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Italian Welfare in the Aftermath of the Economic Crisis: Neoliberal Reforms and Limits to the Path Dependency Approach

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The 2008 world economic crisis provided a plausible rationale for policy makers in Italy to push forward long needed welfare cuts, resulting in the neoliberal austerity trend fostered by the Monti government (2011-2012). This paper seeks to understand the logic behind the welfare reforms in Italy after the 2008 economic crisis by describing implemented measures and reviewing available theoretical approaches in literature that could account for the reforms' neoliberal shift from a path-dependent theoretical approach. It is argued that external forces, that is the economic crisis and EU pressures, represented the main trigger, and that political elites marginalized the role played by civil society, with social problems, such as unemployment, worsening as a result.

Key words: *Crisis, neoliberalism, welfare reform, Europeanization, advocacy coalition framework*

In 2008, a massive crisis hit the world economy: the financial system was collapsing, and the Lehman Brothers financial services company went bust, resulting in great hardships for the American banking system. The negative implications soon affected the European financial system, more vulnerable to shocks in the absence of controlling institutions such as the American Federal Reserve (Eurispes, 2013). Suddenly, the weaknesses of the dominant economic paradigm of neoliberalism and its laissez faire strategies of relegating increasing debt to private households and markets became obvious.

Southern European countries were suffering the most from the financial market instability, caught between the unsustainable costs of their public social insurance systems and the EU requirement to keep their public debt levels under control.

Weak economies such as those in Italy, Greece, Spain and Portugal already had comparatively underdeveloped social protection systems for the vulnerable, and less than developed financial institutions. Moreover, neoliberal individualization of social risks had already started by the time the crisis hit these markets (Guillen & Petmesidou, 2008; ISTAT, 2012; Pizzuti, 2009). Additionally, these countries were already notorious for the politicalization of their welfare systems, or in other words, political cronyism (clientelismo) (Ferrera, 1998; Girotti, 1998). The neoliberal strategy of shifting responsibilities for social protection from the public sector to the private sphere of families and the market only resulted in worsened inequality when it came to adequately meeting Italians' social needs.

This study attempts to make sense of the consequences of the 2008 economic crisis in Italy. In particular, I attempt to understand the mechanisms that led this welfare state to adopt decidedly neoliberal social policy reforms: a puzzling strategy, when considering that continental European welfare states, in Southern Europe in particular, are commonly considered difficult to reform (Palier, 2010). What kinds of policy reforms were implemented? What were the most important factors that determined such reforms? Which theories are helpful in gaining understanding of this neoliberal shift in welfare reform in Italy? What kind of lessons can be drawn from the post-crisis Italian welfare state reform experience from an international perspective?

By reviewing previous research in political economy theory and policy analysis, this article provides insights into the social reforms implemented in Italy in the post 2008 economic crisis and the some of the key factors that could have caused the crisis. The aim is to provide a theoretical framework within which political bipartisanship, the influences of the economic crisis and the European Union, poor policy learning mechanisms, and the reduced role of the civil society are all accounted for simultaneously (Crouch, 2008; Natali & Rhodes, 2004; Palier, 2010; Sabatier, 1988).

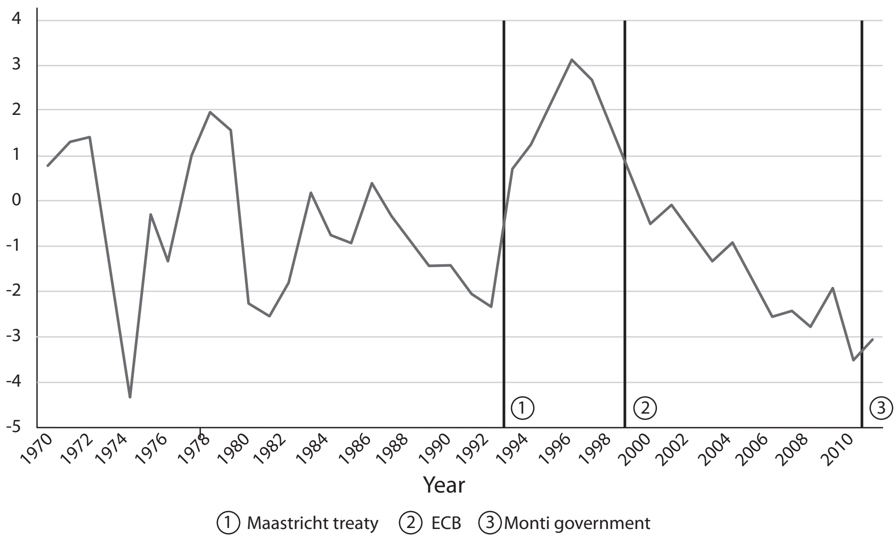
The article is structured as follows. The second section provides an account of the 2008 global economic crisis, and the factors that could have caused it, with Italy as a primary example. While neoliberal ideology had already been dominating past legislatures, this economic crisis, in particular, resulted in the rise of more decisive cuts in social expenditure. The third part outlines the reforms that have been implemented in Italy following the crisis. Some of the major reforms included rises in taxation and public expenditure, on the one hand, and more direct cuts in the areas of pensions, labor market, health, and social services, on the other. The fourth part of the study attempts to assemble elements into a useful theoretical framework that can help readers to understand the logic behind the austerity-oriented neoliberal reforms adopted in Italy.

