Francesco Stolfi*

The Europeanization of Italy's Budget Institutions, 1990-1999: A Bottom-Up Approach

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* University of Pittsburgh; e-mail: frsst10@pitt.edu

1 Introduction

This paper takes a “bottom-up,” long-term approach to the Europeanization of Italy’s budget process in the 1990s. Moreover, it treats Europeanization as *one* of the factors affecting the likelihood of reform in the context of a veto player approach. Thus, the paper contributes to the Europeanization literature by studying European-level and domestic-level factors affecting institutional change in a member state in a single, consistent theoretical framework. Moreover, the paper provides a qualitative single-country study of how changes in the status quo and in the institutional context affect the preferences of the veto players and thus the potential for reform. This constitutes a contribution to the veto player literature since so far empirical applications of the veto player approach have largely considered the veto players’ policy preferences to be exogenous.

Empirically, the paper finds that that the influence of “Europe” – while substantial in the short term, namely with regard to the settings of policy instruments – was marginal with regard to the reforms of the budget institutions, namely of the institutions through which fiscal policy is made. This conclusion has an important implication with regard to the nature of the relationship between European factors and domestic change and the durability of this change. The more domestic institutional change is compatible with the requirements posed by the European challenges but also causally independent from Europeanization, the more it can be expected to outlast changes in the intensity and orientation of European pressure.

The rest of the paper is organized as follows: the following section discusses the importance of a "bottom-up" approach to Europeanization and the choice of Italy's budget institutions for the implementation of this approach; section three discusses a general framework integrating European and domestic factors of institutional change; section four applies this framework to the reforms of the Italian budget institutions in the 1990s; section five provides an assessment and section six concludes.

2 A "Bottom-Up" Approach to Europeanization

How does participation in the European Union affect the policies and the institutional structure of the member states? This fundamental question is the focus of the vast literature on Europeanization (for reviews see Knill and Lehmkuhl 2002; Olsen 2002; Radaelli 2003). So far, however, this literature has taken an essentially "refractive" approach. It sees domestic change as essentially passive, that is as a response – refracted through the state or policy-specific institutional context – to European pressure.

The crucial problem of this approach is that it fails to give full consideration to other, domestic-level causal factors, and is thus unable to assess the *relative* importance of Europeanization in the explanation of domestic change (Goetz 2000, 222-223; Radaelli 2003, 50).

A further step in Europeanization research is therefore to take an "inside-out" or "bottom-up" approach in the sense advocated by Claudio Radaelli (Radaelli 2003, 51; Radaelli and Franchino 2004, 948; Schmidt and Radaelli 2004, 191), namely to consider the impact of European factors in the context of a long-term analysis of domestic factors and actors.

I adopt this approach in the study of the relative impact of Europeanization on the development of Italy's budget institutions, namely of the statutory rules that govern the role of Parliament, the government and the bureaucracy in the budget process, namely in the formulation, approval, and implementation of the budget (Alesina and Perotti 1999, 16) . Hence, alongside the mechanisms of Europeanization I will consider the impact of domestic factors. Giving full weight to domestic variables will make it possible not only to assess the relative importance of European and domestic factors in the explanation of domestic institutional change, but also to move beyond the institutionalist emphasis on constraints and consider how Europeanization interacts with the strategies and the preferences of domestic policy entrepreneurs (Radaelli 2003; Radaelli and Franchino 2004).

Why focus on Italy and on budget institutions for a study of Europeanization? Italy provides an excellent case for the study of the interaction of European and domestic-level factors of institutional change. First, for most of its postwar history Italy has been characterized by extreme policy immobilism, so that occurrences of reform provide especially clear evidence of the causal mechanisms of work, since the change factors need to overcome an especially strong bias for stability. Second, as regards the choice of budget institutions as the subject of this research, both the choice of policy area (fiscal policy) and of focus (institutions rather than policy outcomes) has distinctive motivations. Fiscal policy is one of the policy areas where the influence of European factors is likely to be strongest, and thus more easily observable, due to the pressure created by Italy's determination of being part of the process of European monetary integration.[1]

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

In order to answer this question, the best strategy is to combine a full account of European and domestic factors of change (Di Palma 2000, 29), with the study of *institutional* transformation.[2] To offer a relevant example from the 1997 Prodi government's strategy to meet the Maastricht criteria, imposing cash limits on government spending may help meet externally set goals in the short term, but these limits are not sustainable and tend to produce spending rebounds. Only changes in how the budget is made and implemented can lead to sustainable deficit and debt reduction. I should also stress that the issue of the durability of domestic change is not of merely theoretical import. The extent of the adaptation of the member states to one another and to the policy and institutional implications of EU membership has a potentially large significance for the stability of the European institutional structure.

[1] This refers first of all to Italy's "heroic" race to fulfill the Maastricht criteria for inclusion in the final stage of the EMU, but in fact extends beyond either ends of this period, to Italy's participation in the European Monetary System, EMS, and to the constraint posed by the Stability and Growth Pact in its various versions

[2] Beside being more durable than policies, institutions, or at least statutes, have another feature that makes them worthy of study: political actors cannot directly affect policy outcomes; rather, what they can directly control is the statutes that maybe, they hope, will produce the desired outcomes. In this sense, studying statutes rather than outcomes means going to the core of how a political system performs (Di Palma 1977, 7-24).

3 A general framework of institutional change

This research aims to place Europeanization into a broader explanation of institutional reform. The first issue that needs to be addressed is when there is a potential for change. I define reform as a significant move from the status quo.[3]

The first step in this type of explanation is to find the conditions that allow a large move from the status quo. Following George Tsebelis' work on veto players (Tsebelis 1995, 1999, 2002), the potential for change will be a function of the distance among the ideal points of the veto players, namely of those "actors whose agreement is necessary for a change of the status quo" (Tsebelis 2002, 19). Since the status quo is defined in terms of legislation and we are dealing with a parliamentary system, the relevant actors are the parties that make up the government majority in Parliament. Whether they are part of a minimum-winning or an oversized coalition, and whether or not they are part of the executive, each party in the government majority has veto power on any move from the status quo. Each party, if it disagrees strongly enough, can leave the coalition, thus forcing the creation of a new government (Tsebelis 2002, 95), or even new elections.

If the preferences of the veto players are distant (namely, since we are considering political parties, if their ideological distance is large) change will be more difficult. Conversely, change will be easier if the ideological range of the veto players is reduced or if the domestic actors lose their veto power altogether.

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[3] In order to define what constitutes a "significant move" I use the assessment of experts I have interviewed and the extensive secondary literature on the Italian budget process.

Beginning with this last case, every party in the majority is a veto player since it can always leave the majority if it pursues policies that are too distant from the party's ideal point. In turn, leaving the majority requires the formation of a new government and opens the possibility of early elections. Thus, the majority parties will lose their veto power if none of them can credibly threaten to leave the coalition and risk new elections. Such a situation is extremely rare, since it implies that all majority parties expect to suffer large electoral losses at the elections, and thus requires a massive loss of popular support on the part of the government coalition. I call such an event a "cataclysm" (etymologically, a "great flood") to convey its magnitude and unpredictability.

Moving to the conditions for a reduction in the ideological range, they are also connected to the "electoral nexus," namely to the electoral considerations of the parties in the government coalition. First, parties will bring their ideal points together if they expect an electoral cost from policy immobility. I call such an event a crisis (etymologically, a "decision point") to indicate that parties are pressed to "do something." Typically, large magnitude socio-economic events, such as a large jump in the number of the unemployed or in strike activity, may qualify as crises.[4]

European pressure can be the functional equivalent of a crisis, namely it may facilitate reform by forcing veto players to bring their ideal policy positions closer together in order to produce policies that meet certain European requirements. Otherwise stated, the parties opposed to the reform must moderate their positions in order not to be exposed to the electoral sanctions that may be caused by not heeding the European pressure.

[4] Note that a cataclysm creates a situation in which every coalition member expects to suffer significant losses at the poll; on the contrary, in a crisis it is enough that only one party expects electoral losses from policy immobility, since this expectation will push it to move it closer to the other parties' positions in order to allow policy change.

This pressure can operate through two mechanisms, “external constraint” and “negative integration” (Knill and Lehmkuhl 2002; Radaelli 2003). Beginning with the external constraint, in some cases the EU prescribes a policy outcome (e.g. the exchange rate band in the European Monetary System, the convergence criteria in the Maastricht Treaty or the requirements of the Growth and Stability Pact). The pressure to achieve the prescribed outcome may affect the domestic veto player structure, in particular forcing those opposed to reform to moderate their opposition. Italy’s traditionally high public support for European integration makes the inability to meet policy goals necessary for Italy’s full participation in European integration potentially very costly for the current majority, and formal guidelines increase the ability of the public to judge the responsibility of the government, since this transparence makes it clear to the public whether the policy goal has been reached or not.

