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An unprecedented political shift

A critical political economy analysis of the decision of the current Italian government to not comply with EU budgetary rules

Master's thesis

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Abbreviations

EU	European Union
EMU	Economic and Monetary Union of the European Union
GDP	Gross Domestic Product
SGP	Stability and Growth pact

Abstract

In September 2018, the newly elected populist government of Italy declared its intention to not comply with the fiscal regulations in the EU 2019 draft budgetary plan. After a strong dispute with the European Commission lasting from October to December 2018, the two bodies reached a compromise. However, never before had an Italian government endeavoured to completely discard the EU budgetary rules since the foundation of the EMU in 1999. On the contrary, previous Italian governments always strived to ensure that Italy was adhering with the wide range of European rules in spite of the restrictive economic measures implemented to cope with its troubled financial situation. This change of course of the current Italian government about not to put forward any effort to comply with the post-crisis fiscal rules of the EMU has attracted the attention of several scholars. However, the primary focus has been on the threat that this can pose to the stability and future of the EU. In contrast with this research focus, this thesis seeks to explain the underlying economic and political reasons for this change of course of the current Italian government by utilising concepts of Regulation theory extended by the neo-Gramscian international political economy. By analysing the Italian regime of accumulation and the impact of the sovereign debt crisis and its related austerity measures on the national politics and society, this thesis argues that these changes were pivotal for the emergence of a populist government that sought to implement measures counter to EU fiscal policy.

Introduction

In September 2018, after a Cabinet meeting, Deputy Prime Ministers of the incumbent Italian government Luigi Di Maio and Matteo Salvini stated that they agreed on a budget deficit of 2.4 percent of GDP for 2019 budget plan. According to daily newspapers, this was 'a declaration of war on Brussels' (Barigazzi, 2019), as 'it breached Italy's fiscal obligations under the rules governing the EMU' (D΄ Alimonte, 2018, p.114). Respecting the EU's fiscal rules does not seem to be the priority of Italy's new government. As stated by the Deputy Prime Minister Matteo Salvini (Reuters, 2018): 'We'll do our best to avoid having to raise the deficit and try to respect all the little rules, but if the choice is between helping or ruining families, I say the 3 percent deficit-to-GDP ratio is not the Bible'. The European Commission's first reaction was to calm down the clashes with Italy. Pierre Moscovici, European Commissioner for Economic and Financial Affairs responded, 'we have no interest in a crisis between the Commission and Italy, because Italy is an important Eurozone country' (Barigazzi, 2019). The European Commission asked the Italian government to submit another budget plan for 2019 because the first one explicitly contrasted with the EU set of rules. In particular, they observed that there was not a clear and definite commitment to lower the deficit and the level of public debt that remains the second highest in the Eurozone as a proportion of GDP. This was the first time that the European Commission rejected a national budget plan within the European Semester framework, 'an annual cycle of policy coordination'(Braun et al. 2019; p.44) that was devised to make 'the economic and fiscal policies of the member states' consistent (ibid.), thereby seeking to avoid states' non-compliance with EU regulations. Valdis Dombrovskis, European Commission VicePresident, stated in this regard that 'we see no alternative, the Italian government is openly and consciously going against commitments it made' (The Guardian, 2018). In November 2019, the mounting pressures exerted jointly by the Eurogroup, the European Commission and the financial markets became unsustainable for the endurance of the newly elected Italian populist government (Papadia & Raposo, 2018). Therefore, on December 16th, Deputy Prime Ministers Di Maio and Salvini decided in a meeting with Conte to change the budgetary plan and to reduce the budget deficit from 2.4 to 2.04 per cent. This revision was considered sufficient for the Commission that just two days later they decided to accept it. According to Valdis Dombrovskis, even though the solution was essentially not 'ideal'(Dombrovskis's speech as cited in Braun et al. 2019; p.53), it sufficiently corrected the situation of 'serious non-compliance' (ibid. p.48) to avoid the opening of the excessive deficit procedure[1]. At the time of writing, in June 2019, the Rome versus Brussels showdown does not

[1] The excessive deficit procedure 'is an action launched by the European Commission against any European Union (EU) Member State that exceeds the budgetary deficit ceiling imposed by the EU's Stability and growth

seem to be resolved yet. In spite of the revised budgetary plan, however, the European Commission has recommended beginning disciplinary procedures against Italy since it broke the EU's budgetary regulations last year and is likely to do so again in 2019 and 2020. The European Council will then consider whether to open an 'excessive deficit procedure' against Rome.

