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Research Article

To Tie Each Other's Hands: Italy Negotiating the Introduction of Constitutional Balanced Budget Rules and Independent Fiscal Institutions (2010-2013)

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Abstract

This article presents an in-depth qualitative case study on the negotiations underlying the introduction of an Independent Fiscal Institution and a Constitutional Balanced Budget Rule in Italy. The article looks at the interests of the relevant actors in the negotiation process of the Six Pack, Euro Plus Pact, Treaty on Stability, Coordination and Governance, and Two Pack by conducting interviews with the negotiators and analyses of parliamentary records and press declarations. The article demonstrates that functional mechanisms explain the outcome of such negotiations better than the consolidated literature of Liberal Intergovernmentalism, which expects that the preferences of the constellation of national actors are the key drivers of EU grand bargains impacting on member states' core state powers. As a matter of fact, Italian negotiators decided to accept the introduction of such instruments because they were potentially helpful in reducing macroeconomic risks both domestically and in other EU member states without having particular political costs, and not because domestic actors showcased clear preferences in favour of them. The results contribute to the academic debate on the integration of the Economic and Monetary Union by testing hypotheses deriving from traditional EU integration and International Relations literature and paves the way for future research allowing for a greater generalisation.

Keywords

Economic and Monetary Union; Constitutional balanced budget rules; Independent fiscal institutions; EU integration; Negotiations

As the European Commission is planning to set a consensus on a new EU fiscal framework to cope with the massive economic consequences of the Covid-19 crisis (European Commission 2021), academics and policymakers have engaged in a broader discussion on the current rules and their capability to preserve macroeconomic stability and public debt sustainability in the EU, especially the Eurozone (Mileusnic 2021). In a context of revamping economic integration proposals, it becomes more relevant than ever to understand the rationale of the Economic and Monetary Union (EMU) integration in the last decade. This article contributes to such discussion by looking at the negotiations underlying the introduction of an Independent Fiscal Institution (IFI) – the Parliamentary Budget Office (PBO) – and a Constitutional Balanced Budget Rule (CBBR) in Italy between 2010 and 2013.

The reason why Italy is chosen for the case study is that, at first glance, it is the least likely EU member state willing to accept tighter fiscal constraints on the national level. The high debt-GDP and deficit-GDP ratios the country had been displaying (Spaventa 2013) made it particularly difficult for policymakers to introduce a CBBR. Moreover, in previous years, Italian elites had shown strong resistance to the idea of introducing an IFI (Balassone, Franco and Goretti 2013). A single, in-depth, case study allows for the testing of contrasting hypotheses in order to explain why such a process took place. The hypotheses reflect a classical distinction in the literature on EU integration between domestic and functional approaches.

The article provides, first, a historical background and literature review, outlines then the research design and, finally, discusses findings and conclusions.

HISTORICAL BACKGROUND AND LITERATURE REVIEW

The history of EU fiscal rules begins in 1992 with the Maastricht Treaty, which introduced a mechanism for coordinating national economic policies, corresponding to the current articles 121 to 126 of the Treaty on the Functioning of the European Union (TFEU). The mechanism was strengthened by the Stability and Growth Pact (SGP) and its 2005 reform (Saravalle 2020). Such rules, however, faced problems of compliance (Rae Baerg and Hallerberg 2016; Hansen 2015; European Fiscal Board 2019), and the euro crisis of 2009 challenged the whole system (Schuknecht, Moutot, Rother and Stark 2011). As a response, after meeting within the Task Force on Economic Governance (TFEG) – a temporary group summoned by the European Council to shape the reforms of the EMU governance – member states agreed to introduce new mechanisms at the supranational level in order to increase compliance with EU fiscal rules. The result was a set of five regulations, part of the 2011 Six Pack (Amttenbrink 2015), and Regulation 472/2013 of the Two Pack, which built upon the SGP and its reform. However, they also agreed to give such rules a direct implementation in national legal systems (Adams, Fabbrini and Larouche 2014) through IFIs and CBBRs, in order to make the European requirements on national budgetary policies 'self-enforcing' (Buti, Eijffinger and Franco 2008: 152). IFIs were required by Directive 2011/85/EU of the Six Pack and strengthened by Regulation 473/2013 of the Two Pack. Member states weakly committed to introducing CBBRs in the European Council conclusions of 24/25 March 2011 (the Euro Plus Pact) and required introducing them in the Treaty on Stability, Coordination and Governance (TSCG) within one year of the Treaty's entering in force.

The decision-making process underlying the adoption of these acts did not take place without contestations and member states of the then EU-27 showed different preferences. Some countries decided to withdraw from the agreements or not to comply. Directive 2011/85 was not binding for the UK, and Poland never created its own IFI. The UK and the Czech Republic – the latter only initially – opted out from the ratification of the TSCG. The Euro Plus Pact was not signed by the Czech Republic, Hungary, Sweden or the UK. Regulation 473/2013 applies only to Eurozone countries. On the other hand, in the group of countries which opted in, there are member states with different approaches to EMU integration (Wasserfallen, Leuffen, Kudrna and Degner 2019), different exposure to the financial crisis (Copelovitch, Frieden and Walter 2016), and different historical experiences with fiscal rules and institutions (OECD 2018). For example, the Netherlands Bureau for Economic Policy Analysis (CPB) began operating in 1945 and boasts 'a strong reputation of independence and competence in Dutch

society' (Bos and Teulings 2013), while in 2011 the Hungarian parliament dismantled the Hungarian Fiscal Council (Kopits and Romhanyi 2013). The new rules and institutions were also subject to *ex post* controversies: some scholars argue that these reforms are one of the causes of the growth of populism and Euroscepticism in the EU (Hobolt and de Vries 2016; Hernández and Kriesi 2016), and some Eurosceptic parties, like the Italian League, proposed to repeal the CBBR (Camera dei Deputati 2020).

