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THE DRAGHI GOVERNMENT PUT TO THE TEST BY THE NATIONAL RECOVERY AND RESILIENCE PLAN

Fabrizio Di Mascio, Alessandro Natalini, Stefania Profeti

Introduction

In contrast to what happened after the 2007–2008 global financial crisis, the EU monetary and fiscal authorities have tried to limit the negative economic impact of the COVID-19 pandemic. Avoiding a north-south split became both an economic and political imperative: one adopted in order to maintain, and even deepen, the legitimacy of the European Union (Schmidt 2022). Breaking with the normative taboo associated with the EMU's original construction, the European Council agreed on an exceptional temporary recovery instrument known as Next Generation EU (NGEU), which establishes a joint funding model to support government spending and reform in those member states most severely affected by the pandemic. At least potentially, this represents a shift in the direction of EMU governance, as it inserts a distinctive redistributive dimension that remained a 'no-go' area during the Eurozone crisis (Ferrera, Mirò and Ronchi 2021). NGEU is mainly a response to the economic and political imbalances left over from the Eurozone crisis in that those countries hit hardest by austerity and rising Euroscepticism, like Italy and Spain, have received the most funds (Armingeon et al. 2022).

The Recovery and Resilience Facility (RRF) constitutes the core of NGEU. Its purpose is to support investment and reform in member states to pave the way for a sustainable recovery. The novel element of the RRF is that it envisages a share of grants almost equal to that of loans, which represents a significant change from the management of the sovereign debt crisis. To access the RRF funds, member states have had to draft National Recovery and Resilience Plans (NRRPs) setting out their reform and investment agendas for the years 2021-2023. Monitoring implementation of the NRRPs will be coordinated jointly by the newly established Recovery and Resilience Task Force (RECOVER) within the European Commission's Secretariat General and DG ECFIN. In addition, the newly created DG REFORM provides detailed technical support – to those member states who request it – for drafting, implementing and monitoring the NRRPs.

The RRF adopts a bottom-up approach that has the potential to ensure domestic ownership of NRRPs. Despite the required compatibility of national spending with newly prominent policy priorities like environmental protection and the digital transition, the drafting and implementation of the NRRPs to a large extent depend on national authorities that identify reform priorities, against which implementation efforts will be assessed. Policy guidance and monitoring by EU institutions take place within the framework of the European Semester, the institutional vehicle for macroeconomic policy coordination that was introduced in response to the sovereign debt crisis. First, the NRRPs will contribute to addressing challenges identified in the relevant Country Specific Recommendations (CRSs) issued in the context of the European Semester. Second, twice-yearly reporting on the progress made in the achievement of investment and reform commitments will take place in the context of the Semester (Moschella 2020; Vanhercke and Verdun 2022). The RRF is a performance-based instrument that potentially reinforces the European Semester by providing incentives for reforms. Its financial disbursements are subject to conditionality, meaning that funds are provided only if the European Commission assesses as satisfactory the fulfilment of milestones (associated with qualitative achievements) and targets (associated with quantitative achievements) detailed in the NRRPs.

Yet, there are planning and implementation risks at the national level, as well as risks in the European Commission's assessment stages (Schramm, Krotz and De Witte 2022). This holds true particularly for Italy, a country with a poor track record of implementing CRSs in the pre-pandemic period, which was marked by

a switch from belief in the benefits of the European *'vincolo esterno'* (external constraint) to open defiance of the Eurozone's rules imposing austerity policies (Di Mascio and Piattoni 2020; Ongaro, Di Mascio and Natalini 2022). The impact of NGEU is of great significance for Italy, and for the stability of the Eurozone as a whole, due to the significant role of the Italian economy in the EU.

Crises like the COVID-19 pandemic can be opportunities for policy change since they delegitimize long-standing policies underpinning the status quo. By exposing the inadequacies of the existing system, crises can be exploited by leaders to deliver long-awaited reforms that in normal times are protected by dominant coalitions and sustained by organizational inertia. However, research on response to crises shows that the opportunities for reform in the wake of a crisis are smaller than often thought. The ability to bring about policy change entails a number of functional requirements as leaders need to embrace novel policy ideas and articulate a vision, sell it to various audiences and wield power to see it enacted (Boin et al. 2016).