Going past traditional theoretical approaches in political economy, which are based on path dependency approaches (Esping-Andersen, 1990; Hall & Soskice, 2001), I attempt to explain the impact that the recent economic crisis has had on social policy reform in Italy by highlighting pressures from the European Union, and the ensuing lack of policy learning processes and civil society participation. In doing so, I adopt Sabatier's (1988) advocacy coalition framework (ACF) approach. The final section draws some policy implications for reforming welfare states. Understanding the necessity to involve different social actors in welfare reform serves as a reminder of the dangers that an excessive focus on self-referential discourses of policy elites, with consequent neglect of societal needs, can represent for the real economy: namely, increased levels of poverty, unemployment and inequality.

Economic Crisis and Neoliberal Directions

The 2008 global crisis involved the global financial market and uncontrolled flow of capital, therefore differentiating it from previous economic shocks. For instance, Keynesianism strategies were implemented to deal with previous crises: Governments directly intervened in the economy by fostering market demand, enacting protectionist measures, and utilizing industrial policy initiatives put forward by active labor unions. Governments were fostering aggregated demand via expansionary macro policies and employment protection, a strategy that, in the long term, would yield negative consequences for inflation and public debt levels (Crouch, 2008; Pontusson & Raess, 2012). In contrast, the 2008 crisis hit a global economy that was permeated by neoliberal thinking, according to which public institutions are perceived as an obstacle to the full functioning of markets (Pizzuti, 2012). In such a context, the strategy of demand management, typical of Keynesian governments, was replaced by a new 'privatized Keynesianism,' according to which "new risk markets to ordinary consumers, via extended mortgages and credit card debt, replace the previous capitalist system based on rising wages, welfare state and government-led demand management" (Crouch, 2008, p. 10). In particular, the European Union economy has been heavily influenced by the German neoliberal model of capitalism, in which capital goods production and exports are considered more important than boosting domestic consumer demand. Priority is given to balanced public budgets and the avoidance of inflation (Cesaratto & Pivetti, 2012; Crouch, 2008; Pontusson & Raess, 2012). Despite this emphasis, Germany's governmental debt was at 82 percent of its GDP, slightly less than the United Kingdom's debt of 90 percent.

Figure 1. Current Account Balance Trend in Italy (% of GDP)

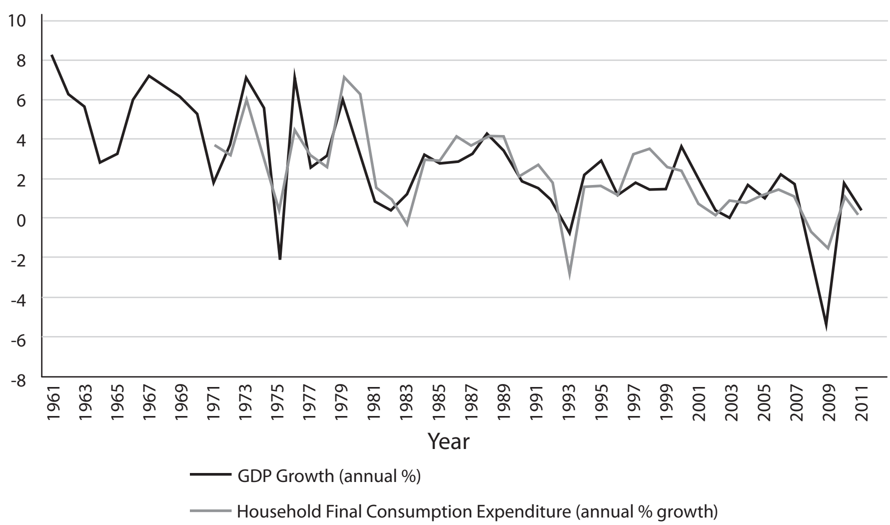


Source: World Bank (2012).

