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Influence of the European Semester on national public sector reforms under conditions of fiscal consolidation: The policy of conditionality in Italy 2011–2015

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Abstract

This article applies the Schimmelfennig and Sedelmeier "governance by conditionality" framework to public sector reform in a European Union (EU) country subject to implicit rather than explicit conditionality in the context of severe fiscal consolidation. It analyses the reform programmes of the governments that alternated in power in Italy over 2011–2015, focusing on three major areas of public sector reform – fiscal consolidation, labour market reform and liberalization – in the context of the Country-Specific Recommendations–National Reform Plan (CSR-NRP) cycle. We show that the EU has influenced governance (budget institutions and the governance structure of the NRP process) as well as the content of reforms. These results are consistent with the Schimmelfennig and Sedelmeier framework regarding the importance of external incentives in explaining adoption and implementation of reforms. Our findings confirm not only the importance of material conditions and their credibility in explaining the fit

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between EU recommendations and domestic reforms, but also the significance of the strategic usage of Europe by domestic policy makers, which has become more important as the legitimacy of the EU has decreased among voters. We conclude with some reflections on the implications of our research for the ongoing debate on the reform of the European Semester, in particular with regard to the question of how to ensure a higher fit between EU recommendation and domestic policies.

Keywords
Austerity, Europeanization, Euroscepticism, fiscal governance, policy coordination, sovereign debt crisis

Introduction

This contribution assesses the influence of the European Union (EU) on public sector reforms under conditions of fiscal consolidation. Since the interconnected financial, economic and fiscal crises hit across Europe in 2008–2010, several countries have been subject to pressures from the EU to implement more or less tightly formulated prescriptions in matters of organisation of the public sector. Whilst these pressures are evident in countries that were directly – like Greece, Ireland and Portugal – bailed out and the impact of conditionality on these countries has been extensively studied (Hick, 2018; Theodoropoulou, 2015; Zahariadis, 2017), much less is known about the impact of implicit conditionality in countries that were not formally bailed out but whose financial and economic difficulties have made them especially susceptible to EU-level rewards (Sacchi, 2015).

The crisis of 2008–2010 gave impetus to major institutional changes in EU governance: the so-called Six Pack (five regulations and one directive, 2011), the Fiscal Compact (2012) and the Two Pack (two regulations, 2013), aiming to enhance the coordination and surveillance of the fiscal and economic policies of the EU Member States, and especially of those that have adopted the Euro (Dehousse, 2016; Laffan and Schlosser, 2016). The Six Pack strengthened the Stability and Growth Pact (SGP) on fiscal governance and introduced the Macroeconomic Imbalance Procedure (MIP) covering several areas of economic governance such as private debt, export performance and unemployment. Both the SGP and the MIP provide for enhanced surveillance and potentially financial sanctions for Eurozone countries not meeting their requirements. The Fiscal Compact, applying to Eurozone countries only, committed these countries to strengthening their budgetary institutions and to introducing a balanced budget clause, preferably with constitutional legislation. With the Two Pack, Eurozone members committed to further reporting requirements and the coordination of their fiscal policies.

All these new measures, plus the pre-existing Europe 2020 strategy for achieving targets on unemployment, climate change, poverty, education and research and development have been integrated into the European Semester

("Semester" hereafter), a single yearly coordination cycle of Commission recommendations (Country-Specific Recommendations, CSRs), Member States reform plans (National Reform Programs), and national budgets and reforms. The Semester brings together national and EU actors in a continuous interaction, which makes it moot to think in terms of it being an intergovernmental or supranational model of governance as the two dimensions get more and more entangled (Verdun and Zeitlin, 2018: 145).

Changes have occurred to the Semester during its short life, as it has evolved towards giving greater relevance to social policy targets and, with the Juncker Commission, the streamlining of its process and a more flexible implementation of fiscal rules (Zeitlin and Vanhercke, 2018). It combines hierarchical, or rule-based, elements with a learning-based governance mode derived from the Open Method of Coordination (OMC). The rule-based elements are characterized by a degree of ambiguity, and hence discretion by the Commission. An example is the assessment of the structural deficit with regard to fiscal governance or macroeconomic imbalances (Moschella, 2014). This means that bargaining and pushback are always available to Member States, and the larger ones appear to be especially successful in this regard (Baerg and Hallerberg, 2016). Finally, like all forms of international conditionality, the efficacy of the rules set by the Semester will be affected by how legitimate they are perceived to be in the target country (Epstein, 2006).

Indeed, one of the key questions addressed in the Semester literature is the extent to which it has been successful in affecting domestic policy change. Given its nature as "meta-OMC" or "coordination of coordination" (Armstrong, 2013: 609), several observers have emphasized that the impact of the Semester is through learning, between the EU and the domestic level and across Member States (Dunlop and Radaelli, 2016); however, others have stressed that policy change tends to occur only under the pressure of external constraints, whether in the form of formal requirements (e.g. in fiscal governance) or of market pressure (Darvas and Leandro, 2015; Deroose and Griese, 2014); finally, many scholars have been concerned with how the coercive side of the Semester, being focused as it is on fiscal stability and neoliberal policies, has side-lined social goals and concerns related to the quality of services (Crespy and Szabo, 2018; Crespy and Vanheuverzwijn, 2017; De la Porte and Heins, 2015).