Never before has the relationship between Italy and the EU been so conflictual, if not outright hostile, since the launch of the EMU in 1999. Previous governments always endeavoured to fulfil the conditions of European integration by implementing far-reaching reforms to ensure that Italy's troubled public financial situation would be aligned with European rules, such as several deep cuts in the social welfare system, tax increases, and a profound electoral reform to ensure government stability (Dyson & Featherstone, 1996). However, despite the harsh repercussions for large portions of the Italian people, the governing elites were convinced of the need for such reforms to modernise the Italian state apparatus and to remain part of the European integration (Sbragia, 2001). Moreover, Italian political elites embraced EU rules as 'constructive constraint' for their expanding macroeconomic policies (Jones, 2017; p.51). This political strategy allowed Italian policymakers to make 'unpopular decisions', thus insulating their decisions from various domestic pressure groups (Moschella, 2017, p. 222). However, such external constraint (so called ´vincolo esterno´) (see Dyson & Featherstone, 1996) can no longer explain the Italian government's non-compliance with EMU rules. Pro-Eurozone enthusiasm has evolved through many tumultuous phases of continuity and radical change (Quaglia, 2007). The first evidence of this change was at the beginning of the global economic and financial crisis in 2008, when Berlusconi's government decided to divert from Europe's fiscal doctrines, since he was convinced that this crisis was not an Italian affair. This decision marked a shift in the perception of the European Union within Italian politics, since for the first time the Italian government did not perceive EU rules as a meaningful constraint for improving Italian economy.

In 2011, the situation was aggravated dramatically. Investors began to sell hundreds of billions of euro of Italian sovereign debt because they lost faith in the ability of the Berlusconi government to induce the reforms demanded by the European Commission. Soon after, Berlusconi was pressured to resign from office, since the pressure coming from the financial markets became unsustainable with the spread between the Italian and German 10 year government bond reached a maximum value of 556.2 bp on November 9th, 2011 (World Government Bonds, 2019). Consequently, on November 16th, 2011, the president of the Republic Napolitano appointed as prime minister Mario Monti, a former European

pact legislation'(Eurostat, 2019). It is composed of several steps that might culminate in sanctions if the Member States that exceed the ceilings does not make any actions to keep 'the budget deficit under control'.

Commissioner for Competition from 1999 to 2004. This technocratic interim government and the successive of Letta put much effort into regaining credibility of financial markets and earning the trust of the European Commission (Jones, 2017). Harsh fiscal austerity policies were then adopted to comply with EU rules. The government ended by asking for further sacrifices in the name of Europe, without breaching the clauses and the arrangements included within the new treaties agreed during the financial crisis, such as the Fiscal Compact and Two Pack that further strengthened the European Semester. Throughout this period and even during the two successive governments of Renzi and Gentiloni, Europe 'regained its status' as constructive 'external constraints' (Jones, 2017; p.53). Even though these Italian governments struggled to meet their own fiscal target agreed during the European Semester and ran the risk of non-compliance with the provisions of the SGP[2], the prevailing approach remained that of following the EU warnings without explicitly repudiating the EU rules. Italian governments that have succeeded each other since the beginning of the monetary union have always endeavoured to remain in line with European warnings and regulations. This was true even in the most adverse economic times for Italy, as in 2011, where the European demands were much more pressing and stringent. Hence, in political terms, the decision of the newly elected Italian government to not comply with the rules contained within the SGP[3], if those are in contrast with the objectives of their electoral program, marks a watershed in the relations between Italy and Europe. This led to the following research question:

Against the long history of successive pro-Eurozone governments in Italy, what explains the change of course of the current Italian government of not complying with the post-crisis fiscal rules of the EMU?