The assumptions inherent in neoliberal ideas (having access to perfect information, perfect competition, and the like) were de facto detrimental to Southern European countries not adequately equipped to directly compete with big export-led economies, such as Germany. In the absence of an alternative economic paradigm, as Figure 1 illustrates, Italy's political elites, traditionally following a top-down policy making model, have been very keen in responding to external pressures by the EU to redress the national public budget deficit.

Figure 1 displays public account balance trends in Italy since the 1970s. Apart from the oil crisis of 1973, the 2008 financial shock represented the second worst period in terms of the deterioration of public finances. After recovering from the 1970s oil crisis, public spending went through a relatively stable phase that dramatically improved in the early 1990s, when Italian politics was struggling both to regain some credibility from the political bribery scandals (the "Clean Hands" police investigations) and to abide by the economic stability conditions dictated by the Maastricht treaty as a condition for access to the European Union. By the late 1990s, the opening of the European Central Bank (ECB) had been announced as well.

Figure 2. GDP Growth and Household Final Consumption Expenditure (percent)



Source: World Bank (2012).

However, since the end of the 1990s (when full membership to the EU and participation to the monetary union were secured), account balances started worsening again under the Berlusconi governments. In effect, the economic crisis of 2008 only worsened an already quite dramatic situation, since Italian public debt was already abnormally high by that time. In order to keep the situation under control, and with the collaboration of the Italian President of the Republic, Giorgio Napolitano, Berlusconi was forced to resign and a new government of technocrats led by former European Commissioner Mario Monti was formed on a temporary basis (2011-2012) to take charge of the debt crisis in compliance with European directives.

The Monti government took charge at a time when the Italian economy was already in a dire condition. Falling consumption rates (see Figure 2), however, were not to be overturned by a socio-political strategy that was admittedly neoliberal and unsupportive of the real economy's aggregated demand. I will now turn to a brief overview of the main social policies introduced during the global financial crisis.

Social Policy Reform Trends

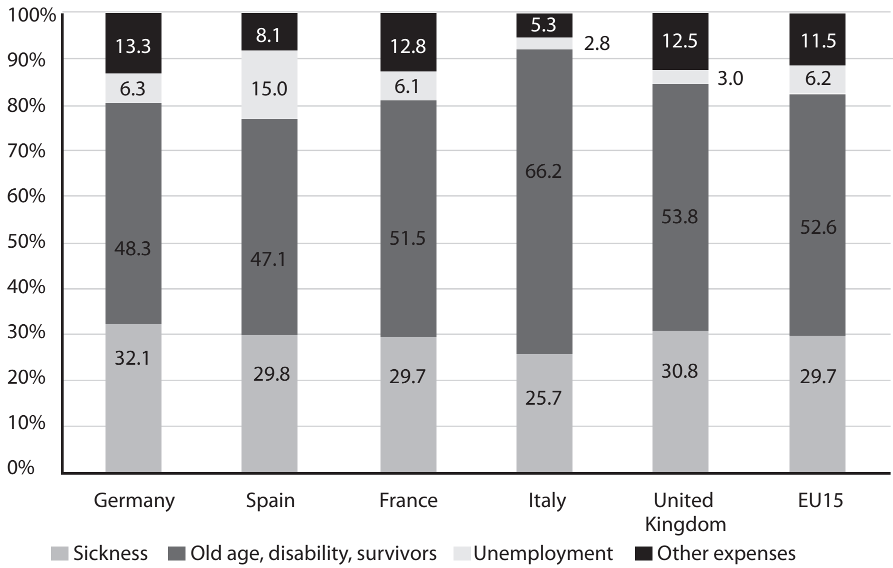
The Italian Welfare State Structure

Traditionally, the Italian welfare state had a higher proportion of expenditures dedicated to income protection measures, and most notably, to pensions (see Figure 3 for a comparison with selected European countries). When analyzing total social expenditure trends over the last 30 years, it appears that the immediate aftermath of the economic crisis caused a sudden increase in social expenditure levels, a trend that can be observed for all Southern European countries (Organization for Economic Co-operation and Development, 2012).