This contribution adopts a modified version of the framework that Schimmelfennig and Sedelmeier (2004) developed for their study of "governance by conditionality" in the process of Eastern enlargement of the EU, and applies it to the analysis of how the EU has influenced public sector reform in Italy through the Semester process. It assesses the applicability of the Schimmelfennig and Sedelmeier framework outside its original remit, which requires adapting the original model as described in the next section.

Schimmelfennig and Sedelmeier combine into a single framework a cost-benefit rationale for compliance with EU conditionality with a lesson-drawing and a logic of appropriateness dimension. Featherstone (2015) has applied this framework to

Greece, a country that has been subject to stringent explicit conditionality even outside of the Semester's institutional framework. This article extends its application to a case, Italy, where the explicit conditionality of the Semester (the sanctions that can be imposed if countries do not take the corrective measures required if they fail to meet the SGP and MIP benchmarks) has been combined with implicit conditionality, namely an "implicit understanding between [two parties] that a particular behaviour is expected in order for the good to be made available, even in the absence of detailed covenants" (Sacchi, 2015: 79). Specifically, Italy's rewards came in the form of European Central Bank (ECB) purchases of government bonds on the secondary market and flexibility in the interpretation of EU fiscal rules on the part of the EC.

Drawing on previous research by Cacciatore et al. (2015), this contribution provides an analysis of the EU influence on national public sector reforms by assessing the degree of fit between the National Reform Plans (NRPs) and the CSRs (measured through the compliance of the NRPs objectives with the CSRs) and the extent of domestic adaptation based on the extent of legal implementation of each reform, as assessed by the EC through its Country Reports. Our dependent variables are this fit as well as the changes that have occurred in the domestic institutional framework. This analysis has been complemented by the Commission's own assessment of several other public sector reforms, as summarized in the online Appendices 1 and 2.

National governments might take very different stances towards both reform and international conditionality (Sacchi and Roh, 2016). As recommended by Verdun and Zeitlin (2018), in order to tease out the interaction between the Semester and domestic policy-making, we follow the development of reforms over the years and the alternation of governments in office, similarly to what has been done for Latvia by Eihmanis (2018). We have therefore structured the analysis of the reforms around the governments that alternated in this period (Mele and Ongaro, 2014): Berlusconi (centre-right, 2011), Monti (technical, 2011–2013), Letta (grand coalition, 2013–2014) and Renzi (centre-left, 2014–2016). In view of the evolving nature of EU governance and in particular of the Semester, we also tracked relevant changes in EU governance as these have the potential to affect the credibility of EU rewards and sanctions (Ongaro, 2014).

Our empirical analysis covers the reforms announced or implemented between summer 2011 (demise of the Berlusconi government at the height of Italy's fiscal and financial crisis) and 2015, focusing on fiscal consolidation, labour market reform and liberalization, and we place these reforms in the broader context of public sector reforms (Ongaro, 2009, 2011). These three reforms were always present in the CSRs for Italy, which increases their comparability across governments. At the same time, following separate policies allows us to distinguish the impact of electoral considerations that might affect a government's cost-benefit analysis of reform (as was the case for the Renzi government, which pursued labour market reform more enthusiastically than liberalization). While most work on the European Semester is entirely or largely based on documentary analysis, we, like

Copeland and Daly (2018) and Eihamnis (2018), have complemented our documentary analysis of CSRs and NRPs with informants' insights based on eight interviews, as well as a long-term involvement of the authors of this work as observers of Italy's reform trajectory.

The paper proceeds as follows. In the next section we discuss how we have adapted the Schimmelfennig and Sedelmeier framework to the Italian case. We then review the CSRs, the NRPs, and the European Commissions' Country Reports. In the following section we assess the fit between EU recommendations and public sector reforms in Italy through the operation of the material factors and ideational factors highlighted by the Schimmelfennig and Sedelmeier framework.

Our findings confirm the importance of material conditions and their credibility in explaining the fit between EU recommendations and domestic reforms, but also the significance of the strategic ‘‘usage of Europe’’ by domestic policy makers (Woll and Jacquot, 2010), which has become more important as the legitimacy of the EU has decreased among voters. The final section concludes with some reflections on the implications for the ongoing debate on the reform of the Semester (e.g. Alcidi and Gros, 2017; Banerij et al., 2015; European Commission, 2017; Juncker, 2015), in particular with regard to the question of how to ensure a higher fit between EU recommendations and domestic policies.

Theoretical framework

This section outlines Schimmelfennig and Sedelmeier framework and then describes how we have adapted it to the Italian case. In the context of the EU's Eastern enlargement, Schimmelfennig and Sedelmeier (2004) assess the relative explanatory power of three, non-mutually exclusive mechanisms through which the transfer of EU rules can occur: one based on the cost and benefits of membership, i.e. an ‘‘external incentives model’’; one based on social learning; and finally one based on lesson-drawing.

The external incentives model refers to the cost/benefit analysis national governments can carry out when deciding to comply with EU rules concerning domestic policies or institutions. In this case, the benefits (‘‘rewards’’) of membership are weighed against the costs of adaptation. While the rewards can be given or withdrawn by the EU, the costs of adaptation refer to the political costs national governments might face if the reforms introduced to comply with EU conditions negatively affect the governments' constituencies. Specifically, the balance between costs and benefits depends on ‘‘(i) the determinacy of conditions, (ii) the size and speed of rewards, (iii) the credibility of threats and promises, and (iv) the size of adoption costs’’ (Schimmelfennig and Sedelmeier, 2004: 664), which can lead domestic actors to mobilize against adoption. Inasmuch as these domestic actors are veto players, their assent is necessary for policy change. Based on Schimmelfennig and Sedelmeier framework, rule adoption will therefore be unlikelier the greater the number of veto players being negatively affected by it.