Overall, the introduction of both IFIs and CBBRs constitutes a case of depoliticisation (Flinders and Buller 2006), as they constrain the leeway of nationally elected politicians as to decide levels of public spending. The creation of IFIs empowers technical officials, whose presence in that crucial field of national sovereignty challenges the principle of separation of powers and bypasses the traditional channels of political legitimation (Vibert 2007). The insertion of a debt brake at the constitutional level goes beyond the principle of primacy of EU law, as it *de facto* Europeanises national constitutions, whose reform had always remained a national prerogative (Bifulco and Roselli 2013). Overall, the whole process raises issues of political legitimacy (Tesche 2019b; Dawson, Enderlein, and Joerges 2015) and accountability (Scharpf 2017), also because it has no comparable case in history. As a matter of fact, whenever states decided to give up national prerogatives in fiscal policies, they only did it in favour of a federal structure. For instance, in the last decade of the 18th century, the American federal administration was given the powers to stabilise the finances of the states (Steinbach 2015; Gaspar 2015) and debt brakes were voluntarily introduced for the first time in some states in 1846 (Fabbrini 2013). EU member states did not undertake such an evolution, rather chose to tie each other's fiscal policies without making a federation. For all these reasons, IFIs and fiscal rules have become more and more relevant in the academic and policy debate (Tesche 2019a; Larch and Braendle 2017; Horvath 2018; Debrun and Kumar 2007; Beetsma and Debrun 2016).

The case of Italy was analysed by Moschella (2017), who inquired as to why the country decided to accept the provisions of the TSCG, demonstrating that the choice of the government was determined by fears of retaliation from the markets. This decision was also influenced by the logic of path-dependency (i.e. the fact that the TSCG was a condition for introducing the European Stability Mechanism – ESM), the pro-European attitude of the government, and a solid supporting majority in the parliament. This article builds on Moschella's investigations by including IFIs, testing more specific hypotheses, and making use of different data.

RESEARCH DESIGN

This section introduces the research question and theoretical background underlying two alternative explanations of the phenomenon, describes the causal mechanisms linking the independent and dependent variables, designs the hypotheses, illustrates the sources of information and discusses why other theoretical frameworks were not used.

The research question is formulated in the following way: Which factors explain Italy's position in favour of the requirement for EU member states to have in place IFIs and CBBRs in their own legal system in the period 2010-2013?

To provide an answer, the article tests two contrasting explanations: a functional explanation and a domestic one. The functional explanation is borrowed from the legalisation theory (Kahler 2000), as Schelkle (2007) and Hodson (2018) demonstrate the possibility of testing legalisation hypotheses in the field of EU fiscal governance. The domestic explanation, on the contrary, is drawn from Liberal Intergovernmentalism (LI) (Moravcsik and Schimmelfennig 2009).

According to the functional explanation, governments are expected to accept the introduction of 'more legalised institutions', in this case IFIs and CBBRs, 'because they solve particular problems of commitment or collective action, increasing the prospective benefits from cooperation', and, at the same time, they 'must weigh the costs imposed by legalisation' (Kahler 2000: 663). Compliance with EU fiscal rules is a matter of commitment and collective

action, not only because, as article 120 TFEU states, member states' economic policies are a matter of common concern, but also because compliance can reduce macroeconomic risks in every country (Bénassy-Quéré, Brunnermeier, Enderlein, Farhi et al. 2018) and prevent spillover effects (Constancio 2012) due, for instance, to the interdependence of banking systems (Hall 2012). Legalised institutions have also a direct positive effect on risk reduction because they make the commitments to the EU fiscal rules more credible (Weale 2015: 187). In order to test whether IFIs and CBBRs were requested in negotiations to resolve a commitment or collective action problem, it is first necessary that governments are aware of such problems. Second, governments should be persuaded that IFIs and CBBRs are the best way to solve such problems, either domestically or in other member states. Both pieces of information can be obtained through interviews, debates and press releases.

Regarding costs, Kahler (2000: 664) states that they 'are not immutable and careful measurement requires that they cannot be used automatically to account for unexplained resistance to legalisation'. This suggests that costs are subject to the perceptions of decision-makers. Finding no or sporadic mentions around IFIs and CBBRs in domestic debates is necessary in understanding whether they were perceived as costly or not. If a member state is finalising, or already complies with, IFI and CBBR introduction before EU negotiations, it is likely that it will face minor to no adaptation efforts and therefore domestic policymakers will likely perceive fewer costs. To look at the costs, parliamentary debates and press releases are the most suitable source. On the EU side, the fewer the costs perceived by domestic policymakers, the less likely negotiators are expected to be concerned about them in negotiations. This information can only be obtained through interviews, as negotiations proceedings are classified.

The first hypothesis is formulated in this way:

H₁: The more IFIs and CBBRs' benefits in terms of commitment or collective action outweigh their implementation costs, the more likely Italy will prefer them in negotiations.

Given that costs and benefits are difficult to compare, the main hypothesis can be subdivided into two sub-hypotheses, according to benefits and costs. Either the confirmation of both sub-hypotheses or the confirmation of one without the falsification of the other would confirm the main hypothesis:

H_{1.1}: The more IFIs and CBBRs solve commitment or collective action problems, the more likely Italy will prefer them in negotiations.

H_{1.2}: The lower the implementation cost of IFIs and CBBRs, the more likely Italy will prefer them in negotiations.