“Negative integration” refers to the creation of “integrated markets by removing barriers to trade, investment, freedom of establishment and free circulation of people” (Radaelli 2003, 42). In this case, the pressure to produce certain policy outcomes derives from the competition among the member states generated by the removal of the barriers among them. Particularly relevant for budget reform is the liberalization of capital markets as a result of the Single European Act (SEA) of 1986.[5] For Italy, the increased capital mobility induced by the liberalization meant that Italian capital could more easily move to other EU countries offering higher and safer returns. Thus, fiscal responsibility and the institutional reforms deemed necessary to achieve it had to become a more salient policy issue, or else Italy’s ability to access capital markets would suffer, resulting in actual

[5] Based on the SEA Council Directive 88/361/EEC mandated the full liberalization of capital movements by 1990.

capital rationing or in interest rate hikes that would eventually make the government debt unsustainable.

Beside crises and European pressure, there is another factor, a change in the electoral formula from proportional representation to plurality, that may affect the electoral calculus of government parties and create incentives to reduce policy immobilism, or policy stability as Tsebelis calls it.

Proportional representation has the potential, if the number of societal cleavages is sufficiently high, to produce a large number of parties in Parliament and in government. In this case, the ideological range of the government majority will tend to be relatively high: Parties can run their electoral campaigns on programs that are independent of those of the parties with which they will form government coalitions after the elections. When they form a new government coalition, since this occurs after the elections, parties have not incentive to bring closer their policy positions.

Moreover, especially if it is combined, as was the case in Italy for most of the postwar period, with a large opposition party that was considered “uncoalitionable,” a proportional representation system also minimizes the opportunity for government alternation. The combination of lack of alternation and broad of ideological range in the government coalitions means that governments do not have the possibility (due to their large ideological range) or the incentive (due to the lack of an electorally viable opposition) to produce substantive policies, namely policies aim to win votes by produce significant changes in the economy or society. Such policies imply a coherent government program, but the fragmentation of the government coalition makes such a program impossible to implement, and failure to implement it cannot be punished at the polls.

Moving away from proportional representation to some type of plurality of electoral formula forces the creation of two pre-electoral coalitions. This forces the members of the coalition to bring their positions closer, thus reducing the ideological diversity of the government coalitions, since these coalitions need to present a coherent program to the voters before the elections; finally, since the government coalition will face voters at the following elections, it has an incentive to act upon its program promises, and thus to increase the provision of substantive policies (Huber and Powell 1994, 297; Lijphart 1994, 144; Powell 2000, 9, 12, 68-71; Tsebelis 2002, 216).

In closing, we must stress that the factors discussed so far – European pressures, crises, cataclysms, electoral rules – only create the conditions for change. In order to explain the actual occurrence of reform, we must also consider the choices made by individual actors. For reform to occur, policy entrepreneurs must be able to exploit the window of opportunity created by changes in the institutional context. In the next section we will show how reformers were able to use favorable conditions to push for reform.

4 Europeanization and the Reforms of the Italian Budget Institutions

In spite of a number of reforms – the earliest in the early 1960s, the most recent in 1988 – Italy entered the 1990s with an extremely fragmented budget process. At the formulation stage, there was no general agreement among the coalition partners on how to use government resources. This reflected the fact that the government coalition was not bound by a common program and thus by a political commitment towards the voters, since government formation occurred after the elections. Rather, the ministers, representing a party, or often just a party faction, would consider the policies of their ministry their own “fiefdom” (Amato, 1976; Hallerberg 2004; Ristuccia, 1980; Ristuccia 1984; Serrani 1979) whose resources would be used to maximize the benefits provided to their constituencies (among which there often were the members of the ministry’s own bureaucracy).

Responsibility for the control of spending was entrusted to the Treasury. The Treasury had evolved over the postwar years to be the chief economic ministry, and the unchallenged master of the government expenditure flows. It was the Treasury that drafted the budget, which gave it the ultimate power on the spending requests of the ministries.[6]

The problem, however, was the lack of a general political commitment to control and apportion government spending. In spite of its power, deriving not only from its position in the budget process, but also by having a specialized bureaucratic corps, the *Ragioneria Generale dello Stato* (RGS), that was more efficient and had a greater sense of institutional mission than most other ministerial bureaucracies, the Treasury was politically and bureaucratically isolated.

Every spring the RGS had to confront the requests coming from the spending ministers, and even though it tried to provide a dam to this flood of requests, it generally had to meet the ministries midway on their requests (Barbieri and Giannini 1984, 195; Cassese

[6] In theory, the responsibility for formulating the budget was to be shared with the Budget ministry; however this ministry, under- and poorly staffed, had been shut out of the budget formulation process and, in spite of its name, had become a spending ministry controlling government spending for regional development.

1974, 263). Absent a political program that would indicate what policies should be pursued, and lacking in substantive policy knowledge, the RGS would see its purview in strictly financial terms, ensuring that spending flows would not bankrupt the State in the short term, but it could not steer spending or significantly control its expansion.

As for the Treasury minister, he experienced a similar isolation in the Council of Ministers, where he alone would have to try to oppose the spending ministers' requests (Allegretti 1971, 97; Amato 1976, 147; Barucci 1995; Paladin 2004, 210; Salerno 1984, 19-24).

The "neo-feudal" (Amato, 1976; Ristuccia, 1980; Ristuccia 1984) nature of the budget process was further reflected in the approval process in Parliament. The 1988 reform (law 362/88) had finally introduced some improvements to the approval process of the budget by Parliament, in particular mandating that Parliament must first vote the maximum admissible level of the borrowing requirement, which until then had been voted last, thus simply being the resultant of all the spending decisions made by Parliament. This increased the coherence of decision-making with regard to aggregate values, but did not touch the high fragmentation of the budget document. Made up of approximately 6,000 *capitoli* (individual items), the budget offered ample opportunity to individual members of Parliament to introduce their pet projects during the budget session (October-December) and at the same time made it impossible for anyone to get a clear picture of the spending priorities of the government and its parliamentary majority.

At the implementation stage, the Treasury was supposedly all-powerful, in that the RGS held the power to authorize any spending decision made by the ministries, thus in principle having the power to deny the authorization even for spending approved by

Parliament in the budget (Amato 1976, 147-8; Cassese 1974, 248; Colarullo 1983, 423; Perez 1978, 193). However, just like at the formulation stage, the RGS did not have the political clout or the policy-relevant knowledge to use the instruments at its disposal to significantly steer or control the implementation of the budget.

The reforms that took place in the 1990s affected all three phases of the budget process: formulation, parliamentary approval and implementation. The overarching goal of the reforms was to increase the coherence and efficiency of government spending. This was to be achieved by combining the reform of the budget process with the long-overdue reform of the public administration (Bassanini 2000, 236; Dente, n.d.; Draghi 2000, 267).[7]

The reform community, mostly composed of constitutional and administrative lawyers and public accounting experts, espoused the principles of New Public Management (NPM). NPM is one of many different names given to a set of reform proposals for the public administration that began to gain currency in the early 1980s.[8] Reflecting both the political and intellectual orientation of the 1980s (the rejection of government in favor of the market as the best way to meet society's needs) and the drive to increase the efficiency of the PA in a time of tightening budget constraints, the overarching orientation of these proposals is to make the functioning of the public administration as similar as possible to the managing of firms in the private sector (Dunleavy and Hood 1994 ; Gow and Dufour 2000 ; Kaboolian 1998 ; Peters 1997; Peters 1996; Terry 1998). By the early 1990s NPM-based reforms had been introduced in, among other countries,

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[7] A general discussion on connection between budget reform and public administration reform, with specific reference to the implementation of New Public Management principles, is inThompson 1994.

[8] Other names in use are managerialism, neo-managerialism and also simply public management (Gow and Dufour 2000, 577-8)

the United Kingdom, the United States, Canada, New Zealand and France, and NPM had become the consensus recipe for public administration reform advocated by leading international bodies (Gow and Dufour 2000, 578-579; Hood and Peters 2004, 268-269).