But how did this increase in expenditure reflect on the different policy fields? Expenditure trends divided by policy sector show that the prevalence of pensions and health expenditures remained quite robust even in the post-crisis years (Organization for Economic Co-operation and Development, 2012), which seems to suggest that the overall structure of social expenditure in Italy remained substantially the same, similar to the findings of previous studies in other European countries (Chung & Thewissen, 2011; Vis, van Kersbergen, & Hylands, 2011). Also, rises in social expenditure levels measured as percentages of Gross Domestic Product (GDP) might be biased when national revenues decrease in the face of economic crises.

Although overall expenditure levels might not have changed visibly in the years following the crisis, previous welfare institutions were not left unscathed. Instead, reforms from the Monti government were following a neoliberal logic of welfare cuts and individualization of social risk (Pizzuti, 2009).

Figure 3. Composition of Social Protection Spending in Selected Bismarckian Countries* in 2009 (% of GDP)



Source: Raitano (2012).

*Most continental European welfare states rely mainly on social insurance, a system first introduced by Otto von Bismarck in Germany in the 19th century. This is also a typical feature of the Italian welfare system, so that it commonly is compared with continental European welfare states.

Monti Government's Reforms (2011-2012)

Financial Market

The priority goal for the technocratic government of 2011-2012 was to balance public finances. This was done mainly by increasing the level of taxation—increasing indirect taxes on consumption (Value Added Tax) and on alcoholic products, reintroducing the local tax on housing (IMU), and also on reducing the fiscal cost of hiring employees for firms (this cost was relatively high due to social contributions levied for pensions and other social insurance systems) (Eurispes, 2013). It was also done by containing public sector costs by cutting budgetary expenses for public education and health, and by adopting a three-year freeze on salary increases, along with limits to new public sector hiring from 2010 (Maino & Neri, 2011).

Pensions

As for pensions, the main intent of the Minister of Labor, Social Policies and Gender Equality, Elsa Fornero, was to speed up the privatization of the pension system conceived by the Amato and Dini reforms in the 1990s. These reforms basically fostered individualization of social risk with the introduction of the Notional Defined Contribution system for calculating the final amount of pensions, and provided incentives for the creation of private sector pensions based on capitalization of funds (Hong, 2012). Pizzuti (2012) has argued that further cutting expenses on pensions in Italy was not justified by the high level of expenditure in pensions compared to other European countries; additionally, because private funds transfer the costs of the volatility of private finance to the final amount of pensions, beneficiaries pay the highest price due to the uncertainty of foreign financial markets. What makes it worse, NDC-based pensions are not adjusted for inflation, and beneficiaries bear additional costs of higher administrative expenses and instability (Pizzuti, 2012).

Labor Market

Labor market reforms were met with high expectations, since they were meant to correct inequalities in the highly segmented Italian labor market, where the level of social protection largely depends on the type of employment contract. The Fornero reform was, however, not adequately addressing these issues: the apprenticeship contract had been introduced; rules for dismissal were modified (granting more discretion to judges); unemployment benefits were not broadened in coverage; and the maximum duration for 'mobility' benefits (covering the time frame from dismissal to finding another occupation) was reduced. The piecemeal way these reforms were enacted classified them as "incomplete" reform in the eyes of some observers (Lavoce.info, 2012).

Health

Due to the reduction of public funds, the National Health System (SSN) (financed through general taxation) has suffered from budget cuts, leading to the reduction of the number of beds in hospitals. Coordinated facilities for primary care should have been set, but this depended on the successful renewal of national agreements with general practitioners as stipulated in the Balduzzi legislative decree, a legislative frame within which the appointment of new general directors in hospitals, new sanctions for illegal sale of tobacco, and opening hours for pharmacies, among other things, are regulated (Lavoce.info, 2012).