Several scholars have indicated the threat that this change in behaviour of the Italian government can pose to the stability and future of the EU (for example see, D'Alimonte, 2018; Hamann et al. 2019; Meyer et al. 2019; Braun et al. 2019; Gehringer, 2019). Others have focused on predicting the impact that the measures proposed by the Italian populist government may have on future Italian economic growth (see Blanchard et al. 2018; Blanchard & Zettelmeier, 2018). Nonetheless, the political and economic causes for why this change occurred have remained understudied in academic research in both Italy and Europe. Notably, there is a lack of coverage of recent events, and there are hardly any theoretically informed analyses that could shed light on the dynamics that led to it. A reason for this may lie in the fact that the crisis literature hitherto has overwhelmingly focused on the 'big three', namely France, Germany and the United Kingdom (Fabbrini & Piattoni, 2007; p.150). An extremely

[2]The Stability and Growth Pact has evolved significantly since 1997. Here we are referring to the revised one that contains even the last two laws implemented, namely the Two Pack and the Fiscal compact.
[3]See note 1.

limited number of studies have investigated the impact of Italian political decisions on the EU's dynamics. However, these studies often are descriptive and hence not theoretically informed (Sbragia, 2001; Fabbrini & Piattoni, 2007). On the other hand, the academic literature on the impact of several European policies on Italian governments is rather extensive. This included detailed studies which deal specifically with the impact of a given European policy on Italian politics (Moschella, 2015; Guarini & Pattaro, 2016) or detailed analyses that explain the changes in the relationship between Italy and the EU by focalizing on the policies of different national governments (Quaglia, 2007; Carbone, 2009; Jones, 2017: Jones, 2018; D'Alimonte, 2018). Despite the fact that Italy has always been considered 'as a contradictory actor in terms of foreign policy' (Diodato & Niglia, 2017; p.1), the perspective that is most employed to analyse its relationship with the EU is the realist one, which explains the European dynamics by focalizing on states' power and strategies. However, the field of research when utilising this approach is narrow, since it mainly focuses on predetermined government interests, power balances, and institutional dimensions. Moreover, the political process is mostly described rather than analysed in-depth, resulting in the reduction of politics to mere policy-making. Social struggle and structural development of the national economy thus tends to be omitted from the analysis.

Similarly, compliance theorization is focalized around explaining the behaviour of member states within the EU with regard to compliance to the rules, primarily through a rationalist approach. Most of the compliance theories are also based on a state-centric ontology. This has led scholars to perceive the different compliance dynamics as a result of governmental analysis of the cost and benefit of implementing certain EU policies or rules (Hertier et al 2001, Knill & Lenschow, 1998; Borzel, 2003). In this manner, the researchers were able to shed light on the compliance deficit of EU member states by filling in the 'black hole of non-compliance' (Mastenbroek, 2005; p.1104) by focusing on different governmental explanatory variables. However, its theorization and methodologies still remain rather unclear since they integrate theories and methods from various disciplines without providing a clear demarcation among them. Furthermore, whilst this literature provides sharp insights into the compliance of member states with regard to social and environmental policies, no attention has been paid to the role of domestic politics (ibid. p.1110-1111) and social struggle in influencing government decisions on whether or not to adapt to the European fiscal regulations. Italy, due to its high record of infringements of EU directives, has always been one of the preferred countries for this type of compliance research. However, these research have prioritized the analysis of specific policy sectors. As a result, there are numerous studies that have investigated chiefly Italian 'environmental and social policies' (ibid. p.1112), leaving the study of Italian compliance to fiscal rules relatively unexplored.