On the other hand, the domestic explanation expects that the preferences of domestic actors – which include members of parliament, political parties, governmental agencies, bureaucrats, trade unions and business associations – shape the preferences of governments during negotiations (Wiener and Diez 2009). LI gives a clear explanation of three phases of the process of integration: the formation of preferences at the national level, supranational bargaining, and institutional choice (Moravcsik 1998). Since during negotiations member states and intergovernmental institutions tended to monopolise agenda setting and decision-making (Fabbrini and Puetter 2016; Hodson 2011), LI was more suitable than other theories which put the supranational agency at the centre. LI was developed in a historical period in which most of the process of European integration regarded regulatory issues (Majone 1996), rather than the core of national sovereignty. On the contrary, between 2010 and 2013, changes impacted on national fiscal policies, with noticeable distributional effects (Genschel and Jachtenfuchs 2014). Nevertheless, LI proved to be resilient enough to assess most of the EU institutional evolutions after the eurozone crisis (Schimmelfennig 2018a; 2018b; 2015a). Moreover, as Moravcsik (2018: 1656) mentioned in one of his latest articles on LI, 'such domestic incorporation is even more consistent with Liberal IR theory than are regime-theoretical

mechanisms', calling for a further elaboration in order to make LI even more complete, as Phelan (2018) did in the case of human rights.

The observable implications for verifying the domestic hypothesis are the following. First, IFIs and CBBRs should be salient for domestic actors. Second, these actors should take a position on the issue before relevant EU summits. Third, the national government should conduct the negotiations taking care of negotiating an outcome as close as possible with domestic preferences. The first and second observations can be found in parliamentary debates and press declarations, while the second mainly through interviews. Failing to meet these three observable implications will undermine the capability of the LI-derived framework in explaining the outcome under analysis.

This hypothesis is framed in this way:

H₂: The more domestic actors desire IFIs and CBBRs, the more likely Italy will prefer them in negotiations.

The hypotheses, drawn from existing literature, are tested through theory-testing Process Tracing (Beach and Pedersen 2013), with the ambition of either verifying or falsifying causal mechanisms found in the existing literature, thus linking independent variables with the outcome by finding key observable implications.

Overall, the analysis relies on 145 documents from the parliament, both *Camera dei Deputati* and *Senato della Repubblica*, 172 newspaper articles with relevant declarations, and 12 anonymous elite interviews, as documented in the Annex. The predominance of information regarding domestic actors is due, primarily, to an issue of data availability, however, such information can be used to understand the position of negotiators as well.

Other important theories are not suitable for the purpose of this article, due to an overall problem of dependent variables. This is a well-known issue, as it has always been difficult to conceptualise European integration in an unequivocal way and produce a theory that can be generalised enough to include all of its causes and consequences (Rosamond 2000; Chrysochoou 2001). Neo-functional definitions of integration cannot be used as they expect new centralised institutions to be created or developed (Wiener and Diez 2009). For example, Haas (1958: 16) defined European integration as:

the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations, and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states. The end result of a process of political integration is a new political community, superimposed over the pre-existing ones.

Lindberg (1963: 6), on the other hand, intended integration as 'the process whereby nations forego the desire and ability to conduct foreign and domestic policies independently of each other, seeking instead to make joint decisions or to delegate the decision-making process to new central organs'. Both definitions, which are at the basis of contemporary neo-functional theories, do not fit the introduction of IFIs and CBBRs, as the process which takes place in this case is rather one of decentralisation. Moreover, it can be argued that integration occurred with the establishment of the Maastricht convergence criteria, and that the creation of new fiscal rules and institutions constitutes only a better implementation of such criteria. For these reasons, neo-functional theories were discarded, and for the sake of simplicity, related factors like learning mechanisms and spillover effects were left out of this analysis.

This same shortcoming applies to new-intergovernmentalism, which expects governments to prefer *de novo* bodies over traditional supranational actors when they delegate powers (Bickerton, Hodson and Puetter 2015). The literature usually refers to *de novo* bodies as supranational agencies (Scipioni 2018), hence this definition cannot be extended to rules and institutions at the national level. Moreover, new-intergovernmentalism has been criticised

because it does not take into account the considerable intergovernmental conflicts on institutional design (Schimmelfennig 2015b).

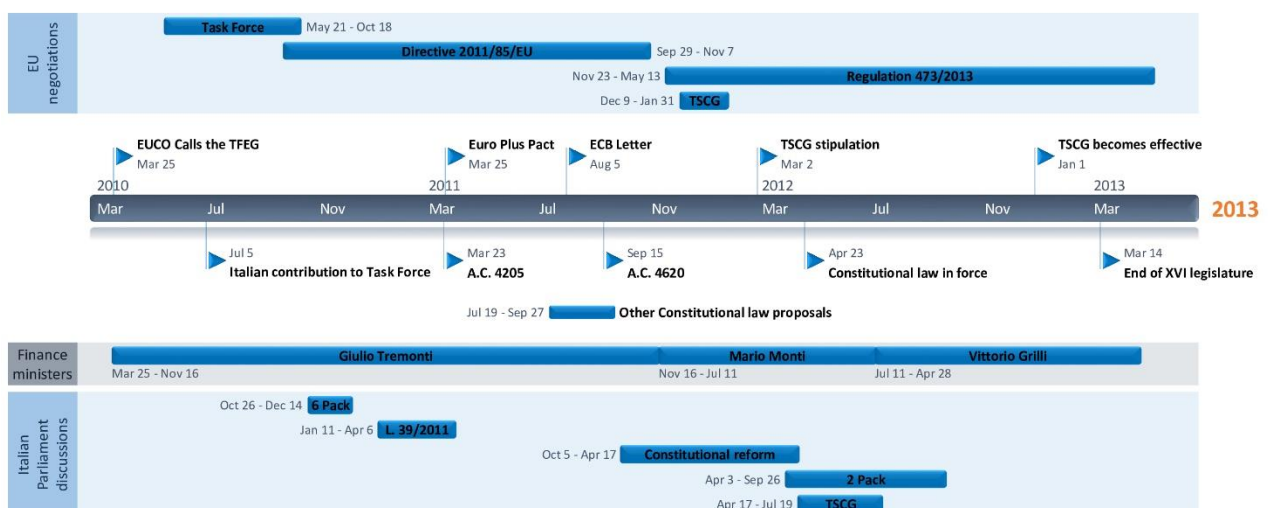
Europeanisation approaches are not suitable, as well. For instance, Börzel (2002) develops a theory on why Europeanisation takes place and how member states react to it, without expecting any integration to happen. However, it has some pitfalls that prevent this theory from being used for the framework of this article. First, Börzel’s contribution is designed to look at regulatory issues rather than at core state powers. Börzel (2002: 196) explains Europeanisation as a way for ‘national governments to address problems which preoccupy their constituencies but can no longer be dealt with effectively at the domestic level (e.g., organized crime, environmental pollution, or immigration)’. Fiscal policy would hardly fall into the same domain of such policies. Another pitfall is that the concept of Europeanisation – which presupposes the agency of supranational institutions – fails to include the TSCG, which is a purely intergovernmental treaty, and gives no room for dissenting member states to opt out. The process of integration of the EMU is more intricate than a simple, linear negotiation on any conventional EU regulatory issue, hence it requires a theory that can encapsulate all its specificities.