The emerging literature on the Italian NRRP has highlighted that there are two alternative implications of the RRF for policy change in Italy (Guidi and Moschella 2021; Moschella and Verzichelli 2021; Capano and Sandri 2022; Domorenok and Guardiancich 2022). In a first hypothetical scenario, the new leadership style of Mario Draghi, former President of the European Central Bank, who was appointed to head the Italian government in February 2021, would prove to be a game-changer for planning and steering the early stages of implementation of the NRRP within a new framework that had strengthened several aspects of EU conditionality. In an alternative scenario, path-dependent patterns (party-system fragmentation, government instability, the low capacity for absorption of EU funds) would prevent major policy shifts.

More generally, the emerging literature on the Italian RRP leaves us with two sets of basic research questions: first, what changed in terms of the policies? Second, who changed those policies and how? Drawing on the historical institutionalist framework (Fioretos, Falleti and Sheingate 2016), the contributions to the special issue problematize the extent to which the impact of the economic response to the pandemic represents a paradigmatic change comparatively across different policy areas in Italy. In other words, they probe into how two changing factors, namely the appointment of the Draghi government and the new EU conditionality framework, have interacted with Italy's domestic institutional context. In doing so, this special issue also contributes to the established literature on the relationship between European integration and political change in Italy (Quaglia and Radaelli 2007).

Overview of research findings

The political and institutional trajectory of Italy was clearly punctuated by the economic upheavals of the pandemic. The articles in this special issue aim to assess the character of the institutional change prompted by the economic response to the pandemic in different policy areas. Three contributions analyze the reform dynamics related to the strategic axis of the Italian NRRP, namely digitalization and innovation (Barbieri and Ottone), the ecological transition (Domorenok and Cotta), and social inclusion as concerns labour market policies (Tassinari). Two contributions focus on two overarching priorities of the NRRP: gender equality (Donà) and development of southern Italy (Cersosimo and Raniolo). Finally, one contribution focuses on reform of the public administration, which has been identified as a key area, affecting horizontally all missions in the NRRP (Di Mascio, Natalini and Profeti). Overall, the articles in this special issue highlight that the pandemic has been followed by a process of institutional change that occurred both incrementally and unevenly, often disguising substantial continuity.

In terms of policy content, two aspects emerge transversally across the various contributions. On the one hand, the semi-technocratic nature of the Draghi government and the need to fulfil the conditions required by the EU have led to a sort of depoliticization of the issues in the formulation of the NRRP and in what has recently been dubbed the 'Draghi agenda'. Policies that were traditionally the ground of deeply divergent

political views, such as those concerning employment, gender equality, or development of the *'Mezzogiorno'*, were somewhat sterilized and reduced to the technical dimension required by the Plan, favouring a vision that was at once bureaucratic (in the sense of meeting the EU's requirements in due time) and managerial (meaning that they linked interventions to the needs of economic revival in the medium- and short-run). On the other hand, this pragmatic approach has resulted in the downsizing of long-term, grand reform ambitions and in a focus on selective and targeted interventions instead. This is especially apparent in the area of ecological transition and innovation policies, where investment measures clearly prevail over reforms, and in the interventions devoted to the public administration, where an incremental approach aiming at 'innovative breakthroughs' is explicitly favoured over the wide-ranging reform projects of the past, which failed the implementation test. As a result, in all sectors, strong elements of path dependency and policy layering are found, suggesting very limited room for radical policy changes. Moreover, major potential discontinuities in some areas (such as the reform of active labour-market policies, as well as civil service reform) still remain on paper, as priority has so far been given to fast-track measures, which have been deemed more pressing and certainly more in keeping with the need to meet EU reporting deadlines.

