the *collegati* were presented at an earlier stage of the autumn budget session to permit more time for the consideration of these substantive budget provisions[38].

During the post-1994 period, moreover, there were modifications also carried out to the budget structure itself and to the management of public expenditure within the executive. Law 94 of 1997 instituted changes to the structure of the budget document and corresponding changes to expenditure management within the public administration. New administrative cost centres responsible for public expenditure management were established, corresponding to the new expenditure headings instituted in the budget document. The 1997 budget reforms were intended to rationalize the public administration, increase the transparency of spending decisions, and heighten the autonomy of the agencies responsible for public expenditure management. Moreover, law 94 also eliminated the budget ministry and incorporated its offices into the treasury ministry's structure. These additional changes further centralized control of public

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[38] E. Colarullo, 'Le leggi collegate alla manovra finanziaria', *Quaderni costituzionali* 13:3 (Dec 1993), pp.515-535; See also Camera dei deputati-servizio studi, 'Provvedimenti collegati,' p.2; Zangani, 'Provvedimenti collegati alla finanziaria nel regolamento della camera,' pp.7-8.

expenditure management within an enlarged treasury ministry, increasing the treasury's political and institutional pre-eminence in budgeting[39].

In sum, while institutional and procedural developments by themselves were not responsible for the transition in budgetary politics during the 1990s, important institutional reforms to budgeting did take place during the past twenty years. Yet, the principal legislation underpinning the budgetary process, laws 468 of 1978 and 362 of 1988, principally served to shift the locus of political conflict from the finance law to the *collegati*. Nevertheless, Amato's combination of the *delega* and the *collegati* in 1992 was a strategy that helped bring about greater efficiency and effectiveness in Italian budgeting. Although the post-1994 period did see modifications to the budget structure and to the management of public expenditure, the more rigorous budgetary outcomes of the 1990s were due to a series of broader political, institutional and financial developments, rather than as a result of further institutional and procedural modifications to parliamentary budgeting. The interaction of political and institutional factors in Italian budgeting during the 1980s and 1990s is examined in subsequent chapters. The following section turns to a discussion of the key documents of the annual budget cycle.

The Key Documents of the Annual Budget Package and the Financial Year

While the previous section has provided the reader with a review of the key institutional and procedural developments in budgeting, this section presents a brief and

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[39] On law 94 of 1997 and its accompanying legislative decrees, see D. Felsen,'La riforma del "regime del bilancio"' in D. Hine and S. Vassallo, eds., *Politica in Italia. Edizione 99* (Bologna: Mulino, 1999), pp.181-200.

simplified description of the key documents of the annual budgetary process. In particular, this section discusses the documents of the annual budget package, namely, the annual budget, the finance law and the *collegati*. It also examines the multi-year budget and the medium-term financial planning document, the DPEF. Finally, this section addresses other financial documents presented during the course of the financial year.

The Annual Budget

The annual budget package consists of the annual budget, the finance law and the *collegati*. While the annual budget is the *formal* part of the budget decision, the finance law and the *collegati* are the *substantive* parts of the decision. Law 468 introduced the finance law as a tool to modify the contents of the formal budget document. However, as is discussed above, the substantive budget provisions of the original finance law were subsequently transferred to the *collegati* after the implementation of law 362 of 1988.

The annual budget itself is severely limited as a policy instrument, owing to its formal and inflexible structure, and to the constitutional limits placed on budgeting. The budget only records the expenditure and revenue totals for the *state sector*, consisting of the central government ministries and agencies. The document does not report all *general government* or *public sector* activity, omitting social security and local government accounts- even though the *general government* measure is employed for standard international comparisons of public sector activity. The state budget also fails

to report the activities of the *enlarged public sector*, which includes the semi-autonomous para-state agencies that receive transfers from the central government[40].

Moreover, the budget headings, until their recent modification by law 94 of 1997, did not reflect government programming and planning goals. The budget document contained over six thousand expenditure headings that were divided into economic and functional items that had little relevance to planning objectives. In addition, the spending totals for welfare agencies, local authorities and the enlarged public sector were recorded off-budget, and simply annexed to the budget document. Law 94 of 1997 replaced the old functional-economic classification system with one that classified expenditure according to programming and planning objectives. However, the new budget structure has not resolved the problem of the budget's formal and rigid nature or the issue of off-budget expenditure[41].

Furthermore, the complexity of the annual budget also results from the fact that the document is presented in two forms: a *cassa* or cash form and a *competenza* or appropriations/commitments form. The first is an economic record of all transactions that are effected during the financial year. The second is a juridical record of all spending commitments entered into during the financial year. The presentation of the budget in these two forms should permit the identification of both actual expenditure and the commitments entered into during the financial year. However, budget accounting is made difficult since the remaining unspent (but approved) expenditure accumulates under an additional heading, the *residui passivi* or residual balances. The residual

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[40] For a discussion of Italy's public administration, see OECD, *Economic Surveys: Italy* (1996), p.41.

balances can be spent during subsequent financial years without requiring further parliamentary approval. The residual balances have often been directed towards providing additional financial cover for spending laws[42].

Some flexibility in the budget document is also provided by *global* and *special funds*. These discretionary funds originally were intended to be earmarked for expenditure of an ongoing or permanent nature, such as multi-year spending provisions that needed to be adjusted annually to reflect changing economic variables (eg. inflation and economic growth). However, these funds were more frequently employed to improperly finance different annual and multi-year spending laws. Law 362 of 1988 sought to tighten the rules on the use of special funds, by stipulating that these funds were to be reserved for the financing of the *collegati* provisions[43].

In short, apart from the flexibility provided by these discretionary funds and despite the ability of parliament to transfer some expenditure between budget headings[44], the annual budget remains a rigid document. Over 85 percent of the budget's expenditure is fixed and cannot be adjusted during the parliamentary budget approval phase[45]. Even with its new structure, which better reflects programming priorities, this inflexible document cannot serve on its own as an instrument of policy. Hence, the

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[41] For a discussion of the pre-1998 budget structure, see Monorchio, 'La struttura del bilancio dello Stato,' pp.61-73; Da Empoli, De Ioanna and Vegas, *Il bilancio dello Stato*, pp.13-63, 182-4; G. Fazio, *Il bilancio dello Stato*, pp.25-40, 168-176; see Felsen, 'La riforma del "regime del bilancio"', pp.181-200.

[42] The residual balances may distort budget accounting. Yet Holmans' study contends that the stable relationship between residual balances and cash expenditure suggests that the residual balances do not alter overall financial equilibrium. See Holmans, 'The Italian Public Expenditure System', p.11; See also De Ioanna and Fotia, *Il bilancio dello Stato*, pp.172-175.

[43] M. Degni, 'I fondi speciali nella riforma introdotta con la L.362/88' in Bassanini and Merlini, eds., *Crisi fiscale e indirizzo politico*, pp.449-460; L. Capecchi, 'Il rapporto fra le Commissioni bilancio e le Commisisoni di settore all'interno del procedimento di esame e di approvazione del bilancio, della finanziaria e delle leggi di spesa,' in Bassanini and Merlini, eds., *Crisi fiscale e indirizzo politico*, pp.568-573; Da Empoli, De Ioanna and Vegas, *Il bilancio dello Stato*, pp.239-245.

[44] 'Per recuperare 7.000 miliardi,' *Vita italiana* 38:3 (May-June 1988), p.113.

finance law was intended to provide the coherence and policy flexibility that the formal budget document could not.

The Finance Law and the *Collegati*

The finance law is presented each year alongside the budget law. This document provides greater flexibility to budget policy-making by permitting the government to implement deficit-cutting measures which are then incorporated into the budget. This legislative tool was instituted to overcome the restrictions placed on budgeting by article 81 of the constitution[46]. Since article 81 stipulates that no new spending provisions can be inserted into the budget, new expenditure and revenue measures were placed in this financial document (and, subsequently, the *collegati*). The finance law is approved in parliament just prior to the budget law, and its financial effects modify the budget's contents. According to law 468, the finance law's function is 'to adjust the revenue and the expenditure of the State budget.....effecting modifications and additions to legislative provisions that have an impact on the State budget and the budgets of the autonomous agencies and enterprises that receive state financing'[47].

During the 1978-88 period, the finance law served a dual function. On the one hand, as a financial document it set out annual public finance and macroeconomic

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[45] Da Empoli, De Ioanna and Vegas, *Il bilancio dello Stato,* pp.191-192.

[46] On the finance law, see D'Alimonte, 'Il processo di bilancio in Italia'; Da Empoli, De Ioanna and Vegas, *Il bilancio dello Stato*, pp.192-200; De Ioanna, 'Dalla legge n.468 del 1978 alla legge n.362 del 1988'; Della Sala, 'The Italian Budgetary Process'; P. Giarda, 'Gli strumenti della manovra di finanza pubblica', in Senato della Repubblica, *Il bilancio dello Stato: gli aspetti fondamentali*, pp.19-35.

[47] Article 11, clause 1, 'Riforma di alcune norme di contabilita generale dello Stato in materia di bilancio', Legge 5 agosto 1978, n.468.

objectives, specifying limits for total borrowing, total spending, tax changes, and annual allocations of discretionary special funds. On the other hand, the finance law also contained the detailed substantive budget policy provisions that modified the annual budget.

Since the finance law contained the government's principal budget policy measures, it became the focal point of conflict in parliament each autumn. Although the financial targets set out in the first few articles of the document were intended to set limits on total expenditure and borrowing, parliament voted on the later articles that contained the substantive policy measures *before* it considered the financial totals presented in the first articles of the document. The amendments introduced to the finance law raised borrowing and spending totals, turning the finance law into a sort of *omnibus* legislation.

Owing to the difficulties surrounding the approval of the finance law during the 1978-88 period, law 362 of 1988 stripped the finance law of its substantive provisions and placed these in the *collegati*[48]. The streamlined finance law continued to elaborate the government's financial objectives, but budgetary conflict shifted to the *collegati*, which now constituted 'the real heart of the public finance package'[49], because they contained the provisions that effected structural cuts to public expenditure.

The *collegati* have become more effective budgetary instruments since the transition in budgetary politics during the 1992-94 period. During the 1989-92 era,

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[48] On the *collegati* see E. Colarullo, 'Le leggi collegate alla manovra finanziaria' *Quaderni costituzionali* 13:3 (Dec 1993), pp.513-535; Giarda, 'Gli strumenti della manovra di finanza pubblica,' in Senato della repubblica, *Il bilancio dello Stato*; Camera dei deputati-servizio studi, 'Provvedimenti collegati', pp.1-3.

[49] S. Boroli, 'Relazione introduttiva' in Senato della Repubblica, *Il bilancio dello Stato: gli asptetti fondamentali* , p.14.

however, the budget session timetable did not reserve adequate time for the examination and approval of the *collegati*. Whereas the finance and budget laws were approved by the end of the financial year, the vast majority of the *collegati* were approved after the conclusion of the annual budget session. Moreover, these measures were heavily modified by parliament, acquiring the same *omnibus* characteristics as the old finance law[50]. Since 1992, however, the number of *collegati* presented to parliament has been reduced, while these budget measures have been presented at an earlier stage of the parliamentary budget session. Furthermore, since the transition, the *collegati* have been combined with *delega* legislation, resulting in a greater number of structural changes[51].

Multi-Year Budget Planning and the DPEF

Law 468 of 1978 introduced the *multi-year budget* as a tool for medium-term planning. Yet this document, presented alongside the annual budget, has remained an ineffective instrument of forward planning. The two forms of the multi-year budget, the *multi-year programming budget*, which makes projections based on expected economic conditions, and the *multi-year budget based on legislation in force*, were intended to offer three-year projections of both expected and actual trends in budgeting[52]. However,

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[50] See chapter three for a discussion of the 1989-92 period of budgeting. See also Boroli, 'Relazione introduttiva', p.14; see also Colarullo, 'Le leggi collegate alla manovra finanziaria', p.514; L. Capecchi, 'Il rapporto fra le Commissioni bilancio e le Commissioni di settore all'interno del procedimento di esame e di approvazione del bilancio, della finanziaria e delle leggi di spesa', in F. Bassanini and S. Merlini, eds., *Crisi fiscale e indirizzo politico*, p.547.

[51] Please refer to the discussion in chapter four. Zangani, 'I provvedimenti collegati alla finanziaria', pp.7-9.

[52] Fazio, *Il bilancio dello Stato*, pp.38-52; Da Empoli, De Ioanna and Vegas, *Il bilancio dello Stato*, pp.13-64.

after the introduction of law 362 in 1988, the key document of forward planning has become the *Economic and Financial Programming Document* or *DPEF.*

First introduced on an experimental basis by the treasury minister in 1986, and then on a permanent basis by law 362 of 1988, the DPEF defines the government's medium-term financial and macroeconomic policy objectives[53]. The DPEF stipulates both the government's financial objectives for the autumn's budget package and its medium-term objectives over a three-year period. The document sets out the borrowing and spending limits to be outlined in the finance law each spring, as well as the policy measures to be inserted into the *collegati.*

The DPEF is prepared by the treasury ministry to be presented to parliament by May 15 of each year. In practice, however, the document is presented after this date. Modifications to parliamentary procedures introduced during the 1988-89 period have instituted a *spring budget session* of thirty days to permit a thorough examination of the contents of the DPEF. At the end of the spring budget session, parliament approves a resolution on the DPEF, which is intended to bind the legislature to the objectives set out in the document.

In reality, however, the targets set out in the DPEF, and approved by resolution are modified immediately prior to the autumn budget session. Parliament tends not to respect the limits set out in the DPEF, treating the resolution on the document as an '*autolimite alla discrezionalita*', a self-imposed limit that can be altered in accordance with the legislature's discretion[54]. Since its implementation in 1988, the DPEF has failed to discipline budget behaviour in parliament, since it does not possess the legal force to

bind parliament's budget choices[55]. While not legally binding, however, the DPEF continues to influence parliament's decisions. In recent years, the document has received greater scrutiny from international bodies such as the EU. After 1992, international institutions and financial markets closely examined DPEF objectives to measure the health of Italy's public finances and to get an indication of the government's policy intentions. Moreover, the Convergence Plan that Italy submitted to the EU in the run-up to EMU followed DPEF projections for the years 1998-2000[56]. The DPEF and the documents of the annual budget package will be discussed again within the *political context* of Italian budgeting in subsequent chapters.

Other Documents of the Financial Year

Apart from the documents of the annual budget package, there are other documents presented during the financial year that, while less relevant to annual budgetary politics, are integral to the budget cycle. These include the 'Statement of final budget accounts', the 'Budget adjustment law', the 'Forecasting and Planning Report', and the quarterly treasury reports on Italian public finances.

The *Rendiconto generale dello Stato,* or 'Statement of final budget accounts', is presented by the government to parliament each year, as stipulated by article 81 of the

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[53] Della Cananea, *Indirizzo e controllo della finanza pubblica,* pp.177-179 and 189-190.
[54] Ibid., p.178.
[55] Constitutional Court ruling no. 25 of 1993 stated that the DPEF resolution's capacity to bind the government and parliament's budget choices was limited. Ibid., p.190.
[56] The Italian convergence plan states 'The present plan is based on the *Documento di programmazione economico-finanziaria per gli anni 1998-2000'.* Ministero del Tesoro, *Piano di convergenza*, p.1.

Constitution[57]. The RGS, within the treasury, compiles the Statement and transmits it to the Court of Accounts. The Court of Accounts presents a report to parliament which evaluates the accuracy of the government's budget accounts. The Statement and the Report are presented to parliament on June 30. While the Statement must be approved by parliament, the Report prepared by the Court is not subject to a vote. Consequently, the Court's suggestions and criticisms of the government's accounts cannot compel parliament to take corrective actions. Nevertheless, because the Court's Report receives a great deal of public scrutiny, it has an indirect influence on government and parliament's subsequent budget choices.

The *bilancio di assestamento*, or 'budget adjustment law', is presented to parliament on June 30, alongside the previous year's final budget accounts[58]. This document, introduced by the De Stefani legislation of 1923-24, reports on how budget trends diverge from the original budget estimates approved prior to the beginning of the financial year. However, this document's formal and inflexible nature, like that of the budget itself, limits its importance as a corrective policy instrument. Like the budget, it only reports on *state sector* spending rather than on the finances of the entire public sector, and, therefore, is not an accurate reflection of government spending activity. Consequently, the Italian government relies more upon the quarterly treasury reports,

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[57] On the Court of Accounts and the statement of final budget accounts, see M. Carabba, 'Il controllo sul bilancio dello Stato', in Senato della Repubblica, *Il bilancio dello Stato: gli aspetti fondamentali*, pp.77-86; G. De Vergottini, 'Gli organi ausiliari', in G. Amato and A. Barbera, eds., *Manuale di diritto pubblico*. Fourth edition (Bologna: Mulino, 1994), pp.504-508; G. D'Auria, 'I controlli' in S. Cassese and C. Franchini, eds., *L'amministrazione pubblica italiana*, pp.71-83; Da Empoli, De Ioanna and Vegas, *Il bilancio dello Stato*, pp.68-76.

[58] On the budget adjustment law, see Da Empoli, De Ioanna and Vegas, *Il bilancio dello Stato*, pp.64-68.

which summarize the spending and borrowing trends for the entire public sector. These reports are addressed below.

The *Relazione generale sulla situazione economica del paese*, or 'General Report on the economic situation of the country' also receives much public and media scrutiny in the early months of the financial year. This document provides an annual assessment of the trends in the Italian economy[59]. The treasury presents this document to parliament on March 30 of each year. The General Report consists of three sections. The first section illustrates Italian economic trends within an international context. The second addresses public finance trends for the State and enlarged public sector. The third discusses labour and social welfare conditions. While the General Report provides useful economic data, it does not address the government's policy objectives nor does it outline the specific measures required for these objectives to be realized. Introduced before the budget reforms of 1978, the report once served as an important resource and reference point for policy-makers. However, since the implementation of the medium-term DPEF planning document in 1988, the General Report has become a less significant policy document.

The *Relazione previsionale e programmatica,* the 'Forecasting and Planning Report', is presented alongside the annual budget package at the start of the budget session[60]. This report also pre-dates the 1978 budget reforms. Introduced by the Curti law of 1964, this report once offered the only medium-term perspective of macro-economic and public finance trends. The document discusses economic trends,

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[59] Ibid., pp.90-91.
[60] Monorchio, 'La struttura del bilancio dello Stato', pp.62-65; Da Empoli De Ioanna and Vegas, *Il bilancio dello Sato*, p.85.

government policy objectives, the state sector borrowing requirement, and the projected financial effects of the expenditure laws that are to be inserted into the annual budget package. Again, since the 1978 and 1988 budget reforms, most notably the introduction of the DPEF, this document has diminished in importance. However, the report remains a good resource for policy-makers, offering detailed analyses of the measures to be implemented as part of the annual budget package.

The final documents to be treated in this section are the treasury reports on public finances[61]. These include the *Relazione sulla stima del fabbisogno del settore statale*, the 'Report on State Sector Borrowing Estimates', and the *Relazioni trimestrali sulla stima del fabbisogno di cassa del settore pubblico*, the 'Quarterly Reports on the Cash Borrowing Requirement of the Public Sector'. These documents are prepared by the treasury ministry and presented to parliament in order to provide updated assessments of total public expenditure and borrowing. The first document is a general analysis of the borrowing requirement of the state sector and is presented each year at the end of February. The quarterly treasury reports on public sector borrowing, introduced by law 468 of 1978, monitor public expenditure management within the entire public sector, including the agencies of the enlarged public sector. The quarterly treasury reports receive a great deal of attention from economic observers both at home and abroad.

In sum, this section has presented the key budget and financial documents presented during the financial year. While the documents of the annual budget package, notably, the budget law, finance law, and the *collegati* form the basis of the budget decision proper, many other documents are presented to help policy-makers continually

monitor Italy's public finances. The above discussion will serve as a useful point of reference for the reader, because these documents will again be discussed in connection with the political analysis of subsequent chapters.

Overview of the Annual Budgetary Process

This final section presents an overview of Italy's budgetary process[62]. The budgetary cycle in Italy consists of four phases: budget preparation; budget approval; budget implementation and management; and budget verification and control[63]. The budget approval phase remains the most political and highly scrutinized phase of the budgetary process. However, since the introduction of the DPEF, part of the budget approval phase occurs in the spring, when the medium-term planning objectives are approved during the thirty-day spring budget session. The stages of the financial year are summarised in Table A.5.

Preparation of the Annual Budget and the DPEF

The financial year runs from January 1 to December 31. Budget preparation begins at the end of March. The RGS transmits internal circulars to its local accounting

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[61] Da Empoli, De Ioanna and Vegas, *Il bilancio dello Stato*, pp. 90-91.

[62] On the budget cycle, see Camera dei deputati-servizio studi, 'Ciclo annuale di bilancio', *Documentazione e ricerche* n.17 (XIII legislautre, May 1996); D'Alimonte, 'Il processo di bilancio in Italia', pp.175-190; Da Empoli, De Ioanna and Vegas, *Il bilancio dello Stato*, pp.161-228; Della Cananea, *Indirizzo e controllo della finanza pubblica*, pp.177-199.

[63] D'Alimonte, 'Il processo di bilancio in Italia', p.175; See also, Attiat F. Ott, 'The Federal Budget Process,' in Attiat F. Ott, ed., *Public Sector Budgets: A Comparative Study.op. cit.* (chapter one), p.37.

branches, the *Ragionerie centrali* (RCs), within the departments of the public administration, setting out the criteria that spending ministers must follow in preparing their budget requests. The ministries prepare their budget requests during the months of March and April. By April 30, the spending ministries must submit their budget requests to the RGS by way of the RCs.

Medium-term financial planning also gets under way during the March-April period. The treasury is responsible for preparing the DPEF document at this time. The treasury sets out the government's medium-term public finance objectives within this planning document. Once work is completed on the DPEF, the treasury minister presents the DPEF to the council of ministers for discussion and approval. It is subsequently presented to the legislature, which must approve a resolution on the document. The DPEF is scheduled to be presented to parliament by May 15, but, in practice, the document is presented in late May or early June.

The introduction of the DPEF to parliament marks the beginning of the thirty-day spring budget session. The spring session was incorporated into the parliamentary rules in the 1988-89 period. During the spring budget session, the permanent committees and budget committees of the two chambers examine the budgetary policies and financial objectives set out in the document. The budget committees also conduct hearings, involving representatives of the regions, economic experts and the governor of the central bank. The budget committees present a report to parliament after concluding their examination of the government's medium-term financial plans. Following a general debate on the government's medium-term financial policy objectives in the two assemblies, parliament approves a resolution on the DPEF. The DPEF resolution, while

intended to guide government and parliament in their budget decisions, is generally altered just prior to the autumn budget session[64].

The Summer Months of the Budget Cycle

After the approval of the DPEF in June, the budgetary process remains out of the public eye until the introduction of the annual budget package at the end of September. During the summer months, the government's final budget accounts for the previous financial year, and the budget adjustment law for the financial year in progress, are presented to parliament. These documents must be introduced by the government to parliament by June 30th. The permanent and budget committees examine the documents in accordance with the time limits fixed by parliamentary rules. The changes to the forecasted expenditure trends introduced by the budget adjustment law are voted on by parliament, as are the final budget accounts. As noted in the earlier discussion, parliament cannot modify the contents of the final budget accounts, but instead must simply vote to accept or reject these accounts. The Report of the Court of Accounts, which evaluates the accuracy of the government's budget accounts, is not subject to a vote.

The month of July witnesses the presentation of the annual and multi-year budgets to parliament. These budgets must be presented to parliament by July 31st, before the August summer recess commences. During the month of July, regional representatives and other interest groups discuss the budget provisions with government

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[64] Della Cananea, *Indirizzo e controllo della finanza pubblica*, p.178.

and parliamentary representatives. In addition, the *comitato interministeriale per la programmazione economica* (CIPE) examines the budget's planning measures. Established in 1967 to evaluate medium-term budget objectives, CIPE has had a more circumscribed role in the co-ordination of budget planning in recent years, particularly since the introduction of the DPEF. This arises from the fact that by July of each year, the DPEF resolution has already been approved by parliament, and CIPE can do little to change the objectives approved during the spring budget session[65].

Law 468 stipulates that the annual budget must be presented two months before the finance law. Before 1978, the budget had been presented at the end of September. However, the date of budget presentation was moved forward in order to separate the formal part of the budget decision from the substantive part, represented by the finance law and the *collegati*[66]. The presentation of the annual budget at the end of July also permits parliamentary committees to begin reviewing the provisions of this massive document before they consider the substantive budget changes encompassed by the finance law and the *collegati*. After the annual budget document is presented to parliament, the legislature breaks for its summer recess in August.

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[65] CIPE, once part of the budget ministry, is now part of the enlarged treasury ministry. On the development of CIPE, see L. Bianchi, 'Il ruolo del CIPE nella formazione del bilancio dello Stato', in Bassanini and Merlini, eds., *Crisi fiscale e indirizzo politico*, pp.479-480.

The Autumn Budget Session: Approval of the Annual Budget Package

The documents of the annual budget package, as well as the Forecasting and Planning Report, must be approved by the council of ministers by September 30th. Cabinet discussions involve last-minute negotiations over budget measures between the treasury minister and spending ministers. The prime minister generally mediates in these discussions. Once the package is approved by the council of ministers, it is then presented to parliament. The introduction of the budget package to the leglislature marks the beginning of the budget session. There exists a strict timetable governing the deliberations over the budget and financial documents within the committees and assemblies. The budget session timetable is set out in Table A.6.

At the beginning of the budget session, budget committees carry out hearings which involve economic experts, the treasury minister, regional representatives, trade union and business leaders, the governor of the central bank, and the president of the Court of Accounts. These hearings, which receive a great deal of public attention, are convened before the formal committee examination of the budget package begins. After the hearings, the permanent committees start their examination of the documents of the budget package. Parliamentary procedures stipulate that any legislative business that is not related to the annual budget package may not be considered by legislators during the budget session, with the exception of international treaties, emergency legislation and EU directives.

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[66] A. Monorchio, 'La struttura del bilancio dello Stato,' in Senato della repubblica, *Il bilancio dello Stato: Gli aspetti fondamentali*. (Rome: Senato della reppublica, 1994), pp.61-63; See Da Empoli, De Ioanna and Vegas, *Il bilancio dello Stato*, pp.191-192.

The permanent committees are charged with examining only the parts of the finance bill, budget bill, and *collegati* that relate to their areas of jurisdiction. The budget committees, by contrast, are charged with examining all the measures of the budget package. At the end of the committee examinations, the budget committees of the two chambers produce a *general report* evaluating the measures of the budget package. The report includes the views and opinions of the budget committees as a whole, as well as the dissenting opinions within the committees. The general report is transmitted to the assemblies alongside the budget package.

The budget debate in the assembly begins with a discussion of the general direction of the government's budget policy. Following this, the documents of the annual budget package are debated in the assemblies. The budget package documents must be passed in identical forms in both chambers. If one assembly modifies the legislation, it must be sent back to the other for approval. In order to increase the efficiency of budget approval, new parliamentary rules were introduced in 1988 and 1989 that placed restrictions on the introduction of budget amendments into the assemblies.

During the 1989-92 period, the examination and voting on the budget and finance laws preceded the examination of the *collegati*. However, since 1992, the examination of the substantive provisions of the *collegati* now takes place earlier than the examination of the budget and finance laws. Yet, voting on the finance law always takes place before voting on the budget law so that the formal budget document incorporates the finance law's modifications.

Finally, if the budget package is not approved by the end of the financial year, article 81 of the Constitution authorizes the use of a provisional budget for a period of no longer than four months. Parliament must approve the budget by the end of this period.

Budget Implementation and Budget Oversight

Budget implementation and budget oversight receive the least amount of public attention, since these phases are largely hidden from public view. Once parliament approves the annual budget package, the public administration is responsible for implementing its provisions. The RGS monitors the implementation of the government's expenditure commitments, ensuring that the spending legislation approved by the parliament meets financing requirements. The RGS can prevent the allocation of resources that have already been approved by parliament if the expenditure lacks proper financial cover[67].

Budget implementation and the management of public expenditure have become more transparent following the introduction of law 94 of 1997. This legislation made the spending agencies within the public administration more autonomous in administering expenditure, thus increasing the efficiency of public expenditure management, and providing for the more rational evaluation of programming objectives[68].

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[67] D'Auria, 'I controlli, pp.71-77; Cassese, 'Special Problems of Budgetary Decision-Making', pp.258-260.
[68] Felsen, 'La 'riforma' del 'regime di bilancio', pp.181-200.

Budget verification is carried out by the Court of Accounts. This body verifies the accuracy of the government's final budget accounts[69]. The RGS transmits the government's final accounts to the Court in May of each year, and the Court produces a report on the government's accounts for parliament at the end of June. As mentioned earlier, the final accounts are subject to parliamentary approval, but the observations and suggestions contained in the Court's report are not. The Court is also charged with monitoring individual spending laws throughout the financial year to ensure that they possess adequate financing, and to ensure that the legislation complies with the technical requirements of article 81 of the Constitution. The Court produces a report every four months summarizing its evaluations of individual spending laws.

While the rulings of the Court of Accounts are not binding, the body can appeal to the Constitutional Court. When, for instance, the Court of Accounts contested parliament's financing of multi-year spending laws, the Constitutional Court ruled that parliament must change the legislation. As is discussed in chapter three, Constitutional Court rulings on Italy's public finances became particularly important during the final years of the era of budgetary immobilism in the early 1990s[70].

To sum up, the financial year runs from January to December, and encompasses several phases and a host of documents. The preparation of the annual budget package begins early in the year before its implementation, while the final evaluation of the government's budget accounts occurs in the year following the budget's execution. The discussion has sought to elucidate the phases and documents of this long and complex

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[69] G. Vergottini, 'Gli organi ausiliari', pp. 504-508; M. Carabba, 'Il controllo sul bilancio dello Stato' in senato della repubblica, *Il bilancio dello Stato*, pp.77-86.
[70] Della Cananea, *Indirizzo e controllo della finanza pubblica,* pp.216 and 222-224.

cycle in order to facilitate the reader's understanding of budgetary events addressed in subsequent chapters.

Conclusion

This chapter has provided a *static* account of the formal procedures, rules and institutions of the budgetary regime. It has provided the reader with the necessary background on the technical and institutional aspects of budgeting, *removed from its political context*. As the chapter notes, a great many institutional and procedural changes came about in the 1980s, during the period of immobilism in budgetary politics. Important institutional innovations such as the budget session, modifications to the finance law, the *collegati*, the DPEF, and the spring budget session, were implemented in order to improve the efficiency of budgetary politics. By contrast, the post-1992 period witnessed fewer institutional and procedural changes to budgeting, yet Italy experienced a dramatic turnaround in budget outcomes. Given these developments in the 1980s and 1990s, we must look not only at changes to formal institutions and procedures, but also at the *political dynamics* of budgeting in order to grasp events. Hence, this dissertation now turns from a static analysis of budgeting towards a more *integrated* descriptive analysis of the key *institutional* and *political* developments that took place over the past two decades.

Chapter 3: Immobilism in Budgetary Politics, 1979-1992

Introduction

A period of immobilism in budgetary politics followed the implementation of new budget rules and institutions in 1978. The introduction of the finance law gave way to an era of intense budgetary conflict. In this period, the government's budgetary objectives consistently met strong resistance from spending advocates within the council of ministers and parliament. Although the government continued to stress its commitment to deficit containment policies throughout the 1979-92 period, deficit-cutting policies were not forthcoming as Italy failed to curb public spending and reduce its deficit and debt levels.

The immobilism in budgetary politics became considerably more acute during the years of the 10th legislature, from 1987 to 1992. Italy faced mounting pressure to correct its public finance imbalances in the run-up to the signing of the Treaty on European Union (TEU) and the creation of the single market in 1992. While the government and parliament adopted new rules and institutions in this period intended to improve the efficiency of the budgetary process and the effectiveness of budgeting, the *politics* of budgeting compromised the effectiveness of these procedural and institutional changes. As a consequence, Italy's public finance crisis worsened, with the country's debt to GDP ratio climbing to over 100 percent in 1991. By the middle of 1992, Italy was confronted by a currency crisis which directly resulted from the government's inability to put its fiscal house in order.

Whereas the previous chapter presented a *static* account of the modifications to budget rules and institutions removed from the political context, this chapter examines the *political dynamics* of budgetary immobilism in the 1979-92 period. It explores the conditions that gave rise to budgetary immobilism and the key characteristics of budgetary politics in this era. In particular, it addresses the external constraints faced by Italian policy-makers, and the key institutional and political features of domestic budgetary politics, notably, the growing pre-eminence of the treasury ministry in budgetary politics, the changing nature of parliamentary budgeting, and the increased intervention of external guardians in the budgetary process. The chapter first turns to an analysis of the international and domestic conditions that prevailed during the 1970s.

Economic Crisis and Policy Responses in the 1970s

Medium-term economic and budget planning became more widespread among advanced industrialized countries during the period of economic slowdown in the 1970s. The strong economic growth experienced in the world economy during the post-war years gave way to financial instability and recession by the early part of that decade. In 1971, the Bretton Woods system of fixed exchange rates, which had come under strain since the late 1960s, was abandoned, contributing to rising global financial and economic uncertainty[1]. This instability in the world economy was exacerbated by the first oil

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[1] In 1971, the oversupply of dollars prompted the U.S. government to suspend dollar-gold convertibility and devalue the dollar by 8 percent against gold. The British pound left the system in 1972, while the lira exited in 1973. For a discussion of the exchange rate crisis and its effects on Italy, see A. Graziani, *Lo sviluppo dell'economia italiana* (Bologna: Mulino, 1992), pp.105-106; See also M. Salvati, 'Muddling Through:

shock of the 1973-74 period, which fuelled inflationary pressures and further depressed economic growth.

In order to cope with these adverse economic conditions, many advanced industralized countries implemented bolder medium-term budget strategies during these years. The nature and timing of these macro-economic stabilization policies differed from country to country[2]. West Germany, for example, had already implemented its first counter-cyclical economic plan as early as 1967, following a brief period of economic slowdown in 1966[3]. France responded to the economic slowdown by altering its medium-term planning priorities after 1973. The successive French *plans* focused more heavily on medium-term planning, yet French austerity measures did not bring about more effective deficit containment until the 1980s[4]. In the United States, the U.S. Congress introduced sweeping new budget legislation in 1974 to limit spending and borrowing[5]. Yet, as is addressed further on, Italy only responded with piecemeal budget reforms prior to 1978.

While individual European countries pursued separate deficit containment strategies, the European Community responded to the economic and financial uncertainty by vigorously seeking to promote greater economic policy co-operation and integration

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Economics and Politics in Italy, 1969-1979', pp.33-36; Granapini and De Bernardi, *Storia d'Italia, 1860-1995*, pp.484-491.

[2] See Hall's study of the policy responses of France and the United Kingdom. Peter Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (Oxford: Oxford University Press, 1986).

[3] Overy, 'The Economy in the Federal Republic Since 1949', p.11.

[4] In 1983, the 9th development plan was displaced in favour of a special interim austerity plan, which 'made financial and budgetary rigour the two core subjects of the government's economic policy curriculum'. R. Elgie, *The Role of the Prime Minister in France, 1981-91* (New York: St. Martin's, 1993), p.74; See also J. Hayward, *The State and the Market Economy: Industrial Patriotism and Economic Intervention in France* (Brighton, Sussex: Harvester Press, 1986), pp. 173-178.

[5] *The Congressional Budget and Impoundment Act* was introduced in 1974. see LeLoup, 'From Microbudgeting to Macrobudgeting', pp.25-26.

among its member states. In this period, the EC commissioned a report to study how to further economic and monetary co-ordination. The Tindemans Report, published in 1975, emphasized the need to relaunch plans for full economic and monetary union[6]. EC initiatives of this era culminated in the creation of a new exchange rate system in March 1979, the European Monetary System (EMS). The EMS was intended to fill the void created by the collapse of Bretton Woods, providing greater exchange rate certainty for participating member states.

With the creation of the EMS, the EC emerged as a more pivotal actor in the international economic system, while its influence over the domestic economic and budgetary policies of member states grew accordingly. The EC began to actively encourage member states to pursue economic policies geared towards increasing national competitiveness and correcting public finance imbalances. The creation of the EMS ensured stronger external monitoring of Italian public finances during subsequent years, and came to be regarded by economists as no less than 'a turning point in Italian economic policy'[7].

To sum up, developments in the world economy during the 1970s prompted advanced industrialized countries to devise more effective medium-term budget planning. Western European countries and the United States introduced new rules and institutions to enhance forward planning and macro-budgeting at this time. Among EC member states, budgetary discipline was reinforced by the introduction of the EMS, which served to increase external monitoring of the public finances of member states.

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[6] D. Swann, *The Economics of the Common Market: Integration in the European Union*. Eighth Edition.(London: Penguin, 1995), pp.17-18.
[7] Graziani, *Lo sviluppo dell'economia italiana*, p.121.

Nonetheless, in spite of the growing impact on Italy of international constraints, these pressures were not sufficient to prevent the rise in spending and deficit levels in Italy during the 1970s and 1980s. The analysis now turns to a discussion of the domestic economic and political conditions that prevailed in Italy during the 1970s.

The Italian Economy and Domestic Politics in the 1970s

The effects of the economic slowdown were more pronounced in Italy than elsewhere, owing to Italy's strong exposure to the global economy and its dependence on oil imports. Italy suffered recurring balance of payments crises in the 1970s, forcing the government repeatedly to request loans from the International Monetary Fund (IMF) and the West German government[8]. Economic growth was sporadic in these years. The country initially recovered from the effects of the oil shock by 1975, but suffered another round of declining economic activity during the 1976-78 period[9].

Complicating matters was the fact that the economic slowdown occurred at a time when Italy was experiencing a dramatic rise in social spending. Increased activism and coordination on the part of Italian trade unions culminated in the protests of the 'hot autumn' of 1969, and resulted in a number of important government concessions to workers. Between 1968 and 1975, the government introduced numerous important social reforms, most notably, the extension of pension coverage to private sector employees,

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[8] Italy received two standby loans from the IMF, in 1974 and 1976, respectively. In exchange, Italy was asked to reduce its non-oil current account deficit and to limit the growth of its total domestic credit. See John B. Goodman, *Monetary Sovereignty: The Politics of Central Banking in Western Europe* (Ithaca, NY: Cornell University Press, 1992), pp.150-158.

[9] G. Morcaldo, *La finanza pubblica in Italia* (Bologna: Mulino, 1993), pp.138-140.

and the introduction of a progressive system of wage indexation to protect workers from inflationary pressures[10]. However, rising social spending had a negative effect on total public expenditure, and the country's public finances worsened substantially over the course of the decade[11].

The rise in social spending in the 1970s coincided with the growing electoral strength of the Italian Communist Party, and the PCI's greater involvement in the policy-making process. The launch of the PCI's 'historic compromise' with the Christian Democrats, coupled with its rejection of revolutionary socialism and adoption of a pro-Western 'Eurocommunist' position, earned the Communists more widespread support among the Italian electorate. The PCI's new ideological course strengthened its voter base in the 1970s[12]. Moreover, the party's fortunes were also bolstered by the economic downturn, because Italians, suffering greater economic insecurity, increasingly turned to the party that most vehemently sought to protect the country's social welfare agencies and bring about reform of Italy's political institutions.

As a result of these ideological and economic factors, the PCI's share of the popular vote consistently rose during this period. Its voting share rose from 27.1 percent in the 1972 national election to 34.4 percent in 1976. By contrast, the DC's share of the

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[10] The Italian pension system is addressed in chapter six of this thesis. See also P. Ginsborg, *A History of Contemporary Italy: Society and Politics, 1943-1988* (London: Penguin, 1990), pp.309-322; See also Morcaldo, *La finanza pubblica in Italia,* pp.68-73; Graziani, *Lo sviluppo dell'economia italiana*, pp.71-101; On the development of the pension system, see V. Fargion, 'Stato e previdenza in Italia: Linee evolutive dell'intervento pubblico in prospettiva comparata', pp.131-132; see also P. Lange, 'The End of an Era: The Wage Indexation Referendum of 1985' in P. Corbetta and R. Leonardi, eds., *Italian Politics: A Review* 1 (London: Pinter, 1986), pp.29-30.

[11] M. Ferrera, 'The Uncertain Future of the Italian Welfare State', in M. Bull and M. Rhodes, eds., *Crisis and Transition in Italian Politics*, pp.235-240.

[12] On the 'historic compromise' launched in 1973, see D. Sassoon, 'Introduction: The European Strategy of the Italian Communist Party,' in D. Sassoon, ed., *The Italian Communists Speak for Themselves* (Nottingham: Russell Press, 1978), p.43; See also, P. Lange, 'Crisis and Consent, Change and Compromise:

vote held constant at 38.7 percent. The PCI's gains mainly came at the expense of Italy's small centrist lay parties[13].

The PCI's electoral successes were naturally welcomed by the left's supporters, but they were also applauded by Italy's business and economic elite. Guido Carli, governor of the Bank of Italy, stated that the PCI's entry into the governing coalition would be a positive development in Italy's political history. Giovanni Agnelli, president of FIAT, viewed the PCI's electoral success as important for Italian democracy. Agnelli felt that the PCI's participation in government would help promote political and economic reforms[14].

Indeed, the PCI did enjoy a more prominent role in economic policy-making during the late 1970s. While the two Andreotti governments of the 1976-79 period did not offer the PCI any ministerial portfolios, the DC came to rely on the PCI's policy input, and included the PCI in key discussions among party executives. During the first government of *non sfiducia* ('no no-confidence'), which lasted from 1976 until early 1978, the Andreotti government consulted the PCI on its economic programme. From August 1977 onwards, moreover, the PCI participated in more institutionalized policy conferences between party executives. In exchange for its greater participation in the policy process, the PCI agreed to abstain from confidence votes called against the Andreotti government[15].

Dilemmas of Italian Communism in the 1970s,' in P. Lange and S. Tarrow, eds., *Italy in Transition*, pp.116-122.

[13] Hine, *Governing Italy*, pp.73-74.

[14] Graziani, *Lo sviluppo dell'economia italiana*, p.113.

[15] Salvati, 'Muddling Through', p.43; Graziani, *Lo sviluppo dell'economia italiana*, p.114.

The second Andreotti government, which came to power in February 1978, allowed the PCI to enter the governing majority as part of a coalition of *national solidarity*. While the Communists were still denied ministerial portfolios, they were invited to chair key parliamentary committees, and were given the presidency of the chamber of deputies[16]. In committee, the PCI and DC co-operated in a variety of policy areas. On the issue of welfare, for instance, the special parliamentary committee on welfare reform produced a report co-authored by DC and PCI representatives[17]. Similar co-operation took place between the DC and PCI over the reform of Italy's budget institutions. Law 468 was jointly formulated by DC and PCI committee representatives[18].

This capacity for stronger co-operation over substantive policy questions during the 1976-79 period was facilitated by trade union moderation. The PCI's more visible participation in policy formulation led trade union leaders to accept wage restraint demands and the need for industrial restructuring. At CGIL's 1978 convention, Luciano Lama, general secretary of Italy's largest trade union, advocated a more accommodating trade union strategy towards the government in order to permit the government to effectively address Italy's economic problems[19].

Nonetheless, the more conciliatory stance of the PCI and the trade union leadership alienated rank-and-file workers. Many industrial wage earners felt that their

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[16] Ginsborg, *A History of Contemporary Italy*, p.378; see also Hine, *Governing Italy*, p.189.
[17] G. Regonini, 'Partiti e pensioni: legami mancati', in M. Cotta and P. Isernia, eds., *Il gigante dai piedi di argilla*, p.94.
[18] Verzichelli, *La politica di bilancio*, pp.157-8.
[19] Salvati, 'Muddling Through', pp.44-45; Lange, 'The End of an Era', p.30; Graziani, *Lo sviluppo dell'economia italiana*, p.114; M. Regini and I. Regalia, 'Employers, Unions and the State: The Resurgence of Concertation in Italy?' in Bull and Rhodes, eds., *Crisis and Transition in Italian Politics*, p.215.

demands for better working conditions and more progressive welfare benefits were sacrificed by the leadership in its attempt to accommodate the economic interests of the DC leadership and business leaders[20]. When it became evident to trade union members that their more moderate stance had produced no tangible social and economic gains, the rank-and-file's criticism of the PCI and the trade union leadership grew, and workers began to abandon the Communists. In January 1979, the PCI, faced with this loss of support, ended its co-operation with the DC and returned to the opposition benches, forcing the country to go to the polls that year[21].

Although the period of co-operation between the DC and PCI was brief, the era of national solidarity did produce an important comprehensive reform of Italian budgeting, responding to calls made by economists and state officials for more effective budget institutions[22]. Indeed, by the mid-1970s, the demand for comprehensive budget reforms could no longer be ignored. In the treasury minister's preliminary note to the 1976 budget, for instance, the treasury minister stated that budget reforms were essential because the annual budget remained an ineffective tool of policy. New institutions were needed to control off-budget allocations to local authorities and welfare agencies, since these were contributing to Italy's growing financial imbalances[23].

Law 468 was implemented in order to address these concerns. The legislation was meant to make parliamentary budgeting more relevant to the policy process, and to impose greater control over public spending. As will be discussed below, however, the

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[20] Ginsborg, *A History of Contemporary Italy*, pp.389-390.
[21] Ibid., pp.401-402.
[22] G. Della Cananea, 'The Reform of Finance and Administration in Italy: Contrasting Achievements' in Bull and Rhodes,eds., *Crisis and Transition in Italian Politics*, p.196; Della Sala, 'The Italian Budgetary Process', p.115.

new legislative norms did not bring about a reduction in spending and deficit levels. Instead, it ushered in an era of immobilism in budgetary politics. The chapter now turns to an analysis of this period of budgeting.

International Constraints and Budgetary Immobilism, 1979-1992

The period of budgetary immobilism was an era of rapid technological, economic and political change in the international system, with external factors increasingly influencing and constraining Italy's domestic budget choices. Growing interdependence forced countries to liberalize their domestic economic and financial structures. The phenomenon of globalization has been characterized by one scholar as the following:

> The term "globalization" which became *au courant* during the 1980s, while never precisely defined, is meant to convey the increasing linkages among countries or the deeper integration of the world economy by trade, finance, direct investment and technology. Interdependence also involves an increasing interrelationship among major influences of the world economic system, with monetary policy affecting trade policy, feeding back into monetary and fiscal policy[24]

The greater volume and speed of financial flows created increased financial uncertainty and heightened domestic economic vulnerability to the vicissitudes of the world economy. In 1971, for example, 90 percent of all foreign exchange transactions were directed towards financing trade and long-term investment, while 10 percent of all financial flows were speculative. By the mid-1990s, these figures had reversed

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[23] D'Alimonte, 'Il processo di bilancio in Italia',p.173.

[24] Sylvia Ostry, 'Technological Change and International Economic Institutions,' Discussion Paper n.2, December 1995, Centre for International Studies, University of Toronto.

themselves, with over 90 percent of all financial flows being speculative[25]. As a result, domestic policy-makers became increasingly concerned about the reactions of financial markets to their annual and medium-term budget choices, since domestic policy choices that were met with scepticism on the part of international financial markets could result in currency instability and reduced foreign investment.

During the 1980s, Italy increasingly felt the effects of stronger economic and financial interdependence. The country was penalized by financial markets for its worsening public finance situation, enduring ever greater instability as the period of immobilism progressed. While Italy's deficits in the 1970s were primarily due to social spending commitments and general inflationary pressures, by the early 1980s Italy's deficits were exacerbated by the rise in global interest rates. Rate hikes among European countries followed similar moves in the United States, which began implementing a more restrictive monetary policy in the wake of the second oil shock of 1979. The change in direction of monetary policy prompted a strong rise in the debt interest component of Italy's public sector deficit.

In the mid-1980s, Italy responded to these growing financial pressures with tentative moves to open up its domestic economic structures. In 1986, for instance, the government implemented legislation to liberalize the Milan stock exchange[26]. Yet, despite the stronger economic growth experienced by Italy in these years and the steps that the country took to open up its economy, the country's public finance situation

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[25] J. Eatwell, 'The International Origins of Unemployment,' in J. Michie and J.G. Smith, eds., *Managing the Global Economy*(Oxford: Oxford University Press, 1995), p.277

[26] Michelle B. Miller, 'Financial Markets in 1986: The Paradox of Liberalization,' in R. Nanetti and R. Leonardi, eds., *Italian Politics: A Review* 2 (London: Pinter, 1988), pp.90-1.

continued to deteriorate, owing to the government's inability to implement more rigorous and purposive deficit-cutting policies in this period[27].

By the latter half of the 1980s, the *European constraint* also became a more salient factor conditioning Italy's budget choices. While the recession of the early part of the decade slowed the drive towards European integration, and resulted in a period of *eurosclerosis*, by the mid-80s the economic recovery brought with it renewed attempts to further economic co-operation and European institution-building[28]. The negotiations among EC member states in 1985 and 1986 produced the *Single European Act*. The SEA was ratified by member states in 1987, setting out the task of completing the single market by 1992. The SEA laid great emphasis on the need for member states to work together to coordinate their fiscal and monetary policies. As a result, the public finances of member states began to be more closely scrutinized by the EU[29].

The drive towards European integration accelerated during the 1987-92 period, owing to developments in the international system. The opening up of the Soviet Union, the end of the Cold War, and the dramatic changes in Eastern Europe and the USSR, served to create a vacuum in the international system. As a result, the EC emerged as a more important actor in world affairs, taking on a more significant political role, which complemented its growing economic importance. The EC sought to hasten the integration process as a means of better securing its economic and political position. The organization increased pressure on member states to improve their financial positions in

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[27] Graziani, *Lo sviluppo dell'economia italiana*, p.124; Goodman, *Monetary Sovereignty*, pp.164-165.
[28] D. Dinan, *Ever Closer Union?: An Introduction to the European Community* (London: MacMillan, 1994), pp.149-183; K. Middlemas, *Orchestrating Europe: The Informal Politics of the European Union, 1973-1995* (London: Fontana Press, 1995), pp.156-204.

preparation for further convergence. Europe's activism as regards the economic affairs of member states became particularly strong during the months immediately preceding the signing of the TEU.

The EC's growing importance came at a time when Italy's public finance position was rapidly deteriorating[30]. Italy's high deficit and debt levels were compromising the country's credibility as a partner for economic integration. By the early 1990s, as its debt to GDP ratio crept above the 100 percent mark, Italy's budgetary policies drew intense criticism from the EC and other international bodies such as the IMF and OECD[31]. Despite the mounting international concerns over the state of Italy's public finances, Italian policy-makers were unable to correct the country's fiscal imbalances during the period of immobilism[32]. Nevertheless, as is addressed below, the strong international pressures outlined above helped bring about the political and financial crisis that led to the end of immobilism and the transition in budgetary politics.