In the Italian case, EU conditionality is about public sector reforms that are meant to increase long-term growth by improving overall competitiveness. However, EU conditionality for Italy does not entail the democratization of the political regime, contrary to what was the case for the enlargement countries. This article further diverges from the original Schimmelfennig and Sedelmeier framework in that it abridges the rationalist model in two respects: first, it does not include the first factor (determinacy of conditions), as the CSRs are specific only with regard to the fiscal targets; second, it omits the speed of rewards, since it largely co-varied with their size: it was higher for the financial rewards, which were especially high when the country was under the threat of bankruptcy and ultimately depended on a relatively quick decision by the ECB or the reaction of financial markets, than for the flexibility rewards, which were subject to the decisions of the Commission and the other Member States.

Alongside this rationalist model, Schimmelfennig and Sedelmeier introduce two ideational models, arguing that ideational factors can spur reform even in the absence of material incentives. The first ideational model, lesson-drawing, refers to the policy-makers' assessment of the EU policies as useful to solve domestic problems, meaning that EU policies are adopted without incentives or explicit persuasion. In our adapted framework, policy dissatisfaction with the status quo is reflected in the political agenda of the government.

The second ideational model is based on social learning and the logic of appropriateness (March and Olsen, 1989). According to this model, the influence of the EU depends on whether domestic policy-makers consider EU rules to be appropriate according to the country's "collective identity, values, and norms" (Schimmelfennig and Sedelmeier, 2004: 667). In our research this refers to the legitimacy of EU rules and the influence of "affective" Europeanism in Italian society as expressed by the electoral success of pro- and anti-European integration parties. In fact, the Italian case presents an excellent opportunity to follow the policy implications of EU legitimacy given the dramatic changes that have occurred with regard to the standing of the EU with Italian voters.

Until the early 1990s, voters and parties shared a broad consensus that European integration provided an anchor for the country's modernization. Moreover, and beyond this utilitarian assessment of the EU's impact on Italy, there was widespread affective support for European integration, namely "based on diffused and possibly emotional responses to the ideals of European integration" (Lucarelli, 2015: 41). The pro-European consensus began to crumble in the final part of the 1990s when a soft form of opposition to Europe emerged, mainly involving the mainstream centre-right parties. However, it was only in the 2013 national elections that opposition to Europe hardened, to include exit from the Eurozone and overt rejection of policies advocated by the EU, two pillars of the campaign mounted by the newly founded Five-Star Movement (Conti and Memoli, 2015).

The breakthrough of this movement in the 2013 national elections made apparent that the period of diffuse affective Europeanism in Italian politics had come to an end. For the first time, opposition to Europe constituted a main dimension of party competition, reflecting the drop of confidence in the EU expressed by Italian voters: by 2013 only one-third of Italians expressed confidence in the EU (Corbetta and Vignati, 2014: 53); by 2016, 42% of Italian voters supported exit from the EU (European Commission, 2016). In this contribution, the 2013 elections are therefore considered a watershed moment, separating the governments that operated in a context of high EU legitimacy (Berlusconi and Monti) from those that did not (Letta and Renzi).

The Country-Specific Recommendations and the National Reform Plans

Over 2011–2015, the menu of recommended reforms covered 12 policy areas, but there was significant variation in their frequency in the annual CSRs. While three public sector reforms were recommended every year between 2011 and 2015 (fiscal consolidation, labour market reform, liberalization), three others (public management, banking sector, tax system) were only present in three of the five CSRs, and the other reforms were more episodically requested by the EC. Further reforms were pushed by EU decision-makers although they were not included in the CSRs: this was the case of the reform of the powers of the lower levels of government which, because of its constitutional nature, had to follow a legislative path outside the NRPs. Moreover, some of the reforms in the CSRs are also the object of other institutionalised forms of pressure: thus, fiscal consolidation is the object of the evolving fiscal governance structure of the EMU, while liberalization has been the object of specific initiatives, such as the 2006 Services Directive.

It has also been noted (Interview 1 and 4a) that the level of detail of the EU recommendations may vary as a function of the ‘‘style’’ of prescription of the Commission's Directorate General in charge of drafting the recommendation, also coupled with the ‘‘intelligence capacity’’ of the Commission to actually monitor and follow through the reform process beyond the initial recommendation. Thus, the reform of public administration in 2014–2016 was segmented into myriad decrees and provisions, subject to diverse oversight mechanisms and procedures, which made it challenging to follow even for the most attentive domestic observers, let alone for an external observer like the Commission (Interview 4a).

The CSRs prevalently paid attention to the short-term effects of the reforms and especially to their fiscal effects. This was a feature of the CSRs for all Member States in years immediately following the financial crisis (Zeitlin and Vanhercke, 2018), but in Italy's case it might also have been due to a lack of trust by decision-makers in some European countries in the credibility of the reforms that the Italian governments promised in exchange for greater flexibility in the application of the EU fiscal rules (Interview 5a).