Similar results emerge if we look at the governance dimension, i.e. if we analyse who was involved in the formulation and implementation of the plan, and to what extent. In this regard, it is worth recalling that the European regulation governing the NGEU merely recommended that member states ensured the utmost involvement of subnational governments and stakeholders but left central governments with full discretion as to how to achieve that involvement, entrusting ministries with full responsibility for spending and reporting (Profeti and Baldi 2021). Against this background, all the contributions highlight a marked centralization of decision-making in the upstream phase of the plan. In all the policy areas examined, beyond the ritual consultations, decisions on priorities and on how to distribute financial resources remained firmly in the hands of the central apparatus, with little coordination between the individual ministries and between the levels of government involved. A top-down approach can also be found in the intrinsically more transversal areas, such as the ecological transition, technological innovation policies and interventions for the development of southern Italy, where – at least in principle – horizontal cooperation between the ministries concerned, and multilevel collaboration with local authorities and stakeholders, should guarantee viable interventions in line with the needs of the final recipients.

Rather, unlike the programming of other European funds such as those available under the Cohesion Policy (Piattoni and Polverari 2016), in the NRRP the involvement of local authorities and stakeholders has been diverted downstream, to the implementation phase, albeit with some differences across sectors that are in continuity with their legacies from the past. In the case of employment policies, for example, there was little or no dialogue with the trade unions or other interest groups, in line with the pre-pandemic trend towards the marginalization of social concertation in policy making. In the case of administrative simplification measures, in contrast, dialogue with the regions and local authorities was more substantial and better structured, reproducing the concerted approach developed in previous years. The only policy area where a clear change from the past is apparent is that of the civil service. Indeed, the unprecedented volume of financial resources made available by the NRRP; the shift from austerity to a more solidarity-oriented approach on the part of the EU, and, not least, the need to enable the public administration to implement the Recovery Plan, has favoured a return to dialogue with the trade unions after more than a decade of cutbacks and a hiring freeze.

The picture portrayed in this special issue is, however, a moving scenario: the NRRP has been developed in a political context marked by dramatic changes prompted first by the pandemic crisis and more recently by the energy crisis triggered by the outbreak of war between Russia and Ukraine. Regarding domestic politics, the window of opportunity provided by the Draghi government, enjoying strong European and international credibility and supported by a large parliamentary majority, has recently come to an end. Assessing

conclusively the actual extent of policy change brought about by the NRRP, and its sustainability over time, is therefore a challenge to be addressed in future research.

Challenges ahead

This special issue has analysed the reform dynamics of key policy areas that have been targeted by the Italian NRRP. It has highlighted that the impact of two major developments, namely the appointment of the Draghi government and the launch of the RRF at the European level, has not been uniform across policy areas. A promising area of investigation would be to analyse the influence of policy-related features on the formulation of the NRRPs in other EU countries. All in all, the findings also support the claim that the Draghi government has backed away from ambitious changes, with particular regard to the reform component of the RRP. More research on the formulation and implementation NRRPs across EU countries is needed to understand whether the lack of ambition in the Italian NRRP is mostly due to path-dependent shortcomings in the reform capacity of the country, plagued as it is by party system fragmentation and limited administrative capacity, or is attributable to the feebleness of the EU drive for reform.

It is also worth noting that the special issue has focused on the formulation and the very early stages of implementation of the NRRP, meaning that assessment of the feasibility of targets listed in the NRRP has been beyond the scope of our empirical analysis. The biggest concern is how and to what extent member states with limited administrative capacity such as Italy will be able to absorb their allocated funds in the later stages of implementation of the NRRPs. Future comparative research should focus on how national governments, together with the EU institutions, will ensure spending of high quality. In particular, it would be worth investigating in depth the effectiveness of the new units of the European Commission (RECOVER Task force, DG REFORM) that have been charged with monitoring the implementation of the national recovery plans.

Finally, it may be conjectured that implementation of the NRRPs will be shaped by the dynamics of the two-level game at the EU-member states interface. These dynamics will unfold in a context in motion that provides for the possibility of adjusting the NRRPs to cope with the turbulence of the geopolitical environment unleashed by Russia's war in Ukraine. On the one hand, it remains to be seen whether the EU will be flexible towards the latest developments and changes that might become necessary in the national RRRPs to tackle the economic repercussions of sanctions against Russia. On the other hand, the implementation of the NRRPs will be also shaped by the countermoves of domestic policy-makers reacting to the strategies pursued by EU-level policy-makers. It is likely that these reactions will be driven by domestic electoral considerations and that they will contribute to framing rising energy prices as an opportunity for more ambitious EU-led recovery plans or as a threat to the legitimacy of the EU institutions.

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