Domestic Politics and Budgetary Immobilism

While the previous discussion addressed the international conditions that prevailed during the period of immobilism, this section examines the salient developments in domestic budgetary politics at this time. It identifies a number of

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[29] Swann, *The Economics of the Common Market*, p.20; N. Nugent, *The Government and Politics of the European Union*. Third edition. (London: MacMillan, 1994), p.50.
[30] Morcaldo, *La finanza pubblica in Italia*, pp.67-68.
[31] 'Un giudizio severo sull'economia', *Vita italiana* 38:6 (Nov-Dec 1988), p.168; V. Della Sala, 'Hollowing Out and Hardening the State: European Integration and the Italian Economy', in M. Bull and M. Rhodes, eds., *Crisis and Transition in Italian Politics*, p.23.
[32] P. De Ioanna, *Parlamento e spesa pubblica* (Bologna: Mulino, 1993), p.11.

important political and institutional changes that took place, developments which ultimately helped bring about the transition in budgetary politics. These include the gradual strengthening of the treasury's pre-eminence in budget policy co-ordination, institutional and procedural developments that placed greater restrictions on parliamentary budgeting, and the greater activism of external guardians in the budgetary process.

In spite of these changes that took place at the level of domestic politics during the period of immobilism, successive Italian governments remained unable to implement significant deficit-cutting measures. This is a result of the nature of Italian politics at the time, and the tensions that existed between *guardians* who sought budget reforms and spending cuts on the one hand, and the *advocates* within the government and parliament who blocked deficit-cutting proposals.

For most of the 1979-92 period, Italy was governed by a five-party, or *pentapartito*, coalition. However, there was an exceptionally high rate of government turnover, making substantive policy-making difficult. Moreover, within the five-party coalition, critical policy issues were principally discussed among party executives, rather than within the cabinet, with short-term partisan calculations taking precedence over substantive policy concerns in this period[33]. Although the rhetoric of political parties focused on the importance of deficit containment and the need for 'sacrifices', concrete

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[33] G. Pasquino, 'Unregulated Regulators: Parties and Party Government', in P. Lange and M. Regini, eds., *State, Market and Social Regulation*, p.31; Vassallo, *Il governo di partito in Italia*,, pp.256-258; see also B. Dente and G. Regonini, 'Politics and Policies in Italy', in P. Lange and M. Regini, eds., *State, Market and Social Regulation*, pp.56-60. See B. Dente, 'Politica, istituzioni e deficit pubblico', *Stato e mercato* 33 (Dec 1991), pp.348-349; L. de Winter, 'The Links Between Cabinets and Parties and Cabinet Decision-Making', in J. Blondel and F. Muller-Rommel, eds., *Governing Together: The Extent and Limits of Joint Decision-Making in Western European Cabinets* (New York: St. Martin's Press, 1993), p.174.

budget provisions addressing Italy's financial problems could not be realized at this time[34].

As is addressed in the subsequent analysis of budgetary politics, there were attempts to improve both the institutional and political sides of budgeting in order to bring about more effective budget policy co-ordination in this period. As is discussed in chapter two, a number of institutional budget reforms were introduced during the 1980s. However, there were also attempts by the political executive to reassert its control of budget policy this period. In one instance, Prime Minister Craxi's more decisive governing style of *decisionismo* did appear to increase the efficiency of parliamentary budgeting in the first two years of his premiership. In the third year of Craxi's rule, however, it became evident that the government was not able to implement effective deficit containment policies[35]. The annual budget session of autumn 1985, which is discussed in greater detail below, illustrates the limits of the government's policy capacity in this period.

While the 1987-92 period witnessed the emergence of stronger international constraints, substantive deficit-cutting policies became more difficult than ever to realize. In the final years of the era of immobilism, the short-term rational calculations of political actors within the *pentapartito* coalition prevailed over financial concerns. It is a period that can readily be analyzed from the perspective of public choice theory[36]. The

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[34] Verzichelli, 'Le politiche di bilancio', pp. 200-213.

[35] M. Cotta, 'Italy: A Fragmented Government', in J. Blondel and F. Muller-Rommel, eds., *Cabinets in Western Europe* (London: MacMillan, 1988), p.136; See also D. Hine, 'The Craxi Premiership', in *Italian Politics: A Review*, pp.105-109; For a discussion of Craxi's use of decree laws, see V. Della Sala, 'Governing by Decree: The Craxi Government and the Use of Decree Legislation in the Italian Parliament' *Italian Politics: A Review* 2, pp.8-24.

[36] See dicussion in chapter one.

'CAF' alliance, consisting of the PSI's Craxi and the DC's Andreotti and Forlani, worked together to consolidate their respective power bases by way of maintaining high public spending levels. These leaders, moreover, sought to divide amongst themselves key political appointments in 1992, most notably, the presidency of the Republic and the Italian premiership. In other words, the members of the CAF alliance, and the political leadership more generally, were less concerned with the worsening state of Italian public finances than with how to broaden their respective power bases within the coalition and inside their political parties[37].

In sum, the period of immobilism was characterized by coalition stability as well as by partisan, rather than substantive, policy-making. It was an era of intra-coalitional jockeying over resources, with governments of the period unable to carry out cohesive deficit-cutting strategies. The growing tensions that developed between spending advocates within the coalition on the one hand, and the political and institutional actors that sought deficit containment policies on the other, eventually gave way to a crisis in public finances and the transition in budgetary politics. Before turning to an analysis of the budgetary dynamics of the period of immobilism, the chapter highlights the key political and institutional developments of this period.

The Growing Autonomy of the Treasury

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[37] Ginsborg, *L'Italia del tempo presente*, pp. 304-318; See J.L.Newell and M. Bull, 'Party Organizations and Alliances in Italy in the 1990s: A Revolution of Sorts', in Bull and Rhodes, *Crisis and Transition in Italian Politics*, pp.83-84.; S. Hellman, 'Italian Communism in the First Republic' in S. Gundle and S. Parker, eds., *The New Italian Republic: From the Fall of the Berlin Wall to Berlusconi* (London: Routledge, 1996), pp.72-84.

During the 1980s, several important domestic institutional and political changes took place in Italian budgeting that ultimately helped contribute to the crisis and transition in Italian budgetary politics. The most significant of these was the strengthening of the treasury ministry's role in budget policy co-ordination. This ministry's growing pre-eminence in budgetary politics increasingly brought it into conflict with spending advocates of the governing coalition and parliament. By the end of the 10th legislature, the open conflict between the treasury minister and spending *advocates* within the cabinet helped bring about the crisis and transition in budgetary politics.

At the beginning of the 1980s, the treasury's role in the budget policy co-ordination remained more restricted. The ministry primarily had a technical role in the preparation and implementation of the budget[38]. In this period, however, the treasury also took measures to give the Italian central bank greater autonomy in monetary policy, effecting the so-called 'divorce' between the treasury and the Bank of Italy. Treasury Minister Andreatta's attempts to increase the autonomy of the central bank anticipated later moves by successive treasury ministers to increase the treasury's own autonomy in financial matters[39].

Under Treasury Minister Giovanni Goria in the mid-1980s, the treasury's pre-eminence in budget policy co-ordination began to increase. Internal treasury ministry circulars soon required that other ministries comply with the treasury's own internal

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[38] On the treasury's more technical role in the early 1980s, see S. Ristuccia, *Il bilancio tra Governo e Parlamento* (Rome: Fondazione A. Olivetti, 1984), p.48.

[39] The 'divorce' is discussed in greater detail below. See G.A. Epstein and J.B. Schor, 'The Divorce of the Banca d'Italia and the Italian Treasury: A Case Study of Central Bank Independence,' in P. Lange and M. Regini, eds., *State, Market and Social Regulation*, p.153.

public finance directives. Specifically, treasury ministry circulars reminded spending ministries to respect article 81 of the Constitution, which required that all expenditure laws demonstrate how they will be financed. Treasury Minister Goria's circular (no. 31) of May 1985, for instance, required that all spending ministries submit reports showing how departments intended to finance expenditure laws. The circular also asked ministries to illustrate the effects of their spending on total financial equilibrium. Spending laws that did not comply with treasury requirements could not be presented to the council of ministers[40].

In addition, during the Goria period the treasury ministry also established itself as the pre-eminent economic ministry. Internal treasury circular no. 21 of March 1985 instructed the finance ministry to forward all its revenue estimates to the treasury, in order to permit the treasury to determine whether or not spending laws had adequate financing. What is significant here is that these instructions were contained within a treasury ministry circular, rather than within a more official cabinet or prime ministerial directive. Goria's initiatives confirmed the ascendancy of the treasury ministry in this period[41].

During the 1987-92 period, the treasury's pre-eminence in budget policy co-ordination was reinforced by prime ministerial directives and legislative changes. Giuliano Amato was appointed treasury minister by Prime Minister (and former Treasury Minister) Giovanni Goria. Amato, a former chief of staff to Bettino Craxi, was a well-respected professor of constitutional law. He served at the treasury ministry from July

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[40] E. Colarullo, 'Le funzioni del ministro del Tesoro all'interno del Governo nella formazione del bilancio e della spesa dello Stato', in Bassanini and Merlini, eds., *Crisi fiscale e indirizzo politico*, pp.400-401.
[41] Ibid., 414-5.

1987 until July 1989, overseeing numerous important changes to the treasury's role in the budgetary process[42].

Goria and Amato worked together towards further strengthening the authority of the treasury in this period. In August 1987, shortly after taking power, Goria issued a prime ministerial directive stipulating that all ministerial spending initiatives had to obtain treasury approval before being introduced into the council of ministers. In effect, this directive reinforced the provisions of the internal treasury circular issued by then-Treasury Minister Goria in 1985[43]. The treasury's authority was also strengthened by additional legislative modifications. The delayed finance law for 1988, approved as law 67 of 1988, included provisions to further institutionalize the treasury's role in co-ordinating budgetary policies[44]. The legislation stipulated that all spending laws and amendments introduced to parliament that involved higher expenditure had to be accompanied by technical reports approved by the treasury and had to indicate how the expenditure was to be financed.

The subsequent De Mita cabinet of 1988-89, in which Amato again served as treasury minister, oversaw further institutional changes that increased the pre-eminence of the ministry. The De Mita cabinet issued a directive in 1988 that made the treasury minister responsible for *co-ordinating all materials related to public finances* within the cabinet. This directive gave the treasury minister the authority to overrule both spending ministers and the prime minister on fiscal matters. While, in practice, the treasury minister still had to negotiate with other ministers and party executives in order to

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[42] For an account of Amato's experiences as treasury minister, See G. Amato, *Due anni al Tesoro* (Bologna: Mulino, 1990).
[43] Cicular of 1 August 1987, see Colarullo, 'Le funzioni del ministro del Tesoro' 1995, p.401.

achieve a consensus over budgetary policies, the directive was an important step towards affirming the treasury's pre-eminence in budgetary matters[45].

At the same time, however, the De Mita government also introduced legislation that seemed to contradict this directive and the provisions contained within the 1988 finance law (law no.67 of 1988). Law 400 of 1988 enhanced *prime ministerial control of policy co-ordination in all matters* within the council of ministers[46]. It created raised questions as to who was responsible for fiscal policy coordination within the cabinet. This uncertainty was exploited by Prime Minister Andreotti during the final years of the period of immobilism.

Giulio Andreotti, who served as prime minister from 1989 until 1992, reasserted prime ministerial control over budget policy co-ordination during the final years of immobilism, citing law 400's provisions to challenge the growing pre-eminence of the treasury. In early 1991, Andreotti issued a prime ministerial directive that took away from the treasury the role of evaluating financial cover for spending legislation before presentation to cabinet. The directive noted that law 400 gave the prime minister responsibility for co-ordinating all policy matters.

In response to Andreotti's directive, Treasury Minister Guido Carli issued an internal treasury ministry circular which altered the Andreotti government's medium-term public finance objectives. The treasury minister did so without consulting the prime minister or the cabinet[47]. The conflict between Andreotti and Carli continued into the autumn of 1991, when cabinet was considering the measures to be inserted into the 1992

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[44] See below for an analysis of budgetary politics during the Goria period. Ibid., pp.402-403, 412-413, 419.
[45] D'Albergo, 'Rendimento istituzionale e logiche di azione organizzativa nella politica di bilancio', p.716.
[46] Barrera, 'The First Institutional Reform', pp.6-20.

budget package. As is discussed in the subsequent budgetary analysis, Treasury Minister Carli found himself isolated in cabinet, without prime ministerial support for his deficit-cutting measures. The treasury minister was defeated in his attempt to have privatization and welfare reform proposals placed into the 1992 budget[48]. Carli bitterly recounts in his memoirs that no substantive deficit-cutting reforms could be achieved during his tenure at the treasury ministry[49].

Despite Carli's political defeat in the final months of budgetary immobilism, the treasury ministry by then had already achieved greater pre-eminence in budgeting and public finance matters. The fact that the treasury was able to strongly challenge the prime minister and the cabinet on budgetary issues in 1991, forcing the prime minister to resort to a special directive to assert his authority over spending legislation, illustrates the stronger position of the treasury at this time. While the treasury, on its own, remained unable to bring about a reversal in public finance trends during the period of immobilism, the treasury's more assertive budget behaviour heightened tensions within cabinet,0 helping to bring about the crisis and transition in budgetary politics.

Changes to the Parliamentary Budgetary Process

In addition to the ascendancy of the treasury ministry, the period was also marked by changes to parliamentary budgeting. As is discussed in chapter two, the introduction of the finance law gave parliament a more prominent role in budgetary politics. Yet, the

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[47] Colarullo, 'Le funzioni del ministro del Tesoro', pp.418-421.
[48] A. Cerboni and M. Cotta, 'Le privatizzazioni: I partiti e la crisi finanziaria', in M. Cotta and P. Isernia, eds., *Il gigante dai piedi di argilla,* pp.256-257.

subsequent legislative and procedural changes introduced in the 1980s reduced the role of the Italian legislature and its ability to stall the passage of budget legislation. During the first years of the period of immobilism, the finance law became the central locus of political conflict, but it developed into an *omnibus* law containing many minute provisions that raised total expenditure above the government's original estimates. Moreover, the finance law was often approved late, forcing the government to frequently implement provisional budgets.

Consequently, during the mid-1980s, several institutional, procedural and strategic developments took place to improve the efficiency of parliamentary budgeting. In 1983, the budget session was introduced into the parliamentary rules. The budget session rules imposed a strict timetable for the examination of the budget documents in committee and assembly[50]. During the same period, the Craxi government adopted a more decisive policy style, and increasingly employed decree laws to force through policy measures. While Craxi's style of *decisionismo* led to the timely approval of the 1984 and 1985 budget packages, nevertheless, the 1986 budget package failed to obtain parliament's approval by the end of the year. By the third year of Craxi's rule, the prime minister could no longer overcome intra-coalitional conflict within the *pentapartito*. The budgetary politics of autumn 1985 are addressed in greater detail below[51].

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[49] G. Carli, *Cinquant'anni di vita italiana*, (Bari: Laterza, 1993), pp.389-393.

[50] D'Alimonte, 'Il processo di bilancio in italia', pp.183-190; Capecchi, 'Il rapporto fra le Commissioni bilancio e le Commissioni di settore all'interno del procedimento di esame e di approvazione del bilancio', pp.556-560.

[51] Della Sala, 'The Italian Budgetary Process', pp.119-123; See also, S. Ristuccia, *et al., Dentro la finanziaria: Bilancio 86 e politiche pubbliche* (Rome: Queste Istituzione Ricerche, 1986).See also Hine, 'The Craxi Premiership', pp.105-116; Verzichelli, 'Le politiche di bilancio', p.209.

The failure of institutional and procedural changes to improve budgetary efficiency during the 9th legislature, and the inability of a stronger executive to impose its will in budgetary matters during the Craxi period, resulted in the need for further institutional and procedural modifications in the late 1980s. Already in 1984, parliament's budget committees had already reported that budget rules would have to be reformed, noting that better medium-term financial planning was necessary[52]. Yet, it was only after the problematic budget session of autumn 1985 that further proposals were seriously considered. In September 1986, on the recommendation of parliament's budget committees[53], Treasury Minister Goria presented the first medium-term DPEF programming document, for the years 1987 through 1989[54].

While reform legislation modifying the 1978 budget norms was scheduled to be approved in parliament in 1987[55], the collapse of the Craxi government prevented the implementation of these changes until 1988[56]. However, law 67 of 1988, the delayed 1988 finance law, reiterated the call for further institutional changes to annual and medium-term budgeting. Consequently, in May 1988, Treasury Minister Amato presented a second experimental DPEF for the years 1989 through 1992. The presentation of this second medium-term programming document was followed by another comprehensive reform of the budgetary regime.

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[52] Camera dei deputati-commissione bilancio, 'L'indebitamento pubblico in Italia' *Quaderni di studi e legislazione* 34 (Report to Budget Committee, Rome, 12 October 1984) pp.83-84.
[53] The two budget committees approved a joint resolution calling for budget reforms after the approval of the 1986 budget package. see De Ioanna, 'Dalla legge n.468 del 1978 alla legge n.362 del 1988', p.210.
[54] S. Pistelli, 'La partecipazione delle Regioni alla formazione del bilancio dello Stato', in Bassanini and Merlini, *Crisi fiscale e indirizzo politico*, p.507.
[55] Camera dei deputati-servizio commissioni parlamentari, 'Indagine conoscitiva sui problemi connessi alla riforma delle norme sulla contabilita generale dello Stato (legge n.468 del 1978)', *Indagini conoscitive e documentazioni legislative* n.12 (1987).
[56] D'Alimonte, 'Il processo di bilancio in Italia', pp.198-199.

Law 362 of August 1988 modified the finance law and introduced the *collegati* instruments. In addition, parliamentary procedures adopted the spring budget session in order to institutionalise the presentation of the DPEF within the budget cycle[57]. Other changes to budgeting were also introduced, including enhanced monitoring of public spending by way of new parliamentary budget offices, authorizing the presidents of the two chambers to prevent spending law amendments from being presented if they lacked proper financial cover, and the stipulation that special funds can be used only to finance *collegati* measures[58]. These institutional and procedural modifications were intended to reduce parliament's ability to block or modify budget legislation, and to give the executive greater control over budget policy co-ordination[59]. The 1988-89 changes to parliamentary procedures came at the same time as the strengthening of the treasury ministry's role in co-ordinating public finances, as discussed in the previous section.

Nevertheless, in spite of the introduction of these budget reforms, the budget packages for the years 1989 through 1992 encountered obstacles in parliament. The DPEF resolution adopted by parliament each year did not prove binding on policy-makers during their consideration of the annual budget package[60]. Moreover, the new *collegati*, which replaced the finance law as the central locus of political conflict,

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[57] See chapter two for a discussion of these procedural changes. See also Meschino, 'Dalla legge n.468 del 1978', pp.212-216; Capecchi, 'Il rapporto fra le Commissioni bilancio e le Commissioni di settore', pp.537-544; Cavazzuti, 'Public Finance and Public Administration', pp.24-27; P. De Ioanna, 'Il problema della copertura delle leggi di spesa dopo le riforme di contabilita e di procedura parlamentare del 1988-1989,' in F. Bassanini and S. Merlini, eds., *Crisi fiscale e indirizzo politico*, pp.355-360; E. Colarullo, 'Le leggi collegate alla manovra finanziaria' *Quaderni costituzionali* 13: 3 (Dec 1993), pp.513-529.

[58] A. Palanza, 'L'informazione tecnica nelle procedure parlamentari: la esperienza dei servizi del bilancio della camera e del senato', pp.743-758; See Perez, 'Finanza, bilancio e contabilita pubblica', pp.63-64; Capecchi, 'Il rapporto fra le Commisioni bilancio e le Commissioni di settore', pp.544-549.

[59] P. De Ioanna and M. Meschino, 'L'informazione economico-finanziaria in Parlamento: un terrento cruciale nella evoluzione dei rapporti istituzionali' in V. Cerulli Irelli and M. Villone, eds., *Strumenti conscitivi delle commissioni parlamentari* (Bologna: Mulino, 1994) pp.85-86.

[60] Della Cananea, *Indirizzo e controllo della finanza pubblica*, pp.178, 190.

consistently did not obtain parliamentary approval before the end of the budget session. They received parliament's attention only after the finance and budget laws were approved, leaving inadequate time for policy-makers to examine these substantive measures[61]. A Senate report on the 1988 budget reforms noted that 'there exists the same problem for the *collegati* in a certain sense that existed for the finance law prior to the reform of 1988'[62]. In short, while these institutional and procedural changes limited parliament's *formal* role in budgeting, these modifications were not sufficient to bring about greater budgeting efficiency and effectiveness, and therefore did not bring an end to budgetary immobilism.

At the same time, however, the institutional developments of this period did serve to reduce the role of *peripheral actors* in the budgetary process. In particular, the changes to executive budgeting and to the parliamentary budgetary process *centralized* budgeting, thereby decreasing formal regional participation. Before the implementation of law 362, regional representatives' held summer budget discussions with ministers of the government, notably, the minister for regional affairs, the treasury minister, and even the prime minister, which were of political significance. Negotiations between the regions and the central government often resulted in important concessions by the central government, examples of which include central government decisions not to implement

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[61] Senato della repubblica-servizio del bilancio, 'L'applicazione delle riforme del 1988: le decisione di bilancio per il triennio 1992-1994' *Documenti di base* 9 (XI legislature, April 1992), pp.101-103; see also C. Forte, *Decisione politica e vincolo contabile: aspetti evolutive* (Turin: Edizioni Thesis, 1995), pp.67-79.
[62] Senato della repubblica-servizio del bilancio, 'L'applicazione delle riforme del 1988: la decisione di bilancio per il triennio 1992-1994' (documenti di base 9, April 1992), p.20.

proposed cuts to transportation funds or regional transfers as part of the 1985 and 1986 budgets, respectively[63].

Law 362's modifications diminished the role of regional actors in the budgetary process. The approval of the DPEF's medium-term policies in the spring lessened the relevance of the summer negotiations between regions and the central government[64]. At the same time, the central government continued to reduce the resources available to the regions, while burdening the regions with greater responsibility for health services and transportation funding. During the 1989-1992 period in particular, the regions were less capable of directly influencing the budgetary process, and increasingly appealed the central government's cuts to the Consitutional Court. However, in a succession of rulings, the Court came out in favour of the central government's need to improve its public finance balances[65]. While the central government attempted to placate the regions through several initiatives, including the creation in 1990 of the 'Permanent Committee for Relations Between the State, Regions and Autonomous Provinces', this institution remained of limited significance, and Italy's regions became increasingly marginalized in the decisional process during this period, unable to effectively oppose the deep cuts to transfers funds that were made as the crisis in public finances worsened.

To sum up, the formal institutional and procedural developments in parliamentary budgeting did not serve to increase the efficiency of the parliamentary budgetary process during the era of immobilism. While the institutional and procedural changes limited

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[63] Pistelli, 'La partecipazione delle Regioni alla formazione del bilancio dello Stato', pp.505-506.
[64] Ibid., pp.514-517.
[65] Decree law 77 of 1989 forced regions to cut current spending and decree law 415 of 1989 reduced transportation funds. These two decrees, which were eventually converted into law, were challenged without success by the regions. The Court ruled in favour of the central government. Ibid., pp.508-9.

parliament's ability to modify the executive's finance law, budgetary immobilism persisted, with the *collegati* serving as the new locus of conflict. Although law 362 did serve to lessen centre-periphery budgetary conflict, by reducing the scope for involvement in the budgetary process of peripheral actors, the efficiency of parliamentary budgeting would only be enhanced during the transition period that began in 1992.

The Growing Intervention of External Guardians in Budgetary Politics

The period of immobilism not only witnessed the strengthening of the treasury ministry's role in budgeting and institutional modifications to parliamentary budgeting, but it also saw the more active participation of *external guardians* in the budgetary process. By way of their actions in the sphere of budgeting, the President of the Republic, the Bank of Italy, and the Constitutional Court more visibly influenced budgetary politics in this era. Their activism increased considerably when the crisis in public finances became more severe during the 10th legislature.

Interventions by the President of the Republic in public finance matters became more frequent during the period of immobilism. For instance, the President increasingly returned spending laws to parliament for lack of adequate financial cover (in violation of clause four of article 81 of the Constitution)[66]. While the first five presidents of the Republic sent legislation back to parliament a *combined total* of *five times* on these grounds, President Pertini (1979-85) sent back legislation *seven times* on these grounds.

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[66] A. Baldassare, 'Il Capo dello Stato' in G. Amato and A. Barbera, eds., *Manuale di diritto pubblico*. Fourth edition (Bologna: Mulino, 1994), pp.463-483.

However, during the Cossiga presidency (1985-92), legislation was returned to parliament *twelve times* for this reason[67].

President Cossiga's activism on spending legislation increased during the final years of immobilism, as financial and political tensions worsened. When spending legislation was returned to parliament, the legislation was often accompanied by strongly worded statements criticizing parliament's abuse of financing rules[68]. In April 1991, for instance, when parliament approved a multi-year spending law that only indicated how the expenditure would be financed over the first three years, but entailed a fourteenfold spending increase in the fourth year that the law was to be in force, Cossiga strongly criticized these provisions. Although parliament was technically obligated only to indicate how the first three years would be financed for these particular ongoing multi-year spending commitments, President Cossiga denounced this as an abuse and told the legislature to rewrite the law so that it would indicate how the expenditure would be financed for the entire period that the law was to be in force[69]. In short, the irresponsible spending behaviour of the *pentapartito* coalition was increasingly taken to task by the President of the Republic in the twilight years of budgetary immobilism.

The Bank of Italy's interventions on budgeting issues also became more incisive as the crisis in public finances worsened. Specifically, the central bank's warnings over the consequences of Italy's high deficit and debt levels became more frequent and severe as the era of immobilism progressed. Since the 'divorce' effected by Treasury Minister

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[67] G. Giovannetti, 'La funzione presidenziale di controllo in tema di finanza pubblica. Le esperienze di Pertini e Cossiga', in Bassanini and Merlini, eds., *Crisi fiscale e indirizzo politico*, pp.631-632.
[68] Cossiga's personal attacks on members of the old political elite were so harsh at times that there were calls for his impeachment. Ginsborg, *L'italia del tempo presente*, pp.320-321.
[69] Giovannetti, 'La funzione presidenziale di controllo in tema di finanza pubblica', pp.641-643.

Andreatta in 1981, freeing the central bank from its obligation to purchase treasury bonds that were left unsold at auction, the central bank's autonomy and influence gradually increased[70]. In the ensuing years, the Bank of Italy forced greater discipline upon the treasury, particularly through its ability to limit treasury borrowing. The treasury's overdraft limit was set at 14 percent of the government's annual public expenditure, ensuring that that portion of Italy's public debt financed by money creation declined from 1983 onwards[71]. Moreover, the Bank of Italy continued to pursue a policy of high interest rates during the 1980s, both as a response to U.S. monetary policy and as a means to impose greater financial discipline on the government and enhance its own credibility as an independent institution[72].

The central bank's growing influence in fiscal policy matters was also demonstrated in other ways. For instance, the central bank possessed a formidable research department, which remained far more extensive than the research facilities at the treasury ministry. The treasury came to rely on the central bank's studies and annual reports[73]. In addition, the 'banking culture' of the Bank of Italy was gradually incorporated into the treasury ministry over the course of the 1980s and early 1990s. Numerous central bank personnel took over key posts within the treasury in this period, particularly many American-trained '*supertecnici*' (super-technical experts). Former central bank official Mario Sarcinelli, for example, was appointed director-general at the

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[70] Treasury Minister Andreatta instituted the 'divorce' by rescinding a directive of the *comitato interministeriale per il crediti e il risparmio* (CICR) in the 1970s. See G.A.Epstein and J.B.Schor, 'The Divorce of the Banca d'Italia and the Italian Treasury: A Case Study of Central Bank Independence,' in P. Lange and M. Regini, eds., *State, Market and Social Regulation*, p.153; D. Sorace, 'Il governo dell'economia', p.829; L. Buttiglione, 'Obbiettivi e strumenti della politica monetaria', (Banca d'Italia-servizio studi, 1996).

[71] Epstein and Schor, 'The Divorce of the Banca d'Italia, pp.154, 161.

[72] On monetary policy during this period, see Graziani, *Lo sviluppo dell'economia italiana*, p.126.

treasury in 1982, while Mario Draghi became a director-general at the treasury in 1991. These individuals remained pivotal technical policy-makers within the treasury ministry during the transition period and in the era of executive governance[74].

Furthermore, during the 10th legislature, central bank warnings over Italy's public finance situation became more frequent, specifically concerning the improper financing of spending laws[75]. In addition, as the central bank's technical co-ordination with EC institutions increased as European integration proceeded, the central bank's comments received much greater attention at the European level. International financial markets and European officials scrutinized the central bank's annual reports and statements to the Italian government more closely during this period[76]. In short, the influence of this external guardian also became more significant in the final years of budgetary immobilism.

A third external guardian, the Constitutional Court, also took on a more active role in budget matters as Italy's financial situation worsened. The Court more frequently pointed out violations of article 81. Its rulings increasingly demonstrated sensitivity to Italy's public finance situation. For example, in decisions nos. 171 and 248 of 1990, concerning workers' pension benefits and acquired rights, the Court stated that its decision took into account the 'demands of the budget and the objectives of reordering and replanning the management of pensions'[77]. Moreover, when rulings did result in the government having to make additional payments, the Court frequently stated that the

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[73] Hine, *Governing Italy*, p.247.
[74] See chapter five. See also 'La penisola del Tesoro', *La repubblica* 3 Feb 1997, pp.4-5.
[75] 'La diagnosi del governatore' *Vita italiana* 38:3 (May-June 1988), pp.167-168.
[76] Hine, *Governing Italy*, p.292.

government did not have to make the payments immediately. For instance, decision no. 497 of 1988, stated that the government could delay its required payment of additional unemployment indemnities, given the state of public finances[78].

Furthermore, the Constitutional Court more frequently ruled against violations of article 81. In 1985, only *five* rulings addressed violations of article 81. This rose to *twenty-two* rulings in 1987, and *thirty-three* rulings in 1988. There was a consistent rise in the number of rulings dealing with article 81 violations throughout the life of the 10th legislature[79]. Although a neutral institution, the Court itself acknowledged that it could no longer ignore its own impact on budget policy-making[80].

One of the most significant decisions concerning violations of article 81 was decision no. 384 of 1991, which criticized parliament's abuse of multi-year spending laws. The Constitutional Court ruled that article 81 must be interpreted in a broader sense, meaning that the effects of multi-year spending laws must be considered within the context of the government's overall expenditure and revenue totals, not only within the more narrow parameters of the state budget, because this had been the original intention of the liberal politicians who had initially framed the provisions of article 81. The Court's more strict interpretation of article 81 was meant to curtail the improper financing of multi-year spending laws, which had become commonplace in the final

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[77] F. Donati, 'Le ripercussioni delle pronunce giurisdizionali sull'equilibrio di bilancio' in F. Bassanini and S. Merlini, eds., *Crisi fiscale e indirizzo politico*, p.597 and fn.24.
[78] E. Varani, 'Spesa pubblica e tecniche decisorie della corte costituzionale', *Rassegna parliamentare* 38 (April-June 1996), p.324.
[79] Varani, 'Spesa pubblica e tecniche decisorie della corte costituzionale', p.315.
[80] Ibid., p.321.

years of immobilism[81]. The Court's rulings, specifically on multi-year spending during the final years of immobilism strongly influenced budgetary politics.

In sum, the budgetary involvement of these three key external guardians increased dramatically as Italy's crisis in public finances worsened. Their activism became more visible, specifically concerning violations of article 81. While the prevailing state of immobilism in budgetary politics prevented policy-makers from successfully addressing Italy's financial crisis, the actions of these external guardians became more significant in this period. Although the intervention of these actors alone could not bring about a transition in budgetary politics, these external guardians did *contribute* to the end of immobilism by raising tensions at the level of domestic politics, and making budgetary immobilism more difficult to sustain. This chapter, having examined several key aspects of domestic budgetary politics, now turns to an analysis of budgetary politics during the era of immobilism.

The Politics of Budgeting during the Period of Immobilism

The previous sections have addressed international constraints and key domestic developments during the period of immobilism. The growing pre-eminence of the treasury ministry in budgeting, the changed institutional conditions of parliamentary budgeting, and the growing intervention of external guardians have been explored in isolation of the political context of budgetary immobilism. The following discussion is

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[81] Forte, *Decisione politica e vincolo contabile*, pp. 79-81. Della Cananea, *indirizzo e controllo della finanza pubblica*, pp.134-135; Perez, 'Finanza, bilancio e contabilita pubblica, p.64; Donati, 'Le ripercussioni delle pronuce giurisdizionali', pp.585-586.

an analysis of the *politics* of budgeting during the era of immobilism. The analysis explores budgetary developments during the three legislatures of this era, namely, the 8th, 9th and 10th legislatures.

Budgetary Politics during the 8th Legislature, 1979-83

The first finance law was introduced in autumn 1978, at the end of the 7th legislature. As noted above, the 1976-79 period was an era of greater substantive policy successes, which resulted from heightened co-operation between the DC and the PCI. This co-operation permitted the timely approval of the first finance law before the end of the 1978 financial year. The first finance law was approved by parliament in an efficient manner, but it did not contain incisive deficit-cutting measures. The provisions consisted principally of modest cuts in transfers to local authorities. Policy-makers decided to put off more difficult deficit-cutting measures objective until after the national election of 1979[82].

During the 1979 election campaign, political parties made deficit containment a central theme. At the time, the Italian economy was experiencing strong inflationary pressures resulting from the second oil shock of early 1979, and all political parties agreed that Italy had to address the country's growing fiscal imbalances. The campaigns of the major parties of both the right and the left, the DC and the PCI, emphasized their commitment to fiscal retrenchment and sound economic management[83].

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[82] D'Albergo, 'Rendimento istituzionale e logiche di azione organizzativa nella politica di bilancio', pp.696-697; see also Fazio, *Il bilancio dello Stato*, pp.62-3; see also Verzichelli, *La politica del bilancio*, pp. 158-9.
[83] Verzichelli, 'Le politiche di bilancio',in Cotta and Isernia, p.200.

The 1979 election witnessed a decline in the DC's share of the vote. As a result, the DC sought an alliance with various lay parties of the centre and with the PSI. During this era, the DC formed successive coalition governments with the PSI, PSDI, PRI and PLI. The *pentapartito* coalitions proved relatively stable during the 1980s, but within the coalitions there was intense competition among parties for ministerial posts and resources. Yet, in spite of the intense intra-coalitional conflicts, the partners were forced to work together, acting in accordance with rational self-interest, well aware that there existed no alternative coalition possibilities[84].

The first years of the 8th legislature saw successive Italian governments frustrated in their attempts to begin the process of deficit reduction. The commitment of the Cossiga governments of the 1979-80 period to deficit containment was evidenced by Prime Minister Cossiga's cabinet choices. Cossiga's finance minister was Franco Reviglio, a respected economics professor. Cossiga's first budget minister was the DC's Beniamino Andreatta, also a well-respected DC intellectual and Bologna economics professor. Pandolfi, a member of a progressive faction within the DC, was placed at the treasury ministry. Pandolfi had served as the treasury minister in the previous government, and had overseen the formulation and implementation of the first finance law for 1979[85].

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[84] The era began with a four-party coalition without the PRI. See chapter one for a discussion of rational choice. See also earlier discussion on the *pentapartito* in this chapter. See Cotta, 'Italy: A Fragmented Government', pp.120-125; See S. Vassallo, *Il governo di partito in Italia (1943-1993)* (Bologna: Mulino, 1994), pp.217-218 and 256-263; See also G. Amyot, 'The PCI and Occhetto's New Course: The Italian Road to Reform' in R. Nanetti and R. Catanzaro, eds., *Italian Politics: A Review* 4 (Pinter, 1990), p. 149; See F. Cangini, *Storia della prima repubblica*, (Rome: Tascabili economici newton, 1994), pp.91-92;

[85] Andreatta remained a minister without portfolio in Cossiga's second government. See Verzichelli, *La political di bilancio*, p.160, fn6; See also Cangini, *Storia della prima repubblica*, p.91.

In spite of the presence of these economic experts in government, the Cossiga cabinet was unable to force through deficit-cutting measures as part of the 1980 and 1981 finance laws. These two finance laws, in contrast to the 1979 finance law, were approved late. The finance law for 1980, for instance, did not receive final parliamentary approval until April 1980. Furthermore, budgetary conflicts forced the resignation of the first Cossiga government in March of that year. The first Cossiga government was replaced by a second weakened Cossiga administration, which offered numerous additional budget concessions to spending advocates in order to ensure that the finance law would be approved by the end of the four-month provisional period. Yet, the second Cossiga government fell later that year during negotiations over the 1981 finance law. The Forlani caretaker government that replaced the Cossiga cabinet could not push the finance law through on time. The 1981 finance law was passed by Forlani's caretaker government only in March 1981.

Not only were the Cossiga governments unable to see through the finance laws by the end of the fiscal year, these governments also had to rely on ineffective stop-gap budget measures and one-off provisions, rather than on substantive deficit-cutting measures. Although the 1981 finance law did implement institutional changes to public expenditure monitoring, notably, the creation of the 'Technical Commission on Public Expenditure', set up within the treasury to more closely monitor spending legislation, the finance laws for 1980 and 1981, on the whole, did not initiate a process of deficit containment[86].

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[86] Verzichelli, *La politica di bilancio*, p.159.

Following the brief Forlani caretaker administration, the first non-DC prime minister in Italy's post-war history took power. Like the Cossiga governments, the two Spadolini governments of the 1981-82 period included ministers with strong economic and academic credentials, demonstrating Spadolini's commitment to deficit containment. The treasury portfolio was given to Andreatta. Under Andreatta, important economic initiatives were undertaken. As addressed earlier, in 1981 Andreatta effected the 'divorce' between the treasury ministry and the Bank of Italy[87].

However, the Spadolini governments were no more successful in seeing through the 1982 and 1983 finance laws than the Cossiga governments. In an attempt to impose more responsible parliamentary budget behaviour, Treasury Minister Andreatta modified the structure of the 1982 finance law so that the spending and borrowing totals would be stated in the first article of the finance law. This was done to force parliament to consider the government's total available resources before making modifications to the budget package. Yet, this change to the finance law's structure did not prevent extensive parliamentary amendments. The first article was only approved after all the legislative changes had been inserted, thus raising spending and borrowing totals. Moreover, equally disappointing for the Spadolini government was the fact that the 1982 finance law did not receive final approval until the end of April 1982[88].

With Spadolini's defeat over the finance law, by the middle of 1982 it became clear that the deficit would significantly overshoot original estimates. The deficit was expected to reach a level equivalent to 12 percent of GDP. As a result, the Spadolini government introduced the first *corrective mini-budget* in July 1982. It consisted of one-

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[87] Epstein and Schor, 'The Divorce of the Banca d'Italia', pp.153-155.

off spending and taxing measures, implemented by government decree, and converted into ordinary legislation by parliament. Yet, the decree measures put together by Spadolini and Treasury Minister Andreatta drew criticism from their colleagues, with the cabinet remaining divided over the issue of tax hikes. While the PLI and PRI supported the Spadolini mini-budget, the PSI, led by Finance Minister Formica, opposed raising personal income tax (IRPEF) rates, arguing that lower personal income taxes were needed to boost the economic recovery that was under way. While the council of ministers did agree to implement the L10,000bn worth of measures, the conflict which had come to the fore in these discussions, between advocates who supported growth-oriented policies and guardians who prioritized deficit-cutting measures, was to persist for the duration of the 1980s[89].

While Spadolini and Andreatta's opponents in cabinet gave way on the mini-budget, these advocates again opposed the prime minister and treasury minister during discussions over the 1983 finance law, resulting in the collapse of the first Spadolini government. The government was replaced by a second, more 'flexible', Spadolini government in August 1982. The new government attempted to push through L20,000bn worth of deficit-cutting measures as part of the 1983 finance law. However, the unresolved conflict between Treasury Minister Andreatta and Finance Minister Formica over tax increases once again emerged. Spadolini remained unable to steer the budget through parliament and resigned in November 1982.

The new caretaker prime minister, Fanfani, removed the Spadolini government's principal guardian, Andreatta, from the treasury portfolio. The finance law was once

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[88] Verzichelli, *La politica di bilancio*, p.161.

again approved late and included substantial modifications. The most notable feature of the 1983 finance law was the new fund to be directed towards employment and investment in the South, the *Fondo per l'investimento e l'occupazione*. In short, Spadolini failed to implement his package of deficit-cutting measures, and remained unable to mediate between those ministers who favoured deficit containment and those who privileged growth measures. It was not the last time that this particular budgetary conflict would erupt during the era of immobilism[90].

In sum, despite the initiatives of Prime Ministers Cossiga and Spadolini and their treasury ministers, the 8th legislature ended without the realization of deficit containment policies. Conflicts within the council of ministers and parliament resulted in the late approval of all four finance laws of this period. Moreover, the era saw the implementation of ineffective budget measures that produced strongly incremental budget results. While Spadolini's corrective mini-budget was an important innovation in Italian budgeting, small packages of decree measures could not make up for the annual budget shortfalls and the difficulties inherent to budgetary politics. The legislature ended with the collapse of the Spadolini government, and the political exile of key cabinet guardians such as Andreatta and Reviglio. Yet, intense advocate-guardian conflict and incremental budget outcomes, characteristic of the period of budgetary immobilism, continued into the 9th legislature.

Budgetary Politics during the 9th Legislature, 1983-87

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[89] Ibid., pp.163-4; see also Verzichelli, 'Le politiche di bilancio', pp.202-3.

The problems inherent in budgetary politics during the 8th legislature led to calls for further changes to budget rules and institutions. During the electoral campaign of 1983, deficit containment and budget reform once again remained central issues. All political parties stressed the need for stronger deficit-cutting measures and changes to budget institutions as part of their party platforms. Many politicians argued that, since Italy was gradually emerging from recession at this time and its economy was stabilizing, deficit-cutting measures were necessary to ensure financial stability and to shore up a weakened lira. However, at the same time, other political leaders warned against harming economic growth through the pursuit of tight fiscal policies, emphasizing instead the need for growth-oriented measures[91]. These contradictory policy positions inevitably gave rise to intense budgetary conflicts between advocates and guardians within the council of ministers.

During the first years of the 9th legislature, the Italian government chose not to make deficit containment a priority. After the 1983 vote, the PSI's Bettino Craxi formed Italy's longest-serving government, which lasted from August 1983 until August 1987. Craxi's first two years were marked by a seemingly more decisive leadership and greater capacity for economic management[92]. The prime minister introduced a more forceful governing style, which involved the frequent use of decree legislation. The Craxi government also introduced changes to the parliamentary procedures governing budgeting, most notably through the introduction of the budget session. While the *efficiency* of parliamentary budgeting increased in Craxi's first two years, with the 1984

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[90] Ibid., pp.165-6.
[91] OECD, *Economic Surveys: Italy* 1984-85 (Paris: OECD), pp.41-45; *Economic Surveys, Italy* 1986, pp.24-25. Verzichelli, 'Le politiche di bilancio', p.205.

and 1985 finance laws receiving parliament's backing before the end of the financial year, strong budget conflicts persisted, while the government's deficit-cutting measures did not prove effective.

An analysis of budgetary politics reveals that, once again, a debate ensued within the Craxi cabinet as to how to implement deficit-cutting measures without harming economic growth. Reformist DC Treasury Minister Goria, supported by the PRI and the PLI, favoured strong spending cuts to keep pace with Italy's growing debt interest payments, which had ballooned during the 1980s owing to persistently high global interest rates. Yet, many DC and most PSI ministers, including Prime Minister Craxi, insisted that growth-oriented policies should remain the priority for government. The interests of the latter group of ministers and party leaders prevailed in these years.

When the treasury minister did propose deficit-cutting measures, they were blocked in cabinet. For instance, in July 1984, Treasury Minister Goria introduced an ambitious medium-term deficit-cutting plan which sought to reduce the public sector deficit by half between 1985 and 1988. The medium-term document, which was similar to, but pre-dated, the DPEF, met strong resistance in cabinet. In the end, the document was rejected by other cabinet ministers, and the treasury's medium-term plans emerged from cabinet discussions in a watered-down form, merely outlining in vague terms how the public sector deficit could be reduced by 1988[93].

In short, the budget packages for 1984 and 1985 reflected the relative strength of spending advocates in cabinet and parliament. The heavily amended budgets included

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[92] Hine, 'The Craxi Premiership', pp.105-116.

many one-off measures, and resulted in incremental budget outcomes. In place of substantive spending cuts, the packages made small cuts to local authority financing, investment funds and public sector employment contracts. In sum, while the efficiency of budgeting appeared to have improved, the finance laws did not contain significant deficit-cutting measures[94].

By early 1985, it became clear that Italy could no longer sustain this spending pattern. Italy's annual deficits and debt payments were rising significantly. Early in 1985, Treasury Minister Goria again attempted to impose greater fiscal discipline, this time by way of internal treasury ministry circulars. Goria's circulars were meant to increase the treasury ministry's control over executive budget policy co-ordination. A March 1985 circular, discussed earlier on, stated that the treasury ministry would determine whether or not spending legislation met financing requirements[95]. Nevertheless, the DC treasury minister's initiatives, notably, its challenging the authority and independence of other ministries, raised the level of conflict within the cabinet just prior to the discussions over the 1986 budget package.

The need for greater fiscal discipline was underscored by the crash of the Italian stock market in the summer of 1985, and the subsequent run on the lira in autumn 1985. Moderate DC factional leaders such as Ciriaco De Mita joined Treasury Minister Goria in pressing for exceptional deficit-cutting measures to calm financial markets. These

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[93] S. Ristuccia, *Dentro la finanziaria: bilancio 86 e politiche pubbliche* (Rome: Queste istituzioni ricerche, 1986); Della Sala, 'The Italian Budgetary Process', pp.119-123; see also Verzichelli, 'Le politiche di bilancio', p.207; Verzichelli, *La politica di bilancio*, pp.169-171.

[94] Verzichelli, *La politica di bilancio*, p.170-1.

[95] See earlier in chapter three. see also Colarullo, 'Le funzioni del ministro el Tesoro all'interno del Governo nella formazione del bilancio e della spesa dello Stato', in Bassanini and Merlini, eds., *Crisi fiscale e indirizzo politico*, pp. 414-5.

politicians were supported by the small lay parties of the coalition, the PLI and the PRI, and externally by the central bank.

Yet, pro-spending and pro-growth advocates, among them Prime Minister Craxi and right-wing DC factional leaders such as Andreotti, did not want to jeopardize policies geared towards economic growth, employment creation and investment. These advocates opposed a more restrictive budget package for 1986. However, since neither the advocates nor the guardians sought an intense budgetary battle in September 1986, during a period of exchange rate instability, many of the key budget debates were left for parliament to resolve. The 1986 finance law was approved by the Craxi cabinet without significant changes[96].

The budget session of autumn 1985 got off to a late start however. In early October 1985, the hijacking of the Italian cruise ship *Achille Lauro* resulted in the government delaying the beginning of the budget session until November. The budgetary issues that were not sorted out in cabinet were only then taken up in the budget committees and the assemblies. The *pentapartito* coalition remained fragmented in committee discussions, with politicians voting according to partisan interests[97]. Since the coalition partners did not vote together on the budget and finance law articles, the treasury minister suffered several budget defeats[98].

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[96] Della Sala, 'The Italian Budgetary Process', pp.120-4 and fn44; OECD, *Economic Surveys: Italy* 1986, p.24; Verzichelli, *La politica di bilancio*, pp.171-3; D'Alimonte, 'Il processo di bilancio in Italia', p.184.
[97] For example, agricultural workers pressed the DC to introduce additional micro-provisions. See M. Slater, 'Italy's Changing Political Economy', in L. Quartermaine and J. Pollard, eds., *Italy Today: Patterns of Life and Politics*. Second Revised Edition (Exeter: University of Exeter, 1987), pp.35-36; See also Verzichelli, *La politica di bilancio*, p.176.
[98] J. Buxton, 'Superata la prova della legge finanziaria: e ora?' *Vita italiana* 36:1 (Jan-Feb 1986), p.106.

The biggest defeat for the treasury minister was over article 1 of the finance law, concerning the spending and borrowing totals. Against Treasury Minister Goria's protests, the budget committee of the senate voted on article 1 last, permitting a borrowing limit that was much higher than originally forecasted by the treasury ministry[99]. The treasury minister conceded this higher spending limit in the hope that the finance law would be approved before the end of the year. Yet, in spite of the treasury's attempts at compromise, the finance law was not approved until February 1986. The budget package endured over one thousand amendments, six hundred votes, four confidence votes, and twenty government defeats. The governing coalition did not vote together on the measures, with numerous DC members of parliament abstaining during the final vote. In the end, the plethora of changes introduced into the package raised the estimated public sector borrowing target from the original L110,000bn to L112,500bn[100].

Furthermore, in place of concrete deficit-cutting measures, the Craxi government again resorted to one-off budget measures, including income tax and social security increases, and cuts to local government funding, welfare agency transfers, health services and public sector employment[101]. The government further off-loaded its responsibilities for health service management and transportation services onto the regions, without

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[99] Ibid., p.107; Della Sala, 'The Italian Budgetary Process', p.121.

[100] The original estimate of L110,000bn would have stabilized borrowing at the previous year's level. Scalzini, 'Approvata la legge finanziaria per il 1986: per un anno di sviluppo' *Vita italiana* 36:1 (Jan-Feb 1986), p.27; Della Sala, 'The Italian Budgetary Process', p.122.

[101] Fazio, *Il bilancio dello Stato*, pp.62-64; See also V. Chiorazzo *et al.*, 'Fiscal Developments in Italy and the Possibilities for Reducing Public Deficits' *European Economy* 3 (1994), pp.226-240; A. Monorchio, 'The Re-qualification of Public Spending and the Control Over Its Principal Components: Health Service, Pensions, Local Authorities and Education' *Review of Economic Conditions in Italy* 2 (May-Aug 1992), pp.163-191; M. Baldassarri and M. Gabriella Briotti, 'The Government Budget and the Italian Economy During the 1970s and 1980s: Causes of the Debt, Strategy for Recovery, and Prospects for Restructuring', in M. Baldassarri, R. Mundell, and J. McCallum, eds., *Debt, Deficit and Economic Performance* (New York: St. Martin's, 1993), pp.341-404.

providing additional resources[102]. Yet, more substantive structural cuts proved elusive in this period.

The budget session of Autumn 1985 clearly highlights the immobilism that existed in budgetary politics at that time. In spite of the implementation of institutional and procedural modifications to budgeting, and despite the intense financial constraints that Italy faced in this period, the divisions within the governing coalition, which became manifest both in cabinet and parliament, prevented the implementation of effective deficit-cutting provisions. The finance laws for 1984 and 1985 succeeded because they did not entail difficult policy choices. Yet, the 1986 finance law, introduced at a time of heightened financial stress, and initially consisting of more ambitious measures, demonstrated the incapacity of governments to pursue deficit-cutting policies.

In early 1986, the parliamentary budget committees proposed additional institutional reforms to budgeting, and Treasury Minister Goria introduced the first DPEF on an experimental basis[103]. Yet, comprehensive budget reforms were delayed due to the weakness of the second Craxi government, and the anticipation of early elections. The budget package for 1987 remained a less ambitious pre-electoral budget that consisted of modest measures to win over coalition partners and voters. The implementation of the 1987 budget was followed by the collapse of the second Craxi government in early 1987, after which the DC's Fanfani presided over the council of ministers until the elections that year.

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[102] As noted earlier, the central government increasingly off-loaded responsibilities onto the regions, and, at the same time, reduced the regions' role in the budgetary process, particularly after 1988. See Fazio, *Il bilancio dello Stato*, pp.63-64.

[103] See earlier in this chapter. See also Verzichelli, *La politica di bilancio*, p.179.