Finally, theories deriving from historical institutionalism (Thelen 1999; Pierson 2004), which could bring interesting elements that could explain why and how institutions or rules evolve historically, are incompatible with this research design as they take an institution-centred perspective rather than an actor-centred approach, as this article does.

FINDINGS

This section presents the main findings of the research. After a brief historical introduction, each sub-section discusses the main observations about IFIs and CBBRs in Italy and their implications on the verification or falsification of the hypotheses. Figure 1 displays the timeline of the events.

Figure 1: Events timeline



The Introduction and Strengthening of an IFI

The debate on the creation of an IFI in Italy predates the EMU reforms. In 2004, a study of the European Commission suggested the creation of an IFI in every EU member state (Sapir, Aghion, Bertola, Hellwig, et al. 2004). In 2005, the IMF proposed that 'a permanent Independent Fiscal Council of leading experts should be established to evaluate budget proposals and trends and stimulate a debate on fiscal issues' (International Monetary Fund 2005). The request of the IMF followed a broad academic consensus on the role of IFIs in enhancing the sustainability of public finances but remained unanswered and was not translated into law (Interview 9). The discussion begins with the parliament, moves on to the perspective of the government and negotiators, and finally explores the position of other domestic actors.

Parliament

The first occasion in which the Italian parliament had the opportunity to discuss the creation of an IFI was the budgetary law reform 196/2009 (Senato della Repubblica 2009). In the first reading, the Budget Committee of the *Senato* discussed two amendments creating an IFI. The first proposed a bicameral committee on the transparency of public accounts, while the second proposed an independent authority. The first amendment was criticised insofar as it was not compatible with the Italian form of government, while the second because there were no positive examples in other countries (Interview 10). The latter received immediate opposition from the vice-minister of economy and finance Vegas and the chairman of the Budget Committee of the Senate, Azzollini, while the first was approved by the Committee and welcomed by Vegas. Nevertheless, the *Camera* rejected the proposal and the unification of the parliamentary budget services received scarce attention (Camera dei Deputati 2009).

The discussions on IFIs continued in October 2010, when the parliament was notified about the proposals of the Six Pack by the European Commission. In previous meetings, IFIs were not salient (D1; D4; D5). The provisions of the Six Pack forced the Italian parliament to amend its budgetary processes within one year after Law 196/2009. The Foreign Affairs Committee of the *Senato* strongly supported an Italian IFI (D6), and the Budget Committee expressed general appreciation as well (D7; D9). In a discussion in the plenary of the *Senato*, the issue was touched upon three times, with appreciation from both members of the majority and the opposition (D12; D13). Finally, the Committees of the *Senato* and the *Camera* heard the vice-DG of the Italian central Bank, Visco, where MPs again expressed their approval (D20).

Nevertheless, in the discussion of the Six Pack, the issue was not salient in key meetings. First, it was not debated during the hearing of minister of economy and finance Tremonti and EU Commissioner Rehn (D19). Second, in the *Camera* IFIs were not discussed at all (D18). Therefore, the Italian parliament exerted no explicit influence on the government in the negotiations within the TFEG. The Italian government proposed its contribution to the TFEG on July 5, while the parliamentary discussions on the reforms of EMU started on 26 October, eight days following the last meeting of the TFEG.

The next step was the reform of Law 196/2009 implementing the indications of the TFEG. In that period, the Council was discussing the directive 2011/85/EU, reaching a general agreement on 15 March. Discussions about the reform of Law 196/2009 lasted from 11 January to 16 April 2011. This time around, the legislative procedure was started in the *Camera*, but independent institutions were discussed not even once (D24; D40; D41). It was, again, the *Senato* that touched on the topic, and the same amendments creating a committee and an authority were proposed. Azzollini supported the first proposal with some caveats, while the second was rejected by a large majority (D43; D47; D48; D51). During the debate in the plenary, senators engaged in a broad discussion on IFIs, where strong arguments in favour of independent institutions emerged. Notwithstanding these positions, all the amendments were once again rejected. Apart from some procedural considerations by Azzollini, no MPs opposed the creation of an independent institution *per se*. The clash was about which model to create, and the crossfire between such models prevented the *Senato* from agreeing on one

single proposal (D56; D57). The *Camera* therefore received a text from the *Senato* which contained no references to independent institutions and approved the Law without discussions about IFIs (D58). One Senator from the opposition commented on the resistance he witnessed:

It was the classic 'deaf resistance', the most terrible one to overcome, the one that only those who have been in a parliament know just how mortal it is. ... The battle to build the IFI had some well-known champions, while there were no explicit standard-bearers in the resistance, nevertheless the decision was not being made because nobody wanted to make it. (Interview 10)

In the 2009, 2010 and 2011 discussions, the majority of MPs did not support the government in its request for IFIs, initially, because they opposed a similar solution, and later on, because the topic was not salient, and the parliament could not contribute to the negotiations. Such facts do not meet the expectations of the domestic hypothesis and do not falsify the functional one.