We should also note that each CSR recommendation in turn includes several distinct measures, often affecting different policy sectors. Moreover, over the years these measures have often been treated differently within the CSRs. For instance, services liberalization in 2011 constitutes a single recommendation, in 2012 it is part of administrative reform, and in 2013 it sits alongside public procurement, transportation and infrastructural projects; administrative reform in 2011 goes with improvements in the ability to use cohesion funds, in 2012 with services liberalization, and in 2013 with civil law and anti-corruption measures. Finally, the time horizon of the recommended measures is often unclear. They might require several years to be implemented, and in this case they appear in the CSRs and in the NRPs for each year, the NRPs referring to implementation occurring in the previous years as well as the current one. Only a qualitative analysis can unpick these distinctions, which is why we undertook this type of analysis.

Moving to the NRP, before the crisis this was a dormant document, voicing laudable intents but with no practical impact. It was with the second Prodi Government (2006–2008), just before and at the very outset of the financial crisis, that NRPs started to be more ambitious and to be taken more seriously by policy-makers (Interview 2), though it is only with the Monti government (2011–2013) that NRPs got centre stage, and it was with the Renzi government (2014–2016) that they became both more ambitious and more detailed. It is matter for conjecture whether this is a reflection of an increasingly pervasive EU governance, or of Renzi relying on a longer duration for his government, which was expected to last until the constitutionally-mandated end of the legislature (in hindsight we know this did not happen due to Renzi's unexpected defeat in the December 2016 constitutional referendum and his consequent resignation).

The NRPs provide a punctual response to the CSRs, covering systematically all the annual recommendations. They are very long documents from a minimum of 156 pages (2014) to a maximum of 290 pages (2015) accompanied by annexes and tables. Most of the reforms are presented as a massive list of primary of secondary legislation to be enacted, generally with no explicit consideration of their impact on the economy (Interview 4b). At the same time, they cover the entire political programme of the Italian governments (Interviews 1, 4a and 5b) and also report on the reforms indicated in the previous NRPs. Thus, the policy areas covered by the NRPs are many more than those included in the CSRs.

Finally, the Commission's Country Reports have become progressively more detailed and sophisticated. Since 2013, the evaluation criteria have been pre-established and cover not only the whole recommendation but also its individual evaluation measures (online Appendix 2). However, except for fiscal stability, whose evaluation is based on budget indicators, the evaluation only uses qualitative indicators on the adoption of the laws or the implementation of other steps of the programmed reforms, since the assessment of the impact of the reform is made impossible by the absence of information coming from the country level (Interview 4b).

Based on the Country Reports, it appears that implementation has improved over time, both with regard to individual recommendations and, especially, with regard to specific measures. Thus, Italy appears to buck the broad trend towards the worsening of the implementation record of the CSRs in the EU as a whole

(Deroose and Griesse, 2014). Table 1 reports the scores for fiscal consolidation, labour market reform and liberalization between 2011 and 2015.

The connection between European Semester, institutional changes and domestic reforms

In this section we turn to the changes in the domestic institutional framework that were influenced by the operation of the Semester and the fit between domestic reforms and the CSRs for the four governments that alternated in office between

Table 1. The EC's Country Reports on the implementation of the CSRs

Years	Pre-definition of the evaluation criteria (Y/N)	Score
2011	N	Per recommendation 6/6 partially implemented
2012	N	Per recommendation 4/6 some progress 1/6 limited progress 1/6 fully implemented
2013	Y	Per recommendation 5/6 limited progress 1/6 some progress Per single measure 11/20 limited 8/20 some progress 1/20 substantial progress
2014	Y	Per recommendation 4/8 some progress 4/8 limited progress Per single measure 1/26 no progress 9/26 limited progress 12/26 some progress 4/26 substantial progress
2015	Y	Per recommendation 2/6 limited progress 2/6 some progress 2/6 substantial progress Per single measure No implementation 1/17 Limited progress 6/17 Some progress 6/17 Substantial 3/17 Full implementation 1/17

2011 and 2015. We first review the rewards and their credibility and the political costs of reform, as well as ideational factors at play; we then separately discuss the institutional changes and the fit between the reform content and the CSRs.

The centre-right Berlusconi government (2008–2011) was supported by two parties: the People of Freedom and the Northern League. The risk of financial contagion from Greece to Italy in summer 2011 raised the pressure on the government to implement the EU recommendations, and this was most visible with the government's acceptance of the conditions set in a joint ECB-Bank of Italy letter of August 2011 sent to Mr Berlusconi and containing quite specific recommendations, including on how to reform the public sector (Ongaro, 2014). While the government acted quickly on the fiscal side, it reneged on its commitments to other public sector reforms, not considering credible the ECB's threat to stop its purchase of Italian government debt if structural reforms stalled, and conversely being very clear about the political costs of reform, which would have touched some key interests of the constituencies propping up the government coalition.

However, market pressures intensified so much over summer 2011 that in early November, when the majority supporting the Berlusconi government disintegrated, the Head of State endorsed the former European Commissioner and President of Bocconi University Mario Monti as the next designated Prime Minister. The Monti government emerged as a last-ditch defence against the country's bankruptcy. In this respect, within a few months it was clear that Monti had succeeded. The international monitoring was scaled back, with the IMF, for instance, returning to its yearly reporting schedule, switching back from its emergency programme for monitoring the health of Italian finances. The spread on sovereign bonds began to climb down, in particular after the announcement of the details of the ECB's Outright Monetary Transactions (OMT) programme in September 2012.