In sum, the events of autumn 1985, and the failed deficit containment policies of the 9th legislature more generally, highlight the difficulties inherent to budgetary politics during the era of immobilism. Although Treasury Minister Goria took important steps to increase the treasury's authority in budget policy co-ordination within the executive, the treasury minister remained unable to convince his cabinet colleagues to accept his austere medium-term deficit-cutting objectives. The council of ministers was dominated by pro-growth and pro-spending advocates, led by Prime Minister Craxi and right-wing DC factional leaders. Consequently, spending advocates blocked the deficit-cutting initiatives of the treasury ministry both within the council of ministers and parliament[104]. The budgetary immobilism was to worsen during the 1987-92 period.

Budgetary Politics during the 10th Legislature, 1987-92

During the 1987-92 period of the 10th legislature, international concern over Italy's public finance situation grew considerably. The EC and financial markets were disappointed at Italy's inability to launch a successful deficit-cutting programme during the 1980s. As the process of European integration accelerated in this period, there was an emerging consensus among observers that Italy's public finance imbalances would make it a weak partner for further integration. By 1991, when Italy's debt to GDP ratio rose above 100 percent, the EC and international financial markets became increasingly

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[104] Verzichelli, 'Le politiche di bilancio', p.189; G. Regonini, Il principe e il povero: politiche istituzionali ed economiche in italia negli anni '80', *Stato e mercato* 39:1 (1993), pp.361-403.

alarmed at the country's financial prospects[105]. Integration became a more salient political issue in the early 1990s as developments in Eastern Europe and the USSR made the EC more committed to the process. The events of this period dramatically increased the salience of the *vincolo esterno*.

Developments in the international system were also accompanied by changes in the Italian party system, which were closely connected to international events of this period. These years witnessed the transformation of the PCI into the PDS, and the growth of the new 'anti-system' Northern League. Moreover, the electoral support for the *pentapartito* coalition deteriorated in the early 1990s. The DC, in particular, saw its share of the vote decline, as the LN made inroads into DC strongholds in Italy's Northeast. As early as the 1990 local elections, the LN took 18.9 percent of the vote in Lombardy[106]. Furthermore, as the support for the DC and its allies eroded, internal tensions grew within the parties of the *pentapartito*. However, party leaders, particularly within the DC, remained unable to adapt their political strategies to the changed international and domestic environment. One scholar notes of the DC that 'The pressures for institutional reform were more intense than ever, but found no coherent echo within the party leadership'[107].

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[105] Swann, *The Economics and the European Union*, pp.21-25; Hine, *Governing Italy*, pp.285-286; Von Hagen and Harden, 'Budget Processes and Commitment to Fiscal Discipline', *IMF Working Paper* n.78 (July 1996); Della Cananea, '*Indirizzo e controllo della finanza pubblica*, pp.53-60.

[106] On the PCI transformation, see G. Amyot, 'The PCI and Occhetto's New Course: The Italian Road to Reform' in R. Y. Nanetti and R. Catanzaro, eds., *Italian Politics: A Review* 4 (London: Pinter, 1990); S. Hellman, 'Italian Communism in the First Republic', in S. Gundle and S. Parker, eds., *The New Italian Republic*, pp.72-85; On the Northern League, see See I. Diamante, 'The Northern League: From Regional Party to Party of Government', in S. Gundle and S. Parkers, eds., *The New Italian Republic*, pp.113-7.

[107] P. Furlong, 'Political Catholicism and the Strange Death of the Christian Democrats', in S. Gundle and S. Parker, eds., *The New Italian Republic*, p.62.

Amidst this climate of growing international pressure, rising domestic political tensions, and a worsening public finance situation, two reformist prime ministers sought to implement convincing budgetary policies. Prime Ministers Goria and De Mita made deficit containment and budget reform their central priorities. The first government of the 10th legislature, led by ex-Treasury Minister Goria, was labelled *un governo di programma*, 'a programmatic government'[108]. Goria's appointment of PSI academic Giuliano Amato to the treasury reflected the prime minister's commitment to deficit containment.

Shortly after taking power, Goria steered through a mini-budget decree in the summer of 1987 to make up for the expected budget shortfall. Yet, the effects of the mini-budget were lost, however, when the world's stock markets crashed in autumn 1987. The financial instability of autumn 1987 prompted the Goria government to revise its budget objectives for 1988. The spending and borrowing targets for the medium-term DPEF and the annual budget package were made more restrictive. However, the new DPEF figures were not approved in cabinet.

During the council of ministers meetings of Autumn 1987, Goria and Amato found themselves isolated and unable to muster adequate coalition support for the budget measures. Cabinet and parliamentary modifications to the budget package raised estimated borrowing from L109,500bn to L125,000bn, while the finance law was approved late (see Table A.7). After the humiliatingly late approval of the budget

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[108] 'Un governo di programma', *Vita italiana* 37:4 (July-Aug 1987), p.5.

package in March 1988, Goria resigned[109]. One observer of the 1987 budget session notes:

> The principal objective of the first draft of the finance law was to contain the public sector deficit. But, as was pointed out, the government found itself in the difficult situation of not having coalition support. The parties that supported the government's programme felt themselves free of any common obligation, and therefore the agreed upon programme was subjected to continuous modifications in order to obtain the consensus of all five parties[110]

Following the difficult budget session of autumn 1987, additional procedural and institutional changes were introduced by the De Mita government of 1988-89. As discussed in chapter two, the treasury's pre-eminence in public finances was further enhanced through the provisions contained in law 67, Goria's 1988 finance law. De Mita also issued a prime ministerial directive that gave the treasury the dominant role in co-ordinating all matters related to public finances. Moreover, law 362 of August 1988 formally charged the treasury with preparing the medium-term DPEF document, while changes to parliamentary rules introduced a spring budget session for the examination of the DPEF. In addition, De Mita introduced law 400 of 1988 in an attempt to increase the prime minister's own pre-eminence in cabinet policy-making, and the executive's policy-making authority vis-a-vis parliament. The prime minister also abolished the secret vote to improve parliamentary voting discipline[111].

Before the institutionalization of the DPEF by law 362 in August 1988, Treasury Minister Amato, reconfirmed as treasury minister by Prime Minister De Mita, presented a

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[109] Verzichelli, *La politica di bilancio*, pp.180-1 and fn 42; See also Verzichelli, 'Le politiche di bilancio', p.213, fn29.
[110] G. Mazza, 'Una crisi non facile da capire' *Vita italiana* 37:5-6 (Sept-Dec 1987), p.102.

second experimental DPEF for the years 1989 through 1992. It was presented in May of that year. The medium-term programme, dubbed the 'Amato plan', clarified Italy's financial objectives through 1992, the year that the single market was to come into being. The Amato plan was welcomed by the EC and international financial institutions. It helped stabilize Italy's financial position in 1988 and allowed the country to regain the confidence of financial markets[112].

While the DPEF for the 1989-92 period was ambitious in its scope, the De Mita government's annual budgetary objectives for 1989 proved unsuccessful. Although the new streamlined finance law, introduced with law 362 of 1988, reduced parliamentary conflict over this document, politicians now focused their attention on the *collegati*. In the council of ministers, the De Mita government's measures were supported by the treasury minister, the PRI and some reformist DC ministers. However, the budget provisions faced opposition from the 'CAF' alliance, consisting of the PSI's Craxi and the centre-right DC factional leaders, Andreotti and Forlani. The government also met strong resistance in parliament. While the finance law received parliamentary approval by the end of the budget session, 12 of the 14 *collegati* of the package did not receive adequate consideration during the budget session and were not approved by the end of the year. Many measures were not approved at all, while, for the few that were approved, there were heavy modifications[113].

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[111] See discussion of legislative and procedural changes to budgeting in chapter two. On law 400 of 1988, see P. Barrera, 'The First Institutional Reform: New Discipline in Government Activity', in R. Nanetti and R. Catanzaro, eds., *Italian Politics: A Review* 4 (London: Pinter, 1990), pp.6-20.

[112] A. Janiri, 'Verso il risanamento della finanza pubblica', *Vita italiana* 38:4-5 (July-Aug 1988), p.157; OECD, *Economic Surveys: Italy* 1988-89, pp.76-80.

[113] Ginsborg, *L'italia del tempo presente*, pp.304-308; Verzichelli, *La politica di bilancio*, p.182; Senato della repubblica-servizio bilancio, 'L'applicazione delle riforme del 1988', pp.20, 101; Zangani, 'I provvedimenti collegati alla finanziaria', p.7; Verzichelli, 'Le politiche di bilancio', p.218.

De Mita's support both within the Christian Democratic Party and within the coalition had waned during this period, and, in 1989, his government was replaced by an Andreotti administration. Andreotti's government ruled Italy during the twilight years of budgetary immobilism, from 1989 through 1992. In this period, Prime Minister Andreotti demonstrated greater concern for maintaining cohesion within the governing majority than for carrying out substantive deficit-cutting measures. Amato was replaced at the treasury by former central bank governor Guido Carli. During these years, Carli, while strongly committed to reform, remained powerless against the coalition of interests dominating the *pentapartito*.

The Andreotti budget packages were less ambitious than the Goria and De Mita packages. Yet, they proved equally unsuccessful. The 1990 budget package saw 7 of 8 *collegati* approved late. In 1991, a similar situation occurred, with 2 of 5 *collegati* being approved late (see Table A.8)[114]. Whilst the finance law's timely approval in these years was trumpeted by Andreotti as a positive development in budgetary politics, the government continued to postpone tough decisions over welfare, the health system, and privatization. Moreover, the substantive measures that were contained in the *collegati* received inadequate attention in parliament[115].

The failure of successive Italian governments to contain the deficit pushed Italy's debt to GDP ratio above 100 percent in 1991. Both international and domestic observers called on the Italian government to take more incisive action in the sphere of public finances. Italy's inability or unwillingness to implement deficit-cutting policies was a source of concern for its EC partners and the European Commission. Within Italy,

external guardian criticisms intensified in this period. The President of the Republic attacked parliament's spending abuses, as well as the behaviour of the political elite. The Constitutional Court issued ruling 384 of 1991, denouncing violations of article 81[116]. The central bank continued to press the government to implement tougher measures to curb financial instability[117].

Within the government, Treasury Minister Carli urged Andreotti to insert much-needed structural reforms into the 1992 budget package *collegati*. In early 1991, Carli insisted to his cabinet colleagues that welfare reform and privatization measures must be placed in the budget[118]. However, Prime Minister Andreotti countered the treasury's budget initiatives by issuing a directive in February 1991 which gave the prime minister full responsibility in budget policy co-ordination. It was a blatant move to reduce the treasury's pre-eminence in budgeting. According to the directive, ministerial spending proposals no longer needed to receive treasury approval, but, instead, were simply to be subject to a collegial vote in cabinet[119].

Responding to this attack on his authority, Treasury Minister Carli issued internal treasury circular 24 of March 1991. This *technical* document proved highly policy-oriented, setting out new medium-term financial targets and enumerating structural measures to be inserted into the government's medium-term economic programme. The

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[114] Senato della repubblica-servizio bilancio, 'L'applicazione delle riforme del 1988', p.102.
[115] Verzichelli, *La politica di bilancio*, p.183.
[116] Perez, 'Finanza, bilancio e contabilita pubblica', p.64; Forte, *Decisione politica e vincolo contabile*, pp. 79-81. Della Cananea, *indirizzo e controllo della finanza pubblica*, pp.134-135; Donati, 'Le ripercussioni delle pronuce giurisdizionali', pp.585-586; Ginsborg, *L'italia del tempo presente*, p.320.
[117] Bank of Italy, *Economic Bulletin* n.13 (Oct 1991), p.53; Bank of Italy, *Economic Bulletin* n.14 (Feb 1992), p.52.
[118] Carli, *Cinqu'anni di vita italiana*, p.386.
[119] See above for discussion of this prime ministerial directive. See also Colarullo 1995, pp.418-421; A. Cerboni and M. Cotta, 'Le privatizzazioni', pp.256-257.

treasury minister, moreover, issued this circular without consulting with the prime minister or the cabinet. It is the first time that actual *policy guidelines* were inserted into an internal technical circular of the treasury. Carli's actions raised tensions between himself and Andreotti, and the Carli-Andreotti conflict remained a central feature of cabinet budget discussions of September 1991[120].

During the summer and autumn of 1991, Andreotti called upon Italians to accept financial sacrifices and budget austerity. However, the prime minister, also preparing for an election that was due in 1992, sought a budget package that would satisfy his coalition partners' interests. Hence, while there was much public discussion of the need for reforms and deficit containment, and though the financial constraints on Italy were intensifying, coalition politics prevented reforms from being implemented as part of the 1992 budget. Political parties were more concerned about their *rational* short-term electoral interests than about the looming financial crisis[121].

In the autumn of 1991, cabinet negotiations reflected these varied and conflicting interests. Treasury Minister Carli sought pension reform and privatization measures as part of the 1992 budget. On the welfare front, Carli supported Labour Minister Marini's welfare reform proposals. So too did regional representatives, who argued that reforming the pension system was a more sensible way to reduce expenditure than the government's continued one-off cuts to regional transfers[122]. In spite of the broad support that existed for welfare reform, Carli and Marini were unable to convince cabinet colleagues to support the measures. PSI and right-wing DC ministers came out against the reforms,

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[120] Ibid., pp.420-421.

[121] This pre-election period might be analyzed from the perspective of public choice. See chapter one for a discussion of public choice theory. See also Verzichelli, *La politica di bilancio*, p.187.

while Prime Minister Andreotti provided Marini with only lukewarm backing. In the end, the Marini pension proposals were taken out of the 1992 budget package before the package was presented to parliament[123].

Treasury Minister Carli also failed to convince his cabinet colleagues to agree to insert privatization provisions into the budget package for 1992, although the treasury minister threatened to resign at one point over the issue[124]. As in the case of pension reform, a large segment of the DC and PSI ministers opposed the privatization proposals. Consequently, the measures were taken out of the *collegati*[125]. Furthermore, in parliament, the government made numerous additional concessions in return for swift approval of both the finance law and the *collegati*. The Andreotti government presented only 3 *collegati* with the package, but the parliamentary amendments transformed these *collegati* into 'ombinus' legislation. One of the *collegati* consisted of 80 articles and over 400 hundred clauses. In addition, total borrowing exceeded the government's original estimates, while the package as a whole gave little indication of a coherent government budget strategy[126].

Although all the *collegati* were approved before the end of the budget session for the first time, parliamentary budgeting behaviour drew criticism from external guardians, particularly the President of the Republic, who at one point threatened not to sign the finance bill into law[127]. Moreover, the measures proved inadequate to address Italy's

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[122] Pistelli , pp.518, 526.
[123] Verzichelli, 'Le politiche di bilancio', p.220.
[124] Cerboni and Cotta, 'Le privatizzazioni', p.257.
[125] M. Cataldo, *Storia dell'industria italiana* (Rome: Edizioni Newton Tascabili, 1996), pp.90-91; Cerboni and Cotta, 'Le privatizzazioni', pp.258-259.
[126] Ibid., pp.103-104; Senato della repubblica-servizio di bilancio, 'L'applicazione delle riforme del 1988', p.23.
[127] Verzichelli, *La politica di bilancio*, p.189.

financial difficulties. Shortly after the budget package's approval, the Court of Accounts produced a report indicating that the 1992 budget measures would not solve the emerging public finance crisis[128]. In March 1992, Budget Minister Cirino Pomicino announced that he expected that the next government would have to implement corrective measures by the middle of 1992[129].

Treasury Minister Carli, who lost his battle to insert welfare and privatization provisions into the 1992 package, lamented the immobilism in budgetary politics and the inability of the Italian government to implement budgetary policies geared towards fulfilling its European obligations. A 1992 treasury report states:

> The vast powers of parliament to propose amendments to public finance legislation produces a consequence that renders problematic the compatibility [of amendments] with the government's financial programme...If we desire to fulfil the obligations undertaken with our signing of the Maastricht Treaty, we urgently need to carry out institutional reforms.[130].

Nevertheless, it was only during the transition period in budgetary politics that Italy began to carry out its EU commitments. The 10th legislature closed as it had begun, with the Italian political class unable to pursue budgetary policies geared towards solving Italy's worsening public finance situation. In place of substantive deficit-cutting provisions, the budget packages of the 1979-92 period witnessed temporary budget measures as well as spending limits that were repeatedly overshot[131]. While this era also saw important changes to Italy's budget procedures and institutions, the new institutional

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[128] F. Anderlini and R. Leonardi, 'Gli avvenimenti del 1991', in F. Anderlini and R. Leonardi, eds., *Politica in Italia: Edizione 91*, p.22.
[129] S. Hellman and G. Pasquino, 'Gli avvenimenti del 1992', in S. Hellman and G. Pasquino, eds., *Politica in Italia: Edzione 91*, p.12.
[130] De Ioanna, *Parlamento e spesa pubblica*, p.12.
[131] Verzichelli, 'Le politiche di bilancio', p.218.

setting could not bring about a change in budget behaviour nor could it eliminate incremental budget outcomes.

Conclusion

In 1992, Italy's signing of the Treaty on European Union had deepened its European commitments. At the same time, it also heightened European concerns over the state of Italy's public finances. After more than a decade of immobilism in budgetary politics, Italy reached a crisis point. To be sure, many important developments took place in budgetary politics, the most notable of these being the growing pre-eminence of the treasury ministry. However, the era of immobilism was also a period in which changes to budget rules and institutions failed to provide a framework for more efficient and effective budgeting. The most recent institutional and procedural innovations of the 1988-89 period merely shifted the locus of budgetary conflict from the finance law to the *collegati*.

The conflictual budget environment, both within the council of ministers and in parliament, was linked to the dominance of the *pentapartito* coalition. Under this five-party coalition, substantive deficit-cutting measures and budget reforms were eschewed in favour of self-interested partisan policy-making, and the period witnessed intense intra-coalition competition over posts and resources. As a result, Italy's crisis in public finances worsened significantly during the final years of budgetary immobilism. While the treasury's deficit-cutting proposals received greater support from external guardians, who more actively intervened in budgetary matters during the 10th legislature, and

although the financial constraints on Italy heightened considerably in this period, budgetary immobilism and incremental budgeting persisted. By 1992, universal concern over the state of Italy's public finances helped precipitate a financial and political crisis.

Chapter 4: The Transition in Budgetary Politics, 1992-94

Introduction

The 1992-94 period marked a dramatic turning point in Italy's post-war history. Some observers have argued that the period of the 11th legislature witnessed an 'Italian revolution'[1]. Others have called this era 'the end of post-war politics' or the demise of the 'first republic'[2]. Although the 1992-94 period did witness important political and financial developments in Italy, the events of this period were not revolutionary in scope. In particular, since the period did not see fundamental constitutional and institutional changes to Italy's political system[3]. Yet, this dissertation contends that the period did witness a transition at the level of budgetary politics[4].

This chapter analyzes both the financial and political sides of the transition. It explores not only the transition in budgeting in this period, but also the changes in the country's party politics. The transition in budgeting took place principally during the 1992-93 period, and witnessed the use of novel budget strategies and instruments. It also involved a shift from incremental to non-incremental budget outcomes. The political side of the transition also began in 1992, but was only completed with the gradual

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[1] M. Gilbert, *The Italian Revolution: The End of Politics, Italian Style?* (Boulder, Co.: Westview Press, 1995).

[2] G. Pasquino and P. McCarthy, eds., *The End of Post-War Politics in Italy: The Landmark 1992 Elections* (Boulder, Co.: Westview Press, 1993); see also C. Mershon and G. Pasquino, eds., *Italian Politics: Ending the First Republic* (Boulder, Co: Westview, 1995).

[3] M. Bull and M. Rhodes, 'Between Crisis and Transition: Italian Politics in the 1990's,' in M. Bull and M. Rhodes, eds., *Crisis and Transition in Italian Politics* (London: Frank Cass, 1997), p.11.

[4] The Italian economic literature views this period as marking a turning-point or transition in Italian public finances. See, for example, A. Monorchio, ed., *La finanza pubblica dopo la svolta del 1992* (Bologna: Mulino, 1996).

emergence of a more adversarial party system at the end of the 1993-94 Ciampi period. Both budgetary developments and the changes in party politics, the two sides of the Italian transition, are treated below.

Tightening Constraints on Budget Choices

Transitions from incremental to non-incremental budgeting often are associated with significant institutional developments during a period of crisis, because financial or political crisis can break the crust of incremental budgeting and bring about dramatic changes in the direction of policy. In chapter one, it was noted that the economic slowdown and financial instability of the 1970s resulted in a shift towards macro-budgeting and the beginning of non-incremental budget outcomes among many industrialized nations. In another instance, the political crisis of the French Fourth Republic gave way to a new constitution in 1958 and subsequent legislative changes in 1959 that brought about a more executive-dominated budgetary process. While the constitutional changes in France could not always prevent parliament from altering government policy objectives, particularly when the government did not enjoy a stable majority in parliament, the political and institutional changes introduced did result in more stable budget outcomes on the whole[5].

In Italy, however, the period of the early 1970s, which proved to be a decisive crisis point in budgeting for many advanced industrialized countries, did not bring about a similar policy shift. Furthermore, the budget reforms of the late 1970s and 1980s did

not succeed in producing non-incremental budget outcomes. Rather, Italy had to confront a more difficult period of political and financial crisis in the early 1990s before it committed itself to addressing its deteriorating public finance situation. By that time, Italy was facing intense external pressure to bring down its spending, deficit and public debt levels.

After Italy signed the Treaty on European Union (TEU) in February 1992, these constraints became ever more pronounced. Although Italy had formally committed itself to the convergence policies set out in the Maastricht Treaty, it looked increasingly like an unsuitable partner for further integration. The Treaty, put together following a series inter-governmental conferences (IGC's) held in the early 1990s, committed European countries to work towards full economic and monetary union by the end of the decade[6]. Yet, the signing of the TEU in early 1992 was followed by a period of financial and political instability in Europe, with treaty ratification failing to go smoothly in several countries.

Although the TEU was quickly ratified by the legislatures of most member states, it was unexpectedly rejected by the Danish population in a national referendum[7]. The Danish 'No' of June 2 sent shock waves through the EU and international financial markets. It also prompted French President Mitterrand to call for a referendum on the TEU in his country for September 20, in order to confirm the French people's support for

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[5] See discussion in chapter one.

[6] Swann, *The Economics of the Common Market*, pp.22-25.

[7] The TEU was ratified in the UK as late as July 1993 owing to internal opposition within the Conservative Party. In Germany, the Constitutional Court had to rule on the TEU's compatibility with the country's Basic Law. This ruling was handed down in 1993. See Nugent, *The Government and Politics of the European Union*, pp.59-64.

closer European integration. Uncertainty over its outcome heightened financial volatility during the summer of 1992[8].

The instability that resulted harmed primarily those countries with weak public finance positions. Financial markets were particularly concerned that, with the TEU in jeopardy, countries such as Italy would feel less obligated to reduce deficit and debt levels[9]. Italy's poor first quarter public finance projections for 1992, reported in March of that year, seemed to confirm financial market worries. Italian borrowing was already well above original budget estimates[10]. Hence, shortly after the announcement of the French referendum, EU finance ministers issued a strong warning to Italy to carry out structural measures in order to improve its public finances[11]. Within Italy, Bank of Italy Governor Calro Azeglio Ciampi cautioned Italian politicians that time was running out for Italy to take action to curb public expenditure. The central bank's reserves were being depleted by the repeated speculative attacks against the lira[12].

By late June, further evidence emerged of the poor state of Italy's public finances. Italy's Court of Accounts reported that government borrowing for 1991 exceeded the legal limits set out in the finance law[13]. Throughout the summer months, the Bank of Italy had to continue to shore up the lira against waves of speculation. It became clear that in order to relieve pressure on the currency and avoid further financial turmoil, Italy had to implement immediate and convincing deficit-cutting measures.

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[8] Ibid., p.61.
[9] *Financial Times* 23 June 1992, p.2 and 25 June 1992, p.2. Also see earlier article, 'Italy Heading for Relegation' *Financial Times* 14 Jan. 1992.
[10] S. Hellman and G. Pasquino, 'Gli avvenimenti del 1992', in S. Hellman and G. Pasquino, eds., *Politica in Italia: Edzione 91*, p.12.
[11] *Financial Times* 7 July 1992, p.11.
[12] *Financial Times* 25 June 1992, p.2.
[13] Forte, *Decisione politica e vincolo contabile,* p.67.

Political Crisis, Judicial Investigations and the 1992 Election

In addition to the growing financial instability, Italy was also confronted by an unfolding political crisis. The political party system became increasingly discredited as a result of widening judicial investigations into corruption. The corruption probes eventually brought about the demise of the political class that had ruled Italy for decades. The investigations, moreover, came at a time of declining electoral support for the DC and its *pentapartito* coalition, and the concurrent rise of anti-system parties such as the Northern League. The LN had already made significant gains in local and regional elections during the late 1980s and early 1990s, with much of its support coming at the expense of the DC[14]. In addition, the left-wing opposition was also in decline in this period, with the largest left-wing group, the PDS (ex-PCI), seeing its share of the vote consistently fall during the 1980s and early 1990s[15].

Italians' weariness of the political class and their desire for political renewal were already apparent before the start of the judicial probes in early 1992. In 1991, it was evidenced by the overwhelming endorsement of a proposal to abolish the multiple preference voting system. 90 percent voted in favour of this change to the electoral system, in spite of the fact that the proposal was opposed by all the main parties of the

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[14] Diamante, 'The Northern League', pp.114-116.

[15] The PCI's transformation into the PDS in 1990 led a sizeable number of Communists to form the 'Refounded Communists' or *Rifondazione communista* (RC), eroding the PDS's base of support in 1992. See Ginsborg, *L'Italia del tempo presente*, pp.297-304.

governing coalition[16]. In short, the judicial investigations that began in early 1992 only heightened the disaffection towards a political class now accused of blackmail and kickbacks. The investigations received widespread media attention, while the investigating magistrates enjoyed strong public support[17].

Hence, in April 1992, Italians went to the polls against a background of growing financial uncertainty and public disillusionment with Italy's politicians. Consequently, Italy's political parties could not remain unaffected. Both the main governing and opposition parties experienced electoral losses. The DC's share of the vote dropped from 34.3 percent to 29.7 percent, the first time that its voting share fell below 30 percent in the post-war period. Electoral support for the PDS also declined to 16.1 percent, with the 'Refounded' Communists (RC) taking 8.7 percent. Yet, the combined total of the ex-PCI vote was far less than the 26.6 percent that the PCI had received in the previous national vote of 1987.

The PSI's share of the vote also declined, albeit marginally, from 14.6 percent to 13.6 percent[18], and the small centrist parties of the *pentapartito* maintained their voting shares[19]. However, the biggest winner in the 1992 elections was the LN, which took 8.7

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[16] S. Parker, 'Electoral Reform and Political Change in Italy, 1991-1994' in S. Gundle and S. Parker, eds., *The New Italian Republic*, pp.41-42.

[17] The '*mani pulite*' or 'clean hands' investigations into corruption were begun by Milan magistrates in February 1992. On February 17, the investigating magistrate Antonio Di Pietro announced that Mario Chiesa, a local PSI politician, was under investigation for bribery. Di Pietro soon became a national hero and a symbol of the fight against political corruption. For a discussion of these events, see A. Silj, *Malpaese: Criminalita, corruzione e politica nell'Italia della prima Repubblica, 1943-1994* (Rome: Donzelli, 1994), pp.417-448; P. Colaprico, *Capire Tangentopoli* (Milan: Il Saggatore, 1996); C. Guarnieri, 'The Judiciary in the Italian Political Crisis', in M. Bull and M. Rhodes, eds., *Crisis and Transition in Italian Politics*, p.166 and fn20.

[18] J.L. Newell and M. Bull, 'Party Organisations and Alliances in Italy in the 1990s: A Revolution of Sorts', in M. Bull and M. Rhodes, *Crisis and Transition in Italian Politics*, pp.83-90; S. Parker, 'Electoral Reform and Political Change in Italy', pp.42-43.

[19] The Liberals, Republicans and Social Democrats maintained their voting shares but were subsequently weakened by corruption probes. See M. Donovan, 'The Fate of the Secular Centre: The Liberals,

percent of the vote, up from less than 1 percent in 1987. More impressively, the LN took 17.3 percent of the vote in Northern Italy as a whole, and one out of every four votes in Veneto[20]. In addition, another anti-system party emerged in the South in 1992. *La Rete* made inroads into the DC and MSI strongholds in the *Mezzogiorno*, capturing 1.9 percent of the vote[21]. In short, with voter mobility reaching its highest level since the early 1950s, the 1992 vote proved to be an electoral earthquake[22]. The *pentapartito* coalition which had ruled Italy for over a decade was irreparably weakened.

Owing to the weaker electoral showing of the DC and the widening judicial probes, coalition negotiations became more complicated than had originally been anticipated[23]. Before the vote, it was widely expected that Craxi would become prime minister in 1992, and a new four-party coalition would be formed[24]. Craxi was then expected to propose either Forlani or Andreotti for the presidency of the Republic, since President Cossiga was scheduled to step down in July 1992[25]. However, the events that transpired in the days and weeks after the vote altered the calculations of political actors.

Republicans and Social Democrats' in S. Gundle and S. Parker, eds., *The New Italian Republic*, pp. 103-107.

[20] J.L. Newell and M. Bull, 'Party Organisations and Alliances in Italy in the 1990s: A Revolutions of Sorts', in M. Bull and M. Rhodes, *Crisis and Transition in Italian Politics*, pp.83-90; S. Parker, 'Electoral Reform and Political Change in Italy', pp.42-43; Diamante, 'The Nothern League', p.115.

[21] On *La Rete* see J.M. Foot, 'The 'Left' Opposition and the Crisis: Rifondazione and La Rete', in S. Gundle and S. Parker, eds., *The New Italian Republic*, pp.178-183. The anti-system neo-fascist *Movimento sociale italiano* (MSI) transformed itself into the *Allianza Nazionale* (AN) months after the vote in October 1992. On the MSI and AN see P. Ignazi, *L'estrema destra in Europa* (Bologna: Mulino, 1994).

[22] D'Alimonte and Bartolini calculated voter mobility at 11.5 percent in 1992, the highest level since 1953, when voter mobility reached 14.1 percent. see R. D'Alimonte and S. Bartolini, ' "Electoral Transition" and Party System Change in Italy' in M. Bull and M. Rhodes, eds., *Crisis and Transition in Italian Politics*, p.121.

[23] S. Hellman, 'Politics Almost as Usual: The Formation of the Amato Government' in G. Pasquino and P. McCarthy, eds., *The End of Post-War Politics in Italy: The Landmark 1992 Elections* (Boulder: Westview, 1993), pp.143-148.

[24] The PRI had withdrawn its support from the *pentapartito* coalition because of its hostility to the CAF alliance forged between Craxi, Andreotti and Forlani (CAF), already addressed in chapter three. See Ginsborg, *L'Italia del tempo presente*, p.479.

[25] Ibid., pp.146-147.

After the election, Cossiga suddenly resigned, forcing the parties to fill the presidency sooner than expected. During the political party negotiations over the presidency and premiership, anti-mafia magistrate Giovanni Falcone was assassinated. The Falcone murder of May 1992 heightened public outrage at a political class now viewed not only as corrupt but also as incapable of protecting state officials or its citizens[26]. The event galvanized parliament into action, and the chambers shortly after elected Oscar Luigi Scalfaro to become President of the Republic.

However, several more weeks passed before the political class could agree upon a choice for the post of prime minister. Craxi continued to insist on his own candidacy for the post, but political parties, faced with such strong public scorn, did not want to select an individual who did not enjoy the public's trust. Craxi's judicial troubles and aggressive attitude towards the Milan magistrates alienated the public and convinced many in the political class that the PSI leader would not be a suitable candidate for prime minister. Craxi, however, refused to give up his bid for the premiership until mid-June, when he finally withdrew his candidacy and proposed three alternative PSI candidates instead. Giuliano Amato, one of these three candidates, was chosen by parliament. On June 18, Amato was formally asked by President Scalfaro to become the head of a four-party coalition government, consisting of the PSI, DC, PLI and PSDI[27].

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[26] The murder of Falcone in Capaci, Sicily, in May 1992, was followed by the assassination of another anti-mafia magistrate, Paolo Borsellino, in July 1992. This sparked further public outrage. See Ginsborg, *L'italia del tempo presente*, pp.488-489 and 493.

[27] D. Hine, 'The Italian Socialist Party and the 1992 General Election' in G. Pasquino and P. McCarthy, eds., *The End of Post-War Politics in Italy: The Landmark 1992 Elections*, pp.60-61; See Hellman, 'Politics Almost as Usual', pp. 150-152; also S. Hellman and G. Pasquino, 'Gli avvenimenti del 1992' in Hellman and Pasquino, *Politica in Italia. Edizione 92*, p.21.

The New Amato Government and the July Corrective Mini-Budget

The worsening financial situation necessitated a swift cabinet selection process and decisive policy actions on the part of the new prime minister. On June 24, even before the new cabinet had been sworn in, the prime minister released a twenty-three page report outlining his proposed deficit-cutting measures. The report also underscored the government's commitment to electoral reform and resolving the issue of corruption in public life[28].

By June 28, Amato's new cabinet had been sworn in. During the process of cabinet selection, Amato, unlike his predecessors, did not wait for recommendations from political party executives. Instead, the prime minister contacted individuals and their parties to invite them to serve in his cabinet[29]. The prime minister also sought to distance himself and his government from the growing political scandal by not selecting individuals who were under investigation for corruption. This left many experienced politicians out of the running for cabinet. However, the political conditions also permitted the prime minister to bring the previously exiled Reviglio and Andreatta, DC politicians with strong economic credentials, back into government. They had not served in government since the early 1980s[30].

The treasury portfolio went to Piero Barucci, an economist and former head of *Credito Italiano*. Reviglio, who had previously been an economics professor in Turin

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[28] *Financial Times* 25 June 1992, p.2.
[29] Amato, 'Un governo nella transizione: La mia esperienza di presidente del consiglio' *Quaderni costituzionali* 14:3 (Dec. 1994), pp.362-366.
[30] Andreatta entered the Amato cabinet only in early 1993 after several ministers resigned due to judicial investigations.

and had served in the Cossiga governments, became the budget minister. Giovanni Goria, who had been a reform-minded treasury minister and prime minister during the period of immobilism, was given the finance ministry[31]. Overall, Amato's ministers had weaker party affiliations and greater technical credentials than did ministers of the preceding cabinets. Moreover, while Amato's cabinet selection process broke with past political practices, the prime minister in effect was properly employing the powers formally invested in him by Article 92 of the Constitution[32].

While the composition of the new Amato government sent a positive message to financial markets, Italy's financial position continued to erode in June following the Danish referendum. The lira experienced repeated speculative attacks, while Moody's, the international bond rating agency, having already downgraded Italian bonds from AAA to AA1, threatened to downgrade Italy's bond rating even further. Italy was the only G-7 country at the time without a triple-A rating[33].

Against a background of growing financial turmoil, the Amato government announced its intention to implement an austere corrective mini-budget package in July. On July 10, the government presented its corrective mini-budget decree. Decree law 333 consisted of a combination of spending cuts and revenue hikes worth L30,000bn, which were intended to bring the projected deficit for 1992 down to L128,000bn, the original budget estimate. The mini-budget decree included several one-off measures, notably, a hiring freeze in the public sector, freezes in budget transfers to local authorities, and a

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[31] On Amato's economic ministers, see *Financial Times* 29 June 1992, p.4. See also P. Barucci, *L'isola italiana del tesoro* (Milan, 1995).

[32] Under article 92, the prime minister selects the cabinet and then presents it to the President of the Republic. See Amato, 'Un governo nella transizione', p.362-3

[33] *Financial Times* 7 July 1992, p.11.

special tax on all bank and postal deposits (see Table A.9). Although the Amato government's mini-budget was significant, and reflected unusual policy decisiveness, observers doubted that the mini-budget was sufficient to bring the deficit to its original target[34]. The colourful parliamentary debate over the mini-budget lasted just over a month, with decree law 333 being successfully converted into ordinary legislation, law 359, on August 8[35].

In July, when the legislature was considering the mini-budget decree, the Amato government pursued other measures to rebuild international confidence in Italy and its commitment to fiscal austerity. The government presented to parliament an extraordinary request for a *legge delega*, or special delegated authority, to carry out substantive deficit-cutting measures by way of a series of *decreti legislativi*, or legislative decrees. The Amato government sought special authority in order to carry out reforms to the health sector, public employment, the pension system and the financing of local authorities without having to consult parliament further[36].

However, Italy's political parties vociferously objected to Amato's 'emergency' request for special delegated authority. Both cabinet ministers and parliament opposed the idea of the *delega*, fearing that it would undermine parliament's authority and give the prime minister too much power. Amato did not press the issue in July, because the

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[34] *Financial Times* 14 July 1992, p.2; *Corriere della sera* 14 Oct. 1992, p.31.

[35] This was well within the sixty-day limit during which time the decree must be converted by parliament. See F. Sorrentino, 'Le fonti del diritto', in G. Amato and A. Barbera, eds., *Manuale di diritto pubblico*. Fourth edition. (Bologna: Mulino, 1994), pp.146-149; See also Scotti, 'Procedure per il bilancio e la legislazione finanziaria', p.30.

[36] The *delega* derives from articles 76 and 77 of the constitution, which stipulate that the government must identify, in its request for special authority, the sectors in which it would intervene and the length of time that the special authority is required. The legislative decrees that are based on the *delega* come into force fifteen days after being approved by the council of ministers. See F. Sorrentino, 'Le fonti del diritto', pp.143-146.

prime minister did not want to delay the approval of the mini-budget decree and heighten the level of political instability during a period of financial uncertainty. Nonetheless, as is discussed below, Amato again made a request for special delegated authority when Italy experienced a currency crisis in mid-September[37].

Instead, Amato pursued other strategies in July to calm financial markets, while the government and international observers waited for parliament to convert the mini-budget decree into ordinary legislation. Prime Minister Amato was frequently interviewed by the international financial media, and used these opportunities to underscore Italy's commitment to deficit containment and structural reforms[38]. Moreover, in the same period, Treasury Minister Barucci also brought forth the government's privatization plans. Barucci stated that Italy's main state holding companies, IRI, ENI and ENEL, as well as the state's main insurance company, INA, would be transformed into joint stock companies, and that the treasury ministry would assume control of these firms until further privatization provisions were put into place[39].

While the Amato government took several important steps to ease international concerns during the summer of 1992, the prime minister also adopted an assertive approach in his dealings with political parties and parliament in this period. The prime minister continually warn Italy's political class about the dire financial situation facing the country, and of the fact that the legislature had no alternative but to support the government's budgetary policies. Amato threatened to resign if his government's

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[37] Cazzola, *Lo stato sociale tra crisi e riforme: il caso italia*,pp. 66-67; Cazzola, *Le nuove pensioni degli italiani* (Bologna: Mulino, 1995), p.36.

[38] In an interview with the *Financial Times*, Amato emphasized the 'technical' nature of his government and its commitment to improving its public finance situation. He pointed to his medium-term DPEF plan, released in July, as evidence. See *Financial Times* 19 July 1992, p.18.

measures were rejected or watered down, and the prime minister attached confidence votes to the legislation to force the provisions through parliament without changes[40].

As a result, the prime minister was able to survive attempts by party executives to undermine his leadership during July's parliamentary discussions. At one point, Forlani's faction within the DC proposed a rule that would compel politicians serving as ministers in the cabinet to resign their parliamentary seats. Forlani argued that the functions of cabinet ministers had become 'incompatible' with their roles as parliamentarians. This proposal was presented by the DC leadership in an attempt to weaken the Amato cabinet, with the proposal amounting to a veiled threat to DC ministers that their influence within the DC would wane if they did not resign their cabinet posts. In the event, only Vincenzo Scotti resigned his foreign ministry portfolio. Scotti's action prompted a strong rebuke from the President of the Republic, who criticized Scotti for having abandoned his ministerial responsibilities. In contrast to Scotti, Claudio Vitalone, the minister for foreign trade, gave up his senate seat. At the conclusion of the incompatibility debate, the Amato cabinet had suffered only one defection, and had emerged strengthened, rather than weakened, by developments. It was an important event in the transition in party politics, for it illustrated that, for the first time, ministers remained more loyal to the prime minister than to party executives[41].

In negotiations over budget policy, Prime Minister Amato spent less time consulting with party executives and internal party experts. The principal consultations

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[39] *Financial Times* 20 July 1992, p.35.
[40] Amato, 'Un governo nella transizione', p.367; See also Ginsborg, *L'italia del tempo presente*, pp.510-511.
[41] Hellman, 'Politics Almost as Usual', pp.156-157; Hellman and Pasquino, 'Gil avvenimenti del 1992', pp.22, 25; See also *Financial Times* 39 July 1992, p.2; *Financial Times* 31 July 1992, p.2.

between the prime minister, party executives and parliamentary group leaders occurred over parliamentary rules, in order to facilitate the passage of budget legislation through parliament[42]. Yet, while the prime minister negotiated less with political parties, Amato also dealt more directly with the Italian electorate and interest groups. Amato made a strong effort to get trade unions to support the government's austerity measures. Eschewing the party-mediated negotiations of the past, the government discussed its economic policy objectives directly with the trade union leadership. This helped the government gain trade union concessions in order to realize its policy goals[43]. The Amato cabinet successfully engineered a tripartite agreement that led to the implementation of a new wage settlement on July 31, which abolished the *scala mobile* system of wage indexation in order to reduce inflation and stabilize the economy[44].

The Amato government's policy autonomy was helped by the strong backing it received from external guardians during the summer and autumn budget negotiations. These external actors helped establish the credibility of the new Amato government. President Scalfaro's activism was particularly strong during this period, the early part of his presidency, with the president having 'few rivals in the articulation of the public mood'[45]. Scalfaro intervened regularly on social, political and economic questions during the transition period. Following the assassination of a second anti-mafia magistrate, Paolo Borsellino, in July 1992, the President joined Italian citizens in calling

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[42] Amato, 'Un governo nella transizione', p.366.
[43] Ibid., pp.366-7.
[44] Regini and Regalia, 'Employers, Unions and the State', pp.213-4.
[45] Hine and Poli, 'The Scalfaro Presidency in 1996', p.175; see also V. Della Sala, 'Le dismissioni di Cossiga e l'elezione di Scalfaro: presagio di presidenzialismo?' S. Hellman and G. Pasquino, eds. *Politica in Italia: Edizione 93* (Bologna: Istituto Cattaneo, 1994).

for tough anti-mafia measures[46]. As noted above, Scalfaro also criticized Scotti when the minister resigned to save his parliamentary seat and his position within the Christian Democratic Party. More generally, President Scalfaro repeatedly pledged his support for the Amato government and its austerity measures, even though the tough measures provoked strong political opposition and public discontent[47].

Another external guardian, the central bank, also provided strong political and technical support for the Amato government. The central bank governor issued repeated statements of support for the Amato government's summer and autumn budget measures. In July 1992, for example, during parliament's discussions over the mini-budget, Governor Ciampi addressed parliament to express his support for the Amato government's measures, emphasizing the fact that Italy had little choice but to hastily approve these emergency measures and carry out further structural reforms[48].

In sum, both the particular strategies pursued by the Amato government and the considerable support that the cabinet enjoyed allowed the government to see the budget measures through parliament and helped Italy regain the confidence of financial markets by early August. However, while the lira initially stabilized after the approval of the mini-budget early that month, bringing temporary relief to Italy's financial markets and prompting the central bank to cut its interest rates, financial instability returned towards the end of the summer[49].

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[46] *Financial Times* 20 July 1992, p.1.
[47] G. Pasquino and S. Hellman, 'Introduzione' in Pasquino and Hellman, *Politica in Italia. Edizione 92*, p.49.
[48] *Financial Times*, 23 July 1992, p.2.
[49] The central bank's official discount rate still remained as high as 13.25%. *Financial Times* 4 Aug 1992, p.2 and 16.

Prime Minister Amato and Treasury Minister Barucci continued their policy activism throughout the month of August, with Barucci announcing further privatization moves, notably, changes in the governing boards of the holding companies that were to be transferred to the treasury. Yet, the initiatives of the Amato government could not prevent renewed attacks against the lira[50]. The brief respite for the lira on financial markets was followed by another, more damaging, period of currency turmoil.

The Currency Crisis and the Budget Package for 1993

In late August 1992, tensions again mounted in Europe ahead of the French referendum on the TEU. Financial markets became concerned over the possible political and financial fallout from a negative vote in France, and again became focused on Italy's public finance situation. Observers felt that Italy's mini-budget had been 'too small to stabilise Italy's rapidly expanding government debt, let alone set it on a downward path'[51]. Market worries translated into a renewed wave of speculative attacks against the lira[52]. As the prospect for a 'No' vote in France increased, and concerns emerged that Treaty implementation might be delayed or scrapped altogether, the financial pressure on the lira intensified, as did pressures on the French franc and the British pound. The French currency's weakness directly resulted from the uncertainty over the outcome of

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[50] *Financial Times* 8 Aug 1992, p.2.
[51] *Financial Times* 4 Aug 1992, p.14.
[52] Hellman and Pasquino, 'Gli avvenimenti del 1992', pp.27-28.

September 20 referendum, while the prolonged recession in Britain contributed to attacks against the pound[53].

Adding to Europe's difficulties was the fact that EU member states proved unable to co-ordinate their monetary policies during this period of financial stress. In early September, national governments could not reach an agreement on realigning their currencies so that pressures on the weaker currencies would be reduced. The EU finance ministers and central bank governors, meeting in Bath on September 4 and 5, remained divided as to how to address the currency market turmoil. British officials asked Germany to reduce its interest rates in order to relieve pressure on other currencies. However, the German Bundesbank did not want to lower German rates for fear of prompting a rise in domestic inflation[54].

However, by September 13, the continued exchange rate turbulence forced European finance ministers and central bank officials to allow the Italian government to carry out a controlled 7 percent devaluation of the lira against the German mark[55]. The devaluation proved unsuccessful, and, by September 16, the lira fell below its new trading floor within the ERM, set at L810 to the German mark. On September 17, the Italian central bank was forced to take the lira out of the ERM[56].

The Amato government's policy response to the turmoil on currency markets was swift. Prime Minister Amato promised international observers that he would implement important structural reforms to restore international confidence in Italy, declaring that the

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[53] Ginsborg, *L'italia del tempo presente*, p.506; *Financial Times* 7 Sept 1992, p.2.
[54] A good summary of the September currency crisis was published by the *Financial Times*. see P Norman, *et al.*, 'Behind the ERM Crisis' *Financial Times* 11 December 1992, p.2.
[55] Ibid.
[56] *Financial Times* 17 Sept 1992, p.2.

lira's re-entry into the ERM would be a top priority. During the currency crisis, Amato announced the measures to be included in the 1993 budget package, two weeks before the budget package's formal introduction to parliament. The 1993 budget package was to consist of L93,000bn worth of deficit-cutting measures, an amount far greater than previously announced in July's medium-term DPEF document. It was the largest deficit-cutting package presented since the implementation of the finance law in 1978 (see Tables A.10 and A.11)[57].

The Amato government then moved quickly to implement the 1993 budget provisions, employing the exchange rate crisis as a tool to force the far-reaching budget measures through parliament[58]. Even before the lira's exit from the ERM, Amato had again asked parliament for *delega* powers to carry out structural reforms in key policy sectors[59]. Once again, parliament resisted Amato's request. In an attempt to calm parliament's concerns over the vast transfer of powers to the executive, Amato proposed to ask the central bank governor Ciampi to oversee the government's use of the *delega* to ensure that the government did not abuse its authority. Moreover, the prime minister also argued that precedents for this emergency transfer of power existed, citing the case of West Germany in 1967, where the legislature gave the government extraordinary powers to deal with the country's economic problems[60].

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[57] The July 1992 DPEF proposed a L83,000bn deficit-cutting package. Many economists felt that, given the currency crisis and the growing debt interest costs, a L100,000bn package might be necessary. However, the Amato government chose to present a package worth L93,000bn. See *Financial Times* 16 Sept 1992, p.22.

[58] J.I.Walsh, 'International Constraints and Domestic Choices: Economic Convergence and Exchange Rate Policy in France and Italy, *Political Studies* 42 (1994), p.256.

[59] Pasquino and Hellman, 'Gli avvenimenti del 1992', p.29.

[60] *Financial Times* 11 Sept 1992, p.18.

Nevertheless, after the currency turmoil of September16 and 17, parliament finally granted Amato's request for a *delega*. During the debate over the *delega* request, Amato was attacked both by opposition parties and by members of his governing coalition. The RC likened Amato's request for a *delega* to an attempted *coup d'etat*, while the Northern League's leader Umberto Bossi stated *'quando non si hanno i numeri per governari, si fanno le valigie, non si chiedono i pieni poteri'* [61]. Within the four-party coalition, ministers from Amato's own party, the PSI, criticized the prime minister's request for a *delega*. Moreover, Amato was also sharply criticized by Ciampi for having proposed that the central bank governor enter the political arena to oversee the government's use of the *delega*[62].

The request for a *delega* endorsed by parliament would allow the government to implement structural modifications by legislative decree in the areas of public employment, health, local finances and pensions. The government then began preparing a *delega* to be inserted into the budget package *collegati*[63]. The novel hybrid *delega-collegati* instrument would repeatedly be employed as a tool of budgetary policy in subsequent years.

After having received parliament's permission to present *delega* legislation, the Amato government then presented a second central feature of the 1993 budget package. Decree law 384 was presented on September 19. Once converted into ordinary legislation, the decree would make up a sizeable part of the 1993 budget measures.

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[61] Translated as 'When one does not have the numbers to govern, one pack's one's bags, one does not ask for greater (full) powers'. see *Corriere della sera* 17 Sept 1992, p.2.
[62] *Financial Times* 18 Sept 1992, p.2.
[63] *Financial Times* 17 Sept 1992, p.2; *Corriere della sera* 1 Oct 1992, p.2; Sorrentino, 'Le fonti del diritto', pp.143-146.

Decree law 384 contained measures that were extensive in scope and immediate in their effect. Specifically, the decree implemented short-term spending freezes on pensions, health services and public sector salaries. It also introduced new tax measures to augment tax yields from self-employed groups. The decree measures produced immediate financial effects for the 1992 fiscal year, and quickly stabilized Italy's financial situation[64].

While the decree measures produced immediate short-term effects, the longer term structural reform measures of the 1993 budget package were inserted into the *delega* and presented with the *collegati* during the budget session. The successful combination of short and medium-term budget instruments is a key feature that differentiated the budgetary politics of the Amato government from the politics of preceding governments[65]. The novel budget instruments helped contribute to the government's policy successes during the budget session of autumn 1992.

Furthermore, during the final days of September which witnessed the usual conflict within the council of ministers over the final form of the L93,000bn package, the treasury minister no longer remained isolated and engaged in losing battles against spending advocates. Instead, the prime minister and his economic ministers presented a united front in their commitment to the 1993 measures. There was close policy co-operation between the treasury minister and the prime minister, with little need for the treasury minister to display the kind of initiative that Carli had demonstrated during the

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[64] Scotti, 'Procedure per il bilancio e la legislazione finanziaria', p.31; Bank of Italy, *Economic Bulletin* n.16 (Feb 1993), pp.58-59.