On the other hand, standard theories of European integration are experiencing a crisis (Becker & Jager, 2012, Bieling et al. 2016). According to Bieling et al. (2016; p.55), 'despite European integration scholarship having many merits' it cannot account for non-compliance dynamics, particularly the ones which emerged after the European financial and debt crisis, because they were conceived as rational governmental strategies. In this regard, they inevitably overlooked the study of other elements such as 'the power relations, arbitrariness, and limits to rationality of the social relations' (Bieling et al. 2016; p.55). Only recently has one of the European integration theories, namely post-Functionalism, acknowledged the limits of rationality of governmental power and begun to consider social relations as fundamental to explaining EU dynamics (Borzel & Risse, 2018). For instance, Hooghe and Marks (2009) endeavoured to fill the gap in the literature by considering in their analysis the role of public opinion and identities as fundamental for understanding the seemingly irrational behaviour of member states. This has led these researchers to reconsider the current conflictual relationship between several member states and the EU as a result of the replacement of 'permissive consensus in mass public opinion supporting EU integration project with a constraining dissensus' (Hooge & Marks, 2009 as cited in Borzel & Risse, 2018; p.84) that hinders the enforcement of norms promoted by the EU institutions. This post-Functionalist interpretation might be substantially relevant for explaining the decision of the Italian government to not make an effort to comply with EU fiscal budgetary rules, due to its shift of focus from elite-driven interests to mass politics. This exclusive focus on mass as well as identity politics account for the rise of Euroscepticism and the pressure that it poses on governments' decisions in several European countries. However, this perspective narrows the research by considering mainly political and social dynamics within member states, without considering in great detail the historical and economic context that are acknowledged by scholars as being pivotal for understanding governmental decisions regarding fiscal policies (Blanchard & Zettelmeyer, 2018).

This gap in the literature must be addressed to adequately understand the Italian government's shift from previous compliance commitments, symbolised by the approval of the measures contained in the Fiscal Compact, to the current situation of not actively complying with EU budgetary rules. As stated by Bieling et al. (2016; p.53), mainstream approaches struggle to analyse and understand the recent, 'crisis-ridden period of European integration' and the consequent political and economic dynamics within single member states. In order to overcome the limits of the compliance and European integration theories, this thesis has applied a *critical political economy* perspective. The critical realist ontology addresses the ontological limitations of both theories. It permits equally focusing on the ideational and material dimensions, since it endeavours to take into account the underlying relationship and dynamics that exist between structure and agency (Sayer, 2000). However, in contrast with positivism, it is not interested in identifying 'predictable patterns'(Alvesson & Skoldberg, 2009; p.40), but conversely seeks to detect the deeper mechanisms that are at the basis of 'empirical phenomena'(ibid.). Moreover, unlike post-Functionalist ontology, it acknowledges that social and political relations have to be viewed and subsequently analysed in their respective historical context. Thus, critical realism offers an appropriate ontology for explaining the historical contingency of particular phenomenon (Steinmetz, 1998; p.174), like the one analysed in this thesis. The critical realist ontology is at the basis of Regulation theory. This is a critical political economy perspective that refers to a research tradition that endeavours to find the causes of the dynamics of capitalist accumulation and its crises. It emerged as a subfield of economics and stands in stark contrast with the neoclassical mainstream theories. Contrary to 'mainstream' economic approaches, political economy maintains that crises should not be considered as 'anomalies' (Bieling et al. 2016; p.56) since capitalist accumulation is essentially 'crisis-prone and discontinuous' (Jessop & Sum, 2006; p.215). The primary research focus of Regulation scholars is identifying the 'regime of accumulation', which is outlined 'as the fairly long-term stabilization of the allocation of social production between consumption and accumulation' (Pistor, 2005; p. 12). Furthermore, Regulation scholars focus on regulations and institutions, namely 'modes of regulation', that contribute 'to temporarily stabilising' the regime of accumulation (ibid.). By investigating the changes in the regime of accumulation from the 1960s onwards, it is possible to discern the economic context from which the Italian government's decision to not comply with EU regulations emerged. However, the approach also contains some weaknesses if applied to the study of the phenomenon investigated in this paper. Initially, Regulation scholars convincingly neglect 'the political dynamics and patterns of transnational agency within the EU'(Bieling et al. 2016, p. 57), since they 'rooted their concepts at the national level'(Becker & Jager, 2012; p.174).Only in the last decade have scholars become aware of this by broadening their analytical perspective through the adoption of several concepts developed in neo-Gramscian state theory and international political economy. Thus, they were able to incorporate more dimensions into their analysis. As noted by Bieling et al. (2016; p.58), they developed 'a more systematic view of the role and impact of supranational regimes and widely ramified forms of European regulation'. Hence, even though the application of the theory to the study of transnational agency within the EU and the consequent impact of its practices on the state members' economy and politics is rather limited and underdeveloped, this development renders the regulation approach suitable for the study of the phenomenon analysed in this thesis.