On occasion of the Constitutional reform, the Committees of the *Camera* heard several experts, some of which mentioned the creation of an independent institution. Two of them proposed the committee model (D69), two others stated that it was required to enforce the principle of balanced budget and that it should be given constitutional recognition (D71). The Italian Comptroller General mentioned that the *Ragioneria Generale* could perform that role (D73). Apart from a statement by Hon. Tassone and an ironic comment by President of the Budget Committee of the House Giorgetti, there was no vocal opposition to IFIs. During the discussions in the various Committees, there was no relevant mention of independent institutions (D74), but the issue was widely debated in the plenary. In that venue, two models were debated: the parliamentary institution and the stability council, a new name for the independent authority. This latter was opposed by an overwhelming majority of 504 votes. The parliamentary model was more fortunate. Hon. Cambursano made the point that this model would have maximised the prerogatives of the parliament and fulfilled the requests of Directive 2011/85 EU. Fierce opposition came from MPs belonging to small parliamentary groups or else dissenting from their own, thus the amendment passed with 385 in favour out of 406 votes cast (D80; D81; D83). After the approval, the discussion passed to the *Senato*, which almost unanimously welcomed the text coming from the *Camera*. A large majority of the *Senato* voted in favour of the constitutional reform in the first reading (D92; D93). Definitive approval of the reform in the second reading took place between 5 March and 17 April 2011, supported by a majority large enough to make a popular referendum unnecessary (D97; D98; D101; D104; D108).

Final approval of the IFI in the constitutional reform was welcomed by a Senator from the majority, who declared that:

The clash inside the parliamentary committees was about the best way to introduce such an important reform, because creating a new instrument to control the government is never simple. Senator Morando proposed several times a solution which has always been welcomed by the MPs, and over time the government changed its idea. ... We acted tactically all together in the Committee to see the approval of the IFI. (Interview 11)

Such a positive attitude by the MPs, however, does not support the domestic hypothesis, as the implementation of the IFI occurred after its negotiation at the EU level. On the contrary, the functional hypothesis received some strong confirmation, as implementation costs were reduced due to the EU requirement, and MPs were aware of this. One of them said that 'only when it was possible to rely on the favour of the EU, did we succeed in building a parliamentary majority in favour of the IFI' (Interview 10), a version confirmed by a senior parliamentary official (Interview 9). Another MP added that the parliament exerted a negligible influence on the government concerning the Six and Two Pack (Interview 11). A witness from the ministry of economy and finance (MEF) confirmed the limited role of the parliament, as he remembered that there was an attitude of delegation and trust towards the government,

without strong critical voices and the debate on IFIs arose afterwards, with a delayed outbreak, in the implementation phase. (Interview 5).

In order to confirm the functional hypothesis on the side of benefits and further falsify the domestic one, the article now digs into the position of the government.

Government and negotiators

Most of the press declarations of minister Tremonti mentioned that the Italian government was committed to ensuring public debt sustainability through austerity-driven policies without making any references to the institutional changes the government intended to pursue (A106 to A133). For negotiations of the Six Pack, an official inside the permanent representation reported this experience:

I don't remember particular opposition from any member state on the role of IFIs. For sure, Italy did not oppose them. ... Italy has always had this favourable position because it lent money to Greece: at the beginning Italy was on the creditors' side and did not dislike exerting a bigger control on countries like Greece. Problems arose afterwards, with the crisis between Tremonti and President Berlusconi. (Interview 2)

An official of the MEF confirmed that there was no opposition to the introduction of an independent body (Interview 3). Another negotiator from the same ministry and a member of the Budget Service of the Senate confirmed that Italy had been mostly in favour since the beginning. Against a backdrop of a negotiation where Italy disapproved of several elements, the introduction of IFIs looked reasonable (Interviews 5 and 9).

A triangulation with an MP shows that MPs looked at the situation in the following way:

In that period, the government saw independent institutions as an emanation of the European Commission rather than as a national counterpart. We won the resistance of the government only when the Parliamentary Budget Office was designed, as its validations are authoritative, yet not binding. (Interview 11)

In the Six Pack negotiation, therefore, the Italian government was more interested in ensuring the compliance to fiscal rules by other member states (i.e. Greece) than to second the preferences of domestic actors. Such a confirmation of the functional sub-hypothesis related to benefits is consistent with one declaration from foreign affairs minister Frattini in the *Camera*:

All member states should have the possibility to supervise the management of domestic business in other states: the idea of having in place a system of general monitoring on each other is a fundamental principle, as no state can admit that [public finance] is a mere internal affair. We are in this together, and if a state showcases mismanagement of its public accounts this will have consequences on everyone. (D2)

Regarding the Two Pack, newspaper articles never reported declarations by the minister of economy and finance (A136 to A149). Negotiators in Brussels saw the discussion as less salient, and the Italian position remained constant without big clashes. The negotiating effort was focused on the number of reports that were due should a country incur an Excessive Deficit Procedure. Moreover, northern countries and Germany wanted that IFIs had the power to directly ask clarifications of governments and even sanction them. Italy managed to remove these parts from the final texts (Interview 2). Another negotiator reported that the European Commission presented an annex with IFI requirements. One of them was about who was to oversee the macroeconomic forecasts. Italy obtained that such forecasts were to be prepared not by IFIs but by Finance Ministries and then endorsed by IFIs (Interview 5). The Budget Service of the Senate noticed:

more resistance from Italy and Spain, while most of the member states were neutral, and northern member states as well as the European Commission were strongly in favour. ... In

Italy, the political discourse was focused on other topics, and when it came to discussing the Two Pack, negotiators realised that IFIs were irreversibly present in the EU negotiations. (Interview 9)

There are no traces of such discussions in the parliamentary records or the press, thus, the domestic hypothesis is again falsified. Low saliency on IFIs, apart from some technical aspects, also shows that the political cost was low, confirming $H_{1,2}$.