The Monti government in many respects represented the polar opposite of the Berlusconi government (Stolfi 2013). While financial risks remained high for at least the first six months of the government, Monti, a former EU Single Market and Competition Commissioner, was the last embodiment of the view of the EU as Italy's anchor for modernization that had held sway until the late 1990s (Dyson and Featherstone, 1996). The new government also marked a return to the technocratic governments that in the 1990s had twice risen to the task of tackling political and financial emergencies. In fact, Monti's was the "super-technocratic" government in that (contrary to other previous technocratic, let alone political, governments) it chose not to bargain with unions, interest groups and political parties (Culpepper, 2014). Thus, it was potentially freer than any previous Italian government to impose costs on specific constituencies.

Nonetheless, the liberalization drive of the government, a major plank of its programme, was significantly watered down by the interests that were to be affected, which directly lobbied the government or acted through the parties in the government majority (Mattina, 2013). The labour market was significantly reformed, including through the reduction of the protections from dismissal for workers on permanent contracts, but even here the government had to soften the extent of the reform in order to respond to the protests from the unions and the leftist parties (Sacchi, 2018).

The grand coalition supporting the Monti government was undermined by the results of the municipal elections of May 2012, which recorded a dramatic increase in support of the anti-establishment Five Star Movement. The rise of Euroscepticism was further fuelled by Berlusconi, who in June 2012 shifted to an anti-EU position in the attempt to regain popularity after heavy electoral losses. This implied that the centre-right party led by Berlusconi remained part of the governmental majority while assuming an increasing oppositional stance.

In the 2013 elections, for the first time the relationship between Italy and the EU took centre-stage (Giannetti et al., 2017). The elections also saw the nation-wide rise of the populist and Eurosceptic Five-Star Movement, the party that won the most votes for the House of Deputies and the second most votes for the Senate. While the Five-Star Movement has expressed wavering if not outright contradictory positions on European integration as on many other issues, it had supported for a period a referendum on Italy's adoption of the Euro, and its strong electoral showing represents a watershed moment in terms of broad attitudes to the EU, as it signalled to political actors that the post-war permissive consensus around European integration had broken.

The brief Letta government (April 2013 to February 2014) that was formed after the elections included many members of the Monti government and was supported by a similar broad parliamentary majority that included both the main centre-left party, the Partito Democratico (PD), and Berlusconi's party. It differed from it, however, in that it was a political government, and thus much less able to defy the interests of its main constituencies. Also, it inherited a much improved financial situation and thus had potentially a greater leeway from international political and market pressures for reform.

Finally, with the vote of confidence to the Renzi government (February 2014 to December 2016), the centre-left returned to power, although it included and was supported in Parliament by MPs that had previously been affiliated with Berlusconi's Forza Italia. The government continued to enjoy relatively low market pressure on the re-financing of government debt. Compared to the previous centre-left governments, the Renzi government had a much more difficult relationship with trade unions. Labour market reforms, even if they went against actors traditionally aligned with the centre-left like the unions, appealed to Renzi's ambition, at least in the first part of his tenure, to expand the electoral support for the PD by gaining the favour of the middle classes (Picot and Tassinari, 2017). The reforms formed one of the key achievements of the Renzi government, the so-called "Jobs Act".

The influence of material and ideational factors across these governments can then be described as follows. With regard to external incentives (rewards), we distinguish those directly connected to Italy's fiscal situation, namely the ECB's purchase of Italian government debt and the financial markets' trust in the sustainability of this debt (as shorthand we call these financial rewards), and those in the form of flexibility in the implementation of the SGP, which directly impact on Italy's economic growth (and thus indirectly on the evolution of Italy's debt/GDP ratio). We assess the financial rewards to have ranged from very high to medium in the period covered by the article, reflecting the improving sustainability of the country's finances (as shown by the sharp reduction of the spread between Italian and German gilts). Financial rewards were very high in the last year of the Berlusconi government (2011) and for the first half of Monti's tenure (until mid-2012), in the context of the country's looming bankruptcy; they were medium from the latter part of Monti's government onwards, as Italy's financial situation stabilised. It should be noted that this assessment is consistent with how the governance of the NRPs evolved, from the centrality of the Finance Ministry in the Berlusconi and Monti governments to that of the Prime Minister's Office in the Renzi government, the latter development signally both the reduction in the financial stability risks and the connection of the NRPs to the broad agenda of the government. As regards the rewards in terms of flexibility, we assess them as "high" for at least the second part of the Monti government and for the two governments that followed it.

The credibility of EU promises and threats changes with its perceived ability to provide or withdraw rewards at a relatively little cost to itself (Schimmelfennig and Sedelmeier, 2004: 665). The Berlusconi government had to take seriously the market pressures spurred by the concerns over the country's fiscal sustainability, while it discounted the connection the ECB made between financial support and broader public sector reform. After committing to a series of public sector reforms in summer 2011 as a condition for receiving financial support from ECB, the Berlusconi government quickly reneged on its commitment. This opened a signalling game between the Italian government and the EU on the credibility of its threats to withdraw its financial support (Hennessy, 2017). The collapse of the Berlusconi government in November 2011 under the pressure of the rising costs of refinancing the Italian government debt was tangible proof of the seriousness of the ECB's conditions. It was only when the new government led by Mario Monti started to implement reforms, including pension and labour market reforms, that the French and German governments lifted their opposition to the ECB's renewed purchase of Italian government bonds.[1]

The credibility of the flexibility rewards increased over time through a combination of two developments. On the one hand the urgency of Italy's fiscal crisis decreased as the country's financial situation stabilized under Monti during 2012; on the other hand, there were significant institutional and personnel changes in EU governance that directly impinged on the European Semester (Zeitlin, 2016): from 2014 the new Commission President Jean-Claude Juncker has proved much more concerned with the rise of Eurosceptic movements and thus with stimulating growth in the hardest-hit Member States than his predecessor José Barroso (Interview 1).