Social Services

Social services and family policies were possibly the areas that suffered the most as a consequence of the post-crisis reforms. While funds for social assistance, child care, and long term care are financed through regional budgets, the 2011 Budget Law caused a serious blow to the amount of public funds allocated to the regions, which in some cases, were curtailed almost completely. Decentralization of powers to local governments with no adequate financial coverage from the central governments illustrated the neglect of social services in a moment when Italian families needed them the most (Maino & Neri, 2011).

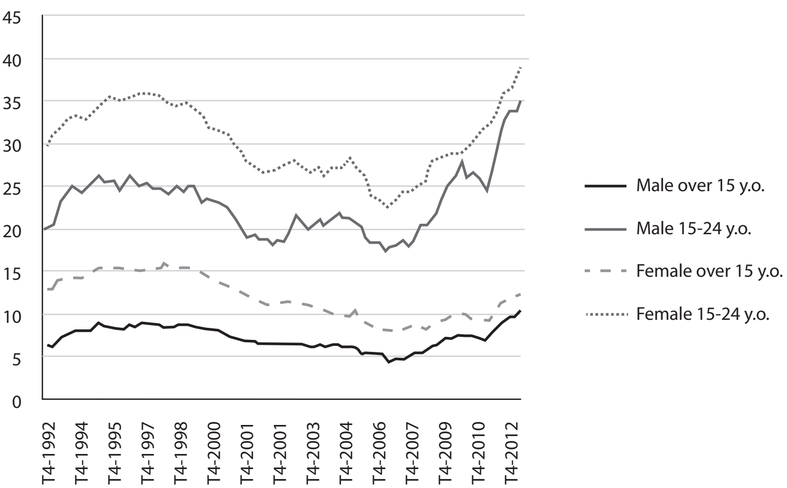
In a nutshell, from a social policy perspective, neoliberal strategies of cost containment and increased fiscal pressures on Italian families were not adequately balanced by income and social needs. As a result, overall social vulnerability worsened, with soaring unemployment levels and rising intergenerational, gender, and territorial inequalities, thus contributing to an already difficult social mobility in Italy. As Figure 4 illustrates, unemployment rates have been rising dramatically since the crisis, and dual labor market inequalities seem to have become a more important issue than the gender gap.

In Search of a Theoretical Framework

Classical Social Policy Theories

Italy's social protection and capitalistic production systems have long coexisted under the logic of social insurance and life-long employment for male breadwinners. Following a traditional perspective on social risks, viewed as the loss of income in critical life situations (for example, illness, old age, invalidity), the Italian welfare state developed incrementally by letting the social protection system grow, with social contribution requirements increasing during the thirty years after the end of the war. Those were the years of public expenditure expansion, when concerted negotiations between government, employers, and employees were determining the real level of wage of industrial workers, and social expenditure growth was beneficial to all. More specifically, it was particularly beneficial to the Democratic Christian Party (DC), a dominant political party in those years, that was willing to gather political consensus in exchange for a substantial lack of democratic competition.

Figure 4. Unemployment Rate 1992-2012, per Gender and Age (%)



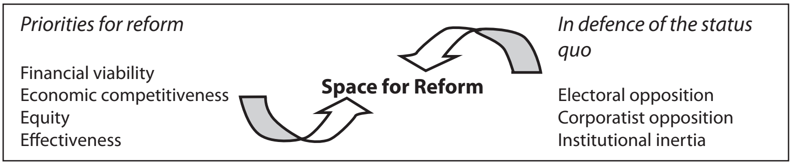
Source: dati.istat.it (?WorldBank?)

This essentially static political economy system has been variously interpreted in terms of being a coordinated market economy (CME), a Bismarckian corporatist-conservative welfare state, and a Southern European type of welfare state with its own characteristics, such as a high level of political clientelism, low levels of social expenditure, low levels of redistribution, a focus on income protection rather than on direct social services, and a strong degree of institutional stickiness (Esping-Andersen, 1990; Ferrera, 1996; Hall & Soskice, 2001; Kammer, Niehues, & Peichl, 2012; Palier, 2010; Raitano, 2012; Schroeder, 2008). However, these approaches tend to be problematic in terms of understanding policy change. Previously, I argued that the economic crisis has seemingly triggered a series of neoliberal responses. Is it correct, then, to assume that the crisis alone caused welfare cuts? What was the role of workers and civil society in this respect? Why did policy learning mechanisms not allow social policies to be more responsive to the economy's real needs? Since welfare state classification theories are better suited to provide path-dependency oriented interpretations, here I am attempting to explore some more flexible theoretical frameworks to gain an understanding of the dynamics behind the neoliberal turn in the Italian welfare state.