Overall, negotiations were conducted without *a priori* prejudices on the necessity of creating IFIs. Other interviews confirm the low saliency and the scarce attention from domestic actors. As an Italian negotiator reported, 'both the Six and Two Pack included more controversial issues than the creation and definition of IFIs' (Interview 3), while a Dutch said that 'IFIs were not very difficult to achieve in the Six Pack, and in Two Pack northern and southern member states had different views only about technicalities' (Interview 8). Moreover, another testimony of one of the senior Italian negotiators of the permanent representation to the EU, shows that 'all the specific proposals came from the Commission, which acted in tandem with Germany, and the Mediterranean front acted in damage control mode without taking a direct position against anything' (Interview 1). However, among these proposals, IFIs were the ones of least concern for Italy.

Domestic actors

Despite taking positions on the broader topic of fiscal policy, actors like the Bank of Italy, Confindustria, trade unions, and key national bureaucracies never mentioned IFIs in the press.

Trade unions were never heard from in the parliament on the reforms of the EMU governance. Hence, it is very unlikely that they shaped the preferences of the government. Moreover, in only four of 23 articles, Italian trade unions showed support for a cut in public spending (A151; A159; A163; A164). Confindustria called for more prudent fiscal policies several times in the press. 29 out of 72 newspaper articles contained at least one declaration from its president Marcegaglia in favour of austere fiscal policies (A34 to A105). Confindustria would have therefore been likely to welcome the introduction of an IFI, but it did not pressure the government explicitly.

Regarding ISTAT, president Giovannini was heard by the Budget Committees to discuss the role that the Greek Statistics Office played in manipulating the country's public accounts (D29). The president called for more independent and reliable national statistics offices, but never engaged in the debate on IFIs. The Comptroller General stated that he was in favour of an independent institution (D73) but his suggestion that his office could have assumed that role was not considered. The Bank of Italy discussed with more attention the issue of IFIs: Visco was in favour of all the proposals of the TFEU (D20). His hearing, however, took place in December 2010, when the key elements of the Six Pack had already been negotiated. Overall, the Bank of Italy always tried to push for a rapid implementation of the EMU governance reforms. In the press, the Governor of the Bank of Italy Draghi mentioned that Europe needed 'a strong economic governance where discipline was extended from budgetary policy to national reforms' (A2). This declaration, dated 3 March 2010, preceded even the TFEU, and suggested that the Bank of Italy had always exerted pressure on the government to introduce all the necessary changes to enhance the EMU. However, it did not include IFIs.

This review on the activity of domestic stakeholders shows that they did not exert influence on the government concerning the introduction of IFIs, thus confirming the falsification of the domestic hypothesis for the parliament.

In conclusion, findings are strongly supportive of H_1 and clearly falsify H_2 . Despite an IFI not being already present in Italian legislation and the objections of parliament, negotiators judged it a reasonable change inside negotiations full of matters that Italy did not like. Moreover, Italy wanted to put in place independent institutions to exert more control over other countries, thus solving an evident problem of collective action. On the contrary, there is evidence against

H₂. All declarations by domestic stakeholders about the free-riding behaviour of other countries came after meetings in which Italy discussed its own negotiating position. Furthermore, the Italian parliament took position several times against IFIs by voting against amendments aimed at introducing an independent institution in the national legal system. Having a core institution like the parliament voting against IFIs strongly falsifies H₂. Finally, the Two Pack was the least relevant matter. Negotiators reported that the Italian position was sceptical on specific provisions, but an agreement on IFIs was simple to reach. Italy held a pragmatic position on IFIs, thus not falsifying H₁. On the contrary, H₂ finds inconsistent evidence, as domestic stakeholders, including foremost the parliament, were not involved in the negotiations and never expressed their opinion on the matter.

The Introduction of the CBBR

After the outbreak of the Eurozone crisis, a wide discussion on how to reduce public spending took place. The parliamentary *iter* of the two reforms of the budgetary procedure – Law 196/2009 and Law 39/2011 – saw discussions on a broad package of constraints which never entailed the constitutionalisation of a balanced budget rule. To test the hypotheses, in the case of CBBR, the chronology of the events is particularly important, and the relationship between parliament and government is more intertwined than in the case of IFIs, hence are analysed together. Despite the Euro Plus Pact and TSCG being regarded as very different, in terms of both legal and political commitment, they are discussed together because they were considered by many Italian political actors to be part of the same process.

Parliament and government

In February 2011, Cambursano was the first MP who made a clear statement in favour of reforms promoting financial sustainability (D40). On 22 March 2011, three days before the conclusions of the Euro Plus Pact, Azzolini said that despite Italy needing a rigorous effort to contain public spending, the Italian situation was not resolvable through a rigid bond at the constitutional level. Morando, on the other hand, implicitly stated that a constitutional amendment was desirable (D56). The day after, Cambursano, together with other 15 MPs, presented a law proposal introducing a CBBR (A.C. 4205), clearly indicating that this was due to anticipating any request from the EU (D57). This law proposal revealed just how critical the situation was on the verge of the Euro Plus Pact agreement. On 25 March 2011, the European Council agreed on the Euro Plus Pact. A few days after, minister Tremonti outlined the position of the government in front of the Budget Committee of the *Camera* and:

The old Article 81 of our Constitution did not prevent our country from producing the third highest public debt in the world. ... The symbolic value of enshrining the balanced budget principle in the Constitution should not be underestimated, to present a positive image of our country. ... We did not discuss this in the Council of ministers: we are discussing this here for the first time. (D58)

This position was crucial to understanding how the Italian government approached the negotiations of the Euro Plus Pact. The request to have in place constitutional constraints came from other countries and the Italian government accepted it. The government discussed with parliament only after the decisions were made at the EU level, making it impossible for MPs to exert influence on the process. MPs, moreover, did not have the same position, as Baretta expressed a position against the CBBR, while Cambursano, highlighted how the Euro Plus Pact pointed in the direction of his constitutional law proposal (D58). For these reasons, the domestic hypothesis is falsified also for the Euro Plus Pact.