As for the costs of reform, they refer to the political costs incurred by the national governments. Some reforms, such as pension reform, labour market reform, the opening to competition of local public transit, and cadastral and property tax reforms, imply high political costs for any government. Other reforms affect constituencies that are closer to the centre-left (reform of the public administration, reform of public secondary education) or the centre-right (liberalization of professions). We should however note that, as Schimmelfennig and Sedelmeier suggest, political costs are not irrevocably linked to the interests of the parties' constituencies. Parties may purposefully choose policies that go against the interests of their core constituencies, as the experience of the Renzi government made clear when it chose to push policies that could harm some of the centre-left's core constituencies in order to appeal to centre-right voters. Moreover, which actors are veto players depends in part on the political choices of governments, as shown by the contrast between the veto power of anti-liberalization interests vis-à-vis the Monti government and Renzi's decision to weaken the veto power of unions in order to turn towards the centre-right. Finally, the costs can also be affected by the instruments used by the governments: thus, fiscal consolidation was less politically costly than other reforms because governments chose a strategy of across-the-board cuts that minimized veto player opposition by diffusing the costs of consolidation (Di Mascio et al., 2017a).

With regard to the lesson drawing dimension, influential members of the Berlusconi government, beginning with the powerful Finance Minister Giulio Tremonti, were expressing significant mistrust of the policies pushed by the EU. As for the Monti government, not only did it adhere to the traditional Europeanism of Italian elites, but it was also closely tied to the political and expert networks of the EU, not only with Monti himself but also with other members of the executive, like Enzo Moavero Milanesi, the Minister for European Affairs, who was Monti's chief of cabinet at the EC between 1995 and 2000.

The Letta government retained connections to the EU political and expert networks (Moavero Milanesi kept his position as Minister for European Affairs) but its supporting coalition was less stable in a context of mounting Euroscepticism. This made the new executive not disposed to evaluate EU policies in the field of fiscal consolidation and liberalization as suitable for domestic circumstances, while its labour market reform proposals were less ambitious than those that had been launched by its predecessor.

Finally, the Renzi government publicly displayed a much more critical stance towards EU policy prescriptions than the Monti and the Letta governments, most visibly with regard to the EU's continuing emphasis on fiscal austerity. In other words, for Renzi the EU, in particular with regard to the fiscal targets, was a constraint to, rather than the anchor of, Italy's modernization. While the Jobs Act reflected the work commissioned to a team of Italian experts by Renzi before he became Prime Minister (Sacchi, 2018), its content responded to the pressure coming from the ECB and was in line with the EU's guidelines. The Renzi government used its passage to win a measure of flexibility on the fiscal side from the EU as well as to buttress the ECB's Quantitative Easing strategy against the opposition of several Member States (Picot and Tassinari, 2017).

Changes in the institutional framework

The governance of the preparation of NRPs changed over time, in the direction of escalating it. In the early years NRPs were mainly prepared in the Department for European Affairs under the supervision of the competent minister (a junior government position); then from 2011 onwards NRPs became a competence of the Ministry of the Economy and Finance (MEF) as a response to a direct request by the Commission (Interview 1); finally, in the Renzi government, the Prime Minister's office also became involved in their preparation (Interview 4a).

The shift of the competence of drafting the NRP to the MEF, upon request by the Commission, is a clear signal of EU influence over the internal organisation of the national government. However, the contents of the NRPs are still elaborated by the individual departments of the Italian government and suffer from a lack of effective coordination, since the MEF lacks the information to redefine the contributions prepared by the ministries (Interview 4b).

In 2012 the establishment of an autonomous oversight unit within the Parliament to monitor and advice on trends in national accounts (the *Ufficio Parlamentare di Bilancio*, UPB, or Parliamentary Budget Office) implemented the relevant provision (Directive 2011/85) of the "Six Pack" (Di Mascio et al., 2017b). The fact that it was included in the CSR neutralized domestic opposition to it and allowed it to be set up at short notice (Interview 5a). In the same year the Constitution was amended to include a balanced budget rule (as per the Fiscal Compact).

The changes in the institutional framework, attributing the coordination of the NRPs to the MEF with the contribution of the Prime Minister office, have parallels in other Member States (for France see De la Rosa, 2016); at the EU level they are consistent with the greater influence on Semester matters of the ECOFIN formation (Finance ministers) in the Council of the European Union relative to EPSCO, the minister formation covering employment, social policy health and consumer protection (Maricut and Puetter, 2018). The direct strengthening of the budgetary institutions reflects the focus of the Semester on financial stability. The problem, for a public administration like Italy's, with insufficient policy capacity in the line ministries and weak central coordination, remains how to improve the overall capacity to formulate and drive through reforms that by their nature require several years for their implementation and span several policy areas, a problem made more complex by the decreasing legitimacy of the EU (Interview 1).