[65] E. Colarullo, 'Le leggi collegate alla manovra finanziaria', pp.529-530.

previous Andreotti government[66]. Barucci himself notes in his memoirs that Amato would regularly ask for advice from him before going ahead with his policy initiatives. During the September currency crisis, for instance, Amato coordinated with the treasury minister over what expenditure to cut. Amato then decided which measures would be politically feasible and the best strategy to reach an agreement with spending advocates over the proposed cuts[67].

Amato still encountered resistance from various spending advocates on several key issues. For instance, Labour Minister Nino Cristofori opposed the pension freezes implemented by decree law 384 and the additional structural reforms contained within the *delega*. Another high profile conflict erupted between Barucci and Industry Minister Giuseppe Guarino over the proposed privatization of state enterprises. Guarino did not want his ministry to lose control of these holding companies, and suggested that the government create a new 'super-holding' company for the state's assets, instead of privatizing them through the treasury ministry. Barucci and Amato managed to isolate Guarino in cabinet and to ensure that the privatization measures were included in the budget package for 1993[68]. After an all-night session on September 30, the budget debate ended with all ministers supporting the measures, and without concessions that might compromise the L93,000bn deficit-cutting package. The measures were presented to parliament on October 1, marking the beginning of the ninety-day budget session[69].

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[66] See chapter three. See also D'Albergo, 'Rendimento istituzionale e logiche di azione organizzativa nella politica di bilancio', pp.761-2 and fn. 26.
[67] Barucci, *L'isola italiana*, p.330.
[68] *Corriere della sera* 1 Oct 1992, p.2; 2 Oct 1992, p.3.
[69] Verzichelli, 'Le politiche di bilancio', p.224.

During the autumn budget session in parliament, the prime minister employed various strategies to ensure that the legislature would approve the 1993 budget measures swiftly and without significant modifications. On October 1, at the outset of the budget session, the prime minister invited greater international interest in Italy's 1992 budgetary process by announcing that Italy was requesting a standby loan from the EU. The prime minister emphasized the fact that the EU loan conditions entailed ongoing European monitoring of Italy's public finances, stating to parliament that 'The EC will help us but on condition of being able to control our economic behaviour more strictly'[70]. The Brussels loan was to be disbursed in four instalments over a two-year period in 1993 and 1994. This would guarantee heightened EU scrutiny of Italy's financial situation over the medium term.

Moreover, in a further attempt to expedite the approval of the budget measures, Amato negotiated changes to the budget session rules with parliamentary groups at the beginning of the budget session[71]. Although Amato limited his consultations with party executives and parliamentary groups during the 1992 budget session, these new rules, agreed upon between the prime minister and the representatives of parliamentary groups, permitted the *collegati* to be examined before the finance and budget laws[72]. This was intended to give sufficient time to legislators to consider the key substantive measures of the budget package, since the late consideration of the *collegati* had been a problem in previous budget sessions. Moreover, the number of *collegati* presented by the Amato government was reduced to two in order to hasten their approval. These developments

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[70] 'E ora l'Europa ci dia una mano' *Corriere della sera* 2 Oct 1992, p.3.
[71] Amato 'Un governo nella transizione', pp.368-9; see also, Camera dei deputati-servizio studi, 'Provvedimenti collegati,' p.2.

were also significant for the fact that they did not involve formal changes to parliamentary procedures or legislative modifications. The importance of these developments is noted in a chamber of deputies report:

> In spite of the reform of parliamentary rules, the objective [of *collegati* approval during the budget session] was not reached due to the tempestuous deliberations during the first years (1989-1992). Only afterwards was this realised, when priority was given during the budget session to the examination and approval of the *collegati*[73]

A further innovation of the Amato period was the instrument of the *delega-collegati*, the insertion of delegated authority (the *delega*) into the *collegati* measures. This hybrid instrument was introduced to better ensure that the government would receive the necessary authority to issue legislative decrees to realize substantive structural reforms. The government's introduction of a *delega* into the *collegati* proved not only to be a departure from past practices, but it also served as an important precedent for subsequent governments during the period of executive governance[74].

Apart from the EU loan request, the negotiated changes to budget session procedures, and the new budget instruments, the Amato government also placed strong pressure on parliamentary groups to support the measures. The prime minister and his economic ministers repeatedly warned parliament that Italy's precarious financial position meant that the legislature had no alternative but to approve the 1993 measures swiftly. Amato threatened that he would resign if his budget package was rejected, and

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[72] Amato, 'Un governo della transizione', pp.366-367.
[73] 'Provvedimenti collegati', p.1.
[74] Senato della repubblica- servizio del bilancio, 'La decisione di bilancio per il triennio 1993-1995' *Documenti di base* (11th legislature, Feb 1993), p.11; A. Monorchio, 'Introduzione', in A. Monorchio, ed., *La finanza pubblica dopo la svolta del 1992* (Bologna: Mulino, 1996), p.7.

reminded the legislature that Italy's financial woes could worsen still[75]. Treasury Minister Barucci warned parliament that 'In order to allow a quick re-entry [into the ERM], the lowering of interest rates, and the recuperation of international credibility, it is necessary that the finance law and the *collegati* be approved as soon as possible'[76], while Budget Minister Reviglio cautioned parliament that 'The practically daily statements doubting the capacity [of this government] to bring the budget into equilibrium do not help'[77].

In spite of the assertiveness displayed by the Amato government, the parliamentary budget session of autumn 1992 was filled with political attacks and recriminations. While politicians were unable to oppose the government's budget measures as effectively as they had done in previous years, there was bitter resentment towards the Amato government's budget strategies. The government faced criticism from both opposition groups and coalition partners. The main parliamentary conflicts surrounded the two key measures of the 1993 budget package, the *delega* legislation and decree law 384.

Under the rules brokered between parliamentary groups, the *delega* was introduced with the *collegati* at an earlier stage than the finance and budget laws. To ensure its prompt approval, the Amato government attached a motion of confidence to the legislation. This action provoked 'perplexity' on the part of the president of the

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[75] D'Albergo, 'Rendimento istituzionale e logiche di azione organizzativa nella politica di bilancio' in Bassanini and Merlini, eds., *Crisi fiscale e indirizzo politico*, pp.756-757.
[76] 'Barucci e Reviglio spiegano la Finanziaria a un picolo drappello di deputati' *Corriere della sera* 3 Oct 1992, p.2.
[77] Ibid. The two economic ministers defended the budget measures to the media and the public. See 'Questa volta I sacrifici avviano il risanamento' *Corriere della sera* 2 Oct 1992, p.2.

chamber of deputies, who warned the prime minister at one point that it was 'necessary to give free choice to the political forces'[78].

Amato also increased pressure on parliament in other ways. On the day of the *delega* vote in the chamber of deputies, Amato presented the annual OECD report on Italy to the assembly. Amato had asked the OECD to release its report six weeks early so that he could employ the document as a tool to press parliament into approving the *delega* provisions. The OECD survey strongly supported the budget measures proposed by the Amato government[79]. On October 22, the *delega-collegato* received final approval as law 421, the government surviving the confidence vote that was attached to the legislation. Immediately after the vote, however, Amato reminded parliament that external monitoring of Italy's public finances would continue, stating 'We are at the beginning of a convalescence from a grave illness and we are under strict surveillance from abroad'[80].

Over the course of the next year, twenty-six legislative decrees were issued on the basis of the *delega* in the sectors of health services, pensions, public employment and local financing[81]. The health measures transformed the government's local health service units into private enterprises. They were intended to reduce political control of health care and to increase administrative autonomy within the health system. In addition, the government introduced modifications to public sector employee contracts,

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[78] *Corriere della sera* 12 Oct 1992, p.3.
[79] *Financial Times* 23 Oct 1992, p.2.
[80] *Corriere della sera* 23 Oct 1992, p.3.
[81] Scotti, 'Procedure per il bilancio e la legislazione finanziaria', p.31.

introducing greater market-style efficiency into the public sector[82]. Finally, the Amato government introduced the first substantive reform of Italy's pension system. The Amato pension reform is addressed in chapter six.

Having obtained parliament's approval for the transfer of a significant amount of legislative power to the executive, the Amato government still required that parliament convert decree law 384 into ordinary legislation. However, this drew a great deal of opposition both from politicians and from self-employed groups and trade unions. During the months of October and November, self-employed groups and their supporters in parliament mobilized against the new tax measures, the so-called '*minimum tax*'. These new tax rate coefficients for self-employed groups were intended to reduce tax evasion and increase the government's tax base. Both the political parties within Amato's coalition, as well as opposition groups, called on the prime minister to make concessions, as they feared a backlash from their constituents[83]. The DC and PSI party leadership met with Amato privately in an attempt to find a political solution to the measures. Yet, Amato defied political leaders within his own coalition as well as their self-employed supporters by not withdrawing the tax measures[84].

In the end, after weeks of demonstrations, opponents of the government's tax measures conceded defeat. The president of one key business association,

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[82] On changes to health services, see M. Ferrera, 'La partitocrazia della salute' in Cotta and Isernia, eds., *Il gigante dai piedi di argilla*, pp.69-72; See also, M. Ferrera, 'The Uncertain Future of the Italian Welfare State' in M. Bull and M. Rhodes, eds., *Crisis and Transition in Italian Politics*, pp.241-242; See also G. Cazzola, *Lo stato sociale tra crisi e riforme*, pp.144-146; On the reforms to the public sector, see G. Della Cananea, 'The Reform of Finance and Administration in Italy: Contrasting Achievements' in Bull and Rhodes, eds., *Crisis and Transition in Italian Politics*, pp.201-202; On pension reform, see chapter six.

[83] 'La DC cambia la minimum tax' *Corriere della sera* 21 Oct 1992, p.18; see also *Economist* 31 Oct 1992; see also Slater, 'Italy's Changing Political Economy', pp.35-37.

[84] *Corriere della sera* 25 Oct 1992, p.5.

Confcommercio, acknowledged that 'it will be difficult to change the *minimum tax* '[85]. The Amato government negotiated a truce with self-employed groups that did not entail concessions that altered the 1993 budget effects. However, the Amato government did promise to scrap the tax provisions after one year[86].

While trade union leaders were initially supportive of the Amato budget package because it included anti-evasion measures, rank-and-file workers became angered by the pension cuts imposed by the decree legislation. There were protests by rank-and-file workers during October, including a general strike on October 13, and a massive demonstration on October 29[87]. Yet, the protests could not force the government to alter the decree measures[88].

In parliament, the decree legislation, like the *delega*, was approved without substantial modifications. To expedite its passage, the government again attached a confidence motion to the legislation. During the acrimonious Senate debate over the decree, frustrated parliamentarians of the opposition labelled Amato a 'dictator'[89]. Nevertheless, while the government made minor changes, removing one provision from the decree that concerned a tax amnesty, the legislation was converted into ordinary legislation (law 438) in mid-November without changes in its financial effects[90]. On the day of the final senate vote, the prime minister again presented a report by an

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[85] Interview with Francesco Colluci, President of *Confcommercio*. *Corriere della sera* 28 Oct 1992, p.2.
[86] See chapter seven for a more detailed discussion of the 'minimum tax'. See also 'La minimum tax non si tocca' *Corriere della sera* 22 Oct 1992, p.5; 31 Oct 1992, p.23; 13 Nov. 1992, p.2.
[87] *Corriere della sera* 14 Oct 1992, p.3; Ginsborg, *L'italia del tempo presente*, p.511; Regini and Regalia, 'Employers, Unions and the State', pp.219-223.
[88] Amato, 'Un governo nalla transizione', p.367.
[89] *Corriere della sera* 12 Nov 1992, p.4.
[90] Moreover, the Amato government reintroduced one withdrawn provision as a separate decree in January 1993. See Scotti, 'Procedure per il bilancio e la legislazione finanziaria', p.31; Bank of Italy, *Economic Bulletin* n.16 (Feb 1993), pp.58-9.

international organization that praised the government's public finance efforts. This time it was a recently published IMF study[91].

In short, in contrast with previous budget sessions, the principal measures of the 1993 budget package were approved relatively rapidly and without significant modifications. Furthermore, the *collegati* measures were approved well before the end of the budget session. With the passage of laws 421 and 438 were passed in November, the key provisions of the 1993 budget package were in place, and the government reached its objective of realizing both immediate and extensive medium-term structural reforms[92].

Throughout the autumn budget session of 1992, the government could count on strong support from external guardians. Governor Ciampi worked closely with the Amato government on its economic priorities in this period[93]. Ciampi echoed Amato's warnings to parliament regarding the precarious financial position of the country, stating to parliament that 'we have six months of time, six months in which we are playing for everything'[94]. In addition, the Constitutional Court continued to demonstrate sensitivity to Italy's financial situation. For instance, the Court rejected the complaint against decree law 384 made by self-employed groups, who argued that the tax measures violated the acquired rights of workers. The Court stated that the government's extraordinary measures were necessary since the government faced a period of economic emergency[95].

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[91] *Corriere della sera*, 12 Nov 1992.
[92] The direct effects of the finance law itself, approved December 23, accounted for L11,000bn of the total L93,000bn package. See Scotti, 'Procedure per il bilancio e la legislazione finanziaria', p.31.
[93] 'Scalfaro da' fiducia ad Amato' *Corriere della sera* 16 Sept 1992, p.4; see also *Financial Times* 17 Sept 1992, p.2.
[94] *Corriere della sera* 25 Oct 1992, p.5.
[95] *Corriere della sera* 28 Oct 1992, p.2.

Once the principal budget measures had been approved, the Amato government attempted to move ahead with other reforms in the final weeks of 1992 in order to further bolster financial market confidence in Italy. Amato and Barucci formalized the government's privatization plans, and scheduled a parliamentary debate on the government's measures for December[96]. Yet, the ensuing parliamentary debate over privatization highlighted the growing splits within Amato's coalition, and the weakened position of the government, now that the budget had been passed and the financial pressures had eased. The sell-offs of IRI, ENI and ENEL were scheduled to take place shortly after their transformation into joint stock companies and their transfer over to the treasury, but the government's privatization initiatives were blocked by Industry Minister Guarino. The DC minister continued to insist on the creation of a super-holding company, forcing the government to delay its privatization plans[97].

In spite of this setback in December 1992, by the end of the year the Amato government had succeeded in re-establishing market confidence in Italy. Amato's budgetary strategies reduced pressure on the lira, and led to a gradual decline in Italian interest rates during the final weeks of 1992[98]. Most notably, the Amato budget measures resulted in primary budget surpluses for 1992 and 1993. Italy's efforts were acknowledged by EU finance ministers in January when they approved Italy's standby loan request[99].

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[96] *Financial Times* 17 Nov 1992, p.3; *Corriere della sera* 17 Nov 1992, p.2.
[97] Cerboni and Cotta, 'Le privatizzazioni', pp.259-264; see also *Financial Times* 4 Dec 1992, p.20.
[98] Bank of Italy, *Economic Bulletin* n.16 (Feb 1993), p.62.
[99] *Financial Times* 19 Jan 1992, p.2.

Nonetheless, while the transition in budgeting experienced in 1992 did stabilize the financial situation in Italy, Italian party politics remained in flux, as the political side of the transition had not yet been completed. The uncertainty in the Italian party system persisted for the duration of the 11th legislature, and contributed to the collapse of the Amato government and the formation of a non-elected 'technical' government under Carlo Azeglio Ciampi. These political developments are discussed below.

The Final Months of the Amato Government

Just as Italy's financial position was stabilizing, the political party system's disintegration began to accelerate. By early 1993, the credibility of Italy's political parties had diminished considerably, owing to the ongoing judicial investigations. With the financial crisis now successfully addressed, the Italian public and media again turned their attention towards the investigations into political corruption. Although Prime Minister Amato succeeded in gathering the political support needed to push through extensive budget measures during a period of financial crisis, his grip over the governing coalition gradually waned after the budget session concluded, alongside the credibility of the entire political class. Consequently, the prime minister's capacity to pursue other items on the government's agenda was severely hampered in the early months of 1993. These issues included the implementation of a new electoral law and the search for a solution to the problem of corruption in public life[100].

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[100] *Financial Times* 25 June 1992, p.2.

Electoral reform was addressed by the Amato government in January. The Senate came up with a proposal to introduce a first-past-the-post voting system for three-quarters of the seats in the assembly. It was decided that the proposal should be put to a referendum, which was scheduled for April 1993[101]. While progress was made on the electoral law, the government was unable to solve the problem of the judicial probes. In early 1993, the Italian public was in no mood for a political solution to *Mani pulite*. Moreover, any government initiative would remain difficult to implement since a number of Amato's own ministers had been informed in early 1993 that they were under investigation for corruption.

In February, Finance Minister Giovanni Goria resigned, and Reviglio moved from the budget ministry to finance. The reshuffle saw Andreatta brought into the budget portfolio (his first cabinet post in a decade). Reviglio was forced to resign in March over corruption allegations, as was Health Minister De Lorenzo, Justice Minister Martelli, and Agriculture Minister Fontana. Amato carried out a major cabinet reshuffle in March 1993 in an attempt to bring in more 'technical' ministers with fewer links to Italy's political parties. Yet, it soon became clear that this reshuffle had failed to distance the government from the corruption probes. There were subsequent ministerial resignations later in March[102].

The Amato cabinet was rapidly losing the respect and credibility that it had earned during the financial crisis. Moreover, pressure was growing among the political

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[101] On the electoral law and the April referendum, see P. Corbetta and A.Parisi, 'Ancora un 18 aprile. Il referendum sulla legge elettorale per il Senato', in C. Mershon and G. Pasqino, eds., *Politica in Italia. Edizione 94* (Bologna: Istituto Cattaneo); M. Donovan, 'The Referendum and the Transformation of the Party System', *Modern Italy* 1:1 (1995), pp.62-65; Ginsborg, *L'italia del tempo presente*, pp.517-518, 523-524.

party elite for the prime minister to find a political solution to the judicial probes, particularly after the leader of Amato's own Socialist Party, Bettino Craxi, was forced to step down in late February, after being informed that he was being investigated on corruption charges. While Craxi insisted that the government find a speedy political solution to the corruption investigations, the former prime minister's belligerent stance towards the magistrates only worsened the crisis, and further eroded popular support for Italy's political class.

Despite the strong support public for the *mani pulite* investigations and the government's weakening position, the Amato cabinet decided to present legislation to curtail the probes. The prime minister introduced a decree law to cabinet in March that dealt with party financing and government contracts. The decree legislation sought to overhaul the rules for political party financing, and to make the rules for tendering government contracts more transparent. However, the decree also offered leniency to corrupt politicians who confessed their crimes, returned their bribes, and retired from public office. In short, the decree aimed to decriminalize these acts so that the offenders would not face trial[103].

The proposals were approved by cabinet, but were quickly condemned by the Italian public and the media, while the President of the Republic refused to sign the decree into law. PSI Environment Minister Carlo Ripa de Meana resigned from cabinet over the matter. In addition, the investigating magistrates opposed the measures, protesting that the decree would halt their investigations. The prime minister had clearly misread the public mood, and his government's legitimacy was irretrievably shaken.

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[102] *Financial Times* 20 Feb 1993, p.1; 16 March 1993, p.4.

While the government soldiered on for several more weeks after narrowly surviving a no-confidence vote in parliament[104], Prime Minister Amato admitted during a parliamentary debate that he was eager to quit politics[105].

In late March, Amato announced that he would step down after the referendum on April 18, declining an invitation by the President of the Republic to remain at his post[106]. After Italians' overwhelming endorsement of the new electoral law by an 82 percent margin, a result that clearly signalled Italians' desire for political renewal, the prime minister handed in his resignation[107].

Nonetheless, while Italians expressed a clear desire for political renewal, the political party system at this time was unable to deliver alternatives to the electorate. The prime minister's resignation further brought to the fore the disarray that existed in the discredited Italy party system. Owing to the uncertainty, President Scalfaro chose as Amato's successor a non-partisan leader who could provide Italy with policy leadership during a time that the Italian party system was reorganizing and regrouping.

The Ciampi Government and the Completion of the Political Transition

The transition in party politics had not yet been completed during the Amato period. While the budget strategies and instruments employed by the Amato government

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[103] *Financial Times* 6 March 1993, p.1.
[104] Ginsborg, *L'italia del tempo presente*, pp.516-517; *Financial Times* 8 March 1993, p.1; 9 March 1993, pp.2; 11 March 1993, p.24.
[105] *Financial Times* 11 March 1993, p.24.
[106] *Financial Times* 1 April 1993, p.1.
[107] The electorate also endorsed the abolition of public financing for political parties by a 90 percent vote. see Donovan, pp.62-65; see also Ginsborg, *L'italia del tempo presente*, pp.517-518, 523-524; S. Parker,

did result in a dramatic turnaround in public finances, the party system remained in flux in early 1993. To be sure, the collapse of the Amato government helped signal the end of the *pentapartito* period. However, the political disarray persisted until a more adversarial party system took shape in early 1994. Since the system seemed unable to offer a suitable prime ministerial candidate, one who remained untainted by scandal, President Scalfaro asked Carlo Azeglio Ciampi, the central bank governor, to form a non-partisan government of *technical experts* to manage politics during this transition period, not wanting to risk selecting a career politician given the public mood and the intensification of corruption probes at this time.

Ciampi had served as the governor of the Bank of Italy since 1979 and had no party affiliation. Moreover, he was respected both in Italy and abroad, while his appointment was supported by politicians from across the political spectrum[108]. The Ciampi cabinet governed successfully during the transition period in party politics. Yet, its budgetary policies and institutional innovations did not need to be as ambitious or controversial as those introduced by the previous Amato government. Ciampi, like his predecessor, enjoyed greater policy autonomy than did governments during the period of immobilism. The non-elected prime minister was not accountable to a particular party, and the government could count on the support of politicians from across the political spectrum, and the backing of the President of the Republic, interest groups and the Italian public.

'Electoral Reform and Political Change in Italy' in S. Gundle and S. Parker, eds., *The New Italian Republic,* pp.45-46.

[108] G. Pasquino and S. Vassallo, 'Il governo di Carlo Azeglio Ciampi,' in C. Mershon and G. Pasquino, eds., *Politica in Italia. Edizione 94* (Bologna: Istituto Cattaneo/Mulino, 1994), pp.71-76.

The autonomy of the executive was also demonstrated by Ciampi's cabinet selection process. Like Amato, Ciampi did not consult with political parties concerning his cabinet choices. Instead, the prime minister asked the individuals directly, seeking to bring into cabinet people who were untainted by political scandal. The prime minister recruited technical experts and academics, in addition to career politicians whose first loyalty would remain with the government rather than party executives. Owing to the number of leading Italian academics in cabinet, the government became known as a government of 'professors'[109]. Barucci (also a former academic) again was given the treasury portfolio. Sabino Cassese, a professor of public administration, was made minister for public sector operations, and charged with carrying out reforms to the Italian bureaucracy. Well-known economics professor Luigi Spaventa became budget minister, while economics professor Vincenzo Visco was appointed finance minister. Professor Augusto Barbera became the minister for institutional reform, while Beniamino Andreatta became foreign minister, serving in his second consecutive cabinet after a decade in political exile[110].

In addition, the Ciampi government also broke with the past by including politicians from both the (ex-) PCI and the DC for the first time. However, the three PDS politicians resigned shortly after being appointed, in protest of parliament's decision not to waive Craxi's immunity from prosecution[111]. Nonetheless, Ciampi's cabinet appointment process and its composition underscored the prime minister's commitment to a strongly 'technical' policy agenda.

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[109] C. Chimenti, *Il governo dei professori* (Firenze: Passigli, 1994).
[110] Pasquino and Vassallo, 'Il governo di Carlo Azeglio Ciampi, pp.74-75.
[111] Ginsborg, *L'italia del tempo presente*, pp.518-519.

The Ciampi government committed itself to carrying out a limited set of policies, and stated that he would remain in office only to realize these specific policy objectives. The Ciampi policy agenda included the continued reduction of the public sector deficit, the implementation of further privatization measures, and public administration reform. These objectives were intended to bring both Italian finances and its administrative structures more into line with those of other EU states. In addition, the government also sought to implement a new electoral law and to address the issue of parliamentary immunity[112].

Throughout its tenure, the Ciampi cabinet displayed greater cohesiveness in policy-making. As Pasquino and Vassallo note:

> Ciampi seems to have succeeded in imprinting a notable coherence to the actions of the executive...This result was naturally facilitated in a decisive manner by the composition of his cabinet and the nature of the investiture that the prime minister received from the President of the Republic and the chambers, as well as from the criteria adopted in choosing his ministers[113]

Furthermore, the Ciampi government, like the Amato government before it, also sought and obtained backing for its budget measures directly from interest groups and the Italian electorate, and consulted less frequently with political party executives. This allowed the prime minister to successfully negotiate a new collective bargaining and incomes policy agreement with trade unions in 1993[114].

Although the annual budget package for 1994 was not as austere as the 1993 package presented by the Amato government, it did not need to be so. The financial

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[112] Pasquino and Vassallo, 'Il governo di Carlo Azeglio Ciampi', pp.76-77; Ginsborg, *L'italia del tempo presente*, pp.521-522.
[113] Pasquino and Vassallo, 'Il governo di Carlo Azeglio Ciampi', p.81
[114] Regini and Regalia, 'Employers, Unions and the State', pp.214-215.

effects of the Amato budget package were so extensive that only modest deficit cuts were needed to keep expenditure on its downward path, and to maintain a primary budget surplus for the 1994 fiscal year. The Ciampi budget did implement additional cuts to health services, public sector hiring, and government transfers to local and regional authorities. More importantly, Ciampi, like his predecessor, employed the *delega-collegati*, in order to carry out structural reforms to administrative structures. As Table A.7 illustrates, Ciampi's more modest L31,000bn budget package for 1994 resulted in a smaller primary surplus than did the 1993 Amato package[115].

While budget measures were less far-reaching, there occurred significant changes in the political party system in these months. The 1993-94 era witnessed the implementation of a new electoral law, more heavily weighted towards first-past-the-post[116], the demise of the Christian Democrats, the party that had dominated Italian politics throughout the post-war period, and the emergence of a more adversarial party system.

In 1993, after attempts at renewal within the DC had failed, the Christian Democrats fragmented into new political groupings. Initiatives such as that launched by Rosy Bindi, DC regional secretary in the Veneto, to organize a new DC constituent assembly, proved unsuccessful. Mino Martinazzoli, the new DC party secretary, unable to maintain cohesion within a party dogged by judicial investigations, opted to dissolve the DC and create the Italian Popular Party (PPI) at the end of 1993. By then, the DC had

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[115] OECD, *Economic Surveys: Italy* (1994), pp.46-47; Bank of Italy, *Economic Bulletin* n.18 (Feb 1994), p.58; See G. Della Cananea, 'Reforming the State: The Policy of Administrative Reform in Italy Under the Ciampi Government', pp.321-339; See also, F. Cavazzutti and G. Moglia, 'Regulation, Control and Privatization of Italian Public Services,' *Review of Economic Conditions in Italy* (1: 1994), pp.20-22.
[116] Newell and Bull, 'Party Organisations and Alliances in Italy in the 1990s', pp.87-100.

fractured into four different political groups on the centre and the right of the political spectrum[117]. The DC's demise was accompanied by the collapse of Craxi's PSI. Facing judicial probes, and having been stripped of his parliamentary immunity, the PSI leader left Italy for self-imposed exile in Tunisia. The former prime minister left his discredited party with no direction or successor[118].

Yet, by the summer of 1993, a new centre-right party gradually began taking shape, filling the vacuum left by the collapse of the old centre-right political elite. Throughout the second half of 1993, Silvio Berlusconi prepared the way for his entry into the political arena. In this period, Giuliano Urbani, a professor from the Bocconi University, who had often worked with Silvio Berlusconi's holding company, *Fininvest*, drew up a document entitled 'In Search of Good Government', which developed into the platform for the new political party, *Forza Italia* [119].

By early 1994, a more adversarial party system had developed, only months before the March election. New political alliances formed on the right and the left. The new centre-right party, *Forza Italia*, broadened its electoral base by forming two political pacts, one with the *Lega Nord* in the North, and another with the *Alleanza nazionale* in the South. The main left-wing party, the PDS, formed the Progressive alliance with other left-of-centre parties. In addition, a small centrist bloc, the Pact for Italy, emerged, representing a small but significant number of voters.

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[117] P. Furlong, 'Political Catholicism and the Strange Death of the Christian Democrats, in S. Parker and S. Gundle, eds., *The New Italian Republic*, pp.66-69

[118] S. Gundle, 'The Rise and Fall of Craxi's Socialist Party', in Gundle and Parker, eds., pp.86-89.

[119] P. McCarthy, '*Forza Italia*: The New Politics and Old Values of a Changing Italy', in Gundle and Parker, eds., pp.137-8.

In short, the relative financial and political stability that existed during the Ciampi period afforded time for the completion of the transition in party politics, a transformation which, arguably, may have otherwise been prolonged. The era ended with the evolution of a more adversarial system of party politics. While the lack of cohesion between the parties within the three alliances, particularly on the centre-right, did not bode well for the future stability of the Italian party system[120], it clearly signalled that party politics had profoundly changed by 1994. As will be seen in the next chapter, this more adversarial party system persisted during the era of executive governance.

Conclusion

The transition of the 1992-94 period entailed changes both to budgeting and Italian party politics. The period was a turning point in Italian budgetary history. The budgetary policies implemented at this time resulted in primary budget balances for the fiscal years 1992, 1993 and 1994 (see Table A.1). The Amato period saw important changes to budget rules, institutions and strategies, including the introduction of the *delega-collegati* in autumn 1992, new rules for examining budget legislation during the budget session, and the employment of external financial constraints to force measures through parliament. The Amato government's budgetary innovations and strategies were subsequently employed by the Ciampi government.

While budgetary policies under the Ciampi government were more modest in scope, public administration reform was approved. Yet, the period was important for the

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[120] D. Hine, 'Italian Political Reform in Comparative Perspective', pp.318-9.

fact that it permitted the completion of the transition in party politics towards a more adversarial party system. The Ciampi government provided policy continuity and stability during the transition, allowing time for the formation of new political parties and alliances. Moreover, the government also oversaw the implementation of a new electoral law, intended to contribute to increased stability in the political system.

In conclusion, the transition period cannot be properly understood without examining both its financial and political sides. It was a period characterized by procedural and institutional innovations to budgeting as well as by critical developments in party politics. These two features are closely linked. On the one hand, the political turmoil facilitated the Amato government's realization of important budget measures and the turnaround in public finances. On the other hand, the financial turmoil further undermined public confidence in the political class, and hastened the transition in party politics. While the transition in budgetary politics of the 1992-94 period did not involve constitutional reforms of the kind that had taken place in France during the 1958-59 period, the combination of political, institutional and financial developments did constitute a fundamental transformation in Italy[121]. The dissertation now turns to the politics of the post-1994 period.

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[121] Pasquino points out that the transition was incomplete because it did not entail constitutional reform. See G. Pasquino, 'No Longer A 'Party State'?: Institutions, Power and the Problems of Italian Reform,' in Bull and Rhodes, p.51.

Chapter 5: Budgetary Politics and *Executive Governance*

Introduction

The transition period of 1992-94 was followed by the emergence of greater executive control in budgetary politics. During the post-1994 period of *executive governance*, budgeting was characterized by more disciplined parliamentary budget sessions and non-incremental budget outcomes (See Table A.1). Throughout this period, the financial constraints imposed by the Maastricht Treaty severely restricted budget choices. However, the shift towards executive governance also resulted from the important political and institutional developments that took place during the transition, particularly the changes to budget instruments, procedures and strategies, coupled with the creation of a more adversarial party system. While a new form of budgetary politics was consolidated in the post-1994 period, and budget results better reflected substantive rather than partisan policy choices, executive governance remains more limited in Italy than in other European countries such as France.

The chapter opens with a discussion of the tightening financial constraints that confronted Italy in the 1990s. It then examines the characteristics of budgeting and budgetary politics of this period. In particular, the chapter addresses the greater autonomy of the executive in this era, and examines the pre-eminence of the treasury ministry in budget policy co-ordination in the 1990s. It also analyzes the changed budgetary circumstances under which Italy consistently ran primary budget surpluses.

External Constraints and Budgetary Politics in the 1990s

The implementation of the Maastricht Treaty in 1992 strengthened policy coordination between the EU and the governments of member states. The convergence criteria set out in the treaty strongly conditioned the budgetary politics of all member states during the post-1992 period, and became increasingly important determinants of Italy's domestic budget choices as the 1990s progressed[1]. Member states aimed to satisfy TEU financial targets for inflation, interest rates, deficits and public debt levels. The deficit and debt criteria received the greatest amount of scrutiny. The treaty stipulated that member states had to bring their deficit levels down to below 3 percent of GDP, and their debt levels to below 60 percent of GDP.

In 1994, Italy's debt to GDP ratio stood at over 120 percent, twice the amount stipulated by the convergence criteria. While Italy was not in a position to meet the treaty's debt target, the EU would consider each country's overall efforts over the course of the convergence period. Thus, Italian policy-makers in this period were under pressure to demonstrate Italy's commitment to correcting its public finance imbalances, in order to ensure Italy's participation in EMU at the end of the decade[2].

In short, the road to EMU entry increased the financial constraints on Italian budgetary politics, with EU monitoring of Italian public finances growing during this

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[1] P. Daniels, 'Italy and the Maastricht treaty,' in S. Hellman and G. Pasquino, eds., *Italian Politics: A Review* 8 (1993), pp.178-191.

[2] Article 104c of the TEU states that governments should avoid excessive deficit and debt levels. Clause 6 of article 104c adds that a country's selection to participate in the single currency will be made in consideration of its overall public finance record. Italy asked the EU to interpret this clause so that the country would not be penalized for its failure to reduce its debt to GDP ratio to the 60 percent level by 1998, an impossible task, and instead judged by its overall progress in fiscal consolidation. Della Cananea, *Indirizzo e controllo della finanza pubblica*, pp.48-49; see also Carli, *Cinquant'anni di vita italiana*, p.406.

period. As is addressed in the previous chapter, Amato had already heightened EU monitoring of Italy's public finances during the 1992-94 period by requesting a standby loan to be disbursed in four tranches over a two-year interval[3]. In 1994, EU monitoring was more formalized with the establishment of the European Monetary Institute (EMI), the forerunner of the European Central Bank (ECB). The EMI aided in the convergence process by helping coordinate monetary and fiscal policies among member states. The EMI was charged with issuing policy prescriptions to member states who were running excessive deficits. This institution was also responsible for recommending to the EU the member states that should participate in the single currency[4].

By 1995, moreover, member states also committed themselves to multi-year convergence programmes, and submitted their financial planning estimates for the years 1995 through 1998 to the European Commission for review. These documents detailed the macro-economic and budgetary policies of member states, and the substantive structural reforms to be undertaken in order to achieve these public finance targets[5].

As the date for selecting EMU participants drew closer, the EU called on countries to implement proposed structural reforms, specifically in the area of pension spending[6]. Italy, France and Germany, in particular, were urged to implement changes to their pension systems[7]. Financial institutions echoed the EU in calling for structural

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[3] Italy agreed to greater EU monitoring of its finances. OECD *Economic Surveys: Italy* 1995, p.112,fn39.
[4] Istituto monetario europeo, *Rapporto sulla convergenza: Rapporto richiesto dall'Articolo 109j del Trattato che istituisce la Comunita europea* (March 1998); On the details of the stages of integration after 1992, see Swann, *The Economics of the Common Market*, pp.239-241.
[5] Della Sala, 'Hollowing Out and Hardening the State: European Integration and the Italian Economy' in Bull and Rhodes, eds., *Crisis and Transition in Italian Politics*, p.21; Della Cananea, *Indirizzo e controllo della finanza pubblica*, pp.47-50.
[6] 'Comitato monetario della Ue: si all'Italia se cambia il Welfare,' *Il Sole-24 Ore* 26 June 1997, p.2.
[7] 'Europa, ultimatum all'Italia,' *La Repubblica* 11 May 1997, p.1; see 'Bonn avverte Parigi: nessuna deroga al 3%,' *Il Sole-24 Ore* 2 July 1997, p.1.

measures, with the convergence criteria increasingly used to measure the health of a country's public finances. Markets became more sensitive to remarks made by the EU commissioners, national government leaders and central bankers in this period. Many financial analysts continued to question Italy's political stability and its commitment to deficit containment and structural reforms.

Market uncertainty invariably took its toll on Italy's currency and its public finances in this period. For example, the collapse of the Berlusconi government in December 1994 resulted in the lira's sharp fall on currency markets[8]. The lira recovered in 1995, when Lamberto Dini's technical government implemented a reform of Italy's pension system, and presented a credible medium-term convergence programme. Yet, throughout 1996 and 1997, political and financial pressures persisted. Although Italy's 1997 budget package projected a deficit to GDP ratio of 3 percent for 1997, a ratio that would satisfy the deficit criteria set out in the TEU, there remained scepticism among European central bankers and government officials regarding Italy's longer term commitment to deficit containment policies. Speculation over whether Italy would participate in the single currency persisted until the presentation of the EMI's final convergence report in 1998[9].

German central bank officials in particular expressed doubts over Italian participation in the single currency in the months leading up to EMU selection[10]. Hans Tietmeyer, President of the Bundesbank, went so far as to openly suggest delaying the

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[8] 'Quattro anni vissuti pericolosamente,' *Il Sole-24 Ore* 24 Nov 1996, p.5.
[9] 'Italia rimandata (per ora),' *Il Sole-24 Ore* 24 April 1997, p.1.
[10] 'L'Italia nell'Euro una bomba a tempo,' *La Repubblica* 3 Feb 1997, pp.3-4.

start of the single currency, rather than letting weaker countries participate[11]. Speculation over backroom deals and manoeuvres by EU states to keep Italy from participating in EMU was fed by the financial media. In early 1997, the *Financial Times* reported that a secret agreement had been reached between Germany and France to exclude Italy from the single currency. Following the report, the lira lost considerable ground on international currency markets, prompting Prime Minister Prodi to criticize the financial media for irresponsible reporting[12].

Multilateral organizations such as the OECD and IMF also voiced their concerns over Italy's public finances as the EMU deadline approached. OECD reports, while endorsing Italy's fiscal progress, continued to emphasize the need for further structural reforms. The OECD was optimistic that Italy would meet the 3 percent deficit to GDP requirement by 1998, but called upon Italian policy-makers to carry out further reforms to the pension system, increase labour market flexibility, and speed up the privatization process[13]. Similarly, the IMF also urged Italy to carry out further changes to its pension system. The IMF's report led Treasury Minister Ciampi to publicly defend the adequacy of Italy's convergence measures and to dispute the need for further pension reforms[14].

Owing to continued speculation over Italy's financial situation, Italian entry into the single currency was not assured until the EMI report was formally presented in March 1998. The EMI report evaluated the fiscal progress of member states, and recommended

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[11] 'Tietmeyer: meglio rinviare l'euro,' *Corriere della sera* 1 June 1997, p.4.
[12] 'Europa, Italia in bilico,' *La Repubblica* 6 Feb 1997, pp.1-2.
[13] 'L'Ocse promuove l'Italia: e sotto il 3%,' *La Repubblica* 26 April 1997, 6; OECD, *Economic Surveys: Italy* (1997).
[14] 'Fmi molto severo con tutti I paesi aspiranti,' *Il Sole-24 Ore* 24 April 1997, p.3. The G-7 also called for pension reforms in Italy, Germany and France. 'Il G-7: per le pensioni riforme strutturali,' *Il Sole-24 Ore* 22 June 1997, p.1.

that eleven countries, including Italy, be selected to participate in the single currency[15]. Italy's entry was welcomed as a great achievement, not only by Italian policy-makers but also by Italy's citizens.

The uncertainty surrounding the run-up to Italy's selection acted as a strong constraint on Italy's budget choices during the 1992-98 period. Yet, these pressures also helped successive governments secure support for more austere and extensive budget provisions. The financial constraints helped bolster the greater policy autonomy enjoyed by Italian governments during the period of executive governance, and bring about more effective budget outcomes. Specific domestic budgetary developments are explored below.

Domestic Politics and Executive Governance

Following the transition of the 1992-94 period, governments demonstrated greater *autonomy* than did governments during the era of budgetary immobilism. While the extent of this autonomy differed from cabinet to cabinet, Italian governments were no longer the creatures of political party executives. Apart from this greater policy independence displayed by the government as a whole, within the executive the treasury ministry enjoyed a pre-eminent position in budget policy co-ordination. The technical experts of the treasury ministry strongly influenced political decision-making in this era. Furthermore, external guardians, while not playing as visible a role in budgetary matters

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[15] Istituto monetario europeo, *Rapporto sulla convergenza: Rapporto richiesto dall'Articolo 109j del Trattato che istituisce la Communita europea* (March 1998), pp.22-29.

as they had in the final years of the period of immobilism, continued to actively support the deficit-cutting objectives of the government in this period.

As noted above, a salient feature of executive governance was the emergence of more autonomous prime ministers and cabinets. All four governments of the period demonstrated greater autonomy, though to varying degrees[16]. While the increased executive autonomy in budgetary politics was largely due to the financial constraints confronting Italian governments, it also had much to do with the characteristics of the executives of this period, and the politics and policies these governments pursued.

One factor accounting for the greater autonomy enjoyed by cabinets of the post-1992 period was the relative distance of the four prime ministers from traditional party politics. None of the four prime ministers had previously been an elected politician. Both Ciampi and Dini had served at the Bank of Italy for many years. The two elected prime ministers, Berlusconi and Prodi, while having some links to pre-1992 political parties- Prodi to the DC and Berlusconi to the PSI- were both better known for their managerial and entrepreneurial credentials, respectively. Prodi had been President of the state holding company, IRI, and Berlusconi ran a successful business empire.

Furthermore, these four prime ministers all led cabinets that were not hostages to political party executives. While executives were by no means always immune from conflicting coalition interests[17], cabinet selection clearly remained in the hands of the prime minister, who generally paid greater attention to the technical competence of ministers than to their partisan links, ensuring that all four cabinets possessed fewer

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[16] S. Fabbrini, 'Parlamento, governo e capo del governo', in G. Di Palma, S .Fabbrini and G. Freddi, eds., *Condannata al successo: L'Italia nell'Europa integrata* (Bologna: Mulino, 2000), p. 56.

connections to the old political class. As a result, with the exception of the Berlusconi government, these cabinets demonstrated greater internal solidarity and collegial decision-making capacity[18].

The more ambitious budgetary programmes of these four cabinets also demonstrated their greater independence from partisan concerns, and their stronger commitment to substantive reforms. Throughout this period, the formulation of annual budgetary policies took place at an earlier and more technical stage, with political decision-making resting firmly in the hands of the political executive, rather than party executives[19]. The number of *collegati* presented each year was fewer, and these instruments remained the cornerstone of the budget package, receiving parliamentary attention at an earlier stage (see Table A.8)[20]. Moreover, with the exception of the Berlusconi government, the cabinets of this period successfully realized their budget objectives[21].

Nevertheless, while there were many similarities between these four governments, there also existed critical differences. In particular, the policy autonomy enjoyed by 'technical' governments was greater than that enjoyed by elected ones in these years. This important aspect is explored below. The following pages examine the relative autonomy of the Ciampi, Berlusconi, Dini and Prodi governments. The chapter

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[17] V. Bufacchi and S. Burgess, *Italy Since 1989: Events and Interpretations* (London: MacMillan, 1998), pp.191-217; See also Newell and Bull, 'Party Organisations and Alliances in Italy in the 1990s', pp.87-100.
[18] Fabbrini, 'Parlamento, governo e capo del governo: quali cambiamenti', p.64.
[19] Verzichelli, *La politica di bilancio*, p.244.
[20] Zangani 'Provvedimenti collegati', pp.1-3; Della Cananea, *Indirizzo e controllo della finanza pubblica*, pp.198-201.
[21] While Berlusconi's original budget package failed to get the backing of parliament, it was well formulated and ambitious in scope. However, in the end the government's key welfare measures were removed. Interview with Alessandro Palanza, Office of the President of the Chamber of Deputies, Rome, 17 January 1997.

then turns to a discussion of the pre-eminence of the treasury ministry in budget policy co-ordination, and the continued activism of external guardians in budgetary matters. Finally, the chapter presents an analysis of budgetary politics during the period of executive governance.

The Autonomy of the Technical Governments

The two technical governments of the post-1992 period enjoyed considerably more policy autonomy than their two elected counterparts. The Ciampi government (examined already in chapter four's analysis of the transition) and the government of Lamberto Dini were less constrained by party politics than the Berlusconi and Prodi governments. The two non-elected prime ministers were appointed during periods of disarray in the party system. The conditions of the party system weakened opposition to policies proposed by these technical governments. At the same time, governance by non-partisan administrations offered incentives to politicians. Specifically, it afforded time for political parties to reorganize themselves in preparation for new elections[22]. In other words, the two technical prime ministers presided over a 'suspension of politics'[23].

In addition to party political factors, the autonomy of the second non-elected government of Lamberto Dini was enhanced by the prevailing financial instability at this time. The Ciampi government benefited from the relative financial calm that followed the successful implementation of Amato's budget package for 1993, but Prime Minister

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[22] M. Calise, 'Remaking the Italian Party System' *West European Politics* 16 (Oct. 1993), pp.545-560; See also L. Morlino, 'Crisis of Parties and Change of Party System in Italy,' *Party Politics* 2:1 (1996).
[23] Ginsborg, *L'italia del tempo presente*, p.557.

Dini took power after the collapse of Berlusconi's coalition and amidst a run on the lira. As during the Amato period, the financial constraints heightened the Dini government's policy autonomy, and helped it realize important substantive reforms, most notably, a second reform of the pension system[24].

In addition to political and financial circumstances, the autonomy of the technical prime ministers also resulted from their 'technical' and non-partisan backgrounds, their mode of cabinet selection, and their budget strategies. Both Ciampi and Dini had previously served at the Italian central bank, and retained policy links with economic experts both in Italy and abroad. Ciampi was a reputed central bank governor, while Dini also spent twenty years at the IMF. Both men were respected for their technical credentials, and both served to boost market confidence in the country[25].

Furthermore, Ciampi and Dini's mode of cabinet selection also illustrated these prime ministers' commitment to policies over politics. As noted in the previous chapter, Ciampi appointed many professors with technical credentials to his cabinet, and ministers proved more loyal to the prime minister and the government programme than to party executives[26].

The Dini cabinet consisted of fewer professors but numerous middle-level 'technical' bureaucrats, reflecting Dini's policy links to the Rome bureaucracy. Key economic posts held by former public servants included the budget ministry, given to Augusto Fantozzi, the former director of the state credit institution IMI, and the finance

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[24] K. Dyson and K. Featherstone, 'Italy and EMU as a '*vincolo esterno*': Empowering the Technocrats, Transforming the State', *South European Society and Politics* 1:2 (1996).
[25] For a portrait of Lamberto Dini through interviews, see A. Friedman, *Il bivio: L'Italia a meta strada tra crisi e transizione* (Milan: Longanesi, 1996).

ministry, offered to Filippo Mancuso, a former tax expert at the finance ministry. The prime minister (and ex-treasury minister under Berlusconi) kept the treasury portfolio for himself, providing continuity in treasury leadership and budget coordination[27].

The greater autonomy of the Dini government was also evidenced by its more assertive budget style, and by the strategies that it employed inside and outside of parliament. As in the Amato and Ciampi periods, budgeting involved fewer negotiations between the government and political party executives, and more direct appeals by the government to interest groups and the Italian public. The Dini government sought to directly negotiate with unions, and the trade union leadership, for its part, found it easier to negotiate with a non-partisan prime minister. Union leaders were able to explain to its rank and file membership that concessions being made to a technical government were in Italy's national interest. This was not the case with the previous centre-right Berlusconi government. Thus, discussions between the Dini government and the trade union leadership led to an accord to reform the pension system in the summer of 1995. This closer relationship between the government and trade unions marked a return to *concertation*[28].

The ensuing turmoil in the party system helped the technical governments find the majorities they needed in parliament[29]. While the Ciampi government enjoyed parliamentary support from across the political spectrum, the Dini government's support came principally from the centre-left and the LN. Dini actively courted centrist and left-

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[26] See chapter four for the debate over the 'compatability' rule. See also Verzichelli, *La politica di bilancio*, p.198.
[27] Pasquino, 'The Government of Lamberto Dini,' *Italian Politics: A Review* (1996), pp.139-140.
[28] See chapter six for a discussion of pension reform. See also Regini and Regali, 'Employers, Unions, and the State', p.217.

wing groups, rather than the centre-right group for whom he had served as treasury minister. Berlusconi's centre-right alliance would not support Dini, and persistently called for elections in 1995[30].

Neither the left nor the right was adequately prepared to go to the polls so soon after the March 1994 vote. However, these months were important particularly for the PDS, which was able to broaden its alliance at the centre. Hence, the centre-left had a strong interest in continuing to support Dini's technical government in the policy sphere at this time[31].

The relatively stable parliamentary support permitted the Dini government to minimize consultations with political party executives over budgetary policies, and to circumvent parliamentary checks and balances, with the prime minister frequently resorting to decree legislation[32]. The Dini government, moreover, flaunted its 'efficient' avoidance of normal parliamentary procedures, in order to dissociate itself from traditional pre-1992 politics. As Pasquino writes:

> The Dini government seemed...to support a feeling that was already rather widespread among the Italian electorate...if this suspension of politics is accompanied by efficient government, the message that comes through to the public is that it is preferable to keep politics and politicians away from the government of the country[33]

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[29] M. Calise, 'Remaking the Italian Party System,' pp.545-560.
[30] Berlusconi felt that the President of the Republic should have asked him to form a second government in December 1994, after the first government had collapsed. Instead, a non-elected technical prime minister was asked to become prime minister. See Pasquino, 'The Government of Lamberto Dini, p.141.
[31] This is an aspect of Italian politics that might be explored from the perspective of public choice. See the analysis of budgetary politics under the Dini government later in this chapter. See Ginsborg, *L'italia del tempo presente*, pp.556-7.
[32] Pasquino, 'No Longer a Party State?: Insitutions, Power, and the Problems of Italian Reform', in Bull and Rhodes, eds., *Crisis and Transition in Italian Politics*, p.42.
[33] Pasquino, 'The Government of Lamberto Dini,' p.150.

Prime Minister Dini appealed to Italian public opinion more actively than other leaders to cultivate support for his policies and his technical government. In so doing, however, Dini 'nourished and strengthened a traditional Italian belief that so-called professional politicians pursue partisan interests only' and that 'non-political leaders are better and more capable of pursuing general interests'[34]. Rather than attempting to rebuild Italians' trust in the political party system during his tenure, the prime minister did the opposite. The prime minister's actions, however, increased the legitimacy and popularity of his own technical government, and, ultimately, helped smooth the way for Dini's own entry into party politics[35].

In sum, the autonomy enjoyed by the non-elected Ciampi and Dini governments derived from several factors, notably, the stronger financial constraints, the distance of these governments from traditional party politics, the fewer negotiations that took place between prime minister and party executives, and the closer consultations that occurred between technical governments and trade unions. Furthermore, the Dini more directly appealed to the Italian electorate, and attempted to avoid parliamentary checks and balances through more frequently resorting to decree legislation. The strategies of Prime Minister Dini in particular, many of which were not dissimilar to those pursued by Prime Minister Amato, permitted substantial budget reforms to be implemented during the 1995-96 period. A more detailed analysis of budgetary politics under the Dini government is presented later in this chapter.

The Elected Governments of Berlusconi and Prodi

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[34] Pasquino, 'No Longer a Party State?', p.43.