Regarding the functional hypothesis, interviews do not provide much evidence about the Euro Plus Pact, therefore it is difficult to assess the political cost of requesting the CBBR. However, given the vagueness of the text of the conclusions of the European Council and the low importance attributed by Tremonti in front of parliament, they appear to be rather low. On the contrary, interviews help prove H_{1.1}. One of the lead Italian negotiators reports that:

Italy was not enthusiastic about the introduction of the debt rule, but it was impossible to resist due to the risks that the country was facing and the track record of the Italian public debt. Italy took constructive part in all the negotiations, notwithstanding the change of government occurred in November 2011. All the proposals were prompted by the Germans and Dutch, while Italy tried to limit them by putting other items on the table. [...] There was widespread fear in Europe – but also in Italy – that the Italian debt could have exploded and made the Euro area collapse. Italy's choices in the negotiations were due to avoid accusations of free riding and moral hazard. This strategy was adopted intuitively under President Berlusconi and minister Tremonti, while it was rationalised under President Monti. (Interview 1)

This version is confirmed by a Senator of the majority, strongly involved in the discussions:

The debate was extremely tight, mostly informal, with Tremonti and other colleagues. [...] The introduction was necessary; spreads were extremely high and there was enormous political pressure. There was someone that opposed balanced budgets, but for merely political reasons. The spectre of the Troika was there and in the Budget Committee it was clear how difficult it was to sell bonds. The tension was so high that MPs reasoned in a great spirit of unity. (Interview 11)

Such testimonies show that the negotiations of the CBBR were aimed at resolving a collective action problem, which was the fact that the failure of a single member state could have had a spillover effect across Europe, and therefore the other member states had to ensure a positive solution to the problem. The main difference with the Six Pack negotiations is that in that case Italy was willing to solve such problems in other countries, while in the Euro Plus Pact, it had to cope with domestic problems. In any case, this information proves that H_{1.1} is correct.

Between July and September 2011, six other constitutional law proposals introducing the CBBR were presented by MPs in the *Camera*. In every proposal, the Euro Plus Pact was cited as the element that triggered the discussion on the constitutional change, but the reasons to put in place a CBBR were various.

On 5 August 2011, *Il Corriere della Sera* released a classified letter by the Governor of the Bank of Italy Draghi and the President of the ECB Trichet directed to Berlusconi saying that, 'given the seriousness of the situation of the financial markets, ... it would be appropriate that Italy adopted a constitutional reform that would make budgetary rules more stringent' (2011). Ten days after, the government presented its own constitutional law proposal to the *Camera*. All proposals were discussed all together between October 2011 and April 2012 (D139 to D145).

In October 2011, the Constitutional Affairs and Budget Committees of the *Camera* heard several experts. Only two out of 16 expressed a contrary opinion to any kind of CBBR and MPs mainly reacted in a positive way to the constitutional changes. The debate focused on which way was best for constitutionalising the balanced budget rule.

On 12 November 2011, the Berlusconi Cabinet resigned, and was substituted a few days afterwards by the Monti Cabinet, supported by a much broader parliamentary coalition and committed to the realisation of unpopular reforms in order to recover from the economic crisis. The constitutional *iter* lasted from November 2011 to April 2012. A final, consensual text was approved four times by an overwhelming majority (D97; D98; D101; D104; D108), but it did not exclude disagreements. For example, a Senator from the opposition saw the CBBR as 'a forcing that would have penalised Italy in the years to come' and reported that 'many colleagues reluctantly accepted to vote in favour or deserted the plenary' (Interview 7). Again, the fact that some MPs preferred to reluctantly change their minds or not to vote rather than to vocally state their opposition is consistent with the functional hypothesis, as the CBBR was essential to meeting the EU objectives rather than to second the will of many domestic actors.

During the constitutional *iter*, between December 2011 and January 2012, EU leaders negotiated the TSCG, which adopted much more stringent conclusions as regards the CBBR than the Euro Plus Pact (European Commission 2012). During that period, parliament heard the minister for European affairs Moavero and four influential MEPs. While, in the latter hearing, CBBR was not salient (D95), in the former most of the MPs either agreed with the principles of the TSCG or stated that Italy was already complying thanks to the constitutional law under approval procedure (D94). The minister declared:

It is important for us to get rid of all doubts on our vocation to confirm all the commitments to discipline deriving from the Treaty. ... The effort of the country to introduce the balanced budget rule, which is spontaneous, demonstrates that our country is able to meet that goal autonomously. (D94)

Therefore, the government knew that the parliament was undertaking a constitutional change, which made it easy to accept the provision of the Treaty on the CBBR. The lack of implementation costs is confirmed by an interview with an official of the MEF, who said:

We were very open to the balanced budget principle in the Constitution, and the first constitutional law proposal in Italy came before the TSCG, so the country was already complying. The most relevant part for us was that there were no add-ons to the Six Pack in terms of debt rules and MTOs. (Interview 5)

H_{1.2} is also confirmed by the ratification procedure of the TSCG by the Italian parliament, which started immediately after the approval of the constitutional amendment. This time, despite some vocal opposition, MPs were aware that Italy was already complying with the provision on the CBBR, hence, it was easy to find support for the TSCG (D124; D125; D129; D134). For all these reasons, H_{1.2} is strongly confirmed for all the negotiations after the Euro Plus Pact.