Among the core components of NPM are: increasing *the autonomy and accountability of public managers* (managers should be held accountable for their ability to pursue their missions, which also implies that they should be given the control on the resources needed to perform the mission, Aucoin 1990, 123-124; Kaboolian 1998, 190); changing the *evaluation procedures* of administrative action, which should focus on the effectiveness of the administration rather than on the legalistic assessment of the adherence to formal rules (Chevallier and Loschak 1982, 75; Pierre 1995, 226-231); changing the structure of the budget (*bulk budgeting*: budgeting rules should allow greater flexibility in the use of allocations by the spending administrators, so as to make them responsible for how the money is spent, Peters 1997; Pierre 1995, 209-214).

All these elements were present in the Italian reforms of 1992-1993 and 1996-1999. The first set of reforms occurred during the Amato (1992) and Ciampi (1993) governments; after a two year lull, corresponding to the Berlusconi I (1994) and Dini (1995) governments, the reform drive picked up again during the Prodi (1996-1998) and D'Alema (1999) governments.

The first step towards a broad reform of the administration was taken by the Amato government (June 1992 – April 1993). Legislative decree 29/93 gave public managers autonomy in the management of the public resources allocated to them and made them accountable for the achievement of the goals set for them (Capano 2000, 163; Porro 1993, 209). Beside affecting the implementation of the budget process, this reform also set the foundations for the future restructuring of the budget. Two provisions (in articles 14 and 64) mandated the drafting of special budgets for each administration which would lay the groundwork for the evaluation of the connection between costs and benefits of each project (D'Orta 1998, 99-100). This was the first intimation of the 1997 reform of the structure of the document, away from the pulverization in thousands of disconnected items and towards the creation of larger items, each representing an administrative unit responsible for the achievement of specific policy goals.

The Amato government was followed by the Ciampi government (April 1993 – April 1994), a government headed by the former governor of the Bank of Italy and with an unusually high number of "technical" ministers.[9] Administrative reform had an important place in the new government's program (Marconi, Mercati and Montebugnoli 1998, 143) and in fact the Ciampi government accelerated the pace of reform compared to the Amato government (Capano 2000, 181-182). As minister for the Public Administration Ciampi chose Sabino Cassese, one of the leading members of the reform community.[10] Cassese, professor of administrative law at the *La Sapienza* University of Rome, was the driver of administrative reform in the Ciampi government. The main points of the reform were: making the administration "consumer oriented," reducing the

[9] Technical ministers are ministers that are not members of Parliament and that are chosen for their expertise in a certain policy area. Technical ministers were very much the exception in the First Republic (at most one or two in the executives of the 1980s). However, there were six technical ministers in the Amato government and thirteen in the Ciampi government (Istituto Nazionale dell'Informazione, 1998).
[10] Some of the provisions of legislative decree 29/93 were based on the recommendations of a study coordinated by Sabino Cassese in 1991 (Melis 1996, 530). Cassese had cooperated with the ministry for the public administration for the previous 25 years and had also coordinated a major research project on the public administration, which produced a number of reports on public administration in Italy and abroad (Dente 1995, 17). One much-cited report came out in March 1993 (thus shortly before Cassese's appointment as minister for the PA) and argued for a consumer-oriented administration (Lacava and Vecchi 1995, 194-195), one of the main points of the reform program that the minister Cassese would present (Lacava and Vecchi 1995, 160). Cassese had also been involved in the planning experiments of the late 1960s and in the budget reforms of the 1970s.

number of bureaucratic organizations, making the administration more cost-effective, efficient and transparent and reforming the control system (Cassese 1994 and Cassese 1995). As regards the last point, the system of controls of the operation of the administration, the change was particularly. Moving on the base on a more limited provision in legislative decree 29/93 (D'Orta 1998, 103), the Ciampi government revolutionized the systems of administrative controls (law 20/94), de-emphasizing ex-ante legality controls (which had been the norm since the 19th century, and which had traditionally been ineffectual in assessing how the administration actually used its resources) and strengthening the role of ex-post controls focusing on the effectiveness of government spending (Cogliandro 2000; D'Auria 1994; D'Auria 1995; D'Auria 2002; Lacava and Vecchi 1995, 160-161, 194-195).

After a pause during the Berlusconi and Dini governments (1994-1995), the reform process resumed in 1996, with the election of a center-left coalition (the Olive Tree) led by Romano Prodi. Administrative reform was a central part of the Prodi government's electoral program (Parker 1997, 160; Prodi 1995), of the program the new government presented to Parliament (Senato della Repubblica 1996a, 13) and of the first economic plan presented to Parliament (Camera dei Deputati 1997a, 12366).[11] Moreover administrative reform was connected to two other central planks of the government's program, namely decentralization and the creation of a "light State" (Battini 1998, 81-82; Capano 2000, 166-167; Senato della Repubblica 1996a), and fiscal consolidation ([Senato della Repubblica 1996b], 16; Senato della Repubblica 1996a, 16).

[11] It should be noted that, on the contrary, administrative reform did not figure prominently in the electoral program of the defeated center-right coalition (Polo per le Libertà 1996).

The core of the government's action on administrative and budget reform were law 94/97 and law 59/97. The former conferred the government delegated powers to reform the structure of the budget and to carry out the merger of the *Ministero del Bilancio e della Programmazione Economica* (Ministry of the Budget and Economic Planning, MBEP) with the Treasury, while the latter conferred the government delegated powers to reform the structure of the central administration.

As regards the merger of the Treasury with the MBEP, the delegated powers that law 94/97 conferred to the executive were exercised with legislative decree 430/97, whereby the MBEP was essentially absorbed into the Treasury, where it now constitutes the Department of Development and Solidarity Policies. The MBEP had been created to coordinate government policies for the implementation of the government's economic plan. However, it had never done that and in the 1980s it had become, in spite of its name, just a spending minister, tasked with the administration of development funds for certain geographical areas and coordinating the European funds for the *Mezzogiorno* (Marchetta 1998, 5005-5006).

In fact, Ciampi, Treasury minister in the Prodi government, strongly wanted the merger precisely in order to bring the management of these funds under the control of the Treasury (interview with C, a close collaborator of Ciampi during his tenure as Treasury minister, 6/13/05; see also Fiorentino and Pajno 2000, 263).[12]

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[12] Ciampi also took the interim post of MBEP minister in the Prodi government, so as to make the merger easier, since in this way there would not be anyone that would lose his/her seat due to the merger. In the same interview C stressed that the merger was so important for Ciampi that he kept it separate from the rest of the administrative reform (and in particular the restructuring of central administration carried out by law 59/97) because the latter was the responsibility of a minister with less weight in the executive (the minister for the public administration, who is a minister without portfolio), while he wanted to give the merger his own political weight. In fact, there was no significant opposition to the merger, either from the bureaucracy or from the parties (interview with H, Treasury undersecretary at the time of the reform, 3/16/04; the

Law 94/97 and the merger appeared to increase the centrality of the Treasury in fiscal governance. The merger concentrated in one office the tasks of macroreconomic analysis and the preparation of the government planning documents, which heretofore had been divided between the Treasury and MBEP. Also, law 94/97 gave the Treasury sole responsability for drafting the government budget, which until then had formally been shared with the MBEP.

However, both innovations are rather less than what they seem. The vast difference in resources and skills between the Treasury and the MBEP had always given the former primacy in economic analysis and complete control of the preparation of the planning documents.[13] Also, the Treasury had always kept a tight control on the drafting of the budget, completely excluding the MBEP from it, which, as we said, had for quite some time become simply the administrator of development funds. In sum, law 94/97 did spell out the centrality of the Treasury in the budget process, but in doing so it simply stated what was already the established practice (see the report of the Budget Commission of the Camera dei Deputati to the Assembly, Camera dei Deputati 1997c; see also Forte 1998 216-218), so that the formal elimination of the MBEP from the budget process was

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parliamentary documents on the reform also show that the merger was widely accepted by most political parties).
It should be noted that the small size of the MBEP (the ministry that in effect was going to be eliminated) compared to the Treasury may have made bureaucratic opposition impossible (and note that the legislative decree for the unification of Treasury and MBEP was prepared by a group constituted and coordinated by the cabinet of the Treasury, Marchetta 1998, 507).
[13] As late as 1988 the ministry still lacked access to the public finance information network of the Treasury (Corte dei Conti 1989, 81). As a former head of cabinet of the MBEP put it, the bureaucracy of that ministry was “unsubstantial.” She remembers that once she asked the offices for a copy of the government budget, and they did not have it (interview with J, 2/16/05).

not bound to have an impact on fiscal governance (interview with G, professor of administrative law, 24/3/03).[14]

As regards budget reform, it was conceived as the necessary complement to administrative reform: the structure of the budget would be changed so as to allow a more outcome-oriented management of public resources (Borgonovi and Canaletti 1998; D'Auria 2002, 97-98; De Ioanna 2002, 37-38; D'Orta 1998, 100; Fiorentino 2002, 45; Marchetta 1998, 506; Marconi, Mercati and Montebugnoli 1998, 148; Pacifico and Seguiti 2000, 379-780; Perez 1997, 910-1).[15]