Understanding Policy Change

The reform window's approach. The Bismarckian welfare systems of continental Europe are commonly understood as being structured in a way that is difficult to reform, so that even when changes are made, they hardly represent a radical change in their welfare state structure (Hinrichs, 2000; Palier 2010). Italy has been no exception to that, as mentioned earlier. However, this does not necessarily mean that changes in welfare are trivial and path dependency theories do not apply. Faced with the task of understanding the nature of such changes, Natali & Rhodes (2004) suggested that the space-opportunity for reforms would be the result of two opposing forces, internal and external. Internally, industrial relations and institutional inertia/stickiness tend to keep the system as it is. Externally, neoliberal dictates of competitiveness and financial sustainability, the Europeanization process, and the need to respond to societal problems, tend to push in the direction of change (Natali & Rhodes, 2004).

Figure 5. The reform window's approach for Bismarckian countries



Source: Natali & Rhodes (2004, p. 3).

The policy arena approach. The policy arena approach is commonly used to understand, through an ideal situation model, what happens inside the policy decision-making process once a social issue has successfully entered the political agenda. A typical diagram presents a vertical structure with arrows progressing through subsequent stages, from top to bottom. The policy making path would start with a public policy crisis marked by the clash between 'old' and 'new' problems (first stage), which would then result in the civil and political actors' mobilization and the creation of coalitions and institutional projects (stage two). Eventually, these conflicting plans and coalitions would compete in the political arena (stage three), and ultimately, the result of such conflicts would be the generation of reform outputs (stage four) (Ferrera, 1993).

Girotti (1998) imagined a more static model for describing the development of the modern welfare state that would resemble a balance between actors in the public administration, the economic system, the civil society, and the government. But ultimately it was the political elites that made final policy decisions in the politics arena, by putting together possible solutions presented from both political institutions (public administration and government) and the socio-economic system (civil society and the economic system). Unfortunately, these ideal-typical schemes do not help us account for policy change/reform.

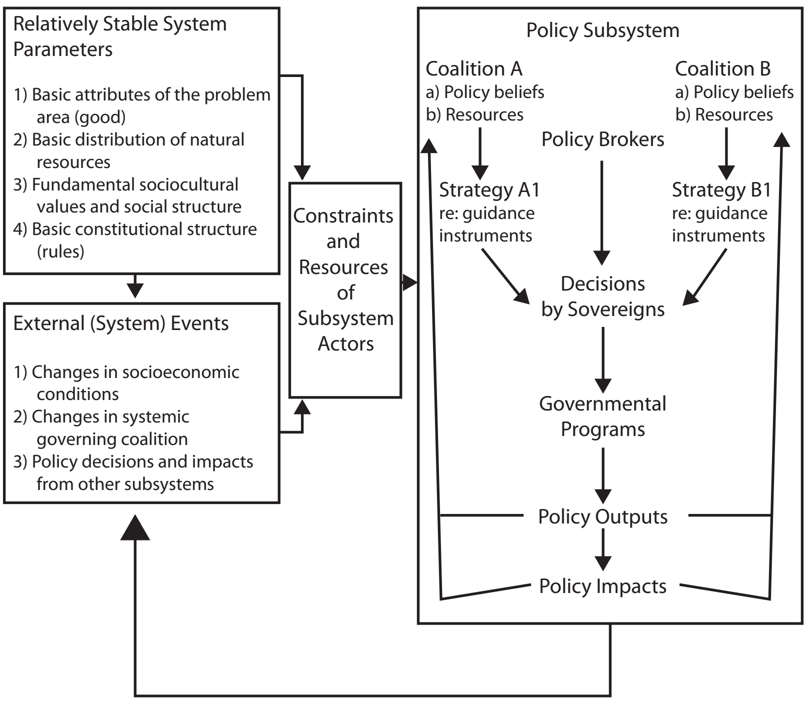
An alternative approach. Natali & Rhodes (2004) are correct in stressing the importance of external forces determining policy change; however, they are not very specific on the modalities the political struggle would follow. Also, why were real needs of society left unattended in the Italian case? The main limit of the above theories is evidenced by the simplicity with which political competition among different coalitions is imagined. Power balances and the way in which they communicate are, in fact, much more complicated, and external pressures are not taken into account within the interpretive frames of the policy arena. Why, for example, were trade unions and social movements not successful in influencing political agendas like in the past? What happened to policy learning processes? In the Italian case, it looks as if the political arena was too elitist and narrowly self-referential to respond to the real needs of the society, whereas it was more easily affected by the external influence of the economic crisis and pressures from the EU.