Fit between the CSRs and domestic reforms

Tables 2 to 4, covering the three reform policies recommended by the EC for all the four governments between 2011 and 2015, assesses the implementation of the CSRs (last column) against the operation of Schimmelfennig and Sedelmeier rationalist and ideational factors (columns 2–4). Column two reports the size and credibility of the rewards and the political costs in terms of the potentially negative impact of the reforms on voters, distinguishing between diffuse interests and the core

Table 2. Influences of EU governance on Fiscal Consolidation (2011–2015).

Government	External incentives	Social learning	Lesson drawing	Implementation
Berlusconi (2008–2011)	*Size and speed of rewards*: Very high (Financial rewards) *Credibility of conditionality*: High *Adoption costs*: diffused costs	Relatively high EU legitimacy	EU influence not expected to solve domestic problems	Partial progress
Monti (late 2011–early 2013)	*Size and speed of rewards*: Very high to medium (Financial rewards) *Credibility of conditionality*: High *Adoption costs*: diffused costs	Relatively high EU legitimacy	EU influence expected to solve domestic problems	Some progress
Letta (2013)	*Size and speed of rewards*: Medium (Financial rewards) *Credibility of conditionality*: High *Adoption costs*: diffused costs	Relatively low EU legitimacy	EU influence not expected to solve domestic problems	Limited progress
Renzi (2014–2016)	*Size and speed of rewards*: Medium (Financial rewards) *Credibility of conditionality*: High *Adoption costs*: diffused costs	Relatively low EU legitimacy	EU influence not expected to solve domestic problems	Limited progress

Table 3. Influences of EU governance on Labor Market Regulation (2011–2015)

Government	External incentives	Social learning	Lesson drawing	Implementation
Berlusconi	*Size and speed of rewards*: Very high (Financial rewards) *Credibility of conditionality*: Low *Adoption costs*: Many and powerful veto players	Relatively high EU legitimacy	EU influence not expected to solve domestic problems	Partial progress
Monti	*Size of rewards*: Very high to medium (Financial rewards); high (Flexibility) *Credibility of conditionality*: High (Financial rewards); Medium (Flexibility) *Adoption costs*: Many and powerful veto players	Relatively high EU legitimacy	EU influence expected to solve domestic problems	Some progress
Letta	*Size and speed of rewards*: Medium (Financial rewards), High (Flexibility) *Credibility of conditionality*: High (Financial Rewards), Medium (Flexibility) *Adoption costs*: Many and powerful veto players	Relatively low EU legitimacy	EU influence not expected to solve domestic problems	Limited progress
Renzi	*Size and speed of rewards*: Medium (Financial rewards), High (Flexibility) *Credibility of conditionality*: High (Financial rewards), High (Flexibility) *Adoption costs*: Less powerful veto players	Relatively low EU legitimacy	EU influence expected to solve domestic problems	Some progress (2014) Substantial progress (2015)

constituencies of the governments. Column 3 reports the extent of societal appropriateness of EU in dichotomous terms: relatively high before the watershed elections of 2013, relatively low afterwards. Column 4 reports the extent of lesson-drawing from the EU (i.e. whether the EU was/was not expected to provide useful policy solutions).

Reforms occurred, first, in the presence of very high and credible external incentives. In practice, this means that credible conditionality combined with the immediate risk of national bankruptcy made possible fiscal consolidation in the Berlusconi and Monti governments, and also labour market and liberalization reforms in the Monti government (although it should be cautioned that CSRs represented an external source of pressure on the national policy agenda, whose dynamics are affected by a wider range of factors which only finer-grained analyses than the one reported here may fully describe). High rewards (from flexibility) also

Table 4. Influences of EU governance on liberalization (2011–2015)

Government	External incentives	Social learning	Lesson drawing	Implementation
Berlusconi	*Size and speed of rewards*: Very high (Financial rewards) *Credibility of conditionality*: Low *Adoption costs*: Many and powerful veto players	Relatively high EU legitimacy	EU influence not expected to solve domestic problems	Partial progress
Monti	*Size and speed of rewards*: Very high to medium (Financial rewards); High (Flexibility) *Credibility of conditionality*: High (ECB intervention); Medium (Flexibility) *Adoption costs*: Many and powerful veto players	Relatively high EU legitimacy	EU influence expected to solve domestic problems	Some progress
Letta	*Size and speed of rewards*: Medium (Financial rewards); High (Flexibility) *Credibility of conditionality*: High (Financial rewards); Medium (Flexibility) *Adoption costs*: Many and powerful veto players	Relatively low EU legitimacy	EU influence not expected to solve domestic problems	Limited progress
Renzi	*Size and speed of rewards*: Medium (Financial rewards); High (Flexibility) *Credibility of conditionality*: High (Financial rewards); High (Flexibility) *Adoption costs*: Many and powerful veto players	Relatively low EU legitimacy	EU influence not expected to solve domestic problems	Limited progress

spurred reform if they were credible; hence the difference between the Letta government, which faced non-credible rewards and which did not produce major reforms, and the Renzi government, which did pursue labour market reforms in the face of more credible rewards (the higher credibility being due to the change of the guard at the helm of the Commission).

The non-reforms of the Berlusconi government coincided with the limited role of policy dissatisfaction towards the status quo, quite the opposite of the Monti government, which expected EU policy recommendation to solve domestic problems. As for the Letta government, it did not have the strong mandate for reform of its predecessor, and thus did not need to look to Brussels for lessons. Finally, for the Renzi government the success of labour market reform (and the lack of success in the area of liberalization) can be explained by the political strategy of the Renzi government of appealing to voters outside of the traditional centre-left electoral basin.