This study aims to contribute to the scientific literature and to the existing societal debates by providing a theoretically informed explanation of the sudden decision of the Italian government to not seek to comply with European budget rules, following the long history of successive pro-Eurozone governments in Italy. This relatively recent event has captured the attention of many scholars, since Italian government decisions over 2019 fiscal budget raises a ‘double challenge’, an institutional one for the EU and economic one for Italy (Papadia & Raposo, 2018; p.99). However, the academic literature on the topic is rather scarce, probably due to the rather recent occurrence of the event. Hence, the aim of this thesis is to contribute to filling the gap in the literature through answering a hitherto unaddressed research question. In order to do so, the thesis utilises numerous sources, in which several methods of data collection are employed. Firstly, a literature review allows to investigate and describe economic, political, and societal developments in Italy from the Fordist to the post-Fordist era. Secondly, the resulting information and data are then integrated with quantitative economic indicators, as well as yearly reports published by European Commission, governmental documents, working papers and surveys of national and international institutions, academic and news articles.

The thesis is structured as follows. Chapter 1 describes the historical background and ontologies of compliance, European integration and Regulation theories. It firstly outlines the ontological limitations inherent to compliance and European integration theories. Then, it described how the core concepts of Regulation theory extended by the neo-Gramscian international political economy addresses these limitations. Chapter 2 introduces the philosophy of critical realism by criticizing the foundations of the existing approaches. This chapter also outlines the operationalisation of the major analytical concepts of Regulation theory extended by neo-Gramscian international political economy, and justifies the selected methods of research. In Chapter 3 there is the empirical analysis. The first section describes the explanandum, the Italian government’s decision, and the subsequent dynamics in greater detail. The second part analyses the Italian regime of accumulation by linking this to a peripheral model of capitalist development. Lastly, the empirical chapter will analyse the impact of the sovereign debt crisis by focusing on the effects of EU austerity measures on Italian politics and society, with a particular focus on the changes experienced in the labour market. These are used as explanatory factors for the emergence of the newly elected Italian populist government and for its consequent decision to not seek to comply with EU fiscal regulations. Finally, Chapter 4 includes a conclusion, a discussion of the limitations of both the research methodology and theories, and proposes new topics for further research.

Chapter 1: Theories background and ontologies

This chapter revolves around ontological questions by first discussing the limitations of compliance and European integration theories. In contrast with the previous chapter, which offered a review of the analyses of compliance and European integration scholars, here I criticise the underlying ontologies, the theoretical assumptions and the causal mechanisms of these approaches. Then, I demonstrate how a critical approach, namely the Regulation school, remedies these ontological limitations. As every theory is limited - theory inevitably 'selects, eliminates, highlights and in the process inevitably creates and distorts' (Ferguson, 2011 as cited in Wigger, 2016; p.137) - the Regulation school is also subjected to critique by outlining both its advantages and shortcomings.

1.1 Background and Ontologies of compliance and European integration theories

According to Versluis (2005: p.60) 'Thinking about compliance fits in the old internal relations debate of why states behave the way they do'. Over the past several decades, scholarly attention to compliance issues has increased (Chayes & Chayes, 1995). As noted by Borzel et al. (2010; p.1364), this was prompted not because non-compliance has increased over time, but due to the fact that European laws are breached more often by some EU member states compared to others. Often, the focus primarily relied on the question of 'what specific treaty and regime characteristics are most conducive to a high degree of compliance' (see for example Jonsson & Tallberg, 1998: p.374). This question is at the basis of 'a scholarly debate' (ibid.), in which two distinct theoretical approaches dominate, which are commonly referred to as the 'management school' and the 'enforcement school' (Borzel et al. 2010). The latter assumes that states' infringements of international norms and rules will always emerge in 'mixed-motive settings' and as a result of ineffective enforcement (Jonsson & Tallberg, 1998: p.374). These particular types of settings are circumstances characterised by the 'dilemma of common interests' (ibid.). In these situations, even if 'states would prefer that all parties comply', extra gains can be acquired 'by reneging on one's commitments' (ibid.). Thus, states are induced to defect since they might gain more if they do not cooperate. As noted by Mitchell et al. (1994: p.42), states may prefer to not comply since 'the benefits of compliance do not outweigh its costs'. Furthermore, Checkel (2001: p.556) argues that, 'compliance is mostly understood as a game of altering strategies and behaviour only, with agents leaving a regime (or its institutional home) as they entered it'. In sum, the enforcement perspective conceives states as rational actors that make calculations by weighing the costs and benefits of an action. The underlying logic is based on the assumptions and considerations 'of game theory and collective action theory' (Versluis, 2005, p.6), which both consider actors as calculating and rational. Therefore, their ontology is 'decidedly individualist' and combined with 'a cost/benefit choice mechanism, with agents calculating in response to putative regime benefits (material or social) or the threat of sanctions' (Checkel, 2001: p.556).