Law 94/97 defined two versions of the budget, one subject to approval by Parliament (the "political budget") and one for administrative control, which is not subject to political approval.[16] The main innovation of the political budget was that it is no longer based on items defined in pure accounting terms (*capitoli*). Rather, its structure is based on the *Unità Previsionali di Base* (UPB, Basic Budget Units), roughly corresponding to individual directorate generals.[17] The *capitoli* remained for the administrative budget, and law 94/97 authorized public managers to shift funds among capitoli within the same UPB. As Paolo De Ioanna, the main driver of law 94/97 within the government, pointed

[14] Thus on this point I do not agree with those who see this law as a dramatic development supposedly giving the Treasury minister veto power over the spending decisions of the other ministers (Fabbrini 2000b, 138). Not only did the law merely state established practice, but the central position of the Treasury in the budget process did not imply that it had veto power over spending: on the one hand, as we saw, the allocation of resources to the ministries is decided on the basis of what effectively amounts to bargaining between the individual administration and the RGS; on the other hand, law 94/97 in fact increased the autonomy of the administration from the Treasury/RGS by allowing each minister to shift allocations among budget items in a way that was previously possible.

[15] See also Senato della Repubblica 1996c, 4; Senato della Repubblica 1996b, 7; Camera dei Deputati 1997a, 12367; hearings of Giorgio Macciotta (Treasury undersecretary) and Paolo De Ioanna (head of cabinet of the Treasury; Camera dei Deputati and Senato della Repubblica 1997; Corte dei Conti, 1996.

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

[17] Approximately 1000 UPB were identified, against the approximately 6,000 *capitoli* that constituted the basic units of the budget before the reform.

out, the introduction of the UPB was indeed the core of law 94/97: it would increase the transparency of the budget for Parliament (which would be called to decide over allocations for policies rather than over tiny *capitoli*) and it would increase the operational flexibility, but also the responsability, of the administrators (De Ioanna 2002, 36-38).[18]

This last point is worth stressing as it marked a significant departure from the traditional "dirigiste" attitude towards the control of public spending: rather than controlling it through top-down mechanisms (essentially giving the RGS the power to turn on and off the spigot of government funds), the emphasis on operational flexibility in the budget structure points to increasing the autonomy and responsability of government managers as the best way to control spending.[19]

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

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

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

Conti 1996, 8; Forte 1998 199; see also hearing of representatives of the CTSP at the Budget Committee of the Camera dei Deputati, Camera dei Deputati 1997b, 25).

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

In fact, Ciampi, Treasury minister in the Prodi government, strongly wanted the merger in order to bring the management of these funds under the control of the Treasury (interview with C, a close collaborator of Ciampi during his tenure as Treasury minister, 6/13/05; see also Fiorentino and Pajno 2000, 263). Ciampi thus took the interim post of MBEP minister so as to make the merger easier, since in this way there would not be anyone that would lose his/her seat due to the merger.[20]

[20] In the same interview C stressed that the merger was so important for Ciampi that he kept it separate from the rest of the administrative reform (and in particular the restructuring of central administration carried out by law 59/97) because the latter was the responsibility of a minister with less weight in the executive (the minister for the public administration, who is a minister without portfolio), while he wanted to give the merger his own political weight. In fact, there was no significant opposition to the merger, either from the bureaucracy or from the parties (interview with H, Treasury undersecretary at the time of the reform, 3/16/04; the parliamentary documents on the reform also show that the merger was widely accepted).
It should be noted that the small size of the MBEP (the ministry that in effect was going to be eliminated) compared to the Treasury may have made bureaucratic opposition impossible (and note that the legislative decree for the unification of Treasury and MBEP was prepared by a group constituted and coordinated by the cabinet of the Treasury, Marchetta 1998, 507).

The merger was also part of the broader reform of the central administration that was started by the the other core piece of legislation introduced by the Prodi government, namely law 59/97 (the law is associated with Franco Bassanini, a professor of constitutional law and minister for public administration of the Prodi government). The law had a broad scope, including as it did the devolution of powers to lower levels of government and the restructuring of the central administration.[21] The two were in fact connected, as devolution was thought to make it possibile, as well as necessary, to reform the central administration in order to make it lighter and less cumbersome (Cassese, Sabino. 1999. "Il tempo delle svolte." *Il Sole 24Ore*, June 5, 1999, 1, 3; Pajno 2000, 64; Pajno and Torchia 2000, 22-23; Bassanini, minister for the public administration, hearing for the Parliamentary Commission on Administrative Reform, Camera dei Deputati and Senato della Repubblica 2000, 6; see also the introductory government report to the Senate attached to bill A.S 1124). Part of this reform was the merger of existing ministries, and the merger of the MBEP with the Treasury – although carried out by a different law –was part of this broader reform drive aiming to reduce the costs and increase the efficiency of the administration (Marchetta 1998, 506; interview with G, professor of administrative law, 24/3/03).[22]

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

[22] Since they were seen as integral to the effort to improve the administration, there was no substantial political opposition to the mergers during the debate on law (interview with K, former senator of the Independent Left and economic editorialist, 5/13/04). In fact, it was the opposition that insisted for the mergers to be explicitly included in the reform (see text of the bill as modified by the I Commission of the Senate; Bassanini, minister for the public administration, hearing for the Parliamentary Commission on Administrative Reform, 15/11/2000, p. 5; Pajno and Torchia 2000, 18), and during the debate the center-right coalition claimed that the government was not moving fast enough and broadly enough in merging and eliminating ministries (Senato della Repubblica 1996d), and the Northern League had the same position (Camera dei Deputati 1997f, 11242). However, political and bureaucratic opposition did arise

Among the mergers, the law also mandated the merger of the Treasury with the Finance minister, which would finally bring together the control of spending (the Treasury) and of revenues (Finance).[23] Like the merger between MBEP and Treasury, the merger between Finance and Treasury was strongly wanted by Ciampi (Bertonazzi 1998, 234). However, it was not carried out immediately. Rather, law 59/97 (art. 11) delegated the government to introduce legislation that would merge the two ministries.[24] In turn, this legislation (legislative decree 300/99, introduced by the D'Alema government) set the merger of the two ministries (along with all other mergers) for the beginning of the new legislature, namely 2001.[25]

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later, namely during the process of the implementation of law 59/97 through legislative decrees (Bassanini, minister for the public administration, hearing with the Parliamentary Commission on Administrative Reform, Camera dei Deputati and Senato della Repubblica 2001, 3-4; interview to Bassanini in Marco Rogari, "Riordino dei dicasteri – Intervista al sottosegretario alla Presidenza del Consiglio Franco Bassanini il giorno dopo la decisione del Csm," *Il Sole-24Ore*, 6 June 1999, 3). This opposition was especially successful with regard to the Agriculture ministry, which was supposed to be merged with the ministry of the Economy. The opposition of the bureaucracy of the Agriculture ministry and of the farmers stopped the merger (interview with L, former minister for public administration, (5/17/04).

[23] The two sides of fiscal governance had been kept separated since 1877, when the Left wanted the creation of a separate Treasury minister to weaken the Finance minister, which the Left thought too strong. The idea was that a weakened Finance minister would not be able to contrast the action of the Prime Minister (Vetritto 2000, 861).

[24] Thus, two years elapsed between the passage of law 59/97 and the introduction of the implementing legislative decrees (300/99 and 303/99). During this time the Prodi government had fallen and had been substituted by the D'Alema government. This government, however, was based on essentially the same political majority (the Olive Tree coalition) and shared with the Prodi government the focus on administrative reform, so that members of the reform community were able to continue their involvement in the reform and in particular in the drafting of the legislative decrees based on law 59/97 (Bassanini, minister for the public administration in the Prodi government, became undersecretary of the PM Office in the D'Alema government; Amato was appointed minister for institutional reforms).

[25] Postponing the implementation of the ministry mergers to the following legislature was partly due to the inherent difficulty of merging large organizations (in this sense, the MBEP, with its small size, had been an exception) and partly to the fact that the mergers implied a reduction of senior cabinet positions, and that it would be easier to achieve this in the following legislature, before the ministerial positions are assigned, than in the current one, which would imply depriving current cabinet members of their post (Bassanini, minister for the public administration, hearings for the Parliamentary Commission on Administrative Reform, Camera dei Deputati and Senato della Repubblica 2000, 5 and Camera dei Deputati and Senato della Repubblica 2001, 5).