Regarding collective action problems, H_{1.1} is confirmed, as it appears in an interview to another negotiator:

The TSCG can be understood in the context of a general discussion which included the ESM, for which the CBBR was a necessary condition. The position of Italy was due to the critical situation which required a risk-sharing instrument like the ESM. In the end, negotiators approved the ESM, but some countries, driven by their domestic political debate, required risk-reduction mechanisms [the CBBR] to be in place. (Interview 2)

Such a position is consistent with both the testimonies of policymakers (Buti 2020), as well as the findings of academics (Moschella 2017). In this case, since member states required, in order to proceed with the creation of the ESM, solving a clear collective action problem first, H_{1.1} is confirmed. In conclusion, low implementation costs together with the necessity to resolve collective action problems strongly confirm the functional hypothesis.

Domestic actors

To discard the domestic hypothesis once and for all, the position of domestic actors is reviewed. Twice the Bank of Italy expressed its position on debt rules. In a 2010 hearing, Visco said:

The introduction of a numerical fiscal rule is no more burdening for our country than the objective of a balanced budget that we already have. ... A debt rule would also reassure the investors that public debt will be effectively reduced in the future. (D20)

The Bank of Italy thus reasoned pragmatically in terms of costs and benefits for the country. It was therefore likely to have welcomed the constitutional provision, but there is no evidence that it pushed for it.

Another clear statement was inside the letter of 5 August; however, the letter comes after both the Euro Plus Pact and the constitutional proposals of some MPs, therefore it could not have influenced the negotiations of the Euro Plus Pact. Moreover, it was not clear whether Draghi wrote this letter acting as Governor of the Bank of Italy or incoming President of the ECB.

Newspaper articles showed that the Bank of Italy was fully supportive of the reduction of public debt in Italy. Between 2010 and the Euro Plus Pact, Governor Draghi released 12 interviews or statements to *Il Sole 24 Ore* of which nine stated that the government should reduce the debt without conditions and five stated that debt reduction had to be compensated with more growth. The push for risk reduction was therefore strong, but Draghi never made clear that a constitutional reform was necessary (A1 to A12).

Between 2010 and the Euro Plus Pact, Confindustria's president Marcegaglia released 28 declarations. In 21 she outlined the necessity for reducing public spending, but without calling for changing the Constitution; in 15 the importance of combining growth and austerity (A34 to A61). Trade unions made nine declarations, in which there were four references to cuts. However, they related mostly to the wages of politicians and the costs of public administration and there was no reference to the CBBR (A150 to A158).

All the declarations from domestic actors other than MPs that could have influenced the negotiations on the CBBR do not specifically refer to it. Such an observation further falsifies the domestic hypothesis.

CONCLUSIONS

This article investigated negotiations at the European Union level underlying the introduction of an Independent Fiscal Institution (IFI) and Constitutional Balanced Budget Rule (CBBR) in Italy between 2010 and 2013. By looking at parliamentary documents, press releases and interviews, the article explained the main reasons motivating the institutional choices of Italian decision-makers and negotiators. Two contrasting hypotheses were tested: a functional hypothesis borrowed from the legalisation theory – an international relations framework seldom used for EU integration matters but very suitable in this case – and a classic domestic hypothesis taken from Liberal Intergovernmentalism (LI). The former explains the outcome as a choice that balances functional benefits of institutions with their costs as perceived by decision-makers, while the latter as explains the outcome the maximisation of the institutional preferences of domestic actors. Overall, data points to the confirmation of the functional hypothesis and to the falsification of the domestic one. Regarding the introduction of the IFI, in the context of the Six Pack negotiations, Italian negotiators saw IFIs as a useful, easily implementable instrument increasing financial stability in other EU member states. On the contrary, domestic actors were either indifferent or against the introduction of an IFI. The strengthening of IFIs through the Two pack was not salient domestically, and negotiations regarded only technicalities. Regarding the introduction of the CBBR, the domestic debate was triggered by external factors, mainly the economic situation and pressures from other EU member states, hence decision-makers pledged to introduce a constitutional rule reluctantly. When it came to negotiating the Treaty on Stability, Coordination and Governance, which required member states to have a CBBR in place, negotiators were well aware that Italy was already implementing it, therefore they welcomed the proposal as it was basically costless. The choice for a case study based on a single country allowed for an immersive analysis providing strong evidence in favour or against the hypotheses, however, the breadth of the analysis is narrow. For this reason, more research needs to be conducted on other cases, to understand whether findings are consistent or inconsistent in other EU member states.

In any case, such conclusions have several implications for the academic debate on the EU post-crisis evolution. First, despite its main expectation being falsified, LI still proved a viable framework for analysing supranational negotiations affecting domestic instead of EU institutions. Rather than ruling out LI, this article calls for more case studies on this and similar

matters and for further updating the theoretical framework to include the most theoretically challenging outcomes of EMU governance reforms.

Second, legalisation theory fits very well the case under analysis and its expectations were confirmed. On the contrary, similar functionalist explanations from EU integration theories could not be used, as the dependent variable – the creation of new institutions and rules at the national level – does not constitute a case of EU integration strictly speaking. This consideration raises two rather important questions: Are functionalist EU integration theories capable of understanding all the dynamics of the EU institutional evolution? Are more general and flexible international relations frameworks better?

Third, this article shows the importance of digging into national parliamentary records to understand the reasons for the choices within EU negotiations. Against the backdrop of an increasingly prominent role of national parliaments in EU decision-making (Revesz 2021; Heffttler, Neuhold, Rozenberg and Smith 2015), relying on this kind of source has become more and more important in the study of EU politics.

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