In sum, this section has brought to the fore several key points with regard to the interplay between the Semester and domestic reform in Italy. The fading away of the permissive consensus among voters with regard to European integration has made it more difficult to publicly connect reforms to the EU. However, the fit between domestic reforms and Semester prescriptions can be enhanced by the presence of high and credible rewards, as with regard to fiscal consolidation and the increased credibility of an exchange between domestic reforms and greater flexibility in the interpretation of fiscal rules from 2014 on, especially if these prescriptions are consistent with the government's own electoral strategy (as in the case of Renzi's labour market reform).

Discussion and conclusions

This article has applied the "governance by conditionality" framework to public sector reform in a country subject not only to the formal conditions set out by the European Semester but also to implicit conditionality in the context of severe fiscal and economic problems. It has mapped the reform programmes of the Italian governments that alternated in power in the 2011–2015 period, focusing on three major areas of public sector reform (fiscal consolidation, labour market reform and liberalization) in the context of the CSR-NRP cycle.

We acknowledge the two main limitations of our study, which provides an opportunity to make suggestions for further research. First, our research is not comparative, meaning that further research is needed to assess whether external incentives or socialization are more powerful across cases displaying a different exposure to EU surveillance and monitoring. Second, we look at a broad set of reforms, focusing on the extent to which the recommendations of the EU about reforms are adopted by national governments, meaning that further research is needed to undertake a detailed process tracing of national reforms understood not only in formal terms. With these limitations in mind, this article provides the first account of how the formal adoption of EU recommendations by national governments is related to a set of well-established explanatory factors in the Europeanization literature like those that have been outlined by "the governance by conditionality" framework.

More specifically, we have shown that the Semester has influenced the domestic budget institutions and the governance structure of the NRP process, although in a way that reflects the centrality of fiscal stability and economic growth as the fundamental goals of EU governance during this period. As to the content of the reforms, the interplay between Semester and domestic reform points to the importance of material rewards and the consistency between EU prescriptions and the governments' own reform agenda, especially at a time when the legitimacy of the EU has been on the wane in Italy as in several other Member States.

These findings lead us to engage with the claim that the involvement of the EU in domestic policymaking was undergoing a step-change from non-binding recommendations to binding implicit conditionality (Sacchi, 2015). The empirical account of both the Letta and Renzi governments' reform record has highlighted that this shift has not taken place, due not only to waning market pressures but also to the widening EU legitimacy crisis. Whereas market discipline has already been identified by Sacchi (2015) as the operating mechanism making implicit conditionality effective, our analysis has shown the relevance of EU legitimacy as a further mechanism, in line with recent research highlighting how concerns over mounting Euroscepticism have severely affected the willingness of the Commission to set conditions (Schmidt, 2016).

The weakening of both market discipline and EU legitimacy as mechanisms making implicit conditionality effective has not only theoretical but also practical implications. As for the theoretical level, it reveals that the conditionality framework may have its own limitations when it gets to cases like Italy in the post-2013 period. This implies that alternative frameworks, like learning (Dunlop and Radaelli, 2016), may be useful to empirically assess EU influence on national reforms in a context where crisis measures like the secret Trichet letter are unlikely to be repeated, not least because of the deterioration of EU legitimacy they have inspired since they became of public knowledge.

With regard to the practical implications of our findings, we conclude with some reflections on how they may contribute to the debate on the future of the Semester. We believe that going down the road of strengthening the corrective arm of the MIP as recommended by the "Five-Presidents' Report" (Juncker, 2015) is unlikely to be helpful. Conditionality, in the form of both rewards and sanctions, is always mediated by the manifold uses domestic political actors make of it and depends on the domestic legitimacy of its prescriptions, namely on their correspondence with domestic norms. More enforcement capacities at the EU level would not automatically facilitate the domestic implementation of the desired reforms and might indeed make it more difficult by reducing their legitimacy in the eyes of voters, as found by Featherstone (2015) in his application of the Schimmelfennig and Sedelmeier framework to Greece.

With a view to increasing the effectiveness of the Semester, fiscal flexibility could be further institutionalized by clarifying ex ante which structural reforms could qualify for it. As to the Commission, its role should be that of ''enabler'' rather than – or at least next to – ''enforcer'' (Schmidt, 2016). It should for instance facilitate the inclusion of actors so far sidelined, such as national parliaments, in order to increase the legitimacy of the Semester (Lord, 2017; Vanheuverzwijn and Crespy, 2018); it should also establish a multi-year reform framework, in view of the limitations inherent in assessing and advising on long-term reforms only through the current yearly cycle. Especially important for Member States with relatively weak public administrations, like Italy, the Commission should increase the scope of its influence on the domestic governance structure; in other words, it should help reshape the domestic institutional framework beyond the current focus on ensuring the delivery of fiscal stability, by improving the domestic formulation and monitoring of reforms and their coordination, also across different levels of government.

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Note

1. Tellingly, just a few days before being picked by the President of the Republic for the top post of prime minister and being sworn in office, Mr Monti published an editorial on the main Italian newspaper, the *Corrieredella Sera*, extolling the significance for the Italian government to re-centre its political and policy initiative around the NRP – an event that may also be read as having sent a clear signal to key decision-makers in the EU about the route a forthcoming Monti government would take.

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