It should also be noted that deferred implementation represented a procedural link with the Cassese reforms, since the tactic of postponing the implementation of the mergers to the following government/legislature was adopted for the first time in law 537/93 (Pajno and Torchia 2000, 18).

The Prodi government fell in October 1998. However, the D'Alema government that replaced the Prodi government continued on the reform path opened by its predecessor and implemented all the reform mandates that the Prodi government had received with law 94/97 and 59/97.

Beside continuing the reform program of the Prodi government, the D'Alema government also passed a further reform of fiscal governance (law 208/99). The law changed the reference aggregate for the main government planning document (the Economic and Financial Planning Document or *Documento di Programmazione Economica e Finanziaria*, DPEF), from *settore pubblico allargato* (larger public sector) to *amministrazioni pubbliche* (public administrations),[26] it extended the reform of the state budget structure (based on UPB after law 94/97) to the other components of the public administration and in particular to the regions; it changed the deadlines for the presentation of some of the budget documents; it changed the criterion used for measuring the trend values of government spending in the DPEF – necessary to define the extent of the government's yearly maneuver – from "constant policies" to "constant legislation;[27]" it introduced the obligation for the government to present to Parliament a

[26] The two aggregates are basically analogous in terms of scope, as they are the broadest public finance aggregates, covering the central government, all government agencies and local and regional governments. The main (although not the only) difference between the two aggregates (and thus in the government balances calculated on their basis) is that the values for the larger public sector are calculated in cash terms while those for the public administrations are calculated in accrual terms.

[27] The constant policies criterion estimates trend spending on the assumption of unchanged levels of government services provided to the public, while the constant legislation criterion estimates trend spending on the assumption of unchanged legislation. The move from the former to the latter criterion aimed to unify the criteria used in the DPEF with those used in the drafting of the budget (Degni and Salvemini 2001, 126-127 and Lupo 1999, 539).

report on the policies that it has committed to in the Stability and Convergence Program.[28]

In the rest of this section we will use the "bottom-up" introduced in section 2 to explain the reforms of the 1990s. The first set of reforms occurred in 1992-1993, namely during a period that qualifies as a cataclysm, namely as a generalized and massive loss of popular support for the majority parties. The parties that had ruled Italy for forty years, and in particular the Christian Democrats and the Socialists, suffered devastating defeats at all elections held in those two crucial years.[29]

What brought about the sudden collapse of the regime's legitimacy? The "Italian Revolution" has extensively been covered in the literature (in English see Bufacchi and Burgess 1998; Gilbert 1995; Ginsborg 2003; Golden 2004; Gundle and Parker 1996; Newell 2000; McCarthy 1995; Waters 1994), so I do not discuss it here in detail. However, the immediate causes of the collapse were the exposure by the judiciary of widespread political corruption and a currency crisis that forced the Italian Lira out of the European Monetary System (EMS) in 1992. This second factor in particular offered a stark reminder of what can happen to a political class when it refuses to heed international (in this case, European) pressures. In fact, the EMS crisis was the result of the joint operation of the negative integration and external constraint mechanisms.

[28] Based on the Stability and Growth Pact (SGP), starting in 1999 all members states are to submit to the Council of Ministers a Stability and Convergence Program in which they report how they plan to reach or maintain a "budgetary position of close to balance or in surplus" (http://europa.eu.int/comm/economy_finance/about/activities/sgp/scp_en.htm).

[29] These elections were all at the local levels, since national elections had just been held in spring 1992, right before the "great flood" occurred. The expectation was that the parties and the party system that had seemed eternal until then would be wiped out at the next national elections. This expectation was confirmed by the results of the 1994 national elections.

Participation in the EMS required implied certain policy outcomes, namely maintaining the Lira in an agreed-upon exchange rate band. This formal requirement created an external constraint to adapt the country's policies, and failing to fulfill the requirement made the country liable to suffer a very transparent and unambiguous penalty, namely having to leave the system, as indeed happened in September 1992. At the same time, the EMS posed a limit to the ability of the Italian government to use the exchange rate to support the country's industrial competitiveness. Persisting higher inflation rates than in Italy's European partners made its products less and less competitive, causing Italian exporters to lose international market shares. In this sense, the EMS also acted as a form of negative integration, exposing the country to foreign competition that could not, as had been in the past, be buffered through devaluation. Gradually, currency markets realized that the Italian governments were not putting in place the policies required to bring inflation down, to bring the government's deficit under control and to support Italy's international competitiveness.[30] Currency speculation began to mount again the Lira, eventually leading to Italy having to leave the EMS, thus incurring in the formal sanction implied in the external constraint mechanism.

The combination of the humiliation of the Lira and the investigation in the political parties' widespread malfeasance (an investigation that hardly touched the Left opposition and new protest parties like the Northern League) had the result of wiping out their electoral support. The last thing that the parties in the current majority could afford was new elections (Bufacchi and Burgess 1998, 69; Capano 2000, 178): their representation

[30] By 1991 the size of the government debt had overtaken GDP, and by 1992 the debt/GDP ratio was 108% (Della Sala 1997, 23). As the debt increased, so did the expectation that the government would reduce its real value through a devaluation of the Lira, the currency in which the debt was denominated.

in Parliament would be decimated, and hundreds of members of Parliament, having lost their parliamentary immunity, would face trial.[31]

This cataclysm opened a window for reform, and reform-oriented politicians were ready to exploit it. The main two actors in this drama were the new President of the Republic, Oscar Luigi Scalfaro, and the new Prime Minister, Giuliano Amato. Scalfaro, a second-tier Christian Democrat, was elected President by Parliament in late spring 1992 when the front contenders for the position reached a stalemate and a sudden wave of Mafia bombings convinced parties that they could not afford the stalemate any longer.

In the meantime, the unfolding investigation into political corruption had weakened the main pretender to the Prime Minister post, the Socialist Bettino Craxi, enough to force him to give up his aspirations (Galli 1993, 398; Hellman and Pasquino 1994, 46; McCarthy 1995, 143).[32] He presented a list of possible candidates to Scalfaro, who selected the one that was least compromised with the party regime, Giuliano Amato.[33]

Amato, a constitutional lawyer that had extensively written on administrative reform (Amato 1976 and 1980), proceeded to push reforms through its own recalcitrant majority, still formed of the parties (Christian Democrats, Socialists, Social Democrats and Liberals) that were being battered by the investigation and at the polls.[34]

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[31] By February 1994 438 members of Parliament were under judicial investigation (Chimenti, 1994: 23).
[32] In fact, apparently the decision to withdraw his candidacy to the Prime Minister post was not Craxi's choice, but it was imposed on him by Scalfaro (Maccanico 1994, 21).
[33] The role of the President of the Republic in the formation of the new executive, in fact, went beyond selecting Amato from Craxi's shortlist. He imposed a reduction of the size of the executive, and blocked the appointment as ministers of some politicians that appeared most likely to come under investigation (Hellman and Pasquino 1994, 48-49).
[34] In Mantua, the DC went from 27% of the votes at the 1990 administrative elections, to 14% in the local elections of November 1992. At the same elections, the PSI went from 14.5% to 7.2%. The local elections of December 1992 showed a similar tumble of the government parties, both in the North and, although to a lesser extent, in the South (Galli 1993, 403-404).

Amato worked with Scalfaro to push the reforms through Parliament. [35] In spite of the currency crisis, Amato found stark opposition, both in and out of Parliament, to the government's proposals to reform the sectors that were most responsible for the poor state of government finances: health services, local finances, social security and public administration.[36] The government, backed by Scalfaro (Hellman and Pasquino 1994, 49), who as President had the authority to call new elections, attached a confidence vote to the key parliamentary votes on the reform (Barucci, 1995, 146-147; Bufacchi and Burgess 1998, 79; Lacava and Vecchi, 1995, 158): if Parliament refused to go along with it, it would be dissolved, new elections would be called and a large number of members of Parliament would lose their immunity. Law 412/92, giving the executive authority to introduce reforms in the four sectors indicated above was passed in October 1992.[37]

The parties' power probably reached its nadir in April 1993. In that month a referendum did away with the existing proportional representation electoral law, and for the first time a new government was formed without party influence.