In searching for an interpretive model that could properly account for such external pressures and the real economy, I chose to apply Sabatier (1988)'s Advocacy Coalition Framework (ACF) to the analysis of the Italian post-crisis welfare reforms. While this model has its roots in public policy theory[1], its complexity serves to grasp the dynamics laying behind neoliberalism in the Italian form, since it stresses the role of advocacy coalitions that can successfully influence the policy agenda.

In Sabatier's (1988) view, the policy arena ("policy subsystem") is but one of the areas through which policy outcomes see the light of the day. Other important aspects that give rise to policy reform processes are the real world and its problems, resources, values, and rules ("relatively stable parameters"). "External system events" are represented by external socio-economic and political changes. Summarizing, external systems and stable parameters influence the policy arena by defining needs and tasks that the government needs to take up. However, such influences are not easily injected into the political agenda, since they also have to be efficiently organized at a societal level (e.g., trade unions, social movements) and the constraints and limited resources of subsystem actors (Sabatier, 1988) have to be accounted for. An overview of the ACF theory can be seen in Figure 6.

When applied to the case of Italy, the ACF diagram could be reinterpreted in the form presented in Figure 7. In the figure, arrows connecting one area to another in thicker black whenever these links are stronger, and in lighter black whenever they tend to be fainter. External system events (box no. 1) are, in this case, represented by the concurrent demands of the economic crisis and the EU pressures for fiscal austerity. The policy subsystem area (box no. 2) is depicted as the policy decision making process, and the real economy's relatively stable parameters can be seen in box no. 3. The most peculiar characteristic for the Italian case consists in the fact that, due to political opportunist strategies of clientelism and big coalitions of governments led by the DC party, democratic competition tended to be restricted. In this light, policy discourses, expectations, paradigms, were not really produced as a result of democratic competition in the policy arena; the preponderance of the DC party led instead to a set of cognitive assumption that were already given for granted. As a result, final decisions and policy outputs were quite self-referential, bearing little connection with the real society. In a word, the cognitive activity of policy elites was trapped in a paternalistic, top-down approach to policy making, with discussion among social parts left to a minimum and weak policy learning mechanisms.

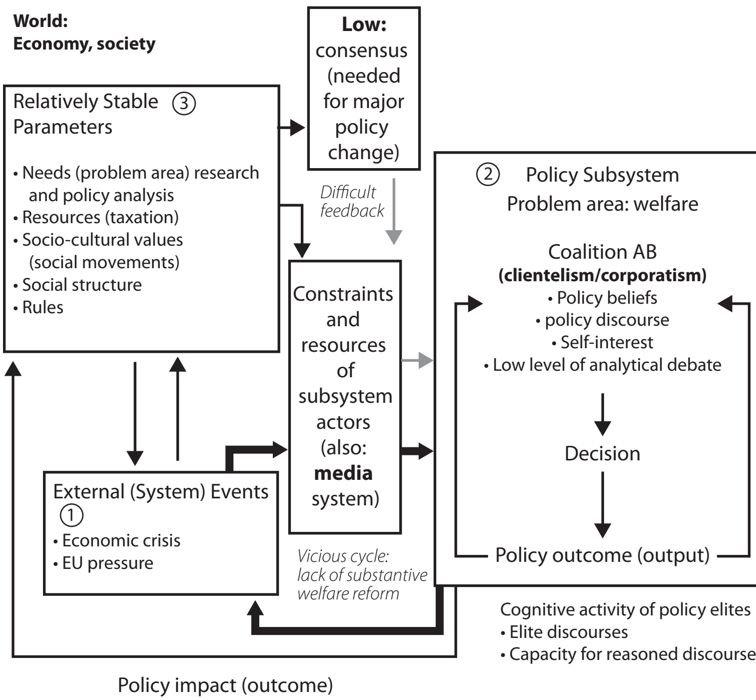
Figure 6. General Model of Policy Change Focusing on Competing Advocacy Coalitions within Policy Subsystems.