While the enforcement school departs from the ontological assumptions that 'states are rational actors that only comply when the benefits outweigh the costs', the management school assumes that states prefer to comply with international rules (Versluis, 2005; p.8). According to management scholars, non-compliance is not inevitably 'the result of defiance of the legal standard' inasmuch as they consider the aspect of bounded rationality of state actors, in contrast with the enforcement school (Chayes & Chayes, 1991; p.280). Thus, when states violate the international norms and rules this might not be the result of a cost/ benefit mechanism choice but it could be due to a misinterpretation of the rules or due to lack of competence. Several unpredictable and uncontrollable causes might be at the basis of state's non-compliance. According to Versluis (2005; p.9), 'states may not be able to comply because of lack of necessary resources, such as financial, administrative, scientific or technological incapacities, poverty in general, governmental inefficiency or corruption'. In contrast with the enforcement school, the management school considers that non-compliance is unintentional (Borzel et al. 2010). Furthermore it believes that in the absence of the enforcement discipling mechanisms, the overall level of compliance is fairly satisfactory (Versluis, 2005). Therefore, they maintain that non-compliance should be managed rather than sanctioned. As indicated by Jonsson & Talberg (1998; p.374), 'when compliance actually constitutes a problem, it is better addressed as a management rather than an enforcement problem'. Analogously to the enforcement school, management scholars describe a world exclusively populated by states, focusing subsequently on inter-state dynamics. Furthermore, the primary scope of their analysis of states' non-compliance dynamics is not to explain the underlying reasons and historical dynamics, but rather to determine the underlying causes to provide a solution for limiting similar future occurrences.

European integration theory has 'mirrored much of the post-World War II development of IR theory'(Geyer, 2003; p.26), with Federalism, Functionalism, Transnationalism, Intergovernmentalism, neo-Functionalism and Supranationalism being the main theories seeking to explain European integration. Early integration theories primarily sought to explain 'the origin and nature of integration' by examining its underlying causes and the paths that followed (Erdem, 2006; p.5). For the sake of simplicity, scholars often distinguish between realist and liberal integration theories. Erdem (2006: p.5), for example, considers Federalism, Functionalism, Transactionalism and neo-Functionalism as liberal theories, and Intergovernmentalism as realist. The liberal and realist theories had as a primary focus the role of the state. European integration was mostly understood as an international and thus inter-state phenomenon. Thus, both liberal and realist theories described the process of integration as being composed of and influenced exclusively by states. Furthermore, both theories were grounded in rationalist model (Moravcsik, 2010; p.2) 'which assumes fixed preferences and rational behaviour among all actors in the EU' (Pollack, 2001; p.221).

Throughout the 1950s and 1960s, the core European integration debate took place between the Intergovernmentalists, who traditionally dealt with the state politics and security aspects of integration, and Functionalists/neo-Functionalists, who occupied themselves with 'economic integration' (ibid.). During the 1970s, European integration theories did not develop substantially. Only in the 1980s and 1990s new theories, connected to the earlier ones, started to emerge. Their emergence was prompted by the development of the European integration project that further complicated the understanding of its inherent dynamics. As noted by Erdem (2006: p.24), the new theories started to recognise that 'the social world was not only about rationality but also involves beliefs, norms, culture, and ideas that cannot be explained merely by rational calculations'. These recognised complexities were investigated by the advocates of various European integration theories. The most prominent one, although not yet fully developed, is the constructivist approach (Pollack, 2001). In contrast with realist and liberal theories, it do not investigate the European integration as a rational inter-state phenomena. Constructivists include