After the victory of the "yes" in the referendum, Amato (who had criticized them as "very unconstitutional," Pasquino and Vassallo 1994, 69) resigned. In the climate of legitimacy crisis of the political system, which the referendum had underscored, there was a diffuse sense that the new Prime Minister should not be a professional politician (Pasquino and Vassallo 1994, 71-72). Scalfaro's choice was the governor of the Bank of

[35] On the constant consultations between Scalfaro and members of the executive regarding economic policy (in particular Amato and the Treasury minister Piero Barucci) see Barucci 1995, 49 and passim.
[36] In spite of the crisis, the unions threatened a general strike against the proposed budget (Bufacchi and Burgess 1998, 79; Barucci 1995, 61), Parliament refused to give the government special economic policy making powers in order to face the financial emergency (Barucci 1995, 53) and in September there was the usual free-for-all in the Council of Ministers over the LF bill, with spending ministers requesting more spending than the Treasury could allow (Barucci 1995, 151).
[37] Based on law 412/92, the executive introduced legislative decree 29/93, which reformed the public administration along the lines described above.

Italy, Carlo Azeglio Ciampi. Ciampi offered a reputation of personal honesty (a definite plus in those days) and his own personal prestige in the international financial community, an attribute that would be useful in the current context of financial difficulties for the State (Pasquino and Vassallo 1994, 72).

The government was a first in many ways. For the first time its formation followed the letter of Constitution, with the President of the Republic choosing the Prime Minister rather than ratifying the choice of the parties. It was the first not to be led by a member of Parliament, it was the first in which parties were largely excluded from the choice of the ministers (Bufacchi and Burgess 1998, 147, Chimenti 1997, 20; Gilbert 1995, 148; Merlini and Guiglia 1994, 485; Pasquino 1997, 38), and it was the first since 1947 in which representatives of the heir to the Communist Party, the Democratic Party of the Left (PDS), were included in the executive.[38]

After the referendum had eliminated the proportional representation system, it was expected that new elections would be called as soon as the new electoral law was ready. The continuing weakness of the majority parties, however, meant that they still had an interest in postponing the elections as much as possible. Just as had been the case for the Amato government, this gave the Ciampi government (and in particular the minister for public administration Cassese) significant leverage in imposing reforms. Supported in this by Scalfaro, the government could use the threat of resignation to overcome the

[38] This last element, however, was extremely short-lived as the three PDS ministers stood down on the same day the new government was sworn in. The issue that caused the resignation was a vote by the Lower House, whereby its members had, by secret vote, voted to maintain parliamentary immunity for Craxi, who thus could not be tried in court (Bufacchi and Burgess 1998, 148; Gilbert 1995, 149; Mershon and Pasquino 1994, 59).

opposition to the reform.[39] Thus, parties chose to minimize the obstacles to the implementation of the government's program, which along the approval of a new electoral law also included administrative reform (Marconi, Mercati and Montebugnoli 1998, 143), so as not to risk precipitating the elections (Chimenti 1994, 46).

In August 1993 Parliament voted the new electoral law, a plurality system with a hefty proportional correction.[40] The first elections with new system were held in spring 1994, and while the old party system had disappeared, the new party system had not yet adapted to the bipolarizing logic of the plurality formula. Three, rather than two, coalitions competed in the elections, with the center coalition ending up being severely underrepresented due to the operation of the plurality formula.[41]

The winning center-right coalition, led by Silvio Berlusconi, was in fact two coalitions, one in the North (*Polo delle Libertà*, Freedoms Pole, whose main components were *Forza Italia*, FI, the party founded by Berlusconi, and the Northern League) and one in the South (*Polo del Buongoverno*, Good Government Pole, whose main components were FI and National Alliance[42]). Moreover, the Northern League and National Alliance were extremely distant in their ideological orientation and in their constituency bases.

[39] The Cassese reforms were met with hostility by certain parties (in particular the DC, Chimenti 1994, 70; within the executive, in fact, the only cabinet member that was explicitly opposed to the reform was the Christian Democrat Nicola Mancino, Barucci 1995, 181-182), by the bureaucracy (interview with B, member of the group that worked with Cassese on the reform, 6/14/04) and by the RGS (Dente, 1995: 16). The RGS had a tradition of defending the interests of the bureaucracy against any reform proposal (Capano 2000, 157).
[40] 25% of the seats were to be assigned based on a proportional rule.
[41] The centrist coalition, the *Patto per l'Italia*, won 15.7% of the votes for the Lower House and 16.7% of the votes for the Senate, but obtained only 7.3% of the Lower House seats and 9.8% of the Senate seats, Bartolini and D'Alimonte 1995, 320-321.
[42] National Alliance (AN) was the heir to the neo-fascist MSI (*Movimento Sociale Italiano*, Italian Social Movement). AN was constituted in early 1994 as a political movement that would be broader than the MSI (Carioti, 1995, 78-9). In January 1995 the MSI was officially disbanded and AN became the new party of the right (Caciagli and Kertzer 1996, 44).

The Northern League was North-based, it supported a reduction of government intervention in the economy and was federalist (if not secessionist). National Alliance was especially strong in the South, and it retained from its fascist precursor a preference for greater state intervention in the economy and for a more centralized government (Carioti 1995, 76).

Such a fragmented coalition did not last long: the Berlusconi government was formed in May 1994 and it fell in December 1994, and no reforms of the budget process and of the public administration were passed. The Berlusconi government was followed by a caretaker government led by Lamberto Dini, until new elections were held in April 1996.

The elections occurred in the context of greater bipolarization of the party system. In 1995 the centrist Popular Party – which had run as a "third force" in the 1994 elections (Ignazi and Katz 1995, 33) – broke in two, one part joining the center-left and the other joining the center-right coalition (Caciagli and Kertzer 1996, 46; D'Alimonte and Nelken 1997, 27). As for the two coalitions, they retained or increased their ideological cohesiveness compared to the 1994 elections. The center-left coalition – the *Olive Tree* – included the PDS, part of the Popular Party plus a number of small parties that had run separately in the previous elections, but did not include the extreme left of *Rifondazione Comunista* (RC), which had been part of the coalition in 1994 (Bull 1995). The center-right coalition increased its cohesiveness compared to the 1994 elections as it no longer included the Northern League.

Moreover, ideological consistency in the eyes of the electorate was fundamental to achieve victory. The winning coalition, the *Olive Tree*, received more votes in the plurality ballot than in the proportional ballot, indicating that the coalition provided "added value" which attracted voters beyond those who voted for the individual parties.

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

Finally, the electoral campaign saw an increased relevance of the coalitions' programs in deciding the final outcome. On the one hand the voters were able to associate the leaders of the two coalitions (Romano Prodi for the Olive Tree and Silvio Berlusconi for the *Polo delle Libertà*) with their programs and the credibility of these programs, and on the other victory in many marginal constituencies – namely constituencies where the core support for the two opposing coalitions was very close – was decided by voters who voted based on specific policy concerns rather than ideological considerations (Fabbrini 2000b, 126-7).[43]

In all, therefore, the Prodi government (April 1996- October 1998) was the first "mature" majoritarian government, in that it had emerged from a party system that, compared to the 1994 elections, had more fully adapted to the new majoritarian electoral law and that had produced a more coherent bipolar electoral competition.[44]

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

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

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

Furthermore, the increased cohesion of the government coalition and the greater political relevance of the government program meant that the government could enjoy the compact support of its parliamentary majority in the implementation of its reform program. Administrative and budget reform was a central part of the Prodi government's electoral program (Prodi 1995; Parker 1997, 160), of the program the new government presented to Parliament (Marconi, Mercati and Montebugnoli 1998, 148; Parker 1997, 157-158; Senato della Repubblica 1996a, 13) and of the first economic plan presented to Parliament (Senato della Repubblica 1996b, 16; see also Camera dei Deputati 1997a, 12366).[45] Moreover, administrative reform was closely linked to the wider program of reorganization of the State along federal or at least decentralized lines which the coalition had endorsed (Battini 1998, 81-82; Bertonazzi 1998, 229-233; Capano 2000, 166-167; Senato della Repubblica 1996a; Torchia 2000, 358-361).

Thus, in contrast to the Amato and Ciampi reforms, which these governments had imposed on their own majorities, the administrative and budgetary reforms of the Prodi

[45] It should be noted that, on the contrary, administrative reform did not figure prominently in the electoral program of the Freedoms Pole (Polo per le Libertà 1996).

government (laws 94/97 and 59/97) passed through Parliament thanks to the compact vote of the majority (Battini 1998, 86; Marconi, Mercati and Montebugnoli 1998, 148).[46]

"Europe" further strengthened the cohesiveness of the coalition. In the late summer of 1996, namely about four months after its inauguration, the government announced its intention to pursue Italy's entry in the EMU at the same time as the other European partners. By investing Prodi's and the coalition's political capital in the achievement of this goal, and thus in fulfilling the fiscal and monetary criteria of the Maastricht Treaty, this decision strengthened the hand of the reformers in government (beside Ciampi, in particular Franco Bassanini, minister for the public administration, and Paolo De Ioanna, head of cabinet for Ciampi at the Treasury), since they could link these reforms to the achievement of the EMU goal.