In contrast to the two technical cabinets of the post-1992 period, the elected governments of Berlusconi and Prodi could not remain as distant from coalition politics. Although these two elected prime ministers were not creatures of party executives, as government leaders had been during the period of immobilism, and while both sought to differentiate their politics from traditional party politics, the Berlusconi and Prodi governments remained more vulnerable to coalition and interest group demands than their technical counterparts.

Silvio Berlusconi distinguished himself from the old political class of 'corrupt politicians' by emphasizing his personal entrepreneurial successes as well as *Forza Italia*'s pro-market stance and *partito-azienda* or 'business party' structure. Berlusconi argued that his new party would not 'occupy' the state's resources, as previous governments had done. During the election campaign, Berlusconi firmly committed himself and his coalition to 'technical' and programmatic concerns[36]. Yet, Berlusconi's pro-market FI allied itself to two political parties with contradictory ideological positions and political interests. In Northern Italy, the FI formed an electoral alliance with the *Lega Nord*, a party committed to greater regional autonomy. In Southern Italy, the FI formed an alliance with *Alleanza nazionale*, the former neo-fascist party, a group which favoured state intervention and opposed institutional decentralization[37].

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[35] Verzichelli, *La politica di bilancio*, pp.202-4.

[36] L. Gray and W. Howard, 'Forza Italia: An American party for Italy?' in R. Leonardi and R.Y.Nanetti, eds., *Italy: Politics and Policy* I (Aldershot: Dartmouth, 1996), pp.152-169; See also D. Sassoon, *Contemporary Italy: Economy, Society and Politics Since 1945*. Second edition (London: Longman, 1997), pp. 265-7; See also Newell and Bull, 'Party Organisations and Alliances in Italy in the 1990s: A Revolution of Sorts', p.91.

[37] On the AN in this period, see M. Tarchi, 'Getting out of the Ghetto: The Case of Alleanza Nazionale' in Leonardi and Nanetti, eds., *Italy: Politics and Policy* I, pp.172-187.

After the centre-right's electoral victory in March 1994, the new prime minister was faced with having to balance these competing interests, and preventing conflicts from erupting between LN and AN ministers[38]. Cabinet selection was further complicated by Berlusconi's need to appoint technical ministers to underscore his government's commitment to programmatic concerns. The prime minister appointed Lamberto Dini, the former IMF official and director-general of the Bank of Italy, to the treasury portfolio. Giulio Tremonti, an economics professor, was appointed to the finance ministry[39]. Many other ministers however were political novices brought in from Berlusconi's business empire[40], and lacking economic expertise and a knowledge of financial markets[41].

The contradictions inherent to Berlusconi coalition ensured that the cabinet would remain weak and fragmented throughout Berlusconi's time in office. The LN requested that the issue of regional fiscal autonomy be addressed immediately, but fiscal devolution was vigorously opposed by Fini's AN. To make matters worse, the LN's hostility towards the prime minister grew in this period as Berlusconi's conflict of interest problems drew more criticism, and due to prime minister's initiative on the judicial front[42].

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[38] P. McCarthy, 'Forza Italia: The New Politics and Old Values of a Changing Italy,' pp.137-143.
[39] P. Ignazi and R. Katz, 'Introduzione: Ascesa e caduta del governo Berlusconi' in P. Ignazi and R. Katz, eds., *Politica in Italia. Edizione 95* (Bologna: Istituto Cattaneo, 1995), pp.39-40.
[40] Indeed, 90.4 percent of the FI members had no previous parliamentary experience. Ibid., p.33.
[41] M. Donovan, 'International Market Reaction to the 1994 Parliamentary Elections and the Berlusconi Government' in R. Leonardi and R.Nanetti, eds., *Italy: Politics and Policy* I (Aldershot: Dartmouth, 1996), p.237.
[42] M. Fedele, 'The Berlusconi Government' in R. Leonardi and R. Nanetti, eds., *Italy: Politics and Policy* I (Aldershot: Dartmouth, 1996), pp.93-102; Verzichelli, *La politica di bilancio*, pp.199-200; The Biondi decree, presented by Berlusconi's Justice minister, proved very unpopular, earning the decree legislation the nickname *'salvaladri'* ('thief-rescuing' decree). See A. Friedman, *Il Bivio: L'italia a meta strada tra crisi e transizione*, p.150.

Apart from coalition difficulties, the prime minister faced strong opposition to government policies from trade unions. Unlike the Amato and Dini governments, the Berlusconi government was unable to forge an agreement over pension reform with trade unions, and, consequently, tried to implement welfare reform 'from above'. Berlusconi's confrontational approach to the unions was an additional factor that served to undermine the credibility of the government and to alienate the electorate[43].

In short, while the Berlusconi government did enjoy the *potential* for greater policy autonomy than governments of the period of immobilism[44], the government was unable to pursue successful budgetary politics. In spite of the strong financial constraints of this period, the prime minister was incapable of holding together the different and conflicting interests of his coalition, and was unable to gather the support of trade unions and the Italian public for his reform proposals. Budgetary politics under the Berlusconi government is analyzed in detail below.

Romano Prodi led the second elected government of the period. Prodi was elected at the head of the centre-left *Ulivo*, or 'Olive Tree', coalition in 1996[45]. The Prodi government faced particularly tight financial constraints in this period, owing to the fact that it took power in the run-up to the selection of EMU participants. This factor contributed to the government's greater policy autonomy, with respect to the Berlusconi government of 1994. Moreover, the prime minister enjoyed greater cohesion within the

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[43] See chapter six. See also M. Carrieri, 'Industrial Relations and the Labour Movement,' in S. Gundle and S. Parker, eds., *The New Italian Republic*, pp.294-307; see also Regini and Regalia, 'Employers, Unions and the State', pp.215-216.

[44] Fabbrini, 'Parlamento, governo e capo del governo: quali cambiamenti', pp.55-6.

governing coalition. While the coalition depended on the outside support of the 'refounded' communists, the coalition itself did not include parties as ideologically polarized as those that had served in the Berlusconi government. In addition, the Prodi government also succeeded in gaining the support of trade unions and the Italian electorate for the objective of EMU entry and for the government's budget reforms.

Like Berlusconi, Prime Minister Prodi emphasized his 'technical' credentials in order to distance himself from the old political class. Prodi, an economics professor at the University of Bologna, was a former manager of the state holding company IRI during the late 1980s. During the 1996 electoral campaign, Prodi highlighted his managerial skills and his capacity for economic governance[46]. Moreover, although Prodi led a centre-left coalition, the *Ulivo* leader formerly had links to the DC. The prime minister was also known to be strongly pro-market, possessing a reputation for 'honesty, efficiency and popularity with businessmen and the markets'[47]. The prime minister's centrist and pro-market background contributed to his government's manoeuvrability and autonomy.

The selection of ministers also reflected the prime minister's heightened independence from political party executives, as well as the government's commitment to fiscal consolidation. The prime minister remained sensitive to the political balance within his coalition, but the cabinet also included a large number of academics and

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[45] S. Parker, 'The Government of the *Ulivo*' in R. D'Alimonte and D. Nelken, eds., *Italian Politics: The Centre-Left in Power* (Oxford: Westview Press, 1997), pp.125-142.
[46] Dini once noted in an interview 'But Prodi is also a 'technician'. What difference is there between him and me?'. Friedman, *Il bivio*, p.154.
[47] Newell and Bull, 'Party Organisations and Alliances in Italy in the 1990s', p. 102.

technical experts[48]. The treasury ministry was given to Carlo Azeglio Ciampi, the former prime minister and central bank governor. The finance ministry went to economics professor and former minister Vincenzo Visco. Dini, the former prime minister (and former treasury minister under Berlusconi), was given foreign affairs. Andreatta, a member of the centrist PPI, became defence minister[49]. The large number of academics and technical experts in cabinet gave the Prodi government greater credibility in economic and budgetary matters than the previous elected government headed by Berlusconi.

Furthermore, the government enjoyed greater support from trade unions than did the Berlusconi government. Trade unions were responsive to the Prodi government's EMU initiative, with the Prodi years witnessing closer cooperation between government, business and labour. Government and interest groups sought to avoid social unrest that might jeopardize Italy's chances of participating in the single currency[50]. While the Prodi government was unable to press trade unions to accept further structural reforms to the pension system, for fear of causing destabilizing trade union protests only months before the EU was set to select EMU participants, the overall deficit objectives sought by the Prodi government in 1997 and 1998 were achieved. In the end, the Prodi government retained the support of trade unions and the Italian public for its overall policy goals, and Italy earned a place as a participant in the single currency.

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[48] Parker, 'The Government of the *Ulivo*', pp.126-128.

[49] The Popular Party (one of the ex-DC groups) took two key posts, Defence (Andreatta) and Health (Rosy Bindi). High level PDS ministers included Napolitano (Interior), Visco (Finance), Berlinguer (Education) and Bersani (Industry). See Parker, 'The Government of the *Ulivo*', pp.126-128.

[50] One notable example was the effective cooperation between government, business and trade unions over the metalworkers' dispute in 1996. See 'Operai in piazza e dagli industriali segnali di pace,' *La Repubblica* 14 Dec 1996, p. 29

In sum, Italian governments of this period demonstrated greater autonomy than did cabinets during the era of budgetary immobilism. Although the degree of policy autonomy differed from government to government, with technical governments generally demonstrating greater independence than elected ones, there were key features common to all executives, notably, the less 'political' backgrounds of the prime ministers, the more autonomous nature of cabinet selection, and the more ambitious budgetary strategies pursued by governments. Unlike France of the 1950s, the strengthening of the executive did not result from changes to the country's constitutional arrangements, and did not prove as far-reaching[51]. Having addressed the autonomy of the executive in this period, the chapter now turns to an examination of the more pre-eminent role played by the treasury ministry in budget policy co-ordination.

The Pre-eminent Role of the Treasury in Budgetary Politics

A key characteristic of the period of executive governance was the pre-eminence of the treasury ministry in budget policy co-ordination. While the institutional and political autonomy of the treasury had increased considerably during the 1980s, the weakness of the party system in the 1990s permitted the treasury to more fully emerge as the pivotal actor in the budgetary process.

The treasury's more prominent role in budgetary politics in this period was evidenced by the growing technical and political importance of the treasury's American-

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[51] Williams, *The French Parliament*, pp.274-5; Williams and Harrison, *Politics and Society in De Gaulle's Republic*, pp.223-9.

educated *supertecnici* personnel in policy-making[52]. Mario Draghi, the director-general of the ministry's 'treasury department', became the best known *supertecnico* of the group during the 1990s. Draghi's department was responsible for the ministry's medium-term financial plans, including the preparation of the DPEF document, as well as the treasury's privatization programme. As Italy embarked on its convergence programme after 1992, the DPEF document became a more salient point of reference for policy-makers, receiving greater scrutiny both at home and abroad from observers monitoring Italy's deficit containment policies and its convergence plans[53].

Furthermore, during the early 1990s, the treasury's influence was also enhanced by the growing linkages between the treasury ministry and academic economists. The treasury ministry created a number of academic-administrative working groups, which became the core macro-economic and financial decision-making centres within the ministry. High profile members of these working groups include professors Alberto Alesina and Francesco Giavazzi[54]. Amidst the political upheaval of the 1990s, the working groups organized by Draghi and other *supertecnici* assumed some policy responsibilities of other ministries, even those of presidency of the council of ministers. Finally, the institutional autonomy of the treasury was additionally strengthened by legislative changes in 1997. Specifically, the provisions of law 94 of 1997 eliminated the

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[52] 'La penisola del tesoro', *La Repubblica* 3 Feb 1997, 'affari e finanza', pp.4-5.
[53] Ministero del tesoro, *Piano di convergenza* (1997).
[54] 'La penisola del tesoro', pp.4-5.

budget ministry, consolidating its offices, and its medium-term planning functions in particular, into an enlarged treasury ministry[55].

In addition to the growing technical-institutional influence of the treasury ministry, the period also witnessed closer policy co-operation between treasury ministers and prime ministers. While the final years of immobilism saw the treasury minister increasingly isolated in cabinet, Prime Ministers Amato and Ciampi enjoyed strong working relationships with their treasury minister, Piero Barucci. Barucci had developed a solid working relationship with both Ciampi and Amato during the financial crisis of the Amato period, when Ciampi was Italy's central bank governor[56].

However, the relationship between the prime minister and the treasury minister remained more problematic during the Berlusconi period. In the summer of 1994, for instance, the prime minister ignored the treasury's warnings over the need to take actions to restore the confidence of markets. During the critical summer months, Treasury Minister Dini remained in Rome to monitor the financial situation, while Berlusconi vacationed in Sardinia. However, the prime minister refused to authorize Dini to take independent measures to address the growing financial instability[57].

Moreover, in the autumn of 1994, the relationship between Berlusconi and Dini deteriorated further, and the prime minister began to launch public attacks against the treasury's director-generals, complaining, for instance, that Mario Draghi wielded too

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[55] Camera dei deputati-servizio studi, 'Individuazione degli uffici di livello dirigenziale del Ministero del Tesoro, del bilancio e della programmazione economica: Schema di regolamento', *Dossier provvedimento* n.675 (XIII legislature, Feb 1998), pp.19-21; Felsen, 'La riforma del "regime di bilancio"', pp.194-196.

[56] *Financial Times* 17 Sept 1992, p.2; Barucci, *L'isola italiana del tesoro*, pp.47-58.

[57] In an interview with Alan Friedman, Dini revealed how surprised he was that, during a period of growing financial instability, 'Berlusconi invited all the Italians to go on vacation. This was a real shock for me because I understood that Bersluconi was not interested in or did not understand that there was real potential danger for a financial crisis'. Quoted from Friedman, *Il bivio*, p.150.

much decision-making power. The prime minister's attacks compelled Dini to publicly defend his personnel[58]. As opposition leader, Berlusconi continued his attacks against the treasury, criticizing the ministry's personnel for making decisions that should be made in parliament[59].

The treasury ministry's growing pre-eminence attracted criticism from other quarters as well. Sabino Cassese, a well-known public administration professor and former cabinet minister, argued that the treasury ministry was becoming inefficient, and was failing in its privatization program. Cassese argued that the treasury was becoming simply another ministry for state holdings. The *tecnico* Mario Draghi answered Cassese's charge, arguing that whereas the defunct ministry never had the intention of selling off its assets, the treasury had begun selling off a considerable amount of the state's assets at a rapid pace, and was raising much-needed revenue for the government[60]. Indeed, Draghi's defence of the treasury's privatization programme was by no means unfounded. Italy led all other European countries in privatizing state assets during the 1993-98 period, a reflection of the treasury's initiative in this area (see Table A.12)[61].

The cooperation between the prime minister and the treasury again was much in evidence during the Prodi era. While this working relationship between the prime minister and treasury minister remained strong in budget policy coordination, it was not

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[58] 'Nessun potere anomalo, anche all'estero si fa cosi,' *La Repubblica* 3 Feb. 1997, Affari e finanza, p.4.
[59] 'Bersluscconi contro Ciampi: troppi poteri' *Corriere della sera* 29 Nov 1996, p.2.
[60] 'Nessun potere anomalo, anche all'estero si fa cosi,' *La Repubblica* 3 Feb 1997, p.4.
[61] In 1993, for instance, under the Ciampi government, the banks *Credito italiano* and *Banca commerciale italiana* were privatized. See A. Goldstein and G. Nicoletti, 'Le privatizzazioni in Italia, 1992-1995: motivi, metodi e risultati,' in A. Monorchio, ed., *La finanza pubblica dopo la svolta del 1992*, pp.215-223; Cerboni and Cotta, 'Le privatizzazioni', pp.263-264.

without conflict[62]. For example, in the first year of the Prodi government, when Italy's entry into the single currency depended to a large extent on the 1997 budget package measures, the *supertecnici* began working on a corrective mini-budget, to be presented by the government in the spring of 1997. Work was begun before parliament had formally approved the 1997 budget package in December, and before the treasury officials were authorized to do so by the council of ministers[63]. In addition, treasury officials refused various requests made by the prime minister to reduce the scope and size of the 1997 corrective mini-budget[64].

Apart from the stronger co-operation that existed between the treasury minister and the prime minister in the period of executive governance, the treasury's growing influence also was reflected in the stronger co-operation and institutional links between the treasury ministry and the institutions of the EU and other member states. The treasury's formal and informal policy connections became an ever more important political asset for Italy in its relations with the EU during this era. On a formal level, there occurred the gradual development of stronger co-operation between finance ministers and central bankers of EU member states during the 1990s, particularly through such bodies as Ecofin. On a political level, Italian treasury ministers, particularly Dini and Ciampi, increasingly were called upon to defend Italy's budgetary measures and economic interests to the EU, other member states, and financial markets. Throughout 1997, for example, Treasury Minister Ciampi successfully fended off criticism from both

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[62] Friedman notes that Prodi got along well with Ciampi politically, while D'Alema got along well with Dini. See Friedman, *Il bivio*, pp.149, 180, 187.
[63] 'Manovra bis, motori accesi al Tesoro,' *Il Sole-24 Ore* 18 Jan 1997, 2
[64] 'Tesoro: no alla manovra "leggera" ' *Il Sole-24 Ore* 11 March 1997, 2

the EU and other multilateral bodies over Italy's failure to carry out further pension reform in the run-up to EMU[65].

In sum, the pre-eminence of the treasury in budget policy co-ordination remained a key feature of executive governance. The treasury's growing role in this period resulted from the growing financial constraints facing Italy, and from specific domestic political and institutional developments. In this era, the *supertecnici* assumed more important policy roles, while legislative changes further centralized the control of budgeting within the treasury. Also, there existed greater co-operation between the treasury minister and prime minister (in most cases), and the treasury's policy links to the EU and other member states became more salient. The heightened institutional and political importance of the treasury helped condition budgetary politics during this era[66].

The Activism of External Guardians in Budgetary Politics

Deficit containment remained a priority for governments during the 1990s, prompting continued activism by external guardians in budgetary matters. During the Scalfaro presidency, the President of the Republic took on an active role in fostering both financial and political stability, and did not hesitate to make controversial decisions. One

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[65] 'Ciampi: l'Euro non puo attendere' *Il Sole-24 Ore* 27 March 1997, p.4; 'Fmi molto severo con tutti I paesi aspiranti,' *Il Sole-24 Ore* 24 April 1997, p.3.

[66] Verzichelli, *La politica di bilancio*, pp.256-7; see also Della Cananea, *Indirizzo e controllo della finanza pubblica*, pp.237-240.

example was Scalfaro's appointment of Dini as prime minister after Berlusconi's resignation[67]. As Hine and Poli note:

> Scalfaro himself has acknowledged that there was no precedent for the decision he took in that crisis: to establish a government uncoupled from any specific parliamentary majority, entrusted with a very focused and pre-defined program, and explicitly designed to defuse the tension of a deteriorating political climate[68]

Scalfaro's activism was particularly evident in the months leading up to EMU. In 1997, the president continually expressed strong support for the Prodi government's budget cuts[69]. Prime Minister Prodi acknowledged this support for his government's budgetary policies, at one point stating:

> The government considers the statement of the head of state an appeal to all political forces and citizens of the country, because the particularistic and corporatist interests cannot supersede the supreme interest of the country in a moment like this that is so decisive for its future and its history[70].

Similarly, the Bank of Italy's activism in EU matters and Italian public finances was also significant in this period. Having gained full independence in monetary policy with the implementation of law 483 of 1993, which severed the remaining links between the central bank and the treasury, the central bank established closer links with other EU central banks[71]. Domestic institutions such as the treasury continued to rely on the central

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[67] D. Hine and E. Poli, 'The Scalfaro Presidency in 1996: The Difficult Return to Normality,' in R. D'Alimonte and D. Nelken, eds., *Italian Politics: The Centre-Left in Power* (Boulder: Westview, 1997), pp.172-175.

[68] D.Hine and E.Poli, 'The Scalfaro Presidency in 1996: The Difficult Return to Normality', p.173.

[69] 'Scalfaro: Welfare da riformare, *Il Sole-24 Ore* 22 April 1997, p.2.

[70] Ibid.

[71] Swann, *The Economics of the Common Market*, p. 240; Della Cananea, *Indirizzo e controllo della finanza pubblica*, p. 199.

bank's studies and its well-staffed research department[72]. There remained close co-ordination between the central bank and the treasury increased throughout the 1990s[73].

The central bank did come into greater conflict with the treasury minister and the prime minister during the post-transition period, specifically over interest rates. For example, in the months leading up to EMU selection, Governor Fazio kept Italian interest rates higher than rates in other EU countries in order to lessen the possibility of a last-minute run on the lira. While Prime Minister Prodi and Treasury Minister Ciampi repeatedly called for interest rate cuts to stimulate economic growth and employment, Fazio refused to risk interest rates cuts in the absence of a greater government commitment to structural reforms. Fazio's position on interest rates cooled relations between the central bank and the treasury in this critical period, but also put pressure on the government to maintain fiscal discipline[74].

The rulings of the Constitutional Court also continued to demonstrate sensitivity towards Italy's public finance situation. For instance, rulings such as decision no. 243 of 1993 allowed the government to delay compensation payments owed to workers due to public finance considerations[75]. In another ruling over cuts to regional transfers, the Court reminded regional governments that they also had to work towards improving Italy's public finance situation[76]. The Court also made several decisions that criticized

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[72] Hine, *Governing Italy*, p.247.
[73] 'La penisola del tesoro', pp.4-5; 'Manovra bis, motori accesi al Tesoro,' *Il Sole-24 Ore* 18 Jan 1997, p.2. Policy co-ordination between the Italian central bank and the treasury is an area of study that warrants further investigation.
[74] 'Fazio: basta con le tasse, ora tagli strutturali,' *Corriere della sera* 1 June 1997,p. 3.
[75] Donati, 'Le ripercussioni delle pronunce giurisdizionali sull'equilibrio di bilancio', pp. 622-623; Forte, *Decisione politica e vincolo contabile* 1995, pp.199-200.
[76] Della Cananea, *Indirizzo e controllo della finanza pubblica*, pp. 149-152.

parliament's use of special funds to cover multi-year expenditure[77]. In short, the Court continued to demonstrate concern for the financial objectives of the central government.

In sum, all three external actors played important supporting roles during the convergence process. Their activism increased pressure on both central and regional governments, with all three external guardians serving to reinforce the financial constraints on policy-making at this critical time in Italian economic history. Having explored the activism of external guardians, a key feature of domestic budgeting, the chapter now turns to a more detailed analysis of budgetary politics during the era of executive governance.

Budgetary Politics and Executive Governance: The Berlusconi Government

The previous discussion has outlined the key characteristics of executive governance, notably, the greater policy autonomy displayed by cabinets, the growing pre-eminence of the treasury ministry in budget policy co-ordination, and the continued activism of external guardians in budgetary matters. The current section analyzes budgetary politics in the post-1994 period in greater detail.

This period was one of tightening external constraints. It was also an era that saw a commitment by all governments to containing the public sector deficit[78]. While not all governments of this period successfully achieved their budgetary objectives, this era contrasts sharply with the previous one of immobilism.

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[77] Forte, *Decisione politica e vincolo contabile*, p.82.
[78] D. Sassoon, *Contemporary Italy: Economy, Society and Politics Since 1945*. Second edition (London: Longman, 1997), pp. 265-7

Under the first government of this period, budgetary objectives were difficult to reach. Prime Minister Silvio Berlusconi remained unable to keep his coalition intact, and failed to achieve an accord with trade unions over structural reforms to the pension system. As noted earlier, the Berlusconi government lacked the economic expertise of previous governments, but the cabinet initially earned the confidence of international financial markets[79]. This confidence in Italy subsided only weeks later, when conflict erupted between Berlusconi and Bossi over cabinet appointments[80].

In a climate of diminishing market confidence and growing coalition infighting, the Berlusconi government began consultations over welfare reform in the summer of 1994. The government invited state officials, academics, and representatives of labour and business groups to discuss proposals for welfare changes[81]. Nevertheless, in the end, the final reform proposals proved unacceptable to trade unions, and their leadership made it clear that unions would not support structural modifications to pensions.

Apart from the government's inability to gain trade union support for pension cuts, the prime minister's personal credibility and popularity was also undermined by the political and judicial developments that took place in the summer of 1994. First, the Berlusconi government's attempt to introduce a political solution to the ongoing corruption investigations, two days after the prime minister was informed that he was being investigated for corruption, drew heavy criticism. Berlusconi's brother, Paolo, the Berlusconi media empire, Fininvest, and the prime minister himself became subjects of judicial inquiries in 1994.

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[79] Donovan, 'International Market Reaction to the 1994 Parliamentary Elections and the Berlusconi Government', pp.235-6
[80] Ibid., p.236.

As a response to the judicial investigations, Berlusconi's justice minister, Alfredo Biondi, presented a decree to cabinet on July 13, consisting of measures intended to modify what constituted punishable offences[82]. However, the decree attracted criticism from many quarters, resulting in the loss of government credibility at home and abroad. The magistrates, Italy's media, the Italian electorate and President Scalfaro all attacked the Biondi decree. Moreover, Berlusconi's coalition partner, the LN, also criticized the prime minister for proposing the measures, while financial market confidence in Italy was further shaken by the events. Faced with these intense pressures, the cabinet was forced to abandon the decree.

The Berlusconi government's credibility was further harmed by the failure of the prime minister to relinquish control of his business interests[83], and due to the conflict over the appointment of a new director-general at the Bank of Italy to replace Lamberto Dini[84]. Finally, the coalition was also weakened by the prime minister's failure to address the LN's interest in fiscal decentralization, and by Berlusconi's relatively warmer relations with the AN's Fini. The judicial and coalition problems translated into growing political and financial instability, resulting in a run on the lira and a difficult budget session in autumn 1994.

It was evident that the Berlusconi government needed to push through convincing budget measures to calm financial markets. The budget package for 1995 was ambitious

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[81] Castellino, 'Pension Reform: Perhaps Not the Last Round?', p.157.
[82] For a discussion of the Biondi decree, see Stanton H. Burnett and Luca Mantovani, *The Italian Guillotine* (Lanham, Maryland: Rowman and Littlefield, 1998), pp.163-176.
[83] Ignazi and Katz, 'Introduzione: Ascesa e caduta del governo Berlusconi', p.42.
[84] The political infighting over the replacement of Dini at the Bank of Italy further undermined market confidence in Italy, causing financial markets to become concerned about political interference at this well-respected independent institution. see Donovan, 'International Market Reaction to the 1994 Parliamentary Elections and the Berlusconi Government', pp.237-8.

in scope, the central feature being the *delega-collegato* containing pension reform proposals prepared by Berlusconi and Treasury Minister Dini. Within the council of ministers, however, the animosity between Bossi and Berlusconi came to the fore that autumn, owing to Berlusconi's personal conflicts and ill-conceived political initiatives, in addition to the budget package provisions[85]. In cabinet, many spending advocates were also unhappy with government cuts to welfare and health spending, while Finance Minister Tremonti's proposals for fiscal federalism met resistance from the AN. Yet, the key budget conflicts, including pension reform, were put off until the parliamentary budget session. The cabinet approved the 1995 budget measures largely intact[86]. Even financial markets were temporarily assuaged by the 1995 budget package presented by the Berlusconi government[87].

Nevertheless, the government was unprepared for the resistance it encountered from trade unions over the budget. The autumn of 1994 witnessed some of the most intense trade union mobilization ever to take place in Italy[88]. On October 14, the three main trade unions, CGIL, CISL and UIL, held a massive general strike against the pension reform proposals. These protests attracted over three million demonstrators in various Italian cities[89]. This was followed by a demonstration in Rome on November 12, which, with over one million participants, was one of the largest demonstrations in the history of the city[90].

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[85] Bufacchi and Burgess, *Italy Since 1989*, pp.206-7.
[86] Verzichelli, *La politica di bilancio*, p.200.
[87] Donovan, 'International Market Reaction to the 1994 Parliamentary Elections and the Berlusconi Government', p.241.
[88] Carrieri, 'Industrial Relations and the Labour Movement', p.306.
[89] A. Lepre, *Storia della prima Repubblica. L'Italia dal 1942 al 1994* (Bologna: Mulino, 1995), pp.354-357.
[90] Ibid.; See also Ginsborg, *L'italia del tempo presente*, pp.552-553.

Defying the demonstrators, Berlusconi refused to make concessions over the budget proposals, stating 'One, ten, a hundred general strikes won't make any difference'[91]. Yet, the demonstrations intensified the conflict between Bossi and Berlusconi during this period, with Bossi accusing the prime minister of fomenting social unrest[92]. In addition, Berlusconi's governing coalition was further weakened when the prime minister was notified on November 22 that he was being investigated for corruption[93].

The difficulties encountered by the prime minister and his government led to a sharp fall in the lira. By the end of November, Berlusconi was forced to meet trade union demands. On December 1, the government reached an accord with trade unions that delayed pension reform until June 1995, and the government's pension *delega* was removed from the 1995 budget package[94]. Furthermore, having lost LN support, Berlusconi's government relied on the opposition for parliamentary approval of the budget, after which a no-confidence motion was called against the government[95]. In the end, the modified *collegato* approved by parliament was of a cluttered omnibus nature, resembling the *collegati* of the 1989-92 period. It consisted of 249 articles, and failed to represent purposive policy direction on the part of the government. It was also eviscerated of key pension reform measures[96].

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[91] Quoted in Bufacchi and Burgess, *Italy Since 1989*, p.206.
[92] H. Partridge, *Italian Politics Today* (Manchester: Manchester University Press, 1998), p.161.
[93] Lepre, *Storia della prima Repubblica*, p.355.
[94] Bufacchi and Burgess, *Italy Since 1989*, pp.208-9.
[95] Donovan, 'International Market Reaction to the 1994 Parliamentary Elections and the Berlusconi Government', p.242; see also Ignazi and Katz, 'Introduzione: Ascesa e caduta del governo Berlusconi', p.44.
[96] Della Cananea, *Indirizzo e controllo della finanza pubblica*, p.191.

While the 1995 budget package still consisted of approximately L50,000bn of revenue-raising and expenditure-cutting measures as originally forecast, the package relied primarily on one-off measures rather than substantive structural changes. The measures included freezes to seniority pensions, health user fee hikes, reductions to local government transfers, and new tax assessment procedures to increase tax compliance, particularly among self-employed groups[97]. However, the 1995 budget package and the accompanying political instability failed to impress financial markets[98].

Once the 1995 budget was approved, the PDS proposed a motion of no-confidence against the prime minister. The motion, presented on December 17, was supported by the centrist PPI as well as FI's former coalition partner, the LN[99]. Rather than waiting for the vote, Berlusconi promptly resigned on December 22 in the hope of being asked by Scalfaro to form a second government. However, the financial and political instability led Scalfaro to opt for a 'technical' government.

To sum up, the Berlusconi premiership illustrates the limits of executive governance in this period. Although the budgetary objectives of the Berlusconi government were more ambitious than those of pre-1992 cabinets, the prime minister could not overcome the resistance of trade unions to structural reforms, nor could he keep his feuding coalition intact. The Berlusconi government suffered a gradual loss of legitimacy in the eyes of the electorate and financial markets, while the prime minister's personal credibility also waned, owing to Berlusconi's conflict of interest problems.

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[97] Bank of Italy, *Economic Bulletin* n.20 (Feb 1995), pp.68-69; Camera dei deputati-servizio studi, 'Debito e fabbisogno del settore statale: Evoluzione e politiche di rientro (1986-1995)' *Documentazione e ricerche* n.84 (XIIth legislature, July 1995), pp.32-33.

[98] Donovan, 'International Market Reaction to the 1994 Parliamentary Elections and the Berlusconi Government', pp.242-3.

Having failed to achieve trade union consensus and unable to maintain coalition support for the 1995 budget package, the prime minister had to rely on the left for budget approval. The Berlusconi case demonstrates that while cabinets were no longer dependent on party executives in this period, they continued to require coalition consensus and interest group support to realize their budgetary objectives.

Budgetary Politics Under the Dini Government

Like the Ciampi government, the technical government of Lamberto Dini enjoyed significantly greater autonomy in budget policy-making. The appointment of Dini responded to the request made by the PDS, PPI and LN for a *super partes* government. needed to address urgent political and financial issues. While Berlusconi's FI and its allies, the CCD and AN, initially acquiesced in the appointment of one of Berlusconi's former ministers, the Dini government increasingly came to rely on the parliamentary support of the centre and left during its tenure[100].

As noted above, from the very start of his premiership, Prime Minister Dini dissociated himself from traditional politics and emphasized that he would remain in office only to implement a limited four-point technical program. This included the implementation of a mini-budget, pension reform, the presentation of the 1995 medium-term DPEF, and effecting changes to the rules governing political party access to

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[99] Ginsborg, *L'italia del tempo presente*, p.555.

[100] Pasquino, 'The Government of Lamberto Dini', pp.140-141; Buttiglione and Berlusconi had already began strategizing for a June vote two weeks after the start of the Dini government. See 'Chronology of Political Events, 1995', p.3.

television advertising. Dini sought to accomplish all four tasks by June 1995 in order to quickly rebuild market confidence in Italy[101].

In March 1995, the Dini government introduced a mini-budget decree consisting of L20,800bn worth of deficit-cutting measures. The mini-package was required to make up for the expected budget shortfall, resulting from the inadequacy of the Berlusconi budget measures and the higher debt interest payments that followed the lira's fall. The mini-budget principally consisted of increases to VAT and petrol taxes, provisions intended to put Italy back on track in its convergence objectives[102]. The prime minister appealed directly to the Italian electorate and trade unions for support, and attached a confidence vote to the mini-budget to ensure that parliament approve the package intact. The mini-budget received the support of the PDS, the PPI, the LN, and some members of RC, while FI, AN and the CCD opposed the package.

The successful implementation of the mini-budget decree was followed by a preliminary pension accord in April 1995, reached between Labour Minister Tiziano Treu and the trade union leadership. The Dini government's more conciliatory approach to trade unions contrasted sharply with Berlusconi's confrontational style, and was rewarded with greater trade union flexibility in this period. Trade union leaders, for their part, felt more comfortable making concessions to a technical government that was motivated by national rather than partisan interests. Moreover, the trade union leadership did not want to demonstrate intransigence with the Dini government, after they had

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[101] Bufacchi and Burgess, *Italy Since 1989*, p.219.
[102] OECD, *Economic Surveys: Italy* (1996), pp.44-45.

displayed such inflexibility with the previous centre-right government[103]. The preliminary agreement on pension reform cleared the way for a final agreement in the summer of 1995. The reform legislation was issued as a cabinet decree, and was converted into ordinary legislation in August. The legislative changes were presented as part of the 1996 budget package[104].

The Dini government also achieved a third key policy objective by June 1995. The treasury ministry presented one of the most crucial medium-term DPEF documents of the period, outlining Italy's convergence plans for the years 1996 through 1998. The DPEF report served as Italy's official convergence program for the years running up to the selection of EMU participants[105]. In parliament, the Dini government again relied on the support of the left for approval of the DPEF resolution.

In spite of these successes, the Dini government failed to implement new legislation governing political party access to television advertising. The Dini government did oversee a referendum which asked whether Italians approved of the abrogation of certain sections of the Mammi law of 1990 dealing with television access, but the referendum proposals were all rejected by the Italian electorate[106].

After Prime Minister Dini's government succeeded in restoring greater financial calm, President Scalfaro asked Dini to remain in office to preside over the implementation of pension reform proposals as part of the 1996 budget package. Faced

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[103] M. Braun, 'I sindacati confederali e il governo Dini: il grande ritorno del neo-corporativismo?' in M. Caciagli and D. Kertzer, eds., *Politica in Italia. Edizione 95* (Bologna: Mulino, 1996); see also Pasquino, 'The Government of Lamberto Dini', p.143.

[104] See chapter six for a discussion of the Dini pension reform.

[105] In the document, the government fully harmonized its public accounting measurements and definitions to those of the EU. See Ministero del tesoro, *Documento did programmazione economica-finanziario, 1996-98*; See also OECD, *Economic Surveys: Italy* (1996), p.132, fn34.

[106] Bufacchi and Burgess, *Italy Since 1989*, pp.221-223.

with strong opposition from Berlusconi's alliance, which sought early elections, Dini promised to resign at the end of 1995, once the budget had been approved. Despite centre-right hostility, the cabinet enjoyed the support of the centre-left, resulting in a relatively calm and orderly budget session. While the RC joined the centre-right in opposing the 1996 budget in the final voting, the Dini package still received parliament's approval with votes from the PPI, the PDS and the LN.

The size and scope of the Dini budget package was smaller than Berlusconi's initial budget package of the previous year, consisting of only L32,500bn worth of deficit-cutting measures. Yet, the budget package contained convincing structural reforms to pension benefits, provisions that could not be implemented by the previous government[107]. The Dini package also included provisions to help phase out one-off tax measures, increase tax administration efficiency, and enhance tax compliance[108]. Moreover, the government's success in the 1995 budget session helped Italy regain financial market confidence in this period. Although the measures drew criticism from the central bank governor for their limited financial effects, Italy's public finance situation greatly improved as a result of the budget provisions[109].

In sum, owing to the Dini government's budget successes, by early 1996 Italy's financial and political circumstances had greatly stabilized[110]. Italian interest rates began to fall due to the implementation of convincing structural reforms. Moreover, on the political front, the Dini period also provided a suspension of politics that permitted political party reorganization. The PDS, in particular, had the opportunity to expand its

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[107] Banca d'Italia, *Bollettino economico* n.26 (Feb 1996), pp.68-69.
[108] OECD, *Economic Surveys: Italy* (1996), p.47 and fn.37.
[109] Verzichelli, *La politica di bilancio*, p.203.

political alliance towards the centre during the second half of 1995 and early 1996. On the institutional front, however, attempts by the Dini government to bring about substantive reforms to Italy's political structures failed, owing to disagreements between D'Alema and Berlusconi. Further initiatives would again be attempted in the Prodi period[111].

Budgetary Politics Under the Prodi Government

In contrast to the Berlusconi cabinet, Prodi's centre-left *Ulivo* government witnessed greater cohesion between the PDS and other members of the governing coalition. Although the Prodi coalition also experienced conflict and instability, owing to frictions between the *Ulivo* coalition and its 'outside' supporter, RC, the distance between competing ideologies and interests on the centre-left were never as great as those that existed within Berlusconi's coalition. This stronger cohesion within the majority, coupled with the intense financial pressures that existed in 1996 and 1997, helped contribute to the Prodi government's successful budgetary policies in this period. The government's first budget, the so-called 'budget for Europe' for 1997, was the largest single package of deficit-cutting measures since Amato's 1993 budget package (see Table A.7)[112].

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[110] Bufacchi and Burgess, *Italy Since 1989*, p.224.

[111] D'Alema's PDS was the largest single party on the left, while Berlusconi's FI remained the largest single party on the right. The leaders' attempts to reach agreement over constitutional reform failed, as did their attempts during the subsequent Prodi period. See Verzichelli, *La politica di bilancio*, p.204.

[112] S. Parker, 'The Government of the *Ulivo*', pp.125-142.

The cohesion and ambition of this second elected government were demonstrated not only by the cabinet's far-reaching budget measures, which are analyzed below, but also by the government's attempt to pursue constitutional changes to strengthen the institutional framework of the 'second republic'. In 1997, the Prodi government established a bicameral commission on institutional reform to come up with proposals to address, among other things, how to strengthen the political executive through the creation of a presidential system or a stronger prime ministerial system. However, again owing to disagreements between the government and opposition, the bicameral commission could not muster the two-thirds majority needed for constitutional change, and the commission ended in failure. Still, the Prodi government displayed its commitment to fundamentally changing political institutions[113].

In short, the Prodi government proved more successful at economic governance than institutional reform. During its first months in power, the coalition successfully implemented its ambitious budget package for 1997. Prodi's budget program was launched shortly after the April 1996 elections. By June, the government had presented a corrective mini-budget. The package consisted of L16,000bn worth of deficit-cutting measures, including cuts to transportation, education and health services. The coalition was able to rely on RC's support in parliament to convert the decree measures into ordinary legislation by early August[114].

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[113] Once again, D'Alema, now chairing the commission, could not come to an agreement over reform with Berlusconi, leader of the opposition. On the special bicameral committee, see S. Vassallo, 'La terza bicamerale' in L. Bardi and M. Rhodes, eds., *Politica in Italia. Edizione 98* (Bologna: Istituto Cattaneo, 1998).

[114] Verzichelli, *La politica di bilancio*, p.206.

Although Prodi's first budget policy initiatives impressed financial markets, by the summer of 1996 Italy came under strong pressure from the EU, international organizations such as the IMF, and financial markets to implement more extensive structural reforms as part of the budget package for 1997, in order to demonstrate Italy's commitment to EMU. The EU and financial markets were dissatisfied with the 1997 annual budget measures originally outlined in the medium-term DPEF document presented in June.

In response to these concerns, Treasury Minister Ciampi presented a revised version of the DPEF in September 1996. The revised DPEF halved the government's projected borrowing estimates for 1997, from 5.5 percent of GDP to 3 percent[115]. In addition, the 1997 deficit-cutting measures were doubled, from L32,400bn to L62,000bn (see Table A.13)[116]. One salient addition to the modified budget measures was an extraordinary one-off 'tax for Europe', which consisted of a series of direct and indirect tax provisions. Another notable feature of the 1997 budget package was the single massive *collegato*, eventually approved as law 662 of 1997. The enormous budget measure contained 12 *deleghe* to intervene in the health sector, education, public sector employment, local financing, welfare, social assistance, and taxation. With these *deleghe*, which also included the Bassanini administrative reform provisions, the Prodi government sought to simplify and rationalize many different areas of Italy's administrative structures[117].

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[115] OECD, *Economic Survey* (1999), p.53.
[116] *Il Sole-24 Ore* 3 Oct 1996, p.2.
[117] On the Bassanini reforms see, M. Gilbert, 'Le leggi Bassanini: una tappa intermedia nella riforma del governo locale', in D. Hine and S. Vassallo, eds., *Politica in italia. Edizione 99* (1999), pp.161-180. On the principal budget measures for 1997, see Camera dei deputati-servizio studi, 'Attuazione della L. n.662/1996,

The Prodi government's first budget session was marked by relative efficiency. The government reached an agreement with the various parliamentary groups concerning the order of presentation of the budget documents, and the rules for amending legislation introduced into parliament. The agreement over informal rules of the budgetary game was similar to the one reached between Amato and the parliamentary groups in autumn 1992[118]. In addition, at the outset of the budget session, the two chambers swiftly approved a resolution on the revised DPEF document, which set out the new spending and borrowing totals for the 1997 package[119].

During the budget session, however, the Prodi government met resistance from trade unions and self-employed groups over the Eurotax measures. These interest groups sought concessions and clarifications regarding the Eurotax[120]. Trade union protests over the Eurotax led the Prodi government to promise to modify the tax so that it would be less heavily weighted towards personal income taxes and social security contributions. The government also reached an agreement with self-employed groups, who were placated by the government's decision to increase Eurotax exemptions for certain categories of self-employed workers[121]. Yet, the government did not specify the exact measures to be implemented until the following spring, and made no concessions concerning the total amount to be collected, thereby ensuring that the financial effects of the Eurotax on the 1997 budget remained unchanged[122].

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collegata alla legge finanziaria 1997' *Osservatorio sullo stato di attuazione delle leggi* n.1 (XIII legislature, Feb 1998), p.3; see also OECD, *Economic Surveys: Italy* (1997), p.54.

[118] Dipartimento bilancio, 'Provvedimenti collegati', p.2.

[119] 'OK di Camera e Senato alla versione potenziata del DPEF' *Il Sole-24 Ore* 11 Oct 1996, p.2.

[120] See chapter 7 for a more detailed discussion of the 'tax for Europe'.

[121] 'Eurotassa con sconto per gli autonomi' *La Repubblica* 28 Nov 1996, p.2.

[122] See discussion of the Euotax in chapter 7.see also *Il Sole-24 Ore* 25 Oct 1996, p.2.

In parliament, opposition criticisms of the 1997 budget package were harsh, but opposing parliamentary groups proved unable to prevent the Prodi government from realizing its budget objectives. After the introduction of the multi-*deleghe collegato* by the government, the leader of the opposition, Silvio Berlusconi, vehemently complained to President Scalfaro that the government was abusing its power and blatantly circumventing parliamentary checks and balances. Berlusconi asked Scalfaro to force the government to curtail the use of the *delega* as a policy instrument[123]. Not only did Scalfaro respond that he wholeheartedly supported the Prodi government's budgetary policies, but he also advised the opposition to support the government's efforts to gain entry into the single currency[124].

Unable to block the Prodi budget provisions in parliament, opposition groups joined in the protests of self-employed groups during the October-November period. FI and AN members of parliament participated in Eurotax protests organized by small businesses, shopkeepers and other self-employed groups, demonstrations which reached their peak in November. Nonetheless, the social unrest ended when the government successfully negotiated various Eurotax concessions with these groups. The politics surrounding the Eurotax is discussed in greater detail in chapter seven[125].

In December, the *Ulivo* coalition's budget package received parliament's backing with the support of the 'refounded' communists (RC). Yet, to ensure the package's approval without modifications, Prime Minister Prodi attached confidence motions to the budget measures. In defiance, opposition groups left the chambers during the final

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[123] 'Il Polo a Scalfaro: "Fermi le deleghe"' *Il Sole-24 Ore* 25 Oct 1996, p.2.
[124] 'Scalfaro: "Sforzo commune"' *Il Sole-24 Ore* 26 Oct 1996, p.2.
[125] 'La protesta del Polo invade Roma', *Il Sole-24 Ore* 10 Nov 1996, p.2.

voting. Yet, the government easily saw the measures through the legislature with the external support of RC[126].

Nevertheless, one item that was noticeably absent from the Prodi budget package was pension reform. This was because the Prodi government did not want to antagonize trade unions and create the possibility of social and political instability at such a critical juncture in Italy's economic history. Rather than attempting to implement a third pension reform as part of the 1997 budget package, the government offered to leave out discussion of welfare reform in exchange for trade union acceptance of an austere package for 1997[127].

Consequently, in spite of the large size of the budget package, the Prodi government was criticized at home and abroad for failing to address the pension issue. The Bank of Italy, for instance, stated that the 1997 budget package would have been much more credible if pension changes were included. Although the government took further measures to bolster financial market confidence in Italy, such as announcing the lira's re-entry into the ERM in November 1996, four years after the lira exited in September 1992, concern over Italy's failure to carry out further structural reforms to its pension system continued into 1997.

In the spring of 1997, worry over Italy's public finances and the country's commitment to structural reforms once again gave way to speculation over whether or not Italy would be allowed to participate in the single currency. While the government's 1997 budget package would reduce Italy's deficit to GDP ratio bdelow the required 3 percent target, the financial constraints on Italy intensified in this period. The EU, OECD

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[126] *La Repubblica* 14 December 1996, p.9.

and IMF asked the Italian government to carry out an additional reform of its pension system in order to allay concerns over Italy's public finances[128]. Moreover, there were rumours of backroom deals between other member states to exclude Italy from participating in EMU, putting downward pressure on the lira and prompting the prime minister and treasury minister to publicly defend Italy's public finance efforts. It also galvanized the treasury's *supertecnici* to put together a convincing mini-budget for the spring of 1997.

With financial constraints tightening in this period, the Prodi government enjoyed strong domestic support for its budgetary policies. The trade union leadership in particular voiced its strong support for Italy's efforts to enter EMU[129]. CGIL General Secretary Sergio Cofferati spoke out in favour of the Prodi government's efforts to meet the convergence criteria, and, in an attempt to help allay market concerns over Italy's failure to reform its pension system, conceded that unions were ready to enter discussions with the treasury to find welfare solutions[130].

Although the trade union leadership expressed its support for Italy's convergence programme throughout 1997, *Ulivo*'s external supporter, RC, became more confrontational during the period. The RC repeatedly threatened to withdraw its coalition support during discussions over the 1998 budget package. By the autumn of 1997, RC's obstinacy precipitated a government crisis[131]. Yet, the actions of the 'refounded' communists occurred at a critical time for Italy, since the decision over

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[127] *Il Sole-24 Ore* 29 Oct 1996, p.1.
[128] The IMF wanted a specific commitment on welfare reforms. 'Comitato monetario della Ue: si all'italia se cambia il Welfare' *Il Sole-24 Ore* 26 June 1997, p.2; Verzichelli, *La politica di bilancio*, p.208.
[129] *Il Sole-24 Ore* 26 April 1997, p.3.
[130] 'Le mie condizioni per il Welfare,' *Il Sole-24 Ore* 26 April 1997, 3

which countries would participate in the single currency was only months away. Its position was attacked by Italians of all political stripes, including RC's own trade union supporters. The electorate clearly did not want a government crisis during these final months after having made so many sacrifices over the course of the 1990s. RC had clearly underestimated the importance of EMU entry to all segments of Italian society, and was eventually forced to back down, accepting instead a government promise to negotiate a 35-hour work week[132]. Nonetheless, although the 1998 budget received parliamentary approval by the end of the budget session, the cracks in the relationship between RC and *Ulivo* that appeared in late 1997 would again come to the fore in 1998, and spell the end of the Prodi government[133].

The second Prodi budget package was more modest in scope than the 1997 'budget for Europe', but helped secure Italy a place among the first wave of single currency participants in early 1998. It also led to the gradual weakening of immediate financial constraints on Italy, pressures that had become so intense in 1996 and 1997[134]. At the same time, it allowed further divisions to emerge between *Ulivo* and RC, and within the *Ulivo* coalition.

By the summer of 1998, within the refounded communists itself, there was a growing power struggle between Cossuta, its president, and Bertinotti, the general secretary, concerning RC support of the Prodi coalition. Bertinotti withdrew his party's

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[131] Verzichelli, *La politica di bilancio*, pp.208-210.
[132] Ibid.; see also V. Della Sala, 'Losing the Centre?: Italy in the Shadow of the Euro', mimeo, 1998, p.6.
[133] OECD, *Economic Survey: Italy* (199), p.54; see also Camera dei deputati-servizio studi, 'Attuazione della L. n.662/1996, collegata alla legge finanziaria 1997' *Osservatorio sullo stato di attuazione delle leggi* n.1 (XIII legislature, Feb 1998).
[134] Istituto monetario europeo, *Rapporto sulla convergenza: Rapporto richiesto dall'Articolo 109j del Trattato che istituisce la Communita europea* (March 1998), pp.22-29.

support for the government, blaming the move on the prime minister's unwillingness to meet RC demands over education and labour policy[135]. In September 1998, the Prodi government unsuccessfully sought to regain the RC's outside support by proposing to accelerate the implementation of a 35-hour work week in exchange for the RC's approval of the 1999 budget package.

Inside the *Ulivo* coalition, moreover, the centrist PPI proposed accepting the support of Cossiga's breakaway right-of-centre group UDR to pass the 1999 budget package rather deal with RC. The Prodi government had already relied on Cossiga's group to pass the DPEF resolution in July[136]. The PDS, *Ulivo*'s largest component, insisted on the need to seek a compromise with RC. At the end of September, when the Prodi cabinet approved the L14,700bn deficit-cutting package for 1999, the government had not yet secured enough support to have the measures approved in parliament.

Once the budget session began, neither RC nor the UDR would support the Prodi government's measures. On October 9, the prime minister failed to win a vote of confidence that he himself had called to confirm parliament's support for his government, losing by one vote, 313 to 312. The vote split RC, with Prodi receiving the backing of the Cossuta loyalists within the party. Bertinotti's loyalists, as well as the UDR, FI, AN, CCD and the LN voted against the government[137].

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[135] RC's leader, Bertinotti, needed to redefine the party and find an issue to retain the party's base of support, which was rapidly dwindling. see O. Massari and S. Parker, 'Le due sinistre tra rotture e ricomposizioni' in D. Hine and S. Vassallo, eds., *Politica in Italia. Edizione 99*, pp.70-2.

[136] 'Gli avvenimenti del 1998' in D. Hine and S. Vassallo, p.30.

[137] Only twelve RC deputies voted with Bertinotti, precipitating a split in the party. Twenty deputies followed Cossutta, voting to save the government. see Massari and Parker, p.74; see also 'Gli avvenimenti del 1998, p.33.

Prodi's resignation was immediately followed by President Scalfaro's call for a second Prodi government, to be supported by Cossiga's UDR. However, Prodi was unable to put together a coalition, and in mid-October *Ulivo* presented D'Alema as their candidate. Prime Minister D'Alema was able to form a new government that included both Cossiga's UDR and Cossuta's ex-RC supporters.

D'Alema declared that his government would strive to meet two objectives, the implementation of the 1999 budget package and the establishment of dialogue between government and opposition groups in order to carry out reform of Italy's political institutions[138]. Nonetheless, while the budget package for 1999 received parliament's backing by the end of the year, the D'Alema government, like its predecessors, failed to reform Italy's political structures[139]. The D'Alema cabinet of the 1998-99 period was itself replaced by a second Amato government in the 1999-2000 period. This second Amato cabinet did not enjoy the same autonomy as the 1992 one, in light of the changed political and financial circumstances. Furthermore, recent political developments in Italy seem to confirm that while a more stable adversarial party system has emerged, there are limits to executive governance, with governments remaining constrained by coalition politics in the post-1994 period.

In sum, the Prodi period did witness greater budgetary effectiveness during the early years, but experienced gradually increasing political uncertainty over time. On the budgeting front, the Prodi government achieved relative success. The 1997 budget package contained the most extensive deficit-cutting measures since the Amato package of 1993, and earned Italy a place in the single currency. Moreover, the package relied

heavily on the *delega-collegato* instrument, with a full 12 *deleghe* being inserted into the *collegato* for 1997. It is clear that the *delega* remains a key instrument for budget policy-makers in the post-1992 period.

At the level of party politics, moreover, the 1996 elections produced a legislature consisting of large and relatively stable alliances on both the centre-left and centre-right, further institutionalizing adversarial party politics in Italy. Yet, the Prodi period also witnessed the failure to bring about broader constitutional reforms. The bicameral commission on institutional reform collapsed because the commission's president, Massimo D'Alema, could not come to an agreement with the *Polo* over various issues, most notably, the form of government and the powers of the prime minister and the president of the Republic[140]. Unlike France, which witnessed important constitutional developments in the 1950s that modified the roles and powers of the presidency and parliament[141], Italy has remained unable to gather the required two-thirds majority in parliament to carry out constitutional changes that would strengthen the institutions of the executive. Consequently, as this chapter's conclusion discusses, executive governance in Italy remains less institutionalized than in France.

Conclusion

Budgetary politics in the post-1994 period did not return to the immobilism of the previous era. The financial constraints imposed by the EU convergence criteria forced

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[138] Massari and Parker, 'Le due sinistre', pp.73-76.
[139] 'Gli avvenimenti del 1998', p.42.
[140] Vassallo, 'La terza Bicamerale',

governments of this period to pursue more rigorous fiscal policies. Both technical and elected governments demonstrated a commitment to austere budget measures. However, not all governments were able to realize their budgetary objectives. The analysis reveals that, for a variety of reasons, technical governments remained more autonomous in the policy sphere. The Ciampi and Dini cabinets were headed by former central bankers who remained outside traditional party politics. Moreover, Dini governed during an interval of greater turmoil in the financial and party systems, and succeeded in gaining trade union backing and public support for his policies such as pension reform.

The policies of the elected Berlusconi and Prodi governments were also conditioned by strong financial constraints. These cabinets also sought to implement ambitious budget measures and to employ the hybrid *delega-collegati* instrument to carry out structural reforms. Yet, both these governments were more dependent on their coalitions than the two technical governments. Berlusconi failed to reconcile differences within his coalition, and remained unable to gain trade union support for the government's pension measures. In the end, the government needed the left's support to pass the budget measures for 1995, having lost its majority in parliament. While the Prodi government's budget policies were more successful, the government also depended on the outside backing of the RC.

In short, it may be too early to argue that strong executive governance has emerged, primarily for two key reasons. First, the principal budget innovation of this period, the *delega-collegato* instrument, has recently attracted stronger opposition in parliament. The *delega-collegati*, though reduced in number and presented at an earlier

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[141] Williams, *The French Parliament*, pp.257-275.

stage of the annual budget session, have increasingly acquired cluttered omnibus characteristics. If the *collegati* presented each year were to become as unwieldy as the pre-1988 finance law, it would lead to a reduction in the cohesiveness and effectiveness budgeting[142].

Moreover, while the introduction of *collegati* instruments and modifications to parliamentary procedures have given the executive greater control over budgeting in recent years, Italy's institutional changes are not as extensive as those that had occurred in France. In France, the constitution of the Fifth Republic, and the additional changes to French financial procedures in 1959, gave the executive far more control over budgeting. It allowed the government to intervene more regularly and in policy areas reserved for parliament. It also forced parliament to approve the executive's budget within a set time period of seventy days (article 47)[143]. Similar constitutional developments in Italy may be a long way off, since it is unlikely that parliament will be able to find the two-thirds majority required to implement constitutional changes.

In the meantime, Italy, like governments of the Fourth Republic, will continue to employ the *delega*, an instrument equivalent to the *loi-cadre*. It is worth noting that while the *loi-cadre* proved more effective than normal decree legislation, since this instrument limited parliament's ability to alter government policies, towards the end of the Fourth Republic the number of *lois-cadre* introduced increased to such an extent that it became impossible for France's public administration to execute the resulting legislative decrees[144]. As the number of *deleghe* inserted into the annual budget package

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[142] Della Cananea, *Indirizzo e controllo della finanza pubblica*, pp.191-192.
[143] Hayward, *Governing France*, pp.194-5; see Williams, *The French Parliament*, pp.272-5.
[144] Williams, *The French Parliament*, pp.274-5.

collegati continues to increase, this instrument may too become less effective in the Italian case.

In sum, it may be too soon to conclude that Italy has entered an era of stable executive governance, characterized by more stable budgetary politics. Yet, it is evident that the 1990s contrasts sharply with the period of immobilism. The treasury ministry has emerged as the pre-eminent actor in budget policy co-ordination within the executive, and budgeting now better reflects purposive policy choices. Moreover, budget outcomes have been distinctly non-incremental in the post-1992 period. The political and institutional developments of recent years should prevent a return to the budgetary immobilism and uncontrolled incremental budget outcomes of the 1980s.

Chapter 6: The Italian Pension System: A Case Study of Expenditure

Introduction

Chapters three through five provided the reader with a broad descriptive analysis of the three periods of budgeting, namely, immobilism, the transition, and executive governance. The discussion illustrated the salient features of domestic budgeting, and presented an integrated account of budgetary politics. In contrast to earlier chapters, chapters six and seven analyze budgeting at a more microscopic level, disaggregating budgeting into its expenditure and revenue components. The current chapter examines pension politics in Italy, pensions being the largest component of public expenditure. Chapter seven explores the principal developments in tax politics. These sectoral studies are intended to bring the vicissitudes of budgetary politics into sharper focus.

Pension spending remains a policy concern not only for Italy but also for most European countries. Demographic shifts have resulted in a rapidly aging population, and have placed greater strain on European welfare systems at a time when countries are seeking to trim public sector deficits. The pension 'time bomb' is more critical in Italy than elsewhere. While Italy's total social spending as a percentage of GDP has remained in line with social spending levels in other European states (see Table A.14), Italian pension expenditure remains significantly higher than in other countries (see Tables A.15 and A.16). Hence, although Italy has successfully reduced *total* public expenditure

during the 1990s, its pension spending is expected to continue rising as a proportion of GDP until the year 2035, even with the two important pension reforms of recent years[1].

Nevertheless, the capacity of Italian governments to carry out substantive pension reform in recent years illustrates that Italy's pension politics in the 1990s greatly differs from pension politics during the period of immobilism. Substantive structural reforms to Italy's pension system became possible only during and after the transition in budgetary politics. Although the two pension reforms of this period will invariably be followed by subsequent structural adjustments to the pension system, these measures remain significant, and contributed to the process of fiscal consolidation observed in recent years.

A Brief Overview of the Italian Pension System

The Italian pension system is characterized by complexity and institutional fragmentation. The system developed by way of piecemeal legislative changes introduced over the course of the post-war era. Today, there exists a myriad of different pension benefits and fund management schemes for different working categories. The largest and most important pension fund, however, is that for private sector employees, the *Fondo pensioni lavoratori dipendenti* (FPLD). The FPLD scheme is managed by Italy's largest welfare agency, the *Istituto nazionale della previdenza sociale* (INPS). Over ten million pensions are managed under the FPLD, accounting for 62 percent of all welfare expenditure. Within the FPLD scheme, the most common pension fund is the

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[1] OECD, *Economic Surveys: Italy* (1997), pp.84-85.

Assicurazione generale per l'invalidita, vecchiaia e superstiti (AGO-IVS), the general pension benefits for the disabled, elderly, and survivors[2].

INPS is also responsible for managing a variety of different self-employed pension funds for various professional and self-employed groups. For example, professional soccer players collect pensions under the ENPALS fund, managers of industrial firms collect their benefits from INPDAI, while journalists collect their pensions under INPGI[3]. In all, INPS manages a total of 14.2 million pensions, accounting for 87 percent of total welfare expenditure[4].

The pension benefits of a third main working category, public sector employees, are managed by the labour ministry in conjunction with the treasury ministry. Until recently, there were a variety of different pension schemes that covered national, regional, and local public sector employees. Since 1993, however, pension benefits for public sector employees at the local, regional and central government levels have been consolidated under the *Istituto nazionale di previdenza per i dipendenti dell'amministrazione pubblica* (INPDAP)[5]. Thus, together INPDAP and INPS account for over 98 percent of all pension expenditure, while these agencies manage over 16 million pensions[6].

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[2] O. Catellino, 'Pension Reform: Perhaps Not the Last Round' in M. Caciagli and D. Kertzer, eds., *Italian Politics: A Review* 11 (1996), p.153; G. Cazzola, *Lo stato sociale tra crisi e riforme: il caso italia* (Bologna: Mulino, 1995), pp.56-57.

[3] The *Ente nazionale previdenza ed assistenza per I lavoratori dello spettacolo* (ENPALS), *Istituto nazionale previdenza dirigenti aziende industriali* (INPDAI) and *Istituto nazionale previdenza giornalisti italiani* (INPGI) have their funds managed at INPS as well. ibid., pp.56-57; Travaglia, *Come funziona l'italia*, pp.153, 286, 289.

[4] Cazzola, *Lo stato sociale*, p.57.

[5] The pensions for state sector employees, as well as those for employees of local government and public enterprises, have been fused into the *Istituto nazionale di previdenza per I dipendenti dell'amministrazione pubblica* (INPDAP). See Travaglia, *Come funziona l'italia*, p.153.

[6] Cazzola, *Lo stato sociale*, p.57.

Nevertheless, despite the fact that responsibility for pension management principally resides within these two welfare agencies, pension schemes are numerous, while the system remains fragmented. The two key pension reforms of the period of executive governance have sought to control the growth of pension expenditure and to reduce the system's complexity, mainly through the simplification and harmonization of the entitlement criteria, and the methods by which pensions are calculated for the three main working categories; notably, private sector employees, public sector employees, and self-employed groups. Before turning to the pension reforms of the 1990s, this chapter discusses the development of Italy's pension system, as well as Italy's pension politics during the period of immobilism.

The Development of the Italian Pension System

While the welfare systems of Northern Europe developed along universalistic lines, with an emphasis on solidarity and equal welfare benefits for all citizens, the Italian welfare system, like those of other continental European states, grew along more particularistic lines. These countries stressed solidarity among members of particular working categories or groups, resulting in the gradual introduction of welfare benefits sector by sector. Consequently, different groups received different types of state benefits, and the development of the system occurred in an incremental and piecemeal manner[7]. Hence, from the late nineteenth century onwards, although general state welfare agencies

[7] M. Paci, 'Public and Private in the Italian Welfare System' in P. Lange and M. Regini, eds., *State, Markets and Social Regulation*, pp.217-218.

dealing with the elderly and the infirmed did appear, the growth of social spending took place in an ad hoc and particularistic fashion.

In Italy, rudimentary welfare structures were introduced by the state at the turn of the century. In 1898, the *Cassa nazionale di previdenza per l'invalidita e la vecchiaia degli operai*, the national welfare fund for disabled and elderly workers, was established. This agency gradually grew into the main welfare agency of the present period, INPS[8]. However, the original *Cassa* offered benefits to only a small segment of the Italian population. On the eve of the first world war, only state sector employees were receiving modern comprehensive welfare benefits[9].

In 1919, basic pension benefits were introduced for private sector salaried employees. These benefits were calculated according to a contributions-based system of capitalization. Capitalization converted the contributions made by employers, employees and the state into fixed cash benefits for retirees. However, these were far from universal welfare benefits. They were less generous than public sector welfare benefits, while strict entitlement criteria were attached to the capitalization system[10].

During the 1920s and 1930s, the Italian welfare system became a creature of the fascist regime. Under fascism, welfare distribution was kept under strict party control, and remained in the hands of the local fascist councils. The strong political interference in the management of Italian welfare agencies invariably led to corrupt distribution practices. There was a proliferation of local welfare bodies that provided preferential

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[8] The *Cassa nazionale* was renamed INPS in 1922. See Travaglia, *Come funziona l'italia*, p.153.
[9] V. Fargion, 'State e previdenza in Italia: linee evolutive dell'intervento pubblico in prospettiva comparata', in G. Freddi, ed., *Scienze dell'amministrazione e politiche pubbliche*, p.216-7.
[10] Ibid., p.217.

benefits to those with close ties to the fascist party[11]. These negative features of the Italian welfare system, notably, institutional fragmentation and the political control of resource distribution, were to re-emerge under the new republican regime in the post-war period.

Immediately following the Second World War, Italian lawmakers set out to redesign its political and social institutions. In the early years of the Republic, the PCI and the PSI participated alongside the DC in formulating proposals for a more equitable and less fragmented system of welfare, with a view to making comprehensive welfare benefits accessible to all Italians. The 1947 commission on welfare reform proposed extending universal welfare benefits to all groups (self-employed groups, private sector employees, and public sector workers), and implementing a basic minimum guaranteed pension for all workers. These proposals were intended to provide Italy with a welfare system that was similar to other systems evolving in Europe at that time[12].

In the event, the early post-war years did not witness a major overhaul of the Italian welfare system. Instead, the PSI and the PCI were expelled from the government in 1947[13], and the DC, rather than implementing legislation that would bring about a more equitable and universalistic welfare system, opted to build upon existing welfare legislation and institutions by way of piecemeal changes. As a result, throughout the 1950s and 1960s, there was a significant growth in the number and types of pension funds managed under INPS, particularly among self-employed pension benefits. In 1957, for example, legislative changes were implemented to extend pension benefits to

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[11] Furlong, *Modern Italy*, p.46; See also Fargion, 'Stato e previdenza in Italia', pp.229-230.
[12] Fargion, 'Stato e previdenza in Italia', pp.221-222.

agricultural workers. In 1959, pension benefits were extended to retired artisans. Shopkeepers received full pension benefits in 1966. These first-generation pension beneficiaries were subsidized both by the relatively young working population of that time and by large government transfers to INPS[14]. Moreover, new pension benefits were no longer calculated according to the capitalization method, but, instead, were calculated according to an earnings-based *ripartizione* or 'redistribution' method. The new calculation system linked pension benefits to workers' earnings, rather than to worker contributions. This more generous system of pension calculation essentially entailed a direct transfer of wealth from Italy's working generation to its first-generation retirees[15].

The DC government's strategy of conferring pension benefits upon specific groups such as agricultural workers and shopkeepers, strong supporters of the DC and its allies, had evident political rewards. It permitted the party to more firmly establish its hegemony over Italy's politics and society. It is no coincidence that the DC and its allies consistently retained control of the main welfare agencies during the early post-war period. For instance, from 1949 to 1965, the management of INPS remained in the hands of DC loyalists[16]. The DC and its coalition allies also controlled other social welfare agencies in this period. For example, the DC held the directorship of the *Istituto nazionale assicurazione contro le malattie* (INAM), the national health insurance institute, from 1944 to 1974, while the disability insurance agency, the *Istituto nazionale per le assicurazioni contro gli infortuni sul lavoro* (INAIL), was controlled by the DC's

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[13] Ginsborg, *A History of Contemporary Italy*, pp.110-112; Graziani, *Lo sviluppo dell'economia italiana*, pp.35-39.
[14] Morcaldo, *La finanza pubblica in Italia*, p.69,fn4; G. Regonini, 'Partiti e pensioni: I legami mancati', p.90, fn24;
[15] Fargion, 'Stato e previdenza in Italia', p.222.

ally, the PLI, from 1949 until 1964[17]. Disability pensions, disbursed according to 'subjective' criteria, became an important source of state patronage, particularly for agricultural workers. By 1974, pension agencies paid out 1.5 million disability pensions to small farmers, but only 625,000 old-age pensions to this group[18].

In short, during the post-war period, Italy's welfare system continued to develop along particularistic lines, reflecting attempts by successive DC-led coalitions to exert political control over welfare distribution. However, the piecemeal and particularistic growth of welfare also left private sector industrial workers without adequate social protection. While the post-war period did see the implementation of additional minimum pension coverage provisions, the DC was not prepared to concede major changes to workers during an era in which trade unions remained fragmented and relatively weak, and Italy's strong economic growth in this period was predicated on high unemployment and low industrial wages[19].

The Expansion of the Italian Pension System in the 1970s

After a long period of uninterrupted economic growth during the 1950s and early 1960s, Italy began to experience bouts of reduced economic activity. The slower economic growth resulted in heightened economic insecurity among workers, rising unemployment and increasing trade union activism. Furthermore, Italy's ratio of workers to pensioners was steadily declining. Whereas, in 1947, the ratio of workers to retirees

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[16] Ginsborg, *A History of Contemporary Italy*, pp.154, 488,fn29
[17] Ibid.
[18] Sassoon, *Contemporary Italy*, p.51.

had been almost 6 to 1, this fell to just over 2.5 to 1 by 1963 (see Table A.17)[20]. In other words, amidst deteriorating economic conditions, the number of workers who could contribute to support Italy's welfare system was declining. As a result, Italy's welfare burden was increasingly taken on by the central government.

The pension system was also strained by the improper recourse by Italian workers to disability pensions. In the 1950s, INPS had projected that 25 percent of the state's pension funding would be allocated to disability pensions. Yet, by 1972, INPS was allocating an equal amount of old-age and disability pensions, since the latter pensions were more easily obtained by workers through 'subjective' criteria[21]. In the South, the problem was even more acute. In the provinces of Enna, Benevento and Campobasso, for example, 10,000 disability pensions were disbursed for every 100 old-age pensions[22]. In short, imbalances became manifest in the Italian pension system even prior to the implementation of generous new pension benefits in the late 1960s and early 1970s. Nevertheless, these imbalances, arising from changing demographic trends, economic slowdown and distributional irregularities, were not addressed by policy-makers during this period.

Instead, during the late 1960s and early 1970s, the DC-led government implemented new legislation that significantly expanded Italy's pension commitments. The government needed to respond to the growing trade union militancy of this period. Before the 1960s, trade union activism had been less assertive, largely due to the conflictual relationship that existed between the three main trade unions, CGIL, CISL

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[19] Morcaldo, *La finanza pubblica in Italia*, p.68; Fargion, 'Stato e previdenza in Italia', p.227.
[20] Cazzola, *Lo stato sociale tra crisi e riforme*, p.64.
[21] Fargion, 'Stato e previdenza in Italia', p.226.

and UIL, and the weak position of trade unions during the earlier period of strong economic growth and high unemployment[23]. However, by the 1960s, trade unions began to mobilize in concert in response to the growing insecurity of workers over their salaries and post-working life benefits, which were proving inadequate and were increasingly eroded by inflation[24].

The first economic slowdown of the early 1960s produced growing unemployment among industrial sector employees, and prompted trade union leaders to shift their efforts from salaries towards increasing social protection for the unemployed and the retired. By the late 1960s, renewed economic uncertainty and stronger inflationary pressures resulted in stronger trade union activism. Protests, work stoppages and general strikes became the norm in this period, the social unrest culminating in what has become known as the 'Hot Autumn' of 1969.

The government reacted to trade union mobilization with a slew of legislative reforms in the areas of pensions, health services, housing and industrial salaries[25]. The most important innovation on the pension front was law 238 of 1968. Law 238 introduced more generous pension benefits for industrial workers. Specifically, the provisions introduced new criteria for pension entitlements, as well as an earnings-based system for calculating the pension benefits. Industrial workers' pension benefits, like self-employed group benefits, were now calculated according to earnings levels, rather

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[22] Sassoon, *Contemporary Italy*, p.52.

[23] The largest PCI and PSI-backed trade union, *Confederazione generale italiana del lavoro* (CGIL) saw a split in the late 1940s, with the development of the Catholic DC-based *Confederazione italiana sindacati dei lavoratori* (CISL). The smaller *Unione italiana dei lavoratori* (UIL) was affiliated with the Social Democrats and the Republicans. Ginsborg, *A History of Contemporary Italy*, pp.172-173, 184.

[24] Paci, 'Public and Private in the Italian Welfare System', p.221; Graziani, *Lo sviluppo dell'economia italiana*, pp.58-61.

than according to total contributions. With workers' contributions now decoupled from the benefits they received, pension benefits became more generous and more expensive for the government[26].

The continued economic insecurity and trade union activism resulted in additional government pension concessions in the post-1968 period. In an effort to provide pensioners with protection from inflation, the government introduced law 153 of 1969, which indexed pensions to the cost of living, and extended the minimum guaranteed pension to those fifty-five years or older who did not possess an adequate number of years of contributions to collect an old-age pension. Moreover, in 1975, law 160 indexed old-age pensions to industrial sector salaries[27].

Owing to the reforms of the 1968-75 period, Italy developed a 'pension-heavy' system of welfare[28]. There was a dramatic rise in pension expenditure during the 1970s. Between 1970 and 1980, state expenditure on pensions rose from L4,500bn to L37,500bn (from L4,500bn to L10,094bn in constant terms, adjusted for inflation). In the same period, the ratio of active workers to pensioners continued to decline rapidly, falling to approximately 1.5 to 1 by 1980[29]. Consequently, pension reform emerged as one of the most pressing policy issues in the 1980s and 1990s.

The Failure of Pension Reform during the Period of Immobilism

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[25] Ginsborg, *A History of Contemporary Italy*, pp.316-320, 358-360; Graziani, *Lo sviluppo dell'economia italiana*, pp.81-83.
[26] Cazzola, *Lo stato sociale tra crisi e riforme*, pp.64-65; Fargion, 'Stato e previdenza in Italia', p.231.
[27] Fargion, 'Stato e previdenza in Italia', p.232.
[28] M. Ferrera, 'The Uncertain Future of the Italian Welfare State', in M. Bull and M. Rhodes, eds., *Crisis and Transition in Italian Politics*, p.235.
[29] Cazzola, *Lo stato sociale tra crisi e riforme*, p.64.

By the 1980s, Italian academics and policy practitioners were in agreement that Italian welfare was in need of reform[30]. However, whilst the growing costs associated with the pension system had to be addressed, politicians remained unable to implement concrete changes to the pension system during the period of immobilism. As Cazzola notes:

In the last fifteen years of chit-chat, much has been done and much has been said...Then, everything finishes sooner or later in nothing, in the deep whirlpool of an abrupt and unexpected about-face in politics or...a government crisis or an early dissolution of parliament[31]

Although the government of national solidarity of the late 1970s was able to carry out a comprehensive reform of Italy's budget regime, implementing the finance law as an instrument designed to carry out effective deficit-cutting measures, Italian policy-makers remained unable to address welfare reform at this time. During the 1976 -79 period, the collaboration between the Andreotti government and the PCI prevented the possibility for extensive modifications to the Italian welfare system. The PCI and the trade union leadership (the latter was at the height of its power in the 1970s, and had gained control of the administrative council at INPS) strongly opposed structural reforms to welfare[32].

Yet, the 1976-79 period did see modest government attempts to realize welfare reforms. Most notably, in 1978, Labour Minister Vincenzo Scotti put forward a significant pension reform initiative. The measures contained in the Scotti plan would

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[30] U. Ascoli, ed., *Welfare State all'italiana* (Bari: Laterza, 1984); See also M. Ferrera, *Welfare State in Italia. Sviluppo e crisi in prospettiva comparata* (Bologna: Mulino, 1984).
[31] Cazzola, *Le nuove pensioni degli italiani* (Bologna: Mulino, 1995), pp.25-26
[32] Cazzola, *Lo stato sociale tra crisi e riforme*, pp.64-65; See Fargion, 'Stato e previdenza in Italia', pp.234-235.

again be proposed during the subsequent period of budgetary immobilism. The Scotti measures sought to harmonize the different pension schemes for salaried and self-employed workers managed under INPS. The plan also proposed increasing the minimum pensionable age for old-age pensions to 60 years for men and 55 years for women. However, Prime Minister Andreotti did not back the labour minister's proposals, owing to internal coalition opposition and to the government's need to maintain the external support of the PCI in this period[33].

By the early 1980s, however, treasury and labour ministry studies were projecting that the growing financial imbalances at INPS had become increasingly unsustainable, and, owing to the rapid demographic shifts taking place in Italy, the situation would only worsen since the number of pensioners was expected to dramatically increase in the coming years (see Tables A.17 and A.18). The treasury ministry's 'technical committee on public expenditure' argued in favour of immediate and drastic cuts to pension spending[34]. However, repeated treasury and labour ministry initiatives were blocked in cabinet and parliament. Instead, the period witnessed *ad hoc* and gradual modifications to existing pension rules and institutions. Spending advocates in cabinet sought to maintain the *status quo*, while pension provisions introduced into parliament's labour committees were severely watered down[35].

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[33] Guido Corazziari, *Indagine sulla terza eta*, (Rome: EURISPES-Istituto di studi politici, economici e sociali, 1992), section 6.2.1.

[34] P. Onofri, 'Grande progettualita e piccolo cabotaggio: questioni di economia' *Il Mulino* 5 (Sept-Oct 1987), p.790; See also G. Regonini, 'La formazione della politica pensionistica tra governo e parlamento' *Rivista trimestrale di Scienza dell'Amministrazione* 34:3, pp.99-129; see also Castellino, 'Pension Reform: Perhaps Not the Last Round', p.153.

[35] Regonini, 'Partiti e politiche', p.94.

Moreover, INPS, now controlled by trade union representatives, produced its own independent projections, and refuted the poor pension outlook of the labour and treasury ministries. In this period, INPS allied itself with the parliamentary labour committees, an alliance which ensured that only small incremental changes to welfare were possible[36]. As one observer notes, 'The policies of the 1980s, explicitly oriented towards slowing down the uncontrollable rise of the welfare state, looked everywhere for short cuts rather than confronting the roots of the problem'[37].

Not only did a rift develop between the labour and treasury *guardians* on the one side, and the *advocates* within the labour committees and INPS on the other, but other political factors contributed to the immobilism observed in pension politics. Pension reform was blocked by the growing conflicts between DC reformers on the one side, and the PSI and the DC right on the other. These inter-party and intra-party conflicts became particularly acute during the 9th and 10th legislatures, reflecting the immobilism that pervaded budgetary politics more generally.

Pension conflicts intensified during the 1980s as welfare reform became a more urgent issue. At the beginning of the decade, less ambitious welfare reform proposals put forth by Spadolini's labour minister, Di Giesi. The proposals were more modest in scope than those presented by Scotti in 1978. Yet, the proposals still did not obtain the backing of the cabinet[38]. It was only during the Craxi period of 1983-87, when as Italy's large public sector deficits and ballooning debt interest payments became more salient problems, that pension reform came to the fore.

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[36] Ibid., pp.94-5.
[37] Fargion, 'Stato e previdenza in Italia, p.236.
[38] Regonini, 'Partiti e pensioni, pp.94-98.

As discussed in chapter three, the Craxi cabinet was split over balancing deficit-cutting measures with the need to promote economic growth. Labour Minister De Michelis and Treasury Minister Goria consistently argued that it was essential to carry out structural changes to Italy's pension system. De Michelis warned cabinet colleagues and parliament of the growing unsustainability of Italy's welfare system. Labour ministry projections of that period indicated that if nothing were done pension expenditure would bankrupt the welfare system by 2000. De Michelis proposed abandoning the earnings-based system used for calculating pensions and returning to a contributions-based one. The labour minister also proposed raising the entitlement age for old-age pensions for all working categories[39].

In response to growing guardian pressures both inside and outside of cabinet, parliament instituted a special commission on welfare reform, which was chaired by the DC's Nino Cristofori. Owing to partisan reasons, the DC chairman of the special commission repeatedly came into conflict with the PSI labour minister[40]. When De Michelis presented his proposals to the Cristofori commission, the commission blocked the reform initiative. Only 11 of the 80 articles contained within the minister's proposals were approved by the special commission[41]. Moreover, the welfare reform measures that came out of the Cristofori commission's deliberations were subsequently blocked in cabinet, and failed to receive adequate support in assembly[42].

Consequently, in place of substantive pension reforms, policy-makers continued to implement *ad hoc*, incremental changes to the Italian pension system. Modest ceilings

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[39] Corazziari, *Indagine sulla terza eta*, section 6.2.1.
[40] Cazzola, *Le nuove pensioni degli italiani*, p.29
[41] Ibid.

were placed on entitlements to minimum pension benefits[43]. In addition, law 222 of 1984 reduced entitlements for disability pensions, lowering the number of disability pensions allocated by INPS. However, the government's changes proved counterproductive, since they prompted workers to apply for civil disability insurance benefits at the interior ministry instead. By the end of the decade, there was a significant increase in the distribution of the latter benefits. Overall, the incremental measures of the 9th legislature did not contribute to a decline in the ratio of welfare spending to GDP[44].

During the 1987-92 period, the crisis in Italian public finances became more acute, and pressures mounted for Italy to make significant structural cuts to pension spending. Italy's deficit and debt totals were rising consistently, as were the annual deficits of INPS (see Table A.18). International and domestic economic institutions continued to project that the strong demographic and occupational shifts in the Italian population would result in additional financial difficulties for Italy's central government and its welfare agencies in the future[45]. However, once again, concrete reforms proposed by successive DC and PSI labour ministers were thwarted by an alliance consisting of spending advocates in cabinet, parliamentary labour committees and welfare agencies.

The first labour minister of this period, the PSI's Rino Formica, instituted two commissions of experts to study Italy's welfare problems. One commission, headed by legal expert Mario Franceschilli, considered the legal aspects involved in reforming the

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[42] Cazzola, *Le pensioni degli italiani*, p.29.
[43] Ferrera, 'The Uncertain Future of the Italian Welfare State', pp.237-238.
[44] Ibid., p.238; Regonini, 'Partiti e pensioni', pp.94-96.
[45] Cazzola, *Lo stato sociale*, p.65; Fargion, 'Stato e previdenza in Italia', p.237.

pension system. The other commission, headed by the economist Giuseppe Vitaletti, examined the economic costs associated with pension reform.

Employing the findings of these studies, Labour Minister Formica put together a series of pension reform proposals. The proposals did not differ significantly from previous initiatives, which sought to simplify and harmonize pension benefits across working categories. The Formica proposals were to increase the retirement age for old-age pensions to 65 years for both men and women. The labour minister also proposed raising the minimum number of years of contributions required for seniority pensions from 15 to 20 years. Moreover, the measures also proposed harmonizing the method by which pensions were calculated for all three working categories. Finally, the Formica proposals sought to introduce new rules to promote private pension schemes[46].

The labour minister's proposals received strong backing from the reformist prime minister, Ciriaco De Mita, and Treasury Minister Giuliano Amato. As discussed in chapter three, De Mita and Amato had already overseen reforms to the budgetary regime and to the role of the treasury ministry in budget policy co-ordination. The pension measures, like the changes to budgeting, were intended to bring about an improvement in Italy's public finance position.

However, Formica, Amato and De Mita did not receive adequate backing for the pension reform measures in cabinet, and the proposals were abandoned. In the end, Formica, like previous labour ministers, was only able to implement stopgap pension provisions which failed to curtail the rise in the ratio of pension spending to GDP. At the same time, Formica also reached an agreement with trade union representatives at INPS

that resulted in the government assuming a greater share of INPS' management and debt responsibilities, thereby further increasing the government's welfare burden. Law 88 of 1989 altered INPS' accounting procedures so that the government took on a greater share of social assistance responsibilities. In short, in place of a comprehensive pension reform, the Formica period witnessed an increase in the government's welfare commitments[47].

Nevertheless, discussions concerning responsibility for *assistenza* (social assistance) and *previdenza* (welfare spending) between the government and trade union representatives at INPS did not end after the implementation of law 88. The *assistenza/previdenza* debate intensified as growing spending demands were placed on both the government and INPS. The debate was fuelled by the blurred distinction between *previdenza* and *assitenza* commitments. *Previdenza* generally refers to welfare benefits paid to someone after their working life, while *assistenza* refers to payments made to those who are unable to participate in the labour force. Most experts argue that government taxation should pay for *assistenza*, while social security contributions made to welfare agencies should pay for *previdenza*. However, since the Italian welfare system developed in an unsystematic and piecemeal manner, the two types of spending commitments increasingly overlapped. A number of benefits such as minimum guaranteed pensions, for example, could qualify as either social assistance or welfare.

Both the government and welfare agencies sought to redefine and clarify the nature of social assistance and welfare expenditure so that each could divest to the other certain welfare commitments. Hence, as Italy's welfare spending became increasingly

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[46] Corazziari, *Indagine sulla terza eta*, section 6.2.1; Cazzola, *Le nuove pensioni degli italiani*, pp.30-1.

unsustainable towards the end of the period of immobilism, welfare agencies increasingly attempted to offload their financial responsibilities onto the central government, while the central government, in turn, sought ways to cut transfers to welfare agencies. Formica's 1989 legislative changes served to bring some types of expenditure under the central government's jurisdiction, but it also ensured that the *assistenza/previdenza* question would have to be revisited at a later date[48].

After the De Mita premiership, and during the twilight years of immobilism from 1989 to 1992, the crisis in Italy's pension system, and in Italian public finances more generally, worsened considerably. New EC and OECD projections heightened international concern over Italy's welfare spending. Yet, the welfare initiatives of the Andreotti period proved no more successful than those of the Craxi and De Mita periods. In 1990, DC Labour Minister Donat Cattin presented pension reform proposals that were not dissimilar in scope from those of his predecessor, the PSI's Rino Formica. The measures aimed to simplify and harmonize pension benefits for all working groups. In particular, the Donat Cattin proposals sought to gradually raise the retirement age for old-age pensions to 65 years for both men and women of all working categories, and to increase the number of years of contributions for seniority pensions to 40 years for both men and women. Donat Cattin also proposed replacing the earnings-based system with a contributions-based system for calculating pension benefits.

The DC labour minister's proposals met resistance in cabinet from various spending ministers, including Formica. In addition, welfare agencies and trade unions

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[47] Cazzola, *Le nuove pensioni degli italiani*, pp.30-31.

also voiced their opposition to the pension reform proposals. As discussed in chapter three, Prime Minister Andreotti remained more concerned with preserving his coalition and maintaining social cohesion than with the growing public finance crisis, and the prime minister chose to delay consideration of pension reform proposals until a later date. The Donat Cattin measures were not put forward to parliament as part of the 1991 budget package[49].

The last labour minister of the period of immobilism, the DC's Franco Marini, came under intense international and domestic pressure to put together convincing structural reform measures, since, by the 1991-92 period, Italy was facing a growing financial crisis. Labour Minister Marini received strong backing from Treasury Minister Carli for his pension initiatives. Carli insisted that both pension reform and privatization measures be included in the 1992 budget package[50]. Arguing that structural reforms could no longer be delayed, the treasury minister bluntly warned the cabinet, '*O la riforma, magari per decreto, o me ne vado*' [51].

The treasury and labour ministers also received visible support from external guardians in this period. The central bank's studies pointed out the growing costs of Italy's pension system, while the central bank governor stridently criticized the government's inaction in the pension sphere. In the same period, the Constitutional Court's decisions 'became some of the most important factors conditioning the welfare

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[48] The *previdenza/assistenza* question arose again during the Berlusconi period. Cazzola, *Le nuove pensioni degli italiani*, pp.30-31, 34,fn3; Travaglia, *Come funziona l'italia*, p.204; See also Castellino, 'Pension Reform: Perhaps Not the Last Round?', p.157.

[49] Corazziari, *Indagine sulla terza eta*, section 6.2.1; see Cazzola, *Le nuove pensioni degli italiani*, pp.31-32.

[50] Verzichelli, 'Le politiche di bilancio', p.220.

[51] Translated as 'Either reform, even by decree, or I am leaving'. Carli's statement is quoted from Cazzola, *Le nuove pensioni*, p.32.

agenda', with the jurists of the Court indicating that 'they can no longer ignore their role as policy-makers'[52].

While the Marini proposals were more modest in scope than those proposed by Formica or Donat Cattin, they, too, sought to harmonize old-age and seniority pension benefits for all categories of workers. The retirement age for old-age pensions was to be raised to 65 years, while the number of years of contributions for seniority pension eligibility was to be increased. Moreover, the proposals also sought the gradual elimination of seniority pensions altogether. However, the reforms involved a considerably long transition period until the new system would fully take effect[53].

However, despite the strong financial pressures confronting Italy, the guardian support that the labour minister enjoyed, and the relatively moderate nature of the pension reform proposals, Marini's measures encountered resistance in the Andreotti cabinet. To be sure, the proposals did get further than the Donat Cattin pension provisions, and were inserted into the government's June medium-term DPEF, which summarized the 1992 budget package measures. However, by September 1991, when Marini presented his final proposals to the council of ministers, cabinet support for the pension provisions had waned.

During cabinet negotiations over the 1992 budget package, the Marini plan was heavily criticized by spending ministers, particularly PSI members. One of the harshest critics was former Labour Minister Formica. Ironically, the PSI's battle against the Marini pension reform proposals was also fronted by two academics, Francesco Forte and

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[52] Regonini, 'Partiti e pensioni', p.99. On the constitutional court decisions that influenced public finances, see also E. Varani, 'Spesa pubblica e techniche decisorie della corte costituzionale' *Rassegna parlamentare* (April-June 1996), p.321-5.

Guiliano Amato. Amato defended the *status quo,* providing 'refined explanations' as to why the Marini reform proposals were inadequate[54]. While Andreotti provided lukewarm support for his labour minister, the chief cabinet supporter of the Marini reform remained Treasury Minister Carli, who urged the council of ministers to implement Marini's pension reform measures as part of the 1992 budget package[55].

The Marini proposals were also attacked by trade unions, who ardently sought to defend the welfare benefits they had won in the 1970s, in spite of the growing financial crisis. Moreover, the government's initiatives were also unpopular with the Italian electorate. By 1991, public opinion was turning against those politicians and experts who counselled responsibility and sacrifices, since, by then, voters had lost their confidence in the *pentarpartito*'s capacity for economic governance, while, at the same time, they did not want the government limiting their material interests[56].

In the end, the Marini pension measures were not inserted into the 1992 budget package's *collegati.* The council of ministers approved the Marini proposals 'in general terms', but during the final cabinet discussions, the pension proposals were taken out of the 1992 budget. Hence, in spite of the strong financial constraints and the treasury minister's insistence that welfare reform be included in the 1992 budget package, the political will did not exist to carry out structural modifications to the pension system during the final months of immobilism.

In sum, the 10th legislature closed without the realization of substantive pension reform. In spite of the growing financial constraints, and heightened international and

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[53] Corazziari, *Indagine sulla terza eta*, sections 6.2.1 and 6.2.2.
[54] Cazzola, 'Le nuove pensioni degli italiani', p.33.
[55] Verzichelli, 'Le politiche di bilancio', p.220.

domestic criticisms and warnings, budgetary immobilism persisted[57]. Throughout the 1980s, substantive reform measures proposed by several labour ministers were blocked in cabinet and parliament, whilst successive labour ministers and their proposals became the casualties of the intensifying rivalry within the DC, and between the DC and the PSI. Moreover, many of the piecemeal welfare changes that were introduced merely served to transfer the welfare burden from welfare agencies to the central government. As one observer notes, pension politics in the 1980s remained 'extremely vulnerable to policy proposals designed to achieve short-term social consensus', with parliament seeking 'to soothe dissent by introducing more generous criteria for defining entitlements to benefits'[58]. Owing to the inability of successive Italian governments to realize substantive pension reform in the period of immobilism, total welfare expenditure ballooned from 19.4 percent of GDP in 1980 to 24.1 percent of GDP by 1990[59].

The Amato Pension Reform of 1992

The events surrounding the financial and political crises of the transition period have been highlighted in chapter four. The pressures for Italy to correct its public finance imbalances had grown significantly after Italy committed itself to EMU by signing the Maastricht Treaty. The growing 'European constraint' was accompanied by heightened domestic instability, resulting from ongoing judicial investigations, the poor

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[56] Bufacchi and Burgess, *Italy Since 1989*, p.33.
[57] P. De Ioanna, *Parlamento e spesa pubblica*, pp.11-16.
[58] F. Padoa Schioppa Kostoris, *Italy: The Sheltered Economy. Structural Problems in the Italian Economy*, translated by J.E.Powell, (Oxford: Clarendon, 1993), p.175.
[59] Ferrera, 'The Uncertain Future of the Italian Welfare State', p.236;

showing of the governing parties at the April 1992 vote, and the difficulties in selecting the prime minister in the immediate post-election period. By the time the Amato government came into office, it had little choice but to implement convincing structural measures to calm financial markets. Italy's bloated pension system was considered the area most in need of reform, as far as financial markets, the EU, and international bodies such as the OECD and IMF were concerned.

Owing to the ongoing judicial probes, and the discredit into which the political class had fallen, Prime Minister Amato only selected cabinet ministers untainted by scandal. However, this meant that several ministers, including former PSI Labour Minister Formica, who had experience and expertise in welfare issues, could not serve in the new government. Amato appointed Nino Cristofori, the former chair of the special commission on welfare reform, to the labour portfolio, despite the fact that Cristofori was considered by many experts to be one of the chief defenders of the *status quo*, and a proponent of political compromises and small incremental welfare changes[60].

Indeed, Cristofori's initial pension reform plan would have preserved the *status quo*. The labour minister put forth pension reform proposals within weeks of taking up his post, but the Cristofori proposals of July 1992 resembled the stop-gap measures characteristic of the period of immobilism. Still, the measures received the backing of the prime minister and the cabinet in the summer of 1992[61]. More far-reaching pension reforms did not seem possible in the first weeks of the Amato premiership, particularly owing to the fact that the prime minister failed to receive parliament's consent to his initial request for *delega* powers in July.

However, the currency crisis of September 1992 increased the pressure on Italy to carry out immediate structural cuts to pension spending. In this period, the Amato government realized that drastic pension measures were needed to restore financial market confidence in Italy. Following September's currency turmoil, the Amato government's budgetary strategies changed dramatically. The prime minister employed the severe financial pressures to force a decree through parliament in mid-September which effected immediate cuts to Italy's pension spending. The government also finally received a *delega* from parliament to carry out longer term and more extensive changes to the pension system. Although parliament protested the government's heavy-handed tactics, the prime minister continued to warn parliament that Italy's financial difficulties necessitated dramatic cuts, and attached votes of confidence to the decree and *delega* provisions to ensure that the government's measures were approved in parliament without modifications (see chapter four).

Amato also appealed to trade unions and the Italian electorate to support the government's pension cuts, explaining that the financial crisis required strong policy responses and sacrifices on the part of all Italians. Amato engaged in direct talks with trade union leaders over the pension provisions, seeking 'total or partial consensus' prior to introducing them[62]. While the trade union leadership initially reacted favourably to Amato's direct negotiations, rank-and-file workers indicated their unhappiness with the pension reform proposals by taking to the streets in demonstrations in October[63].

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[60] Regonini, 'Partiti e pensioni', pp.100-101; see also Cazzola, *Lo stato sociale tra crisi e riforme*, p.66.
[61] Cazzola, *Le nuove pensioni degli italiani*, p.36.
[62] Amato, 'Un governo nella transizione', pp.366-367.
[63] See chapter 5. On the trade union leadership's reaction to negotiations, see *Corriere della sera* 2 Oct 1992, p.2.

Nonetheless, despite rank-and-file opposition, both the decree and the *delega* were approved as part of the 1992 budget package. The Cristofori proposals were replaced by more substantive and far-reaching provisions. Decree law 384, introduced on September 19 by the government, implemented immediate cuts to pension benefits. Specifically, the decree placed a temporary freeze on the collection of seniority pension benefits for 1993. The decree also ended the automatic indexing of pension benefits to prices, introduced in 1969. Moreover, the decree raised pension contribution rates. The total expected savings from these immediate pension measures for the 1993 fiscal year amounted to L11,000bn[64].

The *delega* was approved as law 421 and inserted as a *collegato* into the 1993 budget package. It permitted the government to implement a series of sweeping changes to the pension system by way of legislative decrees over the course of several months. The government introduced the main legislative decrees before the end of 1992[65]. Tables A.10 and A.19 summarize the legislative measures implemented by the Amato government and the effects of the reforms.

Legislative decree 503 was by far the most important provision introduced. It included changes to harmonize pension entitlements across working categories, and the methods by which pensions were calculated for different working groups. The measures raised the number of years of contributions required for '*seniority* pension' entitlement to 35 for all three working groups. Under the previous system, female public sector workers, for example, could retire after only 15 years of service. Moreover, the age of

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[64] Camera dei deputati-servizio studi, 'Dossier di inizio legislatura: Commissione Lavoro pubblico e privato', *Documentazione e ricerche* n.11 (13th legislature, May 1996), pp.9-11; Cazzola, *Le nuove pensioni degli italiani*, p.37.

entitlement for old-age pensions was also raised to 65 years for most workers. Finally, the Amato reform abolished the indexation of pensions to industrial workers' salaries.

The Amato proposals were the first significant structural reforms to the Italian pension system. These reforms proved effective, because, on the one hand, they provided immediate savings for the government, while, on the other hand, these measures simplified the institutions of the Italian pension system, and harmonized pension benefits for all working groups.

Yet, the Amato reforms suffered from the drawback of a long transition period until the measures fully took effect. For example, the new entitlement criteria for old-age pensions would not be fully in place until 2002[66]. In addition, subsequent changes to the reforms were made as a concession to workers. In particular, legislative decree 373, also issued on the basis of the *delega*, implemented additional measures to soften the effects of the Amato reform, raising the financial value of the standard pay 'packets' used in calculating pension benefits for workers[67].

In sum, while the first substantive reform of the pension system did successfully reduce the pension to GDP ratio for 1993, specifically as a result of the temporary blocks placed on seniority pensions, the structural reforms were not expected to bring about a reversal in the pension to GDP ratio for many years. Moreover, new economic projections predicted that further reforms would be needed almost immediately, since the pension burden remained too high to be carried by the working population[68]. Nevertheless, while the Amato pension reform did not prove to be a panacea, this first

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[65] Colarullo, 'Le leggi collegate alla manovra finanziaria, pp.529-530.
[66] Cazzola, *Lo stato sociale*, p.70.
[67] Castellino, 'Pension Reform: Perhaps Not the Last Round?', p.156.

substantive pension reform of the 1990s paved the way not only for further structural modifications in the pension sphere, but also for the implementation of structural reforms in other areas through the use of the *delega* instrument.

Pension Politics Under the Ciampi and Berlusconi Governments

The Amato pension reform of 1992 was not followed by further comprehensive pension changes until 1995. Both the Ciampi and Berlusconi governments did implement one-off measures to control Italy's annual pension to GDP ratio[69]. As discussed in chapter four, the Ciampi government's principal structural changes were in the public administration sphere[70]. Yet, several changes on the pension front were also introduced with the 1994 budget package. The single *collegato* presented in 1994, law 537 of 1993, included a *delega* that authorized the government to reorganize the pension schemes managed under INPS. A legislative decree issued in June 1994 on the basis of this *delega* simplified the pension fund structure by reducing the number of pension schemes managed by INPS[71]. Moreover, the 1994 budget imposed additional penalties on those who took seniority pensions before completing 35 years of service, the new threshold introduced by the Amato reform[72].

In contrast to the Ciampi government, the Berlusconi government did *initially* seek to carry out another comprehensive reform of the pension system. In July 1994, the

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[68] Ibid.
[69] OECD, *Economic Surveys: Italy* (1997), p.83.
[70] Della Cananea, 'The Reform of Finance and Administration in Italy, pp.199-203.
[71] Legislative decree 509 of 30 June 1994. Cazzola, *Lo stato sociale tra crisi e riforme*, p.56; Cazzola, *Le nuove pensioni degli italiani*, p.140.

government set up a commission of experts to study ways to reform Italy's welfare system. At the meetings, several key welfare issues received particular attention[73]. One item on the agenda was the thorny issue of how to divide up responsibility for social assistance (*assistenza*) and welfare (*previdenza*) between the central government and the welfare agencies. Participants also debated how to hasten the harmonization of pension benefits across different working categories. While many self-employed groups enjoying better pension benefits and lower contribution rates opposed more rapid harmonization, trade union representatives favoured speeding up the process of creating a more equitable pension system. A third item addressed was how to make pension cuts without infringing on the acquired rights of workers. Although the meetings addressed several fundamental welfare questions, no formal agreement between the government and the various interest groups emerged from the discussions. Trade unions, in particular, remained categorically opposed to extensive modifications to the pension system[74].

Despite the failure of the participants to come to an agreement on welfare measures acceptable to all parties, the Berlusconi government decided to move forward with pension reform, and attempted to impose pension reform from above, in order 'to test what it perceived to be an altered state of power relations'[75]. However, as discussed in chapter five, the Berlusconi coalition became increasingly fragile as the months wore on. Still, the Berlusconi cabinet managed to put forth a series of pension proposals, although the support of the AN and LN for these measures remained lukewarm[76]. The

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[72] OECD, *Economic Surveys: Italy* (1996), pp.50-51.
[73] Castellino, 'Pension Reform: Perhaps Not the Last Round?', pp.157-158.
[74] Ginsborg, *L'italia del tempo presente*, pp.552-553.
[75] Regini and Regalia, 'Employers, Trade Unions and the State', p.216.
[76] Lepre, *Storia della prima repubblica*, p.354.

measures, put together by the prime minister and Treasury Minister Dini, were inserted as a *delega* into the budget package *collegato* for 1995. The Berlusconi provisions specifically sought to hasten the harmonization of pension benefits. The 1995 budget also included one-off provisions imposing additional penalties on workers who collected seniority pensions before 35 years of contributions[77].

The government's attempt to implement comprehensive pension reforms without trade union agreement prompted massive union demonstrations in the autumn of 1994[78]. Berlusconi initially confronted trade unions and refused to yield over pension reform. Yet, persistent trade union mobilization eventually forced the government to remove the pension measures from the 1995 budget package. In the end, the Berlusconi government signed an accord with trade unions on December 1, which delayed further discussion of pension reform until mid-1995. Consequently, the *delega* for 1995 only consisted of one-off measures intended to slow the rise in the ratio of pension spending to GDP. These included a temporary freeze on the collection of seniority pension benefits, and additional changes to pension indexing for 1995[79].

In short, weakened by internal coalition fragmentation, the failure to obtain trade union support for pension measures, and facing heightened public disillusionment with the prime minister, the government did not have adequate backing to carry through with pension reform proposals. Berlusconi's successor, however, did manage to obtain sufficient political party backing, trade union acquiescence, and popular support for pension reform provisions the following year.

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[77] Castellino, 'Pension Reform: Perhaps Not the Last Round?', p.158.
[78] See chapter five; See also Bufacchi and Burgess, *Italy Since 1989*, pp.206-7; See also Castellino, 'Pension Reform: Perhaps Not the Last Round?', pp.157-8.

The Dini Pension Reform of 1995

Financial markets responded to Italy's political instability at the end of 1994 with renewed speculation against the lira. Italy's commitment to the TEU convergence criteria was again questioned by the EU and financial institutions. Disappointment over Italy's failure to put into place further pension changes as part of the 1995 budget increased pressure on the new government to implement convincing measures as part of the 1996 package[80].

Conscious of the need to reassure financial markets and the EU of the seriousness of Italy's commitment to deficit containment, President Scalfaro appointed a second technical prime minister whose role would be to remedy Italy's budget problems and to improve the country's chances of qualifying for the single currency[81]. Italy's second technical prime minister, Lamberto Dini, understood that markets would be most convinced of Italy's commitment to EMU by a second comprehensive pension reform. Consequently, pension reform remained the most urgent policy item on the government's agenda[82].

Unlike the Berlusconi government, the Dini government managed to get trade unions on side before implementing changes to the pension system. In February, soon after the Dini government had received a vote of confidence in parliament, Labour Minister Treu began negotiations with trade unions. On April 12, the labour minister and

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[79] OECD, *Economic Surveys: Italy* (1997), p.83.
[80] Ferrera, 'The Uncertain Future of the Italian Welfare State', p.241.
[81] Ginsborg, *L'italia del tempo presente*, p.556.

trade unions signed a preliminary accord on pension reform. The agreement identified the need to completely phase out the earnings-based system for calculating pension benefits[83].

In spite of the opposition of business leaders, particularly *Confindustria*, to the long transition period offered by the Dini government's proposals, which would limit the effects of the reforms, the council of ministers approved the pension provisions without significant modifications as decree legislation on May 12. In parliament, the government encountered opposition from Berlusconi's centre-right alliance, but was supported by centre and left-wing groups. It also attached a vote of confidence to the decree legislation to ensure its approval. On August 4, the decree was converted into ordinary legislation, law 335, without significant changes, and inserted into the 1996 budget package[84].

The Dini pension reforms further harmonized pension benefits for all working categories (see Table A.20). The measures took steps to eliminate seniority pensions altogether by reducing the entitlement age for old-age pensions to 57, a lower entitlement age than stipulated under the Amato reforms, and by putting additional penalties into place for those who collected early seniority pension benefits. Moreover, the Dini reforms replaced the earnings-based system for calculating pension benefits with a contributions-based one. Finally, the Dini measures encouraged the growth of private

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[82] Pasquino, 'The Government of Lamberto Dini', pp.139-142.
[83] S. Pitruzzello, 'European Union: Political Control of Budget Deficits and Fiscal Convergence. The Reform of the Italian Pension System'. Paper prepared for 1995 annual meeting of American Political Science Association, Chicago, Aug 30-Sept 3, 1995, pp.13-14.
[84] Mario Alberto Coppini, 'Le regole "nuove" della riforma delle pensioni' *Economia e Lavoro* 1-2 (1996), pp.3-10; see also Castellino, 'Pension Reform: Perhaps Not the Last Round?', p.159; Pitruzzello, 'European Union', pp.14-15.

pension schemes by eliminating a 15 percent withholding tax on private pensions[85]. In sum, the Dini reforms were meant to harmonize old-age pension benefits under a more affordable contributions-based pension calculation system, while gradually eliminating seniority benefits entirely.

However, as with the Amato reform, the key problem with the Dini measures was the long transition period. While widely hailed as a political success at home and abroad, many economic experts criticized the reforms. The transition period was longer than that stipulated by the Amato reform. For instance, the new old-age entitlement criteria would not be fully in place until 2008, and pensions would not fully be calculated according to the new contributions-based system until 2013. Moreover, new pension projections indicated that pension spending as a proportion of GDP would not decline until after 2035, even taking account the Dini modifications[86]. In other words, it would be necessary to continue instituting one-off or temporary measures each year to maintain the ratio of pension expenditure to GDP.

Yet, despite the reform's drawbacks, the pension provisions reassured financial markets and the EU of Italy's commitment to deficit containment, and resulted in a fall in interest rates. Moreover, in political terms, the second pension reform represented a victory for the Dini executive, since the prime minister managed to obtain the backing of cabinet, external guardians, a majority of parliamentarians, trade unions, and the Italian public for his pension measures. The prime minister also successfully exploited the financial constraints and the disarray in the party system to ensure his policies were

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[85] OECD, *Economic Surveys: Italy* (1996), pp.50-51.
[86] J. Hamann, 'The Reform of the Pension System in Italy' *IMF Working Paper* n.18 (Feb 1997), pp.10, 13-14; OECD, *Economic Surveys: Italy* (1997), pp.84-85.

approved[87]. In brief, Dini's pension politics marks a sharp departure from pension politics during the 1980s. Nevertheless, owing to the limited short-term effects of the Dini changes, pension reform will remain a central and contentious issue in the coming years.

The Prodi Government and Pension Politics

During the Prodi period, pension reform remained a salient political issue. Since the 1997 budget package, the Prodi government's first, would prove decisive in determining whether or not Italy would participate in EMU, experts both inside and outside of Italy argued that inserting pension modifications would improve Italy's chances of entering the single currency. Throughout the first months of the Prodi premiership, the EU continued to press Italy to carry out additional pension modifications[88].

Owing to mounting pressure for Italy to present a convincing budget package for 1997, the Prodi government drastically increased its deficit-cutting targets during the summer of 1996. The original L30,000bn deficit-cutting package outlined in the government's original DPEF document became a L62,000bn package[89]. While this was the largest package of revenue-raising and expenditure-cutting measures implemented since the Amato period, it was conspicuous for the absence of structural measures to

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[87] See discussion in chapter five on Dini's strategies; see also Ginsborg, *L'italia del tempo presente*, pp.556-559; Pasquino, 'The Government of Lamberto Dini'.
[88] M. Mira d'Ercole and F. Terribile, 'Spese pensionistiche: sviluppi nel 1996 e 1997' *Politica in Italia. Edizione 98* (Bologna: Istituto Cattaneo, 1998).
[89] Verzichelli, *La politica di bilancio*, pp.206-7.

reform pensions and health services. Although the centrist wing of the *Ulivo* coalition, consisting of Dini's group and the PPI, in addition to the treasury minister, sought pension changes, the Greens, most PDS parliamentarians, and *Ulivo*'s outside supporters, RC, opposed pension changes[90].

Nevertheless, despite the failure of the Prodi government to include further pension reforms as part of the 1997 budget package, the budget was well received by other EU member states and international organizations. However, by early 1997, renewed international pressure was placed on Italy to carry out more pension cuts, as uncertainty persisted over Italy's chances to qualify for the single currency[91].

In response, the Prodi government promised to address the issue, instituting a commission to study welfare reform headed by the economist Paolo Onofri. The commission addressed many key welfare issues, but did not produce new concrete welfare reform proposals[92]. During the same period, other economic experts also suggested that the government carry out additional drastic Amato-style freezes on seniority pensions to bring about immediate and convincing pension savings[93]. Furthermore, the IMF counselled Italy to implement at least L15,000bn in pension cuts in 1997[94].

Prime Minister Prodi and Treasury Minister Ciampi were repeatedly compelled to publicly defend the government's deficit-cutting measures to the EU and financial institutions throughout 1997. However, the Prodi government was unable to contemplate

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[90] Ibid., p.207.
[91] 'Il G-7: per le pensioni riforme strutturali,' *Il Sole-24 Ore* 22 June 1997, p.1.
[92] 'Welfare, il silencio del Governo' *Il Sole-24 Ore* 13 March 1997, p.7.
[93] G. Tabellini, 'Pensioni, il Governo non aspetti I sindacati' *Il Sole-24 Ore* 15 April 1997, pp.1-2.
[94] Verzichelli, *La politica di bilancio*, p.208.

comprehensive pension reforms, since it did not want to confront the RC and trade unions only months before EMU participants were to be selected. When the government did attempt to implement more modest changes to the pension system as part of the 1998 budget, approximately L5,000bn worth of cuts to hasten the transition towards a contributions-based system, trade unions and RC opposed these measures, precipitating a government crisis during the budget session of autumn 1997. The Prodi government was forced to backtrack and instead institute modest one-off blocks to seniority pension benefits. These provisions 'were the only ones that would provide immediate cash with which the government could demonstrate to international markets that it had carried out a structural intervention'[95].

In sum, while the Prodi government, like the Berlusconi government in 1994, remained unable to implement a comprehensive pension reform, the second elected government of the period of executive governance was successful at retaining the support of trade unions for the government's overall budget objectives. The Prodi cabinet did not want to lose RC support for its ambitious budget objectives, nor did it want to alienate trade unions and create social divisions at such a critical time in Italy's post-war economic history. In the end, the budget measures implemented by the *Ulivo* government did earn Italy the confidence of financial markets and the EU, and demonstrated the country's commitment to EMU. Furthermore, the Prodi government's stop-gap pension measures for 1997 did slow the growth of the pension to GDP ratio. In early 1998 Italy was selected to participate in the single currency without the Prodi

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[95] 'Pensioni, decisi I tagli' *La Repubblica* 27 Sept 1997, p.12.

government having carried out a third comprehensive reform of the Italian pension system.

Conclusion

The pensions issue will remain on the policy agenda in the coming years, since the ratio of pension spending to GDP will continue to rise over the next four decades in the absence of additional one-off measures, in large part owing to the long transition period accompanying the Amato and Dini reforms. Yet, the government and trade unions have agreed to put off further comprehensive reform discussions until 2001. The next conflict surrounding pensions again will have to address how to hasten the harmonization of pension benefits and the transition towards a contributions-based system.

Nevertheless, the successful implementation of two pension reforms during the 1990s demonstrate the Italian executive's greater policy-making capacity in pension politics, and in budgetary politics more broadly. During the transition period and the era of executive governance, cabinets, on the whole, demonstrated greater autonomy and cohesiveness in policy-making. Furthermore, the period witnessed more direct government negotiations with trade unions, and more visible support by external guardians and the Italian public for the government's measures.

The Berlusconi government remains an exception in this respect, demonstrating the limits of executive governance in the pension sphere. The prime minister failed to come to an agreement with trade unions, and remained unable to gather the required

parliamentary support to impose pension reform from above. Still, like other governments, the Berlusconi government also had similarly ambitious deficit-cutting objectives, and a commitment to welfare reform[96].

Italy's relatively successful pension politics in the 1990s, moreover, compares favourably with pension politics in other EU countries during this period. France, for example, had greater difficulty in implementing pension reforms in recent years. It is true that the French government did successfully carry out a reform of the private sector pensions of salaried workers in 1993[97]. The measures raised old-age pension retirement ages and modified the methods by which pensions were calculated. The French government, however, remained unable to reach an agreement with public sector trade unions two years later. While France, more than Italy, enjoys 'a strong concentration of power within the executive', the government's pursuit of welfare reform without the consent of public sector trade unions resulted in the government's eventual retreat[98].

In short, as is highlighted earlier in this dissertation, although the strengthening of the institution of the executive contributes to greater political stability and policy capacity, as it did, *in general*, in the French Fifth Republic, policy successes are determined by both political and institutional factors. The importance of both political and institutional developments to budgeting, and to policy-making more widely, are clearly evidenced by the case of Italian pension politics. The importance of achieving the consensus of interest groups prior to implementing structural reforms was not lost on the Prodi government, which chose not to challenge trade unions at a critical moment in

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[96] Verzichelli, *La politica di bilancio*, p.205; Fabbrini, 'Parlamento, governo e capo del governo,' pp.62-64.
[97] G. Bonoli, 'Pension Politics in France: Patterns of Co-operation and Conflict in Two Recent Reforms' *West European Politics* 20:4 (Oct 1997), pp.117-121.

Italy's post-war financial and political history. It also forced the D'Alema and Amato governments to abandon their pension initiatives[99]. It remains to be seen how the new Italian government, which takes power after the 2001 elections, will address Italy's pension issue.

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[98] Ibid., p.121.

[99] *The Economist* 3 July 1999, pp.64-65; *Corriere della sera* 25 July 1999; 'Nuova battaglia: saltati I conti delle pensioni' *Corriere della sera* 10 Aug 1999, p.1.

Chapter 7: The Politics of Taxation: The Revenue Side of Budgeting

Introduction

While pension reform remains a key item on the policy agendas of many advanced industrialized countries, the tax system is a more problematic issue in Italy than elsewhere. Throughout the 1980s and 1990s, Italy has continued to rely heavily on one-off and temporary tax measures as part of its deficit-cutting strategy, owing to the relatively poor efficiency of the country's tax administration. Nonetheless, as this chapter illustrates, a greater number of structural modifications to Italy's tax system has been implemented during the 1990s. These changes have been geared towards increasing the efficiency of tax assessment and improving tax compliance. Yet, these modifications have not obviated the need for annual stopgap budget provisions, most notably, extraordinary taxes and fiscal amnesties.

While the revenue side of budgeting has received considerably less attention from scholars than the politics of public spending[1], it remains an integral component of budgetary politics. Therefore, this chapter provides a descriptive analysis of tax politics during the 1980s and 1990s. The chapter briefly treats the development of Italy's tax system before turning to the principal tax conflicts and developments that occurred during the three periods of budgeting.

The discussion points out that the most significant tax reforms took place during the 1990s, reflecting trends in budgetary politics more generally, and owing to the

changed financial constraints and domestic political circumstances of this period. Many of the reforms instituted in the 1990s were meant to increase the efficiency of the tax administration, in order to improve tax assessment and reduce tax evasion. The period also saw the implementation of measures to decentralize tax structures. While many improvements were carried out in the tax sphere during the 1990s, it is also pointed out that stopgap tax provisions, such as the Eurotax of 1997, have remained key policy instruments for Italian governments during the period of executive governance, due to the absence of more reliable and efficient tax administration structures.

The Development of the Italian System of Taxation

Like Italy's pension system, the post-war Italian system of taxation has been characterized by inefficiencies and institutional fragmentation. Not only have Italy's tax structures remained less progressive than those in other advanced industrialized countries, but its tax administration has lacked the modern framework necessary for enforcing tax compliance. As a consequence, Italians' tax burden has risen considerably in recent years, while its tax compliance has remained lower than elsewhere, with tax evasion and avoidance remaining widespread phenomena (see Tables A.21 and A.22)[2]. The poor tax compliance in Italy owes much to the historical development of Italy's tax structures and its tax administration.

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[1] Many studies of budgeting only concentrate on the politics of public spending. See, for example, D. Savoie, *The Politics of Public Spending in Canada* (Toronto: University of Toronto Press, 1990).

[2] V. Tanzi, 'Il sistema tributario italiano: una prospettiva internazionale' in A. Monorchio, ed., *La finanza pubblica dopo la svolta del 1992* (Bologna: Mulino, 1996), pp.17-25.

Tax reform was a key political issue in the immediate aftermath of the second world war. One of the fundamental concerns of the Allied Powers charged with administering Italy, as well as of the early leaders of the Italian Republic, was the lack of a modern tax administration that could ensure proper financial resources for post-war Italian governments. Proposals were put forth during the second half of the 1940s by Italian leaders and the Allies to improve tax assessment and tax collection. However, in the early years of the post-war Republic, policy-makers were more preoccupied with short-term financing needs than with fundamental questions surrounding tax administration reform[3].

However, in July 1949, Finance Minister Ezio Vanoni instituted the first changes to the Italian tax system. Rather than modifying Italy's tax administration, however, the Vanoni reforms only changed certain tax structures, introducing a new personal income tax which went into effect in 1951. The Vanoni tax changes were part of the finance minister's larger project to encourage economic growth and to reduce the disparity between the North and the South[4]. The Vanoni reforms still left Italy without more progressive tax structures or a modern tax administration, and Italy continued to have one of the lowest rates of taxation in Europe during the 1950s and 1960s[5].

In the 1970s, the economic slowdown and country's growing public spending commitments forced the government to carry out further modifications to the tax system, and create more progressive tax structures. Laws 597 and 598 of 1973 implemented new personal and corporate income taxes, the *Imposta sul reddito delle persone fisiche*

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[3] Lepre, *La storia della prima repubblica*, p.138.
[4] Tanzi, 'Il sistema tributario italiano: una prospettiva internazionale', pp.19-20; Ginsborg, *A History of Contemporary Italy*, p.165.; Segre, *La storia della prima repubblica*, p.138.

(IRPEF) and *Imposta sul reddito delle persone giuridiche* (IRPEG), respectively. These taxes replaced a plethora of outdated personal and family taxes. The implementation of a single universal tax on personal income was inspired by a similar reform introduced in the US at the time, the Haig-Simons tax[6]. The period also saw the introduction of new indirect taxes, most notably, the Value Added Tax (VAT), whose implementation brought Italy's indirect tax structures into line with those of other EC countries. The VAT replaced older sales taxes and other indirect taxes and duties imposed by local authorities, becoming the main source of indirect tax revenue income for European countries in this period[7].

The reforms of the 1971-73 period were also meant to improve tax administration. New regional and local taxes were supposed to be introduced to bring about a more decentralized administrative structure. Legislation introduced in 1971 had approved, in general terms, greater fiscal autonomy for local governments. However, although a new local income tax for individuals and companies, the *Imposta locale per redditi* (ILOR), was indeed introduced in 1973, the DC government did not introduce the provisions for decentralizing the tax administration. The DC opposed giving away any fiscal powers to the recently established regional and local authorities[8]. Instead, the period witnessed, on the whole, the *centralization* of taxing powers, since the new taxes were collected by the central government and subsequently redistributed to the local

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[5] Ferrera, 'The Uncertain Future of the Italian Welfare State', pp.237-241.
[6] C.J. Platt, *Tax Systems of Western Europe*. Second edition. (Aldershot, Hants: Gower, 1983), pp.80-81; Tanzi, 'Il sistema tributario italiano', pp.35-36.
[7] OECD, *Economic Surveys: Italy* (1996), p.89.
[8] Ginsborg, *A History of Contemporary Italy*, p.395.

administrations[9]. Hence, these local authorities became dependent on fixed transfers from the central government's budget[10].

Although local and regional taxing powers were reduced by the central government, their responsibility for expenditure and resource management was increased. The changes introduced by the central government at this time therefore proved detrimental to the financial balances of both the local and central authorities[11]. The inability of regions and local authorities to collect taxes to finance their own expenditure left them dependent on central government transfers to fund their programs. However, it left the central government in a position that it could not deny regional and local transfer requests for additional funds, particularly during pre-election periods. In short, the centralization of taxing powers reduced the central government's capacity to contain public expenditure, and also made fiscal decentralization an ever more salient issue during the 1980s and 1990s.

Another problem associated with the reforms of the 1971-73 period was their failure to address the inefficiencies inherent in tax assessment and enforcement. The modifications focused on changes to tax structures, rather than on tax compliance. Italy's tax evasion problems worsened after the reforms because the measures increased the base of taxpayers and the enforcement responsibilities of the tax administration, but did not increase administrative resources. The implementation of the IRPEF, for instance, resulted in a fivefold increase in the number of taxpayers subject to personal income tax, but the administration did not receive the additional funds or personnel to

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[9] Ibid.; see also Sorace, 'Il governo dell'economia', p.806; OECD, *Economic Surveys: Italy* (1996), p.95; See also Platt, *Tax Systems in Western Europe*, pp.80-1.
[10] Ginsborg, *A History of Contemporary Italy*, p.395.

deal with the larger volume of income tax declarations. Consequently, tax assessment and tax enforcement could not be adequately carried out, and there was a rise in under-reported and undeclared income, particularly among self-employed groups[12]. These tax issues needed to be addressed if public finances were to be improved.

Nonetheless, throughout the 1970s, government policies continued to increase Italy's spending and taxing responsibilities without solving fundamental administrative problems to augment tax yields. For instance, transfers to welfare agencies, and to regional and local authorities, rose considerably in this period, as the governments entered into new welfare and health commitments (see Table A.18). The era saw the introduction of more generous welfare benefits (see chapter six). In addition, law 833 of 1978 created the *Servizio sanitario nazionale* (SSN), or National Health Service. While the health reforms stipulated that health services would be administered by regional authorities, the regions continued to rely on central government health contribution transfers. This lack of coordination between regional and central governments over spending and taxing matters frequently resulted in additional unplanned budget requests which were met by quasi-automatic transfers financed by the central government's budget[13].

Tax evasion also became a greater problem during the 1970s. In response to inflationary pressures and the resultant fiscal drag effects, the Italian government put into place a series of tax relief measures designed to benefit small firms and self-employed

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[11] OECD, *Economic Surveys: Italy* (1996), pp.89-90.
[12] Ibid., pp.90-91
[13] OECD, *Economic Surveys: Italy* (1996), pp.91; See also Cazzola, *Lo stato sociale tra crisi e riforme*, pp.192-152; M. Ferrera, 'La partitocrazia della salute', in M. Cotta and P. Isernia, eds., *Il gigante dai piedi di argilla*, pp.53-72.

groups. The government lowered social security contribution payments for small firms in the second half of the 1970s by an amount equal to 0.5 percent of GDP[14]. This created expectations on the part of these firms for continued favourable tax treatment, thus creating the conditions for greater tax evasion. The government also raised personal income taxes in this period, which primarily affected groups such as salaried workers, whose income was deducted at source. In short, government tax policies of the 1970s prompted those who could evade, such as small firms and the self-employed, to do so, but forced those who could not to pay for the rising tax evasion. Furthermore, as a result of these policies, Italy went from being one of the countries with the lowest tax burdens in Europe, during the 'flat decade' of the late 1960s and early 1970s, to a country whose tax burden sat just above the European average in the 1980s (see Tables A.21 and A.23)[15]. Valiani notes of the growing tax disparities:

> In Italy, as in other industrial societies, there operates the principle of taxation serving redistributive purposes, but with one notable anomaly: that is, redistribution takes place in the opposite direction to the ideal one, since income tax is concentrated in those sectors with the least ability to pay[16]

It became clear that if tax hikes were to remain effective policy instruments, administrative reforms must be carried out to increase tax yields, reduce tax evasion among self-employed groups, limit the use of stopgap tax measures, and create a more equitable system. In addition, it would also be necessary to increase the taxing powers of regional and local governments, so that these authorities could have greater responsibility

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[14] Morcaldo, *La finanza pubblica in Italia*, pp.96-97.
[15] Ferrera, 'The Uncertain Future of the Italian Welfare State', p.239.
[16] R. Valiani, *La tassazione diseguale* (Rome, 1983), cited in Ginsborg, *A History of Contemporary Italy*, pp.330-331.

for financing their own expenditure. Nevertheless, during the period of immobilism, tax policies aimed at realizing these important initiatives were not implemented.

The Politics of Taxation During the Period of Immobilism

During the 1980s, the government remained unable to implement much needed changes to Italy's tax structures and tax administration. In this period, the government continued to rely on one-off and temporary measures, notably tax amnesties, to recoup lost revenue. The few attempts to increase tax compliance among self-employed groups and small firms met stiff opposition both from members of the governing coalition and from self-employed interest groups.

The 1980s, however, witnessed growing EU pressure on Italy to modernize its tax structures and tax administration[17]. Articles 95 through 99 of the Treaty of Rome had already recognized that integration required further tax harmonization, although the treaty specified requirements only in the realm of indirect taxation[18]. While the VAT had already been instituted by all member states by the early 1970s, countries were still working towards the harmonization of differing VAT rates during the 1980s[19].

After the signing of the SEA in 1986, tax harmonization became an even more salient issue[20]. By the eve of the signing of the Maastricht Treaty, the inadequacy of

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[17] Hine, *Governing Italy*, pp.282-283; See also L. Bernardi, 'Microsimulazione degli effetti distributivi del bilancio pubblico, riforme tributarie e risanamento finanziario nell'italia di oggi' in A. Monorchio, ed., *La finanza pubblica in Italia dopo la svolta del 1992*, p.265.
[18] Swann, *The Economics of the Common Market*, p.154.
[19] Ibid., p.158; Bernardi, 'Microsimulazione degli effeti distributivi del bilancio pubblico', p.265.
[20] S. Battini, 'L'influenza dell'integrazione europea' in S. Cassese and C. Franchini, eds., *L'amministrazione pubblica italiana: un profilo* (Bologna: Mulino, 1994), pp.187-200.

Italy's tax structures and tax administration was drawing more attention from Italy's European partners. The EU pushed for administrative reform and modernization, alongside reductions in public finance imbalances[21]. Italy was asked to carry out administrative reforms geared towards rationalizing its tax system, as part of an overall strategy of bringing greater order to its public finances[22].

Apart from these growing external constraints in the 1980s, domestic social and economic trends also forced the Italian government to place the improvement of the tax administration's efficiency onto the policy agenda during this decade. Demographic changes had gradually diminished the government's tax base. While the government continued to employ personal income tax and social security contribution hikes to augment revenue during the period of immobilism, the tax yield on these forms of revenue consistently fell, owing to the decline in the number of unionized salaried employees, and the concurrent growth in the number of small firms, middle-class professionals and other self-employed workers (see Table A.24).

The proportion of permanently employed unionized employees fell from 43.6 percent to 39.6 percent of the total Italian workforce during the 1980-90 period. At the same time, the number of non-regular and self-employed workers grew from 31.5 percent to 37.3 percent. In short, Italy experienced a decline in the number of taxpayers who were taxed at source under pay-as-you-earn systems, and a rise in self-declared groups that could more easily under-report and evade taxes[23]. This posed a problem for the

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[21] G. Corsetti and N. Roubini, 'La questione fiscale nell'Europa di Maastricht' in A. Monorchio, ed., *La finanza pubblica italiana dopo la svolta del 1992*, pp.451-452.
[22] Graziani, *Lo sviluppo dell'economia italiana*, pp.117-125.
[23] V. Chiorazzo *et al.*, 'Fiscal Developments in Italy and Possibilities for Reducing Public Deficits' *European Economy* 3 (1994), p.238.

Italian government, since, during this period, they increasingly relied on personal income tax and social security contribution increases to augment the government's revenue base.

At the same time, Italy also saw the proliferation of small, non-unionized firms in the Veneto, Friuli-Venezia and Emilia-Romagna. These firms received contracts from larger industrial companies of North-western Italy so that the latter firms could save on labour costs. These smaller specialized firms became the motor of the Italian economy during the 1970s. However, the companies also exhibited high levels of tax evasion and avoidance[24]. In addition, many shopkeepers were declaring incomes lower than their employees' salaries[25], so while the declared annual income for salaried industrial workers averaged L8.7mn, the declared average annual income of shopkeepers and artisans were L7.8mn and L8.4mn, respectively[26].

In short, while growing Italian public sector deficits meant that the government had to rely on repeated one-off tax hikes, tax yields from these measures were becoming less efficient in this period. This phenomenon put pressure on Italian governments to institute changes to the tax administration in order to improve tax enforcement and tax compliance. However, as is addressed below, governments of the 1980s were only able to implement *voluntary* tax compliance provisions, such as tax amnesties, to recoup the self-employed revenue lost through tax evasion and avoidance.

During the era of immobilism, both government and parliament acknowledged that changes were needed to Italy's tax system to make it more efficient and equitable. One report by the budget committee of the chamber of deputies notes:

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[24] M. Slater, 'Italy's Changing Political Economy' in L. Quartermaine and J. Pollard, eds., *Italy Today. Patterns of Life and Politics*. Second revised edition. (Exeter: University of Exeter Press, 1987), pp.27-28.
[25] Ginsborg, *A History of Contemporary Italy*, pp.419-423.

> Key distortions and inefficiencies permeate our taxation system: the reform...[of the early 1970s]...succeeded in gaining the tax compliance of dependent workers primarily, but large margins of evasion of direct taxes and indirect VAT taxes remain among the self-employed[27]

Although government and parliament both recognized the problems inherent in Italy's tax system, the *pentapartito* government was wary of pursuing radical changes, because 'such reforms will clearly not be popular with the self-employed who constitute many of the government's supporters'[28]. The trade union leadership and the opposition PCI repeatedly pushed for a more equitable tax system, so that salaried workers would no longer disproportionately bear the effects of tax hikes[29], but the government remained more concerned about the potential backlash that tax reform might create among its constituents.

In 1984, however, the finance minister of the Craxi government, Bruno Visentini, introduced reform proposals to increase tax compliance, with a view to recouping taxes from the self-employed segment of the workforce. The Visentini proposals introduced a *forfeit* system to allow small firms and self-employed workers to forfeit a certain part of their earnings, based on prescribed VAT and personal income tax coefficients determined by the finance ministry. The Visentini proposals also sought to improve the resources of the tax inspectorate in order to better enforce tax compliance[30].

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[26] Piazzesi, *Il gioco della politica*, p.202.
[27] Camera dei deputati-commissioni bilancio, *L'indebitamento pubblico in Italia* (Camera dei deputati, 12 Oct 1984), p.23.
[28] Ibid., pp.35-36.
[29] G. Piazzesi, *Il gioco della politica* (Milan: Longanesi and Co., 1987), p.203.
[30] OECD, *Economic Surveys: Italy* (1996), pp.101-102; D. Agosti, 'Libro bianco delle Finanze' *Vita italiana* 37:5-6 (Sept-Dec 1987), pp.64-68.

The package of proposals was approved by the Craxi cabinet and presented to parliament at the end of July. However, self-employed workers took to the streets to demonstrate their opposition to the reforms during the autumn. The mobilization was led by the shopkeepers' peak association, *Confcommercio*, and was supported by artisans and professional groups. In an interview with *La Repubblica*, Giuseppe Orlando, President of *Confcommercio*, threatened that ten million self-employed workers would spoil their ballots in the next election if the anti-evasion measures were implemented[31].

By contrast, Italy's trade unions mobilized in defence of the Visentini reforms. On November 21, unionized workers held a four-hour general strike in support of the government's measures because they felt that it would contribute to a more equitable tax system[32]. CGIL leader Luciano Lama actively encouraged the PCI to vote with the government in favour of the Visentini measures. However, the PCI expressed only lukewarm support for the controversial measures, since it, too, was concerned about its self-employed constituency[33].

In parliament, the Visentini measures met strong resistance, particularly from DC and PSDI members[34]. In the end, parliament engaged in 'a patient work, involving many Christian Democrat, Social Democrat and Liberal deputies, intent on eviscerating the articles of the reform proposal of any concrete significance'[35]. While the heavily

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[31] Interview with the president of *Confcommercio*, Giuseppe Orlando, by *La Repubblica* 18 Oct 1984. Cited in Ginsborg, *L'italia del tempo presente*, p.288.
[32] Lepre, *Storia della prima repubblica*, p.303.
[33] Piazzesi, *Il gioco della politica*, pp.203-4.
[34] Furlong, *Modern Italy*, p.223.
[35] Piazzesi, *Il gioco della politica*, pp.203-4.

amended Visentini proposals did make it through parliament with sufficient government and opposition support, their main effects were nullified by the legislative changes[36].

Although some optimistic politicians hailed the Visentini law as one of the most important pieces of legislation approved during the 1980s, it quickly became apparent that the reforms were flawed. The tax administration did not receive adequate personnel and resources to enforce the new tax measures, since the increased resources promised in the reforms were only partially implemented[37]. A 1986 inquiry into the tax system found that the tax officers responsible for enforcement under the new forfeit system were too few and too poorly paid. They also were not equipped to deal with all the administrative details involved with assessing and collecting taxes from millions of small businesses and individual self-employed taxpayers[38].

Tax reform proposals proved no more successful during the De Mita period. The reformist De Mita government of the 10th legislature also made attempts to implement changes to Italy's tax system, in order to create greater administrative efficiency and 're-establish fiscal equity'[39]. The De Mita government sought to improve tax enforcement in order to curb evasion, and to enhance the taxing powers of regional and local authorities, by bringing about greater fiscal decentralization[40]. De Mita, a former trade union leader, was strongly supported by the trade union leadership in his efforts to reduce inequalities in the tax system[41].

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[36] Agosti, 'Libro bianco delle Finanze', pp.64-68; Piazzesi, *Il gioco della politica*, pp.203-4.
[37] Furlong, *Modern Italy*, p.223.
[38] Ginsborg, *A History of Contemporary Italy*, p.423; OECD, *Economic Surveys: Italy* (1996), p.102.
[39] 'Obbietivo '92: Azzerare il deficit e rilanciare lo sviluppo' *Vita italiana* 38:3 (May-June 1988), p.105.
[40] Verzichelli, *La politica di bilancio*, p.182 and fn 44.
[41] 'Obbietivo '92: Azzerare il deficit e rilanciare lo sviluppo', p.114; Furlong, *Modern Italy*, p.223.

However, as is discussed in chapter three, De Mita's budget package *collegati* were defeated in parliament, owing to De Mita's weakened position both within the cabinet and inside the DC. Although the finance law was approved by the end of the year, the substantive *collegati* were not. A number of measures were re-issued as government decrees at the end of the financial year, but the reforms of the tax system were left unimplemented[42]. In place of substantive tax reforms, the De Mita budget included voluntary tax amnesties for the self-employed, so that the government could partially recoup lost revenue. Trade unions reacted with disappointment at the government's decision to implement tax amnesties rather than more concrete anti-evasion reforms[43].

In short, in place of reforms to enhance tax enforcement and to modernize and decentralize the tax system, the government continued to resort to one-off and temporary tax provisions, such as personal income tax hikes and tax amnesties. The sharp rise in personal income tax rates meant that Italy's overall tax to GDP ratio rose from 31.5 percent in 1979 to 44 percent by 1992, the largest increase among OECD countries[44]. The rate increases were borne disproportionately by those groups who were taxed at source[45]. Moreover, the tax amnesty, directed at self-employed groups, also proved a very popular measure for governments of the period (see Table A.25)[46]. As the crisis in public finances became more acute, the number of tax amnesties rose substantially. Yet,

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[42] Verzichelli, *La political di bilancio* , p.223; See also chapter three.
[43] 'Le grandi manovre' *Vita italiana* 38:6 (Nov-Dec 1988), p.167.
[44] Tanzi, 'Il sistema tributario italiano', p.24.
[45] Chiorazzo, *et al.*, 'Fiscal Developments in Italy', p.238.
[46] Bank of Italy, *Economic Bulletin* n.8 (Feb 1989), p.51.

the yields from tax amnesties were generally less than initially forecast in the budget estimates[47].

In addition to direct tax hikes, Italian governments also came to rely more and more on indirect consumption taxes for revenue. Petrol taxes rose significantly during the 1980s, since the government repeatedly hiked up petrol taxes as the price of oil fell in the 1980-86 period. However, indirect taxes on the whole remained lower in Italy than in other OECD and EU countries, even though petrol taxes were comparatively higher. By 1991, petrol taxes earned the government an amount equivalent to 2.5 percent of GDP[48]. Yet, a key indirect tax, the VAT, remained a less productive tax in Italy than elsewhere, owing to the inefficiencies in the Italian tax administration. In other countries, the VAT became an increasingly crucial revenue source, but indirect taxes on goods and services actually declined in Italy between 1965 and 1992, from 29.5 percent to 26.9 percent of GDP[49].

Owing to the government's tax practices, calls for tax reform became louder in the 1987-92 period. In Northern Italy, it took the form of political protest. The Northern League's popularity was based largely on the anti-tax sentiment shared among the small firms of the North. Northern Italians were particularly angered at the failure of the central government to decentralize the tax administration, and at the persistent use by the central government of one-off and temporary tax grabs, which were perceived by many Northern Italians as 'tax harassment'[50]. This sentiment helped fuel the electoral gains of

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[47] Tanzi, 'Il sistema tributario italiano', pp.17-24.
[48] Chiorazzo, *et al.*, 'Fiscal Developments in Italy and Possibilities for Reducing Public Deficits', p.236; Morcaldo, *La finanza pubblica in Italia*, p.98.
[49] Tanzi, 'Il sistema tributario italiano', p.45.
[50] Ferrera, 'The Uncertain Future of the Italian Welfare State', p.244.

the Northern League in this period[51]. In the April 1992 vote, the LN had so successfully tapped into the anti-tax feelings in the North that it emerged as the fourth largest political party at the national level[52].

Trade unions also were increasingly angered over the failure of the Italian government to implement anti-evasion measures and to bring about a more equitable tax system. Tax evasion remained a more serious problem than ever by the early 1990s, and had developed into a salient political issue, as the personal tax burden of salaried workers became more unsustainable. While tax evasion remains difficult to measure precisely, as is evidenced by the variation present in tax evasion statistics (see Table A.22), the comparative data clearly illustrate that Italy's estimated tax evasion rates were consistently higher than in other countries. The trade union leadership wanted immediate government action on the tax evasion front. In short, on the eve of the transition in budgetary politics there existed, in Ferrera's words, 'embitterment on all fronts'[53].

To summarize, by the end of the period of immobilism, tax reform remained firmly on the political agenda. It was evident that Italy's tax administration and tax structures were in need of modernization and rationalization. According to one study, tax administration continued to involve too much complexity and formal controls, and too few personnel and resources. During the 1989-1994 period alone, over 3368 new tax laws and 3500 circulars were introduced[54]. Within the tax bureaucracy, 70 percent of the personnel at the finance ministry were involved in formal checks and controls of

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[51] I. Diamanti, *La Lega: Geografia, storia e sociologia di un nuovo soggetto politico* (Rome: Donzelli, 1993), pp.38-40; Diamanti, 'The Northern League: From Regional Party to Party of Government' in S. Gundle and S. Parker, eds., *The New Italian Republic*, pp.113-129.
[52] The LN's share of the national vote stood at 8.7%, behind the voting shares of the DC, PDS and PSI.
[53] Ferrera, 'The Uncertain Future of the Italian Welfare State', p.239.

administrative procedures, while only 16.5 percent were involved with actual tax assessments, and only 13.5 percent dealt with tax appeals[55]. In addition, the decentralization of the tax administration also had to be addressed. By 1990, 95 percent of all tax revenues were taken in by the central government and the state's social security institutions, while the regional and local authorities received almost all their spending allocations through the treasury[56].

In short, enhancing administrative efficiency and effectiveness remained vital, for while Italy's deficit and debt levels were spiralling out of control, the government could increase the tax pressures on its citizens very little, since the country had already experienced the sharpest tax hikes among industrialized countries over the course of the 1980s[57]. Indeed, it is clear that one of the contributing factors to the crisis and transition in Italian budgeting was the tax issue.

The Politics of Taxation During the Transition Period

As discussed in chapter four, the Amato government succeeded in implementing a sizeable budget package for 1993, during a period of financial and political crisis. The 1993 budget package included important structural measures on the expenditure side, but it also contained critical tax modifications. The changes to the tax system included

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[54] OECD, *Economic Surveys: Italy* (1996), p.92.
[55] These figures are for 1995. Ibid., pp.98-99.
[56] OECD, *Economic Surveys: Italy* (1996), pp.89-90.
[57] A. Fazio, 'The Public Finance Manoeuvre for the Years 1993-1995' *Review of Economic Conditions in Italy* 46:2 (May-Aug 1992), pp.141-142.

provisions to initiate the process of administrative decentralization, as well as measures aimed at bringing about greater tax compliance and tax equity.

Specifically, the Amato budget measures introduced a new municipal tax, the ICI, as a first step towards the creation of greater fiscal federalism in Italy[58]. The Amato government also implemented new tax coefficients for self-employed groups as part of the so-called *'minimum tax'*. The 'minimum tax' would require self-employed groups to contribute a fixed percentage of their earnings. The amount for each taxpayer was determined by finance ministry earnings coefficients. The provisions were intended to curb tax evasion among these groups[59].

The 'minimum tax' provoked opposition on the part of self-employed groups in the autumn of 1992. However, as is discussed in chapter four, the Amato government was able to implement these unpopular tax measures as a result of the relative autonomy that it enjoyed from parliament, political parties and interest groups during this period. Trade unions supported anti-evasion measures, having previously lobbied the government to implement anti-evasion provisions. The measures helped the Amato government gain trade union acquiescence in pension matters and changes to wage indexation[60].

The tax measures provoked strong reaction from self-employed groups[61]. Shopkeepers, artisans and professionals demonstrated against the minimum tax measures. Protests were organized by *Confcommercio* and other self-employed

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[58] The ICI (*Imposta comunale sugli immobili*) is a local tax on property. Until 1992, Italy's property tax rates remained lower than in all other OECD countries except Portugal and Turkey. Tanzi, 'Il sistema tributario italiano', p.43.
[59] Bank of Italy, *Economic Bulletin* n.16 (Feb 1993), pp.58-59; Morcaldo, *La finanza pubblica in Italia*, p.101.
[60] Amato, 'Un governo nella transizione', pp. 362-4.
[61] Ginsborg, *L'italia del tempo presente*, p.511.

associations. The demonstrations were supported by the Northern League, which articulated these groups' anti-tax sentiment. The LN even called upon citizens to take part in a tax revolt[62].

Prime Minister Amato responded to the protests by reminding self-employed groups of the extent to which tax avoidance and evasion existed in Italy. The prime minister presented data that pointed out that the average shopkeeper declared L16mn in personal income in 1990, when they should have been paying an estimated L24mn[63]. The prime minister remarked with irony 'You call it the *minimum tax* since you have no idea how minimal an amount certain groups declare'[64]. In short, Amato did not yield to the strong public protest.

Nor did Prime Minister Amato give in to pressures from political parties. The government was able to implement these tax measures despite resistance from both coalition partners and opposition groups. The prime minister did receive the support of Finance Minister Goria, Treasury Minister Barucci, and Budget Minister Reviglio for the provisions, but cabinet ministers on the whole were concerned about the potential electoral backlash. PSI Justice Minister Claudio Martelli came out strongly against the 'minimum tax'. Prominent DC ministers also the measures, fearing that they would suffer further electoral losses to the LN[65].

In parliament, both government and opposition party members spoke out against the tax measures. Although CGIL supported the anti-evasion measures since they would create a more equitable tax system, CGIL's ally in parliament, the PDS, opposed the

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[62] *The Economist* 31 Oct 1992.
[63] *Corriere della sera* 26 Oct 1992, p.2.
[64] *Corriere della sera* 25 Oct 1992, p.5.

measures. PDS leader Massimo D'Alema, like other political leaders, feared alienating self-employed supporters. The strongest opposition to the tax came from the Northern League, the party that had grown due to anti-tax sentiment[66].

In October 1992, the DC and PSI party executives proposed amendments to the measures that would exempt certain groups of self-employed workers in order to lessen the severity of the measures on low income earners. However, the prime minister rejected DC demands to change the provisions. The prime minister reminded the DC leadership that the legislation already contained exemptions for low income earners, and that the government would not amend the law to exempt additional categories of workers[67].

In the end, the prime minister managed to convince both his coalition and self-employed groups to accept the measures. Unlike the case of the Visentini measures of 1984, the Amato government did not succumb to pressures from self-employed groups, nor did it allow parliament to water down the 'minimum tax' provisions[68]. Negotiations between Finance Minister Goria and *Confcommercio* President Francesco Colucci produced an understanding that the minimum tax would be inserted unaltered into the 1993 budget package. However, as a concession to self-employed groups, Goria promised that the tax would be withdrawn after one year[69].

In short, tax politics under the Amato government differed substantially from the tax politics of the previous decade. The government successfully began the process of

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[65] *Corriere della sera* 18 Oct 1992, p.1; 19 Oct 1992, p.5.
[66] Ibid.; Diamanti, 'The Northern League: From Regional Party to Party of Government', pp.120-121.
[67] 'La minimum tax non si tocca', *Corriere della sera* 22 Oct 1992, p.5; 26 Oct 1992, p.2.
[68] The only modification to the legislation was a provision that changed the age range to which the tax applied from 21-75 years to 26-60 years. see *Corriere della sera* 28 Nov 1992, p.21; 20 Dec 1992, p.19.

fiscal decentralization, introducing a new local tax on firms and individuals, the ICI. Of greater significance, however, was the government's victory concerning the minimum tax, which implemented provisions designed to increase tax compliance among self-employed groups. Nevertheless, further tax reforms geared towards rationalizing and decentralizing the tax system, and towards increasing the efficiency of the tax administration, were still needed during the post-Amato period to strengthen tax compliance.

The second government of the transition, led by Carlo Azeglio Ciampi, furthered the process of administrative reform[70]. However, on the tax front, the Ciampi government introduced only modest changes. This included the implementation of new simplified personal income declaration forms to facilitate tax assessment, and new exemptions for low-income earners. The measures were intended to speed up the process of tax assessment and improve tax enforcement. With the Ciampi measures, the total number of tax declarations was reduced from 19.5 million in 1993 to 15 million in 1994[71].

In sum, the transition period saw important initiatives in the realm of taxation. The tax provisions of the Ciampi government were not as far-reaching or controversial as those implemented by the Amato government, but both governments took steps to improve different areas of Italy's tax system. Additional measures to improve tax compliance and carry out administrative decentralization were pursued by subsequent governments during the period of executive governance.

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[69] *Corriere della sera* 31 Oct 1992, p.23.
[70] See chapter four. See also Della Cananea, 'Reforming the State: The Policy of Administrative Reform in Italy Under the Ciampi Government', pp.321-339.

The Politics of Taxation During the Period of Executive Governance

During the 1990s, further rationalization of the Italian tax system was encouraged by the EU and other European member states. The process of globalization and European integration put pressure on Italy and other countries to modernize and harmonize their tax systems, since, as one IMF study notes, the 'spillover effects across frontiers generated by taxation have become common and important'[72]. After the signing of the Maastricht Treaty in 1992, the EU called upon member states to reform their tax structures in preparation for further integration[73].

Throughout the post-1992 period, pressure mounted on Italy's governments to improve the country's tax administration, and ensure greater tax compliance and tax yields. An improved tax situation was important for moving forward the process of fiscal consolidation. Consquently, governments of the 1994-99 period implemented various changes to Italy's tax system.

The Berlusconi government's tax policy initiatives to a large extent reflected the government's attempt to address the Northern League's interest in further administrative decentralization[74]. The December 1994 White Paper on tax reform, produced by Berlusconi's finance minister, Giulio Tremonti, proposed greater fiscal federalism and a

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[71] OECD, *Economic Surveys: Italy* (1996), p.106.
[72] V. Tanzi, 'Globalization, Tax Competition and the Future of Tax Systems' *IMF Working Paper* n.141 (Dec 1996), p.5.
[73] 'The Tax Burden and the Economic Crisis', *Review of Economic Conditions in Italy. Italian Economic Development since the War: A Reconstruction Based on the Review* 2 (July-Dec 1997), pp.605-608.
[74] Bufacchi and Burgess, *Italy Since 1989*, pp.192-3.

shift in the tax burden away from direct taxation and towards indirect taxation[75]. Nevertheless, the Tremonti proposals were never translated into legislation due to the collapse of the Berlusconi coalition at the end of 1994.

The 1995 Berlusconi budget package did contain several small measures to improve tax compliance and tax administration efficiency. In particular, the 1995 budget brought in the *accertamento con adesione*, assessment procedures that involved finance ministry officials reaching agreements with taxpayers over the amount of tax to be paid. These measures were expected to increase tax compliance among the self-employed. In terms of administration, the government also introduced a new committee to monitor tax officials in order to reduce corrupt practices in the tax administration. In short, while the Berlusconi government suffered a setback over pension reform and the Tremonti initiatives could not be pursued, the government introduced several modest measures on the tax front[76].

The Dini government also implemented several tax changes to speed up tax assessment procedures and improve tax compliance. The government implemented provisions to integrate tax assessment offices, and also introduced provisions to train 15,000 new professional staff at the finance ministry. The Dini budget also simplified tax assessment, reducing the number of taxes, levies and duties by 122, and setting a new income threshold below which an individual would not be required to submit a tax

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[75] Ministero delle Finanze, *La riforma fiscale, Il libro bianco* (1994); see also OECD, *Economic Surveys: Italy* (1996), pp.106, 108-115.
[76] OECD, *Economic Surveys: Italy* (1996), p.106-7.

declaration form. Finally, the Dini government also set up a new control body to review tax administration efficiency on an annual basis[77].

It was during the Prodi period, under the direction of Finance Minister Vincenzo Visco, that the most significant tax reforms since the early 1970s were implemented. The Visco reforms, drawn from the proposals of the Gallo commission of 1996, were placed into a *delega* and presented as part of the Prodi government's 1997 budget package *collegato*, law 662 of 1996. These comprehensive reforms proceeded with rationalizing and decentralizing Italy's tax system. The measures gave more taxing powers to the regions and local authorities, transferring the responsibility for financing regional and local expenditures to the regions and local governments themselves, and reducing the central government's tax responsibilities[78].

Nevertheless, the implementation of structural reforms to taxation by way of a *delega* provoked criticism from the opposition. Berlusconi's alliance complained about the Prodi government's abuse of the *delega* as an instrument to carry out these reforms. The former finance minister, Giulio Tremonti, argued that the Prodi government's use of the *delega* to carry out tax changes exposed a 'fundamental problem of democratic deficit' since it 'attributes to government a frightening and unprecedented stock of legislative decrees'[79]. However, despite opposition protests to a budget instrument that

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[77] Ibid., pp.106-107.
[78] Camera dei deputati-servizio studi, 'Le politiche di razionalizzazione della finanza pubblica nella manovra di bilancio per il 1997: gli interventi della legge n.662/1996' *Osservatorio sullo stato di attuazione delle leggi* n.5 (13th legislature, July 1997), pp.71-86; Banca d'Italia, *Bollettino economico* n.30 (Feb 1998), pp.14-15.
[79] 'L'abuso di potere di Fisco' *Il Sole-24 Ore* 20 Nov 1996, p.6.

had been used repeatedly since 1992, the Prodi government successfully implemented the important measures with the *delega*, and paved the way for greater fiscal federalism.

The Visco measures introduced a new regional tax on all business activities, the *Imposta regionale sulla attivata produttive* (IRAP)[80]. The intake from IRAP was expected to meet approximately 40 percent of all current expenditure needs of the regions. This tax would become the main instrument by which regions finance their health services, with over 90 percent of the regional tax to be earmarked for this sector. The regional ILOR, implemented with the 1971-73 reforms, and other small taxes were to be gradually eliminated, as would health care contributions[81]. In short, the new regional tax would give Italy's regions unprecedented taxing authority to fund their social services.

The reforms contained in the *delega* also implemented a new corporate income tax assessment procedure, the 'Dual Income Tax' (DIT) procedure. The DIT tax method offered stronger incentives for firms to invest in capital markets. Previously, debt financing was preferred to market capitalization, since debt interest costs had been fully deductible from corporate income tax. These new procedures were similar to provisions implemented in other EU countries, and were intended to encourage firms to liberalize and demonstrate greater transparency. Thus DIT procedures were also meant to reduce tax avoidance among small firms[82].