Source: Sabatier (1988, p. 132) (revised).

Given this conservative political landscape, it was challenging for society's real needs (box no. 3) to gain access to the political agenda, due, in part, to a low capacity of organization from Italian trade unions and civil society organizations, and possibly also due to the indiscriminate pro-government use of television and media that delivered distorted images of societal issues and governmental actions, especially during the years of Berlusconi's legislature.

Figure 7. Applying the ACF Model to Social Policy Reform in Italy.)



Source: Re-configured from Sabatier (1988).

On the other hand, the economic crisis and EU pressures for austerity (box no. 1) were providing a good rationale for neoliberal political forces to continue to fail to substantively reform the welfare system in a way that could seriously reflect societal needs. This created a vicious circle in which EU pressures and the economic crisis were pushing towards austerity reforms. This resulted in increasing fiscal pressure and cuts in welfare services for Italian households; as a consequence, available resources, represented by tax revenues, were shrinking. Ultimately, such a vicious circle helped push the country to the verge of economic recession (Eurispes, 2013). Although the Monti government first, and the incumbent Letta government afterwards, repeatedly assured people that the Italian economy was recovering, this risk has yet to be averted. If the government and the industry continued to only care about keeping financial markets afloat by financial bailouts (in the absence of compensating support to the economic demand of middle and low-income families), a way out of the vicious circle was difficult to imagine. In the absence of a strategy that does not contemplate participation from the economy's civil coalitions, relying on politically elitist decision making is going to widen the gap between the rationale of electoral competition and the need to structurally reform the Italian welfare system. Monti government's reforms, in this sense, demonstrated the limits of a neoliberal strategy that had proven to be substantially incapable of pushing the country out of the crisis, the effects of which continue unabated to this day.

Conclusions and Policy Implications

This study sought to provide a theoretical lens to explore social policy reforms enacted in Italy after the 2008 world economic crisis. Special attention has been paid to the 2011-2012 Monti government, specifically to its neoliberal strategy of prioritizing austerity measures that, to a large extent, failed to change the structure of the segmented labor market in Italy and to reduce hardships of impoverished Italian families through better social services. Instead, tax increases and the privatization of social protection and the retrenchment of regional funds dedicated to social services, education, and health, contributed to further aggravating Italy's economy. By applying Sabatier's (1988) ACF theoretical approach to the dynamics of Italian welfare reform, it has been argued that external pressures from the economic crisis and the European Union's demands for balanced public accounts, coupled with Italy's traditionally elitist decision making, systematically prevented the forces in civil society from positively contributing to the policy change process. In the absence of adequate democratic competition, the only available economic paradigm was neoliberalism, which included the policy choice of a punitive laissez-faire strategy of individualization of social risks

(Pizzuti, 2009). At this stage, it is still not possible to rule out the possibility that Italy will fall into a similar economic recession as Greece (Eurispes, 2013).

This analysis of the policy decision making process in Italy can have useful political implications for social-insurance based welfare states also in need of reform. It appears that leaving the assessment of social needs and the choice of viable policy strategies to only electoral competition tends to exacerbate policy inefficiencies, especially for those policy subsystems with high levels of political cronyism. To put it differently, the decision making process is essentially flawed by the need to be politically more attractive to the masses, which can lead to a lack of efficiency in the use of public resources, a blurred perception of the main social priorities that have to be tackled by national social policies, and vulnerability to the economic requirements dictated by the world's economy and financial institutions. An active involvement of trade unions and civil society, a more transparent media system, and more democratic competition in the political arena are indispensable to help the whole policy mechanism work smoothly (Sabatier, 1988). It is particularly important for welfare states that resemble the Bismarckian model, such as continental European and East Asian countries (Holliday, 2000), to not fall into a vicious post-crisis neoliberal cycle, in which the external economy's pressures and political elites' self-referential thinking strongly enforce each other in neglecting real society's needs.

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Endnotes:

[1] Although the "advocacy coalition framework" is originally conceived as an extension of Heclo's 1974 work, "Social Policy in Britain and Sweden," Sabatier's (1988) scope is much broader. By including all public policies at large, the examples that he sets forth are mainly about environmental policies.