The Prodi government, however, suffered from a serious weakness. The Olive Tree victory at the polls had not been sufficient to guarantee it a parliamentary majority. Thus, it had to associate RC to the parliamentary majority. RC, which had not part of the Olive Tree electoral coalition and had not participated in the formulation of its program, remained a thorn in the side of the Prodi government throughout its life. Only the political relevance of the EMU goal prevented it from acting on its blackmail power, but after the country finally qualified for the EMU (May 1998), RC caused a government crisis, leading to the fall of the Prodi government in October 1998.

It was left to the new government, led by Massimo D'Alema, to complete the administration and budget reforms started by the Prodi government. In fact, there was a

[46] In fact, the opposition complained that, in their view, the government and the majority had largely imposed their views (Senato della Repubblica 1996b, 61-2).

large degree of personnel continuity between the two governments, with the people most involved in the reform in the Prodi executive moving to positions in the D'Alema executive that allowed them to continue to oversee the reform. Ciampi initially maintained his position as Treasury minister (until he became President of the Republic in May 1999); Franco Bassanini, the minister for the public administration in the Prodi government, became Undersecretary for the Prime Minister Office in the D'Alema government and was tasked by D'Alema with coordinating the implementation of administrative reform, while Paolo De Ioanna, head of cabinet for Ciampi at the Treasury in the Prodi government, became Secretary General of the Prime Minister Office. Moreover, the reform orientation of the D'Alema government was further strengthened by the participation of Amato, first as minister for institutional reforms and then as Treasury minister after Ciampi's election as President of the Republic.

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

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

This, in turn, had an impact on the implementation of budgetary and administrative reform. Bureaucratic opposition to the budget reform mounted. The RGS was supposed to complete the work of defining the new budget structure so as to make them consistent with the new emphasis on projects within the administration, but after the fall of the Prodi government work on this final reclassification of the budget stalled (interview with C, one of the main reformers in government, 6/13/05). Moreover, the need to accommodate the coalition partners in the allocation of government posts led to splitting the responsibility for the reform of central administration between Bassanini (belonging to the *Democratici di Sinistra*, the new incarnation of the PDS) and Angelo Piazza, causing repeated clashes between the two.[47]

5 An Assessment

Italy's budget decision-making system entered the 1990s as a fragmented process in the three main phases of formulation, approval and implementation, with the spending administrations and Parliament pressing for spending on their policy areas or pet projects and the Treasury controlling the flows of funding in a centralized but isolated manner, which prevented effective coordination of government expenditure. By the close of the decade the fragmentation of all three budget phases had been reduced by increasing the transparency of the budget approved by Parliament and by giving greater responsibility

[47] See Antonio Vittorio Sorge and Alessandro Spinelli, "Pubblica amministrazione - Il ministro, in polemica con Bassanini, chiede a D'Alema pieni poteri sulla riorganizzazione della macchina burocratica," *Il Sole 24 Ore*, 6 May 1999, p. 2 and Antonio Vittorio Sorge and Alessandro Spinelli, "Pubblica amministrazione - Al Forum '99 il ministro Piazza critica il sottosegretario alla presidenza del Consiglio Bassanini," *Il Sole 24 Ore*, 5 May 1999, p. 3.
Piazza, an expert in public administration, was given the post of minister for the public administration due to the support he received from the small Socialisti Democratici Italiani (SDI). See L. Os. "Restano in corsa anche Dini, Giarda e Visco - Per Fassino gli Esteri o la Difesa - D'Antoni ancora incerto; Bazoli rinuncia, per il Tesoro ipotesi interim," *Il Sole 24 Ore*, 22 April 2000, p. 6, Guido Compagna, "La difficile ricerca di una soluzione equilibrata," *Il Sole 24 Ore*, 22 October 1998, p. 2, Filippo Ceccarelli and Francesco Grignetti "Chi sono," *La Stampa*, 22 October 1998, p. 4. Augusto Minzolini, "Nella giornata dei ricatti vincono gli eredi della Dc," *La Stampa*, 21 October 1998, p. 7.

for the achievement of policy goals to the administrations at the formulation and implementation phases.

At the end of this long excursus, how can we evaluate the role of European pressure, through the external constraint and negative integration mechanisms, in the reforms of the 1990s? Beginning with the first reform episode, 1992-1993, we saw how the very public failure of the government parties to maintain the Lira in the EMS contributed to bring upon them the cataclysm that eliminated their ability to oppose the reforms. However, the reforms did not occur "because of Europe." Europe was a contributing factor in the collapse of the parties' legitimacy, but the most important cause for this collapse was the scandals that had engulfed their personnel. In fact, the policy entrepreneurs that pushed the reforms through Parliament (Amato, Ciampi, Cassese) succeeded in this goal not by appealing to the dire straits in which the country found itself after the EMS crisis, but by threatening new elections and thus appealing to the self-interest of the many members of Parliament that would face trial. Nor were the reforms introduced "because of Europe" in the sense that they were meant to produce substantial savings, required to address the current financial and currency crisis and to ensure that Italy's continuing participation in the process of European integration. Indeed, the reformers did make the connection between savings and reforms (Bassanini 2000, 230; Della Cananea 1997, 195; Marconi 1995, 110; Marconi, Mercati and Montebugnoli 1998, 142; Pajno and Torchia 2000, 14; Roccella 1995, 165; Salvemini 1995, 3; Torchia 2000, 352).[48] However, the Amato reforms were passed after the required savings had already

[48] Tellingly, Amato connected the reform of the administration to the need to control government spending from the start of his government by giving the Treasury minister the brief for the public administration. In a functionally equivalent move, in the Ciampi government for the first time ever the minister for the public

been achieved through other measures (Dente 1995, 10), while the Ciampi/Cassese reforms were supposed to produce modest savings, and only in the medium term (Marconi, Mercati and Montebugnoli 1998, 129-130; see also Marconi 1995, 115-116, Roccella 1995, 171; Salvemini 1995, 6), and even the size of these savings was in fact disputed by the RGS (Salvemini 1995, 5).

As regards the second wave of reforms (1996-1999), it should be noted that not only administrative and budget reforms were a plank of the Prodi government, but they were in fact introduced in Parliament *before* the government decided in September 1996 to make the push for the 1997 EMU deadline.[49] Nor were they supposed to produce immediate savings that would contribute to Italy's achieving the EMU goal. The only measure in the reforms that would produce immediate savings was eventually excised from the final version of the bill (report of the Budget Commission of the Lower House to the Assembly, Camera dei Deputati 1997c).

What was, then, the role of Europe pressures in the reform process? The "race for the EMU" underscored the importance of fiscal consolidation, thus strengthening the position of the Treasury both within the executive and vis-à-vis Parliament (Fabbrini, 2000b, 136-139), thus also probably making it easier to carry out the merger of the MBEP with the Treasury. We saw, however, that the significance of the merger was rather limited, as were the provisions of law 94/97 confirming the centrality of the Treasury in the budget process.

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administration (Cassese) had a central role in drafting the government's financial maneuver for the following year (Cassese 1995, 141-142; Marconi 1995, 112-3; Salvemini 1995, 5).

[49] The reforms of the budget and of central administration were one of the goals indicated by the government' planning document (presented on June 28, 1996). The government presented the bill for law 59/97 on July 29 and the bill for law 94/97 on August 7.

European pressure also contributed to the cohesiveness of the Prodi government over the reforms: the government did stress the connection between the budgetary reform and EMU qualification (Senato della Repubblica 1996b, 7), a connection that probably did facilitate the passage of the reform in Parliament (interview with C, one of the main designers of the reform, 6/13/05). However, it should be kept in mind that the government had other sources of cohesiveness. The Olive Tree coalition had a common program on which it had run in the elections, and Prodi himself could use the common program to remind the coalition partners that they had a very real political stake in the realization of the program.

European imperatives were more important in the relationship of the Prodi government with RC, which had not been part of the electoral coalition and was not bound to or invested in its program. Europe, that is the EMU goal, clearly played a crucial role in binding RC to the majority. Without the European pressure, therefore, the passage of the reforms would have been more difficult, since it would have required the Prodi government to "cross the aisle" to get some support from the center-right coalition.

However, the reforms did not depend for their success on the support of RC, and thus they did not depend on European pressure alone for their passage. When finally RC, the EMU having been reached, left the majority, the new government, supported by the Olive Tree and some members of Parliament coming over from the center-right, continued in the reform program begun by the Prodi government, although the fact that it did not have a direct electoral link had weakened its cohesiveness and slowed down the reform process.