Nevertheless, if the structural changes to Italy's tax system contained in the *delega* illustrated the activism of the Prodi government on the tax front, the extraordinary

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[80] The implementation of the *Imposta regionale sulle attivita produttive* (IRAP) has brought about significant regional tax autonomy. This tax autonomy had been promised in 1971, but never delivered.
[81] Banca d'Italia, *Bollettino economico* n.30 (Feb 1998), p.15.

one-off tax provisions contained in the 1997 Eurotax showed the government's continued reliance on one-off tax measures. The 'Tax for Europe' was designed to earn the government additional revenue for the 1997 fiscal year, in order to ensure that Italy's deficit to GDP ratio fell to under 3 percent. The Eurotax was a response to the growing deficit-cutting pressures placed on Italy by the EU and the IMF. The Prodi government's one-off Eurotax measures were presented as part of the 1997 budget, and were expected to earn the government an additional L11,000bn for 1997. The specific provisions were only fully clarified in early 1997[83].

Negotiations over which sort of tax measures to include in the Eurotax persisted throughout the autumn of 1996 and early 1997. The government expected that the measures would consist of earlier payments of personal income taxes. However, the government's proposals faced resistance from both trade unions and self-employed groups. Consequently, during the budget session of autumn 1996, the government made several concessions over the Eurotax measures.

In October 1996, RC, the government's outside supporter, insisted that the government include exemptions for low wage earners[84]. In response, the government promised to reduce the amount to be collected from personal income tax, create a number of exemptions for low income earners, and increase the indirect tax component of the Eurotax[85]. However, in November 1996, trade unions and RC continued to press the government to spell out the Eurotax measures in greater detail. Finance Minister Vincenzo Visco met with trade union leaders to negotiate how much of the Eurotax

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[82] Ibid.pp.19-20.
[83] Verzichelli, *La politica di bilancio*, p.208.
[84] 'Aliquote Irpef, in vista l'accordo con Bertinotti' *Il Sole-24 Ore* 22 Oct 1996, p.1.

would come from advanced IRPEF payments. Visco finally proposed that L5,000bn to L6,000bn of the L11,000bn Eurotax would come from personal income taxes, and that an exemption would be granted to salaried workers who earned under L20mn per year[86].

Subsequent protests by self-employed workers resulted in certain self-employed groups also being granted exemptions[87]. Moreover, the finance minister promised that the tax would be rebated in the future. This brought the finance ministry into conflict with the treasury, which opposed returning revenues collected as part of the Eurotax[88]. In the end, by the spring of 1997, the Eurotax was approved with a larger number of amnesties and exemptions than originally proposed by the government, while the amount of personal income tax revenue to be collected in advance was reduced considerably[89]. Nevertheless, this sizeable one-off tax measure successfully ensured that Italy's deficit to GDP ratio would fall to below 3 percent in 1997.

In sum, while the substantive Visco reforms demonstrated the successful employment by the Prodi cabinet of the instrument of the *delega* during the period of executive governance, the Eurotax measures, and the subsequent concessions made to interest groups, displayed the limits of the Prodi government's autonomy. The Prodi government, unable to realize far-reaching pension reforms at this time, was compelled to resort to more politically feasible one-off measures such as the extraordinary Eurotax in order to allay EU and financial market concerns about Italy's public finances. As noted

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[85] 'Irpef, maggioranza unita' *Il Sole-24 Ore* 25 Oct 1996, p.2; Verzichelli, *La politica di bilancio*, p.208.
[86] 'Eurotassa, per 5.500 mld sara un'addizionale Irpef' *Il Sole-24 Ore* 19 Nov 1996, p.1; 'L'eurotassa nell'arena del Senato' *Il Sole-24 Ore* 27 Nov 1996, p.19.
[87] 'Eurotassa cano sconto per gli autonomi' *La Repubblica* 28 Nov 1996, p.2; 'Eurotassa, terza versione con le nuove detrazioni' *Il Sole-24 Ore* 30 Nov 1996, p.1.
[88] 'La Finanziaria va, arriva l'Eurotassa' *La Repubblica* 16 Nov 1996, p.23.
[89] Verzichelli, *La politica di bilancio*, pp.207-8.

in chapter six, the Prodi government remained unable to risk an open conflict with RC and trade unions over pension reform at this sensitive point in Italy's post-war economic history[90]. In short, while the Prodi government did succeed in implementing an ambitious deficit-cutting package for 1997, which included a *delega* that carried out important tax reforms, the government still remained reliant upon one-off measures, just as governments had done during the period of immobilism.

Conclusion

The chapter has briefly treated tax politics during the 1980s and 1990s. In general, the 1990s witnessed more significant tax reforms than the previous period, including the decentralization of tax structures, improved tax assessment procedures, and an increase in the personnel and resources within the tax administration. This analysis further suggests that the government's tax politics in the 1990s was more successful than the politics of the 1980s.

During the 1980s, self-employed groups and their representatives in the governing *pentarpartito* coalition and parliament were better able to prevent, or water down, tax changes aimed at curtailing tax avoidance and evasion. In place of concrete anti-evasion measures and administrative reforms, the government employed personal income tax hikes and voluntary tax amnesties to partially recoup lost revenue from self-employed workers.

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[90] Ibid., pp.208-9.

In the 1990s, however, the Prodi government was able to realize comprehensive tax changes by way of *delega* legislation. While the Visco measures of 1997 represent a concrete step towards fiscal federalism, many inefficiencies still exist in the Italian tax system. Tax avoidance and evasion remain particular concerns[91]. A recent IMF study of tax evasion among advanced industrialized countries found that the average rate of tax evasion among countries was equal to 2 to 3 percent of GDP, while the Italian rate was as high as 15 percent of GDP[92].

In sum, additional tax changes are needed to better enforce tax compliance and improve tax yields. The implementation of measures to improve the tax administration and reduce the Italian government's dependence on one-off provisions, which are so disliked by Italian taxpayers, should contribute to better tax compliance and build up confidence on the part of Italian taxpayers in the country's tax institutions. Hence, recent moves to create greater administrative efficiency and decentralize Italy's tax structures will have to be followed by further tax reforms in the coming years.

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[91] Chiorazzo, *et al.* 'Fiscal Developments in Italy', p.238.
[92] *Il Sole-24 Ore* 21 Nov 1996, p.3.

Chapter 8: Conclusion

The thesis has presented a descriptive analysis of Italian budgetary politics during the 1980s and 1990s. The work has identified three distinct periods of budgeting, and highlighted the key characteristics of Italian budgeting over three periods: *immobilism, transition,* and *executive governance*. The study has examined international developments that have influenced the Italian budgetary process, and the changing institutional and political dynamics of Italian budgeting over time.

The existing literature on the Italian budgetary process has tended to place great emphasis on the institutional, technical, and juridical nature of Italian budgeting. Whilst this dissertation does not ignore the important changes to budget rules and institutions during the post-1978 era, it has presented a more integrated account of the institutional and political dimensions of budgeting during the 1980s and 1990s. Furthermore, this work updates the existing literature on Italian budgetary politics.

Owing to the complexities inherent in Italian budgetary politics, budgetary events cannot be subsumed under a particular theoretical framework. Although theories of budgeting have not been ignored (chapter one reviews incrementalism, public choice, and the macro/insitutionalist framework), the vicissitudes of Italian budgeting necessitates a more descriptive and integrated approach. The current analysis brings to the fore important domestic political and institutional dynamics that help explain the changes to the budgetary process and budget outcomes.

Budgetary Politics During the Three Periods of Budgeting

Chapter two has presented a *static* view of budget rules and institutions in order to provide the reader with an understanding of the Italian budgetary process unobstructed by the political context. The remaining chapters have examined the interactions between budget institutions and Italian party politics during three periods of budgeting.

During the period of immobilism, Italian party politics was dominated by successive *pentapartito* coalition governments. The early years of this era did not witness as intense financial and political pressures on Italy as did the latter part of the period of the 1979-92 period. The crisis in public finances became more acute in the final years of immobilism, but successive Italian governments remained unable to implement deficit containment policies. Budgetary conflicts were repeatedly won by spending *advocates* in cabinet and parliament.

During the 1979-83 era, the Cossiga and Spadolini governments committed themselves to deficit-cutting measures and budget reforms. These cabinets included ministers with strong economic credentials such as Reviglio and Andreatta. In the end, however, these governments remained unable to employ the finance law as an effective tool of budget policy. Budget provisions were approved late each year, and government measures were watered down by cabinet and parliament.

During the 1983-87 period, Prime Minister Bettino Craxi succeeded in implementing important changes to parliamentary procedures, introducing the budget session timetable as a means of better disciplining parliamentary budgeting. Moreover, the prime minister's more assertive policy style at first appeared to point towards a

greater capacity for economic governance. Nonetheless, deficit containment policies proved no more successful in this period. Most cabinet ministers preferred policies geared towards promoting economic growth to deficit containment policies. Treasury Minister Goria had few allies in cabinet to support his deficit containment objectives. On the whole, spending advocates proved stronger than guardians in this period, and incremental budget outcomes persisted.

The finance laws for 1984 and 1985 were successfully approved by the end of the year, but this was a result of the generous spending limits imposed by the government, rather than as a result of changes to parliamentary rules. The conflict over the 1986 budget package, which proved more restrictive than the previous two budgets, illustrated the limits of Craxi's *decisionismo* and the institutional changes to budgeting. The budgetary process of autumn 1985 proved extraordinarily long, and the key budget measures were watered down in parliament. The new budget rules failed to alter parliamentary budget behaviour and permit the government to realize more effective budget outcomes.

While budgetary developments worsened in the 1985-86 period, the treasury ministry was achieving growing institutional and political pre-eminence. Treasury Minister Goria enhanced treasury control over budget policy co-ordination in this period by way of internal directives, which established closer treasury scrutiny of ministerial spending bills presented to cabinet. Nevertheless, in spite of the treasury's growing influence, immobilism in budgetary politics would worsen during the 10th legislature.

In the late 1980s, the process of European integration began to accelerate, but the Italian political class remained less capable than ever of realizing deficit containment

policies. Two reformist DC prime ministers during this period, ex-treasury minister Giovanni Goria and Ciriaco De Mita, proposed important medium-term deficit-cutting plans. As part of their strategies, the prime ministers rationalized the budgetary process and further enhanced the role of the treasury ministry in budget policy co-ordination by way of prime ministerial directives and legislative changes.

The key changes of the period included law 362 of 1988, which instituted the DPEF and the *collegati*, the introduction into parliamentary rules of the spring budget session and restrictions on budget amendments, and, finally, law 67 of 1988, which gave the treasury pre-eminence in public finance matters. Prime Minister De Mita also implemented law 400 in 1988 as a means of establishing greater prime ministerial control over policy coordination. These procedural and institutional changes, however, did not prove effective against the interests lined up against the deficit-cutting policies of the Goria and De Mita governments.

Both Goria and De Mita suffered humiliating budget defeats in spite of the reforms. It was originally expected that the new budget rules would ensure that the new, less cluttered, finance law would be approved by the end of the budget session. In the event, the finance law was approved on time but most of the substantive *collegati* provisions presented by the Goria and De Mita governments were rejected or drastically modified.

During the final years of immobilism, from 1989 to 1992, the Andreotti government chose political consensus over deficit containment initiatives. Although Italy's public finances were worsening, and despite the fact that both Treasury Minister Carli and external guardians continued to insist on structural reforms, deficit-cutting

measures were not forthcoming. During discussions over the 1992 budget package, conflict between Carli and Andreotti came to a head. When the prime minister's directive reduced the treasury's role in budget co-ordination, the treasury responded with an internal directive of its own that set out new medium-term budget plans. Yet, Carli was ultimately unable to force spending advocates in cabinet to accept pension and privatization reforms as part of the 1992 budget package. This was the final guardian defeat before the crisis in Italian public finances, and the transition in budgetary politics. In short, the period of immobilism witnessed repeated *guardian* defeats on budgetary matters. This occurred despite the growing financial pressures on Italy, and the strengthening of budget rules and institutions in this period.

The case studies presented in chapters six and seven illustrate, at a more microscopic level, how government initiatives were blocked in specific policy sectors. In the case of welfare reform, various labour ministry proposals were scuttled in cabinet, owing to intra-coalitional conflict between the DC and the PSI. Similarly, tax reforms aimed at recouping lost revenue and improving tax compliance met stiff resistance from self-employed interests and their political representatives within the *pentapartito*. In short, with the failure of governments to realize deficit-cutting measures in key policy sectors, public spending spiralled out of control and Italy's debt to GDP ratio rose above 100 percent by 1991.

Nevertheless, during the era of immobilism, a number of salient changes took place in domestic budgetary politics. First, the institutional and political role of the treasury increased. Second, the formal institutional role of parliament gradually declined, as did the role of peripheral actors such as regions. Third, external guardian

activism in the public finance sphere increased. While these developments did not result immediately in a reduction in deficit spending during the 1980s, they helped contribute to the onset of the crisis and transition in Italian budgeting.

The period of budgetary immobilism was followed by a *transition* in *budgeting* and *party politics* during the 1992-94 era. The key developments in the budgeting sphere took place under the Amato government, whilst the party political transition, which involved the emergence of a more adversarial party system, was completed under the Ciampi government in 1994.

The changed budget strategies and outcomes of the Amato period marked a turning point in Italy's budgeting history. The Amato government enjoyed more autonomy from political party executives, parliament and interest groups than did governments of the previous period. Moreover, the government successfully employed the hybrid *delega-collegati* instrument to realize key deficit-cutting reforms. The Amato government also exploited the strong financial constraints facing the country to force tough budget measures through parliament. The prime minister issued repeated warnings concerning the crisis in public finances, and attached votes of confidence to the budget legislation. The new budgeting conditions led to a turnaround in budget outcomes, with Italy recording its first primary budget surplus in 1992. Still, the political side of the transition was not completed during the Amato period. Judicial investigations forced many of Amato's ministers to resign, and eventually led to the resignation of the prime minister.

The political side of the transition was completed under the Ciampi government during the 1993-94 period. The appointment of a non-partisan technical government afforded the party system time to reorganize and prepare for a national vote in 1994. During the months leading up to the March 1994 elections, a more stable adversarial party system emerged, replacing the pre-1992 party system that had been dominated by the Christian Democrats and its *pentapartito* coalition partners. The period saw the birth of Berlusconi's *Forza Italia* and the development of two centre-right *Polo* alliances. On the left, a PDS-led Progressive alliance was formed, while a small centrist bloc also emerged. The completion of the political transition helped facilitate the *relatively* more stable budgetary politics observed during the post-1994 period.

Nevertheless, the transition in Italian party politics did not involve constitutional and institutional changes of the kind that had taken place in France during the late 1950s. The budgetary immobilism that persisted during the Fourth Republic, a period in which governments remained unable to find stable majorities to implement budget objectives, was replaced by stronger executive-led budgeting after 1958. While governments of the Fourth Republic employed decree legislation and the *loi-cadre* (equivalent to the Italian *delega*) to force budget measures through parliament, governments of the Fifth Republic could generally rely on their stronger constitutional position vis-a-vis parliament. Italy did not experience a similar constitutional change during the 1992-94 period, but the country did witness important institutional developments at the level of budgeting, the most notable being the government's use of the *delega-collegati* instrument.

During the post-transition period, budgetary politics was characterized by stronger *executive governance*. The government's position vis-a-vis parliament and political party executives was strengthened, and the treasury emerged as the pre-eminent actor in budget policy co-ordination. The Berlusconi, Dini and Prodi governments, while markedly different from one another, were no longer hostages to party executives.

While the technical government of Lamberto Dini enjoyed greater policy autonomy than did elected governments, all prime ministers put forward more ambitious budgets and all attempted to employ the *delega* instrument to realize budget measures. Yet, Prime Minister Prodi better responded to the interests of trade unions and his coalition than did Berlusconi. The FI leader failed to maintain his coalition intact, and could not win trade union agreement for pension reforms. Consequently, the Berlusconi government remained unable to reach its budgetary objectives. The Prodi government, by contrast, chose not to risk a conflict with trade unions over welfare changes in 1996-97, and opted to implement one-off budget measures instead.

On the whole, the analysis of the period of executive governance reveals that the political and institutional context of budgeting was markedly changed. Deficit containment remained a high priority for all governments during this era, while the *delega* remained the key instrument employed to realize structural reforms. The pension and taxation cases illustrate how deficit-cutting reforms in particular policy sectors were more successful during the post-1992 period. On the pension front, the Amato reform was followed by a second pension reform carried out by the Dini government. In the case of taxation, the Visco measures, included in a budget *delega*, were the most important tax reforms since the early 1970s. The provisions sought to rationalize Italian

tax structures and bring about greater fiscal federalism. The significant structural reforms and effective deficit-cutting outcomes helped Italy record consistent primary budget surpluses and bring down the country's deficit to below 3 percent.

Nevertheless, Italy has not entrenched executive governance through constitutional changes. As noted earlier, the French Fifth Republic has experienced more substantial constitutional changes than Italy, although governments in both countries continue to rely on the support of stable majorities in parliament. The altered political and institutional circumstances of the Fifth Republic did not prevent the Rocard government's budget measures from being watered down during the 1988-91 period, while Italian governments also continue to rely on stable parliamentary majorities and interest group consensus to better guarantee the successful approval of budget measures. Hence, both institutional factors and domestic political dynamics continue to shape the successes and failures of budgetary politics.

Trends in Italian Budgetary Politics

The dissertation has highlighted the fact that the transition from budgetary immobilism to executive governance has involved changes in the budgeting and political contexts. In the realm of budgeting, the most significant developments in this period were the use of the *delega-collegati* to effect substantive budget reforms, and the emergence of the treasury ministry as the key actor in budget policy co-ordination. In the sphere of politics, the loosening of party executives' hold over Italian coalitions and the emergence of a more adversarial party system resulted in a political transition.

However, the new budgetary politics raises questions. First, it remains too early to speak of a *stable* period of executive governance in budgetary politics. The financial constraints on Italy have become less salient since Italy was accepted as an EMU participant. While the Growth and Stability Pact (GSP) continues to constrain budget choices, party politics are now less conditioned by external financial constraints.

In addition, there are growing problems with the use of the *delega* in the budgetary process. The number of *deleghe* employed by Italian governments has increased significantly, and the use of the instrument has recently been challenged by the opposition in parliament. As discussed in chapter seven, the centre-right opposition attacked the Prodi government's extensive use of the *delega*. Moreover, as Della Cananea notes, the *delega-collegato* instrument has increasingly taken on omnibus characteristics[1]. In short, the more frequent use of the *delega* and its ever more unwieldy form make it a less effective tool of government policy. As discussed in chapter five, the final years of the French Fourth Republic witnessed the overuse of the *loi-cadre*, making it more and more difficult for France's public administration to execute the mass of legislative decrees emanating from the *loi-cadre* legislation[2].

In sum, while budgeting appears more effective during the current period of executive governance, it remains too early to argue that stable executive governance in budgetary politics has emerged. Italy continues to witness unstable government majorities, and the political class has failed to realize much-needed constitutional reforms to further enhance political stability. Still, the institutional and political pre-eminence of the treasury in budget policy co-ordination points to a permanent alteration

in the relationship of key budget actors. While it is not certain that budgetary politics and budget outcomes of the next decade will remain as consistent as they have been over the course of the 1990s, particularly owing to the weakening European constraint and the difficulties that continue to exist in Italy's party system, the developments of the past few years should prevent a return to the budgetary immobilism of the 1980s.

Future Research

The current study has brought to the fore several important budgetary developments that warrant further investigation. This discussion limits itself to two areas of particular interest to the author. One area of importance is the growing role of the treasury ministry in budget policy co-ordination. While the dissertation has addressed the pre-eminence of the treasury in some detail, the internal policy-making structures within the ministry need further study, particularly in the light of the recent reforms of 1997 that have strengthened the treasury ministry's role in budget policy co-ordination and public expenditure management.

A second area that deserves further study is the relationship between the Bank of Italy and the executive. While Epstein and Schor examined the 'divorce' of the Bank of Italy from the treasury in the early 1980s, and the implications of this changed relationship for Italian policy-making[3], the central bank's influence in economic policy-making, and its links to EU institutions and other member states, have grown in the

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[1] Della Cananea, *Indirizzo e controllo della finanza pubblica*, pp.191-192.
[2] Williams, *The French Parliament*, pp.272-5.
[3] Epstein and Schor, 'The Divorce of the Banca d'Italia and the Italian Treasury', pp.147-164.

1990s. The role of central banks has become particularly important with the run-up to EMU and the creation of the single currency. The *policy network* of Italy's central bank, which has helped co-ordinate economic and monetary convergence, needs further examination within the Italian and comparative context.

Concluding Remarks

Italy's participation in the single currency after January 1999 was a significant policy achievement for the country. Italy's consistent deficit containment policies, begun by the Amato government, permitted the country to satisfy most of the convergence criteria stipulated by TEU. Moreover, Italy's debt to GDP ratio, while still well above the 60 percent level stipulated by the Maastricht Treaty, also began to decline during this period.

The advent of the single currency has not absolved member states from continuing to pursue policies geared towards eliminating their deficits. The GSP obliges these countries to continue deficit containment practices, and public sector deficits that exceed 3 percent of GDP in a given year will be penalized[4]. However, these budgetary constraints may prove too restrictive for states during an economic downturn. Already, in May 1999, the D'Alema government's treasury minister, Giuliano Amato, told other European finance ministers that Italy would not achieve its deficit to GDP target ratio of

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[4] 'Europe's New Currency' *Economist* 2 Jan 1999, p.2.

2 percent for 1999, and asked his EU counterparts to accept a 2.4 percent target for that year, a 1.5 percent target for 2000, and a balanced budget for 2003[5].

Nevertheless, Italy's growth rate picked up considerably during 1999 and 2000, and its year-on-year GDP sat at 3 percent in August 2000, its unemployment rate falling from 11.5 percent to 10.7 percent in the same period[6]. Still, domestic pressure is increasing for the Italian government to pursue more growth-oriented budgetary policies, after the many years of austerity measures that the Italian electorate had to endure in the 1990s.

In future, Italian budgetary politics will continue to be conditioned by both changing macroeconomic conditions and domestic political developments. The year 2001 will bring national elections in Italy, which, at time of writing, the centre-right looks set to win. Moreover, the next government that takes office will face the task of carrying out a third comprehensive pension reform, in accordance with the agreement signed between the government and trade unions. In short, the current political uncertainty and looser financial constraints on Italy will bring about new budget challenges for successive governments.

In conclusion, no matter which course Italian budgeting takes, it will remain at the heart of the country's political process. This is because while budgeting may stand at the crossroads of many different academic disciplines, it is, nevertheless, a unifying lens through which to view, in sharper focus, a country's political system.

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[5] *Economist* 3 July 1999, pp.64-65.
[6] *Economist* 26 Aug 2000, p.88.

APPENDIX

Table A.1 Public Sector Deficits, Debt, and Primary Balances, 1980-98 (% GDP)

Year	Deficit	Public Debt	Primary Balance
1980	8.5	57.7	3.2
1981	11.4	59.9	5.2
1982	11.3	64.9	4.2
1983	10.6	70.0	3.1
1984	11.6	75.2	3.6
1985	12.6	82.3	4.6
1986	11.6	86.3	3.1
1987	11.0	90.5	3.1
1988	10.7	92.6	2.6
1989	9.9	95.6	1.0
1990	10.9	97.8	1.3
1991	10.2	101.4	0.0
1992	9.5	108.0	-1.9
1993	9.6	119.1	-2.6
1994	9.0	124.9	-1.7
1995	7.5	124.2	-3.5
1996	6.7	124.0	-4.3
1997	2.7	121.6	-5.4
1998	2.5	118.1	-6.4

Sources: V. Della Sala, 'Hollowing Out and Hardening the State: European Integration and the Italian Economy', in M. Bull and M. Rhodes, eds., *Crisis and Transition in Italian Politics* (London: Frank Cass, 1997), p.23; European Monetary Institute, *Convergence Report, 1998* (Presented to European Commission in Brussels, March 25 1998).

Table A.2 Budget Deficits in Selected European Countries, 1980-92 (% GDP) (a)

	Belgium	France	West Germany(b)	Italy	Spain	U.K.	Ave. EC (c)
1980	9.3	0.0	2.9	8.5	2.6	3.4	2.7
1981	13.5	1.9	3.7	11.4	3.9	2.6	3.9
1982	11.5	2.8	3.3	11.3	5.6	2.5	4.2
1983	11.9	3.2	2.6	10.6	4.7	3.3	4.1
1984	9.6	2.8	1.9	11.6	5.4	3.9	3.9
1985	9.1	2.9	1.2	12.6	6.9	2.9	3.6
1986	9.4	2.7	1.3	11.6	6.0	2.4	3.2
1987	7.5	1.9	1.9	11.0	3.1	1.3	2.6
1988	6.8	1.7	2.2	10.7	3.3	-1.0	2.0
1989	6.7	1.3	-0.1	9.9	2.8	-0.9	1.3
1990	5.8	1.5	2.0	10.9	3.9	1.3	2.6
1991	6.6	2.1	3.6	10.2	5.0	2.8	3.4
1992	6.7	3.9	2.8	9.5	4.5	6.2	4.3

(a) General government/public sector accounts include the central government, local governments and social security institutions; (b)The figure for 1992 is for united Germany; (c) EC average excluding Italy.
Source: G. Morcaldo, *La finanza pubblica in Italia* (Bologna: Mulino, 1993)

Table A.3 Budget Deficits in EU Member States, 1993- 98 (% GDP)*

	1993	1994	1995	1996	1997	1998
Belgium	7.1	4.9	3.9	3.2	2.1	1.7
Denmark	2.8	2.8	2.4	0.7	-0.7	-1.1
Germany	3.2	2.4	3.3	3.4	2.7	2.5
Greece	13.8	10.0	10.3	7.5	4.0	2.2
Spain	6.9	6.3	7.3	4.6	2.6	2.2
France	5.8	5.8	4.9	4.1	3.0	2.9
Ireland	2.7	1.7	2.2	0.4	-0.9	-1.1
Italy	9.5	9.2	7.7	6.7	2.7	2.5
Luxembourg	-1.7	-2.8	-1.9	-2.5	-1.7	-1.0
Netherlands	3.2	3.8	4.0	2.3	1.4	1.6
Austria	4.2	5.0	5.2	4.0	2.5	2.3
Portugal	6.1	6.0	5.7	3.2	2.5	2.2
Finland	8.0	6.4	4.7	3.3	0.9	-0.3
Sweden	12.2	10.3	6.9	3.5	0.8	-0.5
U.K.	7.9	6.8	5.5	4.8	1.9	0.6
EU Region	6.1	5.4	5.0	4.2	2.4	1.9

*General government/public sector accounts

Source: European Monetary Institute, *Convergence Report, 1998* (Presented to European Commission in Brussels, March 25 1998).

Table A. 4 Public Debt in Selected European Countries, 1993-98 (% GDP)*

	1993	1994	1995	1996	1997	1998
Belgium	135.2	133.5	131.3	126.9	122.2	118.1
Germany	48.0	50.2	58.0	60.4	61.3	61.2
Spain	60.0	62.6	65.5	70.1	68.8	67.4
France	45.3	48.5	52.7	55.7	58.0	58.1
Italy	119.1	124.9	124.2	124.0	121.6	118.1
Austria	62.7	65.4	69.2	69.5	66.1	64.7
Portugal	63.1	63.8	65.9	65.0	62.0	60.0
Sweden	75.8	79.0	77.6	76.7	76.6	74.1
U.K.	48.5	50.5	53.9	54.7	53.4	52.3

*General government/public sector accounts

Source: European Monetary Institute, *Convergence Report, 1998* (Presented to European Commission in Brussels, March 25 1998).

Table A.5 The Financial Year and the Budget Cycle

Month	Budgeting Details
1 January	Financial year begins
March	The RGS sends circulars to all ministries stating criteria and parameters on which to base budget requests
	Treasury begins formulating DPEF
	General Report on the Economic Situation of the Country presented March 30
30 April	Ministries must submit budget requests for following year's budget to RGS
	Ministries must also submit final accounts for previous year's budget to RGS
	(Provisional budget cannot be employed beyond this date)
15 May	Treasury presents medium-term DPEF to parliament; committees and assemblies examine DPEF in thirty-day mini-budget session
31 May	Treasury sends final budget accounts to the Court of Accounts for assessment
30 June	Court of Accounts transmits final accounts and its report to Parliament; Treasury presents budget adjustment law to Parliament
31 July	Annual budget and multi-year budget are presented to parliament
30 September*	Government approves annual budget package and presents it to Parliament; This includes the finance bill, the *collegati* and the three-year programming budget; The 90-day 'budget session' begins
	Forecasting and Planning Report presented alongside budget package
31 December	End of financial year, end of budget session. If parliament fails to approve budget, government is authorized to implement provisional budget

Notes: The quarterly Treasury reports are presented at the end of February, May, August and November of each year.
*The stages of the budget session are illustrated in Table 2.2.

Sources: Camera dei deputati-servizio studi, 'Ciclo annuale di bilancio', *Documentazione e ricerche* n.11, (13th legislature, May 1996); D. Da Empoli, P. De Ioanna and G. Vegas, *Il bilancio dello Stato*, pp.203-204; R. D'Alimonte, 'Il processo di bilancio in Italia', pp.175-190.

Table A.6 The Annual Budget Session (October 1st to December 31st)

days 0-5	**Presentation and printing of the documents of the budget package**
days 5-50	**Budget documents examined in the Chamber (45 days):**
	-Permanent committee examination of documents (10 days)
	-Budget committee examination of documents (14 days)
	-Discussion and voting on assembly floor
days 50-55	**Transmission of documents to the Senate; Printing of documents**
days 55-90	**Budget documents examined in the Senate (35 days- timetable is reduced for 35-day period and negotiated among the parliamentary groups):**
	-Permanent committee examination (approximately 7 days)
	-Budget committee examination (approximately 14 days)
	-Discussion and voting on assembly floor

Notes: Table 2.2 illustrates the procedures of the budget session when the documents are first introduced into the Chamber of Deputies. They may be introduced into the Senate, in which case the Chamber examination will be shortened accordingly.

Sources: Camera dei deputati-servizio studi, 'Ciclo annuale di bilancio; D'Alimonte, 'Il processo di bilancio in Italia', p.184.

Table A.7 Budget Packages and State Borrowing in Italy, 1982-98*

Year	Forecasted State Borrowing	State Sector Borrowing Approved in Parliament	Size of Budget Package	Final State Borrowing
1982**	L50,000bn	L63,126bn	L21,450bn	L70,924bn
1983**	L71,200bn	L75,890bn	L9,700bn	L88,257bn
1984	L90,800bn	L94,950bn	L47,700bn	L95,387bn
1985	L96,300bn	L125,000bn	L21,500bn	L110,226bn
1986**	L110,000bn	L129,500bn	L18,000bn	L109,200bn
1987	L100,000bn	L142,800bn	L3,800bn	L113,680bn
1988**	L109,500bn	L140,000bn	L21,000bn	L124,684bn
1989	L117,300bn	L136,300bn	L30,200bn	L132,138bn
1990	L133,000bn	L130,746bn	L20,100bn	L140,727bn
1991	L132,000bn	L118,400bn	L49,500bn	L152,184bn
1992	L127,000bn	L117,427bn	L61,500bn	L163,160bn
1993	L144,200bn	L138,335bn	L93,000bn	L155,700bn
1994	L138,600bn	L141,970bn	L31,000bn	L155,167bn
1995	L138,600bn	L139,000bn	L50,000bn	L126,867bn
1996	L109,400bn	L113,000bn	L32,500bn	L138,000bn
1997	L61,400bn	L58,700bn	L62,500bn	L52,220bn
1998	L56,900bn	L52,500bn	L25,000bn	L52,500bn

Notes:

*State sector (central government) borrowing excludes welfare agencies and local authorities
** Denotes late finance law approval.

1. The 1979 finance law was approved by the end of the financial year, while the1980 and 1981 finance laws were approved late
2. During the 1989-92 period, the 'new' finance law was approved by the end of the financial year, but the *collegati* were approved late.

Sources: L.Verzichelli, 'Le politiche di bilancio: il debito pubblico da risorsa a vincolo', in M. Cotta and P. Isernia, eds., *Il gigante dai piedi di argilla* (Bologna: Mulino, 1996); Camera dei deputati-Servizio studi, 'Debito e fabbisogno del settore statale: Evoluzione e politiche di rientro (1986-1995)' *Documentazione e ricerche* n.84 (XII legislature, July 1995); Bank of Italy, *Economic Bulletin* (various years); OECD, *Economic Surveys: Italy* (1997, 1999).

Table A.8 The Budget Package *Collegati*, 1989-98

Budget Package	Number Presented	Number Approved (in session)	Key Provisions of the *Collegati*
1989	14	2	Of the two approved *collegati*, laws 554 and 555, one dealt with public employment and the other with the entertainment sector; other important substantive measures were not approved in session.
1990	8	1	Only one *collegato,* in decree form (decree 332 converted to law 384 of 1989), was approved by the end of the session, dealing with urgent tax measures.
1991	5	3	Many amendments were made to the approved *collegati*, particularly to the *collegato* dealing with local finances.
1992	3	3	While all *collegati* were approved in session, and a decree to modify the tax system was also approved, all substantive legislation was heavily modified by parliament.
1993	2	2	The main *collegato*, initially presented by the Amato government as a decree (decree 384 converted to law 421), was a *legge delega* entitling the government to carry out structural changes to public sector employment, pensions, health and local finances.
1994	1	1	The *collegato*, law 537, implemented substantive structural changes, particularly to the public administration. It was accompanied by a decree law that implemented more immediate fiscal changes (decree 557 converted into law 133 of February 1994).
1995	1	1	The *collegato*, law 724 of 1994, included blocks to pensions, and was accompanied by decree laws implementing other immediate changes.
1996	1	1	Law 549 of 1995 consisted of various provisions, including cuts to transfers, and was accompanied by the pension reform law (335) that had been approved earlier in 1995.
1997	1	1	Law 662 of 1996 contained primarily structural measures, including 17 *leggi deleghe*, including reforms to the tax system.
1998	1	1	Law 449 of 1997 contained primarily structural measures, including 9 *deleghe*, covering a range of expenditure and revenue sectors.

Sources: Senato della repubblica-servizio di bilancio, 'L'applicazione delle riforme del 1988: la decisione di bilancio per il triennio 1992-1994' *Documenti di base* n.9 (XI legislature, April 1992), pp.101-105; I Scotti, 'Procedure per il bilancio e la legislazione vigente' (Camera dei deputati- commissione bilancio, 1996); M. Zangani, 'I provvedimenti collegati alla finanziaria nel regolamento della camera: disegno normativo ed evoluzione interpretativa' (Camera dei deputati-servizio studi, 1998).

Table A.9 The July 1992 Corrective Budget Measures

Measures of D.L. 333	Public Sector Employment Hiring Freezes
	Local Authorities Transfer Freezes
	Special Property Tax
	Special Tax on Bank and Postal Deposits
	Transfer of ENI, IRI, ENEL and INA to the Treasury, and transformation of these enterprises into joint stock companies (with shares held by Treasury) in preparation for privatisation
Total Saved Off Trend Deficit	L30,000bn

Source: *Corriere della sera* 14 Oct 1992, p.31

Table A.10 The Key Legislation of the Amato Pension Reform

Decree law 384 of September 1992	-Temporary suspension of eligibility for seniority pensions for 1993 -Higher contributions for pensions -Limit to automatic indexing to prices
Law 421 of October 1992	Special Delegated Authority (*delega*) to intervene in pension sector
Legislative decree 503 of 1992	-Key measures of the reform; in particular changes in pensionable ages for old-age and seniority pensions and new methods for pension calculation, both reforms with a view of harmonisation across pension categories
Legislative decree 124 of 1993	-Private pension fund rules
Legislative decree 373 of 1993	-New mechanism for pension calculation for new workers
Legislative decrees 374 and 375 of 1993	-Additional pension provisions to assist certain categories of workers such as agriculture during transition period between pension regimes

Source: Camera dei deputati-servizio studi, 'Dossier di inizio legislatura: Commissione Lavoro pubblico e privato' *Documentazione e ricerche* n.11 (13th legilature, May 1996), pp.9-11; Cazzola, *Le nuove pensioni degli italiani*, pp.37, 73.

Table A.11 The Budget Package Measures for 1993

Legislation	Details of Measures
Decree law 384 of Sept 1992 (approved as law 438 in November 1992)	**Revenue:** : Imputed personal income coefficients (the so-called 'minimum tax') for self-employed workers : Revision of personal income tax brackets : Increase in social contributions : Limiting compensation on fiscal drag and limiting deductions and tax credits : Tax amnesty (provisions taken out of decree law n.384 and re-introduced as decree law 16 of 1993) **Revenue Measures Total = L28,900bn** **Expenditure:** : Immediate blocks to public sector employee salaries (L9,900bn); cuts to health services (L4,450bn); reform of the pension system (L11,450bn); other measures (L1,000bn) **Expenditure Measures Total = L26,800bn**
Law 421 of October 1992 (a *legge delega* authorising special delegated authority, presented as an accompanying measure or *collegato* to the finance law)	**The *Delega*:** Authorizing the government to carry out long-term structural changes to public employment, health, local finance and pensions. **No financial effects from the *delega*, but a total of 26 legislative decrees were issued on the basis of law 421,** of which **Legislative Decree 504** of December 1992 had financial effects accounted for in the 1993 package. : Imposition of new municipal tax on buildings (ICI) (L12,000bn) and loss of income from other local taxes **Revenue Measures Total = L9,000bn**
Additional Decree Laws (Decree law 394 of September 1992, approved as Law 461 of 1992; Decree law 513 of 1992, approved in 1993)	**Revenue Measures:** : Decree law 394 imposed a special one-off tax on companies' net worth : Decree law 513 revised VAT rates and eliminated various small taxes **Revenue Measures Total = L6,500bn**
Finance Law (law 500, approved December 1992)	**Expenditure:** : Reductions in transfers on capital and current account and of purchasing of goods and services **Finance Law Measures Total = L15,000bn**
Budget Law (law 501, approved December 1992)	**No Net Financial Effects From Budget Authorisation Law (formal part of budget package)**
Law 359 of August 1992 (financial effects of July's decree law 333 carried over to the 1993 budget)	**Privatizations:** : Expected revenues from the privatisation process **Total Privatisation Receipts = L7,000bn**
Budget Package for 1993	**Total Expenditure Decreases = L41,900bn** **Total Revenue Increases (with Privatizations) = L51,400bn** **Total Measures = L93,300bn**

Sources: Bank of Italy, *Economic Bulletin* n.16 (Feb 1993), pp.58-59; *Corriere della sera* 1 Oct 1992, p.2; *Vita italiana* 42:6 (Nov-Dec 1992); Scotti, 'Procedure per il bilancio e la legislazione finanziaria'.

Table A.12 Privatization Receipts, 1993-98 (in £bn)

Italy	56.4	U.K.	22.4	Denmark	5.7	Switz.	3.1
France	35.6	Sweden	12.4	Austria	5.3	Greece	2.3
Spain	28.1	Holland	10.9	Belgium	4.8	Norway	1.7
Germany	23.3	Portugal	10.3	Finland	3.5		

Source: Figures of Salomon Smith Barney, cited in *The Observer* 7 March 1999, B6.

Table A.13 The Budget Package Measures for 1997

Revenue Measures:	**L25,200bn**
Direct taxes (largest component is corporate tax change)	L7,900bn
Indirect taxes (including early payments of excise taxes)	L5,800bn
Special 'Tax for Europe' (Measures specified in Spring 1997)	L11,500bn
Expenditure Measures:	**L24,800bn**
Welfare and social assistance	L5,200bn
Heath	L1,200bn
Public employment measures	L1,500bn
Transfers to local authorities and public enterprises	L6,800bn
Other current and capital expenditure cuts	L6,500bn
Other financial operations	L3,600bn
Accounting Changes and Debt Reduction	**L11,600bn**
Total Budget Package Measures	**L61,600bn**

Note: The final package differs from the original L62,500bn package due to reassessment in the category of 'accounting changes and debt reduction', since debt reduction was less significant than previously anticipated. However total expenditure decreases and revenue increases remained unchanged.

Source: Bank of Italy, *Bollettino Economico* nn.27,28 (Oct 1997 and Feb 1998).

Table A.14 Public Expenditure Components in Selected Countries (% GNP)

	Social security	Health	Educa-tion	General services	Productio n services	Defence	Other	Total
Denmark (1989)	23.0	5.2	6.9	4.5	5.8	3.1	10.7	59.2
France (1987)	17.7	9.6	5.4	4.0	3.7	4.1	7.3	51.9
W. Germany (1989)	18.5	6.0	4.2	3.8	4.5	4.1	4.6	45.8
Italy (1990)	16.6	5.9	5.4	4.2	6.4	3.8	11.1	53.3
U.K. (1990)	13.1	5.0	4.9	2.0	3.9	6.2	6.6	41.6
Spain (1987)	13.9	4.6	4.0	1.3	5.2	3.5	8.6	41.0

Note: While Italy's pension expenditure is larger than in other European countries, its overall social spending as a component of national product remained significantly lower than elsewhere.
Source: A. Fazio, 'The Public Finance Manoeuvre for the Years 1993-1995' *Review of Economic Conditions in Italy* 2 (May-Aug 1992), p.159.

Table A.15 Pension Expenditure in Selected OECD Countries, 1994 (%GDP)

Country	Japan	U.S.	U.K.	Germany	France	Italy
Pension Costs	**5.0**	**6.5**	**9.5**	**10.8**	**11.8**	**14.3**

Source: A. Javier Hamann, 'The Reform of the Pension System in Italy, *IMF Working Paper* n.18 (Feb 1997), p.6.

Table A.16 Social Spending by Sector (as % of Total Social Protection Expenditure) in Selected European Countries, 1992

	Old-Age Pensions	Disability Insurance	Unemploy-ment	Family Benefits	Maternity Benefits
Denmark	35.0	8.5	12.1	10.2	1.8
France	36.6	5.9	6.5	8.1	1.5
Germany	29.3	8.7	4.0	8.1	0.8
Italy	51.8	6.4	1.7	3.5	0.4
U.K.	37.9	13.9	4.7	9.9	1.0
Spain	30.9	8.5	17.8	0.9	0.9

Note: Over half of Italy's expenditure on social protection goes to old-age pensions, an amount far greater than elsewhere.
Source: G. Cazzola, *Le nuove pensioni degli italiani* (Boogna: Mulino, 1995), p.20.

Table A.17 Ratio of Active Workers to Pensioners Under INPS

Year	Ratio of Active Worker/Pensioner
1947	**5.89**
1951	**4.61**
1957	**3.38**
1963	**2.62**
1976	**1.52**
1980	**1.45**
1987	**1.17**
1990	**1.18**

Source: G. Cazzola, *Lo stato sociale tra crisi e riforme* (Bologna: Mulino, 1994), p.64

Table A.18 Budgetary Transfers to INPS, 1971-94

Year	Transfers
1971	L1,300bn
1974	L2,500bn
1976	L5,000bn
1978	L7,500bn
1980	L6,300bn
1982	L21,800bn
1984	L26,700bn
1986	L31,800bn
1988	L36,700bn
1990	L54,100bn
1991	L58,300bn
1992	L66,500bn
1993	L61,300bn
1994	L70,400bn

Source: 'Pension Reform in Italy' *Goldman Sachs International* (18 July 1995), p.3.

Table A.19 The Key Features of the Amato Pension Reform

Pension Entitlement	Private sector employees		Public sector employees		Self-employed	
	Males	Females	Males	Females	Males	Females
Before Amato Reform:						
1. Old-Age Pensions (fifteen years of contributions required)	60	55	65	65	65	60
2. Seniority Pensions	35	35	20	15	35	35
After Amato Reform:						
1. Old-Age Pensions (twenty years of contributions required)	65	60	65	65	65	60
2. Seniority Pensions	35	35	35	35	35	35
Method of pension calculation before Amato Reform:	2% of final pay packet for each year of service. The calculation of packet based on average of pay packets for the **last 5 years** of service		2% of final pay packet for each year of service. Calculation of pay packet is based on very **last (and largest) pay packet**		2% of final pay packet for each year of service. Calculation of pay packet based on average of **last 10 years of service.**	
Method of pension calculation after Amato Reform:	2% coefficient is **harmonised** so that it applies to the entire working life for all categories of workers Pensions no longer indexed to inflation and minimum industrial wages; instead, they are indexed only to price inflation		2% coefficient is **harmonised** so that it applies to the entire working life for all categories of workers Pensions no longer indexed to inflation and minimum industrial wages; instead, they are indexed only to price inflation		2% coefficient is **harmonised** so that it applies to the entire working life for all categories of workers Pensions no longer indexed to inflation and minimum industrial wages; instead, they are indexed only to price inflation	

Transition period: Measures to be fully applied to all workers entering the workforce in 1993. Those already working are treated under a combination of the two systems.

Source: OECD, *Economic Surveys: Italy* (1996), pp.49-51; O. Castellino, 'Pension Reform: Perhaps Not the Last Round?', p.155.

Table A.20 The Key Features of the Dini Pension Reform

Pension Entitlements *	Private Sector Employees	Public Sector Employees	Self-Employed
Old-Age Pensions	57 (male and female)	57 (male and female)	57 (male and female)
Seniority Pensions	40 years of contributions (35 years and age 57)	40 years of contributions (or 35 years and age 57)	40 years of contributions (or 35 years and age 57)
Method of Calculation **	Contributions-based, annualised payments of total contributions	Contributions-based, annualised payments of total contributions	Contributions-based, annualised payments of total contributions
Private Pensions	15% tax credit	15% tax credit	15% tax credit

* Pension entitlements harmonised; Gradual phasing out of seniority pensions.

** The earnings-based system is replaced by a contributions-base system which comes into operation after 2000; Contributions capitalised based on yield coefficient and GDP growth.

Source: O. Castellino, 'Pension Reform: Perhaps Not the Last Round?'; OECD, *Economic Surveys: Italy* (1996), pp.50-51.

Table A.21 Tax Burden in Selected European Countries, 1980-92 (%GDP)

	Belgium	France	West Germany*	Italy***	Spain	U.K.	EC Ave.**
1970	37.0	36.3	36.6	26.8	18.8	35.7	34.6
1975	43.5	38.2	41.1	26.7	21.1	35.7	36.9
1980	46.2	43.3	42.8	31.0	26.5	35.2	39.5
1981	46.9	43.4	42.7	32.1	27.5	37.2	40.0
1982	48.5	44.4	42.8	34.1	27.6	37.7	40.5
1983	48.6	45.1	42.2	35.6	29.9	37.4	40.9
1984	49.5	46.1	42.5	35.4	30.0	37.5	41.2
1985	49.7	46.0	42.8	35.6	30.9	37.2	41.3
1986	48.9	45.4	42.1	35.9	31.8	36.8	41.0
1987	49.4	45.9	42.3	36.6	33.9	36.4	41.4
1988	47.8	45.2	42.0	37.0	33.8	36.2	41.1
1989	46.1	45.0	42.4	38.7	35.8	35.8	41.0
1990	46.6	45.0	40.7	39.5	35.7	35.9	40.5
1991	46.7	45.2	42.4	40.4	35.8	36.6	41.6
1992	47.2	44.4	43.7	40.7	37.2	33.9	41.4

* The 1992 figure is for united Germany

** EC average excluding Italy

*** Italy's tax burden stood at 25.8% of GDP in 1960, rising to 27.4% in 1965. Taxation remained lower than most other European countries in the 1970s.

Source: G. Morcaldo, *La finanza pubblica in Italia* (Bologna: Mulino, 1993).

Table A.22 Tax Evasion Estimates in Selected OECD Countries (%GDP)

	1975	1980	1985	1990
Belgium	11-15	3.8-20	17-18	----------
Italy	-------	13.9-18	20	---------
Ireland	1.3-8.7	3.3-10	8.1-13.6	7.9-9.5
France	------	-------	6.3-6.7	---------
Germany	3.4-12.1	3.7-14	--------	--------
USA	3-14	4.5-14	10-15	--------
UK	2.9-13	2.9-14	14.5-15.9	-------

Note: Monetary estimates of fiscal evasion in OECD countries.

Source: A. Alesina and M. Mare, 'Evasione e debito', in A. Monorchio, ed., *La finanza pubblica dopo la svolta del 1992* (Bologna: Mulino, 1996), p.95.

Table A.23 Revenue by Principal Tax Category in Selected Countries, 1992 (%GDP)

	Personal Income Tax	Corporate Income Tax	Social Security Contributions	Property Tax	Goods and Services
Belgium	14.2	2.0	16.4	1.1	11.6
France	6.0	1.5	19.5	2.2	11.7
Germany	11.1	1.6	15.2	1.1	10.6
Italy	11.5	4.9	13.3	1.0	11.4
Spain	8.5	2.3	13.1	1.7	10.2
U.K.	10.0	2.7	6.3	2.8	12.1
EU Ave.	11.1	2.8	12.0	1.8	13.1

Source: V. Tanzi, 'Il sistema tributario italiano: una prospettiva internazionale' in A. Monorchio, ed., *La finanza pubblica italiana dopo la svolta del 1992* (Bologna: Mulino, 1996), pp.32-33.

Table A.24 Employment Categories in Italy, 1951-83 (%Total Workforce)

	1951	1971	1983	Change, 1971-1983
Working Classes	**41.2**	**47.1**	**42.7**	**- 4.4**
- salaried industrial workers	22.9	31.1	26.1	- 5.0
Middle/Upper Classes	**28.4**	**41.0**	**49.7**	**+ 8.7**
- public sector workers	8.0	11.0	15.8	+ 4.8
- other self-employed groups	11.2	14.0	16.0	+2.0
Agricultural (Farmers)	**30.2**	**11.9**	**7.6**	**-4.3**

Source: P. Sylos Labini, *Le classi sociali negli anni '80* (Bari: Laterza, 1986), pp.20-21.

Table A.25 Amnesties for Tax and Welfare Contributions, 1980-92

Year	*Type of Amnesty*	*Expected Revenue*	*Actual Revenue*
1980	INPS Contributions	L1,000bn	not available
1982	Income Tax	L10,000bn	L11,300bn
1983	INPS Contributions	L2,000bn	not available
1985	Building Taxes	L10,000bn	L5,800bn
1987	INPS Contributions	L6,000bn	L1,600bn
1987	INAIL Contributions	L1,600bn	L800bn
1989	Formal Tax Irregularities	L4,500bn	L1,050bn
1989	Property Taxes	L2,800bn	L180bn
1990	INPS Contributions	L5,000bn	not available
1990	INAIL Contributions	L1,000bn	not available
1991	Tax Irregularities	no estimate	L500bn
1992	Income Tax	L15,000bn	L18,099bn

Note: Tax amnesties became more frequent during the 10th legislature. These temporary measures were employed to recoup lost revenue in order to contain the deficit.
INPS = pension contributions; INAIL=disability pension contributions
Source: V. Tanzi, 'Il sistema tributario italiano: una prospettiva internazionale' in A. Monorchio, ed., *La finanza pubblica italiana dopo la svolta del 1992* (Bologna: Mulino, 1996), p.59.

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