Finally, the last modification of the budget process introduced the D'Alema government (law 208/99) clearly bore the mark of European influence. Beside the report to Parliament on the Stability and Convergence Program (SGP), the change from the aggregate "larger public sector" to the aggregate "public administration" in the DPEF was also directly connected to the European level as it was a modification explicitly requested by the EU to harmonize the aggregate considered by the main programmatic document of the Italian government with the aggregate considered by the SGP (Camera dei Deputati 1999, 33; see also Lupo 1999, 538-539; Palanza 1999, 647).[50] Also, the nature of the DPEF changed, even if the statutes did not change. Since the SGP now constituted the main legal constraint on the size of government deficit, the DPEF could switch its focus from being a financial program (setting the limit of the deficit) to a policy program, namely to present the reform program of the government for the upcoming years (Degni, Salvemini and Virno 2000, 387-388).

Thus, in the case of law 208/99 the causal impact of Europe was most evident; however, the scope of the reform was in itself rather limited (interview with R, representative of the government during the debate on the law, 6/6/05).[51]

[50] According to the European Council Resolution on the SGP, the relevant aggregate is "general government" (see Resolution 97/C 236/01, available at http://europa.eu.int/comm/economy_finance/about/activities/sgp/scp_en.htm). In the Italian context, "general government" corresponds to the public administration aggregate (Battini 2003, 2759).
In fact, even before the agreement on the SGP, the need to fulfill the Maastricht criteria for monetary integration (which referred to the PA) had directed the attention of Italian policymakers to the PA as the aggregate that they need to control (Camera dei Deputati, Budget Commission, hearing of representatives of ISTAT, ISCO, ISPE and CTSP, March 13, 1997, p. 34).

[51] The limited importance of the reform probably also explains its easy passage through Parliament. In contrast to the approval of laws 94/97 and 59/97 along partisan lines, law 208/99 was the product of cooperation between the majority and the opposition, both in the drafting of the law (Lupo 1999, 524-525) and in ensuring the final passage of the law (both FI and National Alliance voted in favor, see their declarations of vote in Camera dei Deputati 1999, 40 and 42).

In sum, European pressure, through the negative integration (EMS and the liberalization of capital movements) and external constraint (EMS, EMU) mechanisms, played a role in bringing about reform, by contributing to the elimination of the parties' veto power in 1992-1993 and by contributing to the cohesiveness of the Prodi government in the second wave of reforms. However, it played this role alongside more important developments in the domestic structural context, in particular the scandals of 1992-1993 and the relative cohesiveness enjoyed by the Prodi government thanks to the operation of the plurality electoral rules. Moreover, European and domestic factors alike only created the conditions for the reforms. The reforms succeeded because policy entrepreneurs were able to use the opportunities offered by these factors as resources for the achievement of their reform goals.

In closing, it is necessary to address a possible objection to my argument. The argument has been based on the presence of certain domestic conditions at certain times (1992-1993, 1996-1999) that coincided with the reforms, and the absence of these conditions in the period (1994-1995) when reforms did not occur. This argument is predicated on the assumption that European pressure was constant in the entire period (1992-1999). However, reality has not been so obliging. As regards the negative integration mechanism, a case can indeed be made that, once the EMS crisis had taken place, the other source of increased cross-national competition, namely the increased potential for capital mobility within Europe, did remain stable over the entire period, since capital liberalization had been completed in 1990.

However, the same cannot be said for the external constraint mechanism. In fact, the 1990s saw the ebb and flow of European pressure in the form of pressure to meet the

Maastricht criteria. The pressure started to ebb in the second half of 1992, when the failure of the Danish referendum, the razor-thin majority won in the French referendum and the crisis of the EMS seemed to put in question in the entire project of European monetary integration (Spaventa and Chiorazzo 2000, 19). As this project began to seem viable again from late 1995 on (Spaventa and Chiorazzo 2000, 79), so did the pressure on Italy to conform its fiscal policy to the European standards begin to mount again.

On the one hand, the variation in European pressure to some extent directly supports my argument, in that the 1992-1993 reforms were carried out precisely when European pressure was at its low ebb, thus indicating a weak link between domestic institutional change and European factors.

On the other hand, however, structured comparison does not help us deal with the lack of reforms in 1994 and 1995, when the stalling of the reform process did coincide with the continuing low relevance of the EMU project. In order to fully account for the relative role of domestic and European factors, we need to complement a comparative design with a focus on the causal mechanisms that connect independent and dependent variables (George and Bennett 2005). In particular, this can allow us to assess to what extent the causal mechanisms through which European factors are expected to affect domestic change are in fact operative.

The external constraint and negative integration Europeanization mechanisms are supposed to affect domestic institutional change by increasing the cohesiveness of the government coalition. However, Europeanization only played a minor role in increasing the cohesiveness of the government coalition in both reform episodes.

In the first reform episode (1992-1993) we saw that it was more the fear of new elections, and ultimately of jail time for many in Parliament, rather than the perceived need to address the fiscal imbalances brought to the fore by the EMS crisis that allowed policy entrepreneurs to push reform through a recalcitrant Parliament. In the second reform episode (1996-1999) the EMU goal did probably help the passage of the reforms through Parliament, and it was crucial in keeping RC in the majority. However, the cohesiveness of the Olive Tree coalition and of the government that began the reforms, the Prodi government, derived from its electoral origin and from the reforms being an important component of its electoral program.

Finally, using counterfactual reasoning (Fearon 1991), we should observe that the Berlusconi government (Di Quirico 2003, 30; Quaglia 2003; Schiavone 2000, 198) and the center-right electorate that supported it (Giuliani 2001, 54-55) were less pro-European than the Prodi government (1996-1998) and its center-left electorate. The Olive Tree coalition's strong pro-European inclination was emphasized in its manifesto for the 1996 general elections (Ferrera and Gualmini 1999, 55; Vassallo 2000, 311).[52] For the left, which had been in the opposition throughout the postwar period, the qualification for the EMU symbolized sweeping away the morally bankrupt system centered around the DC, which had done much to make that qualification well-nigh impossible (Di Quirico 2003, 28). Moreover, for the main party of the left, the PDS, which was the heir to the

[52] In his 1995 manifesto, Prodi stated ("*Tesi* n. 32" in Prodi, 1995) his intention to bring Italy into the EMU in 1998, namely at the same time as the other member states, even if this had to mean making heavy sacrifices in order to achieve the 1997 reference deadline. On the contrary, in its 1996 manifesto, the Freedoms Pole criticized "the obsessive attention to the Maastricht criteria regarding public finance" and advocated modifying the Maastricht Treaty so as to emphasize the political dimension of European integration ("*Impegno* n. 92," in Polo delle Libertà 1996). The Maastricht criteria and the entire convergence program had also been criticized by Antonio Martino, both during and after his tenure as Foreign Affairs minister (Dastoli, 1996 200-201).

Communist party, supporting European integration was integral to its strategy of consolidating its democratic credentials (Quaglia, n.d.).[53]

Since the pressure of European integration was, consistently with the “external constraint” mechanism, connected with the political costs of failing to meet formal European requirements, it should be concluded that these costs were potentially lower for the Berlusconi government, since European integration held a lower cachet for its electorate. Thus, if the impact of Europe was relatively minor in the case of the Prodi government, it would probably have been even lower, regardless of the perceived likelihood of the EMU, in the case of the Berlusconi government.

6 Conclusions

This paper has adopted a “bottom-up” approach to the study of the Europeanization of Italy’s budget institutions. Namely, it has aimed to integrate European factors into a broader framework of institution change which also includes domestic factors and the role of policy entrepreneurs. By using this approach, this paper has shown that the role of European pressure has been much less relevant than what has often been thought. This challenge to the accepted wisdom is a payoff of an approach that is sensitive to the medium-to-long term developments of domestic conditions and to the role of individual actors in using domestic and European factors as resources for the achievement of their policy goals.

[53] In fact, by the mid-1970s the PCI had moved from its original position of stark opposition to the European project to one of support (Quaglia, n.d.; Schiavone 2000, 196).

Moreover, using a longitudinal approach has brought to the surface the possibility that the partisan composition of the government majority may affect how and the extent to which the European pressure impacts domestic institutional development (witness the different receptiveness of the center-right and center-left coalitions to the EMU "imperative").

This issue, and the connected question of the possible relevance of partisanship for the type of policy ideas that governments are inclined to endorse, has so far not been addressed by the Europeanization literature, but it seems to open promising avenues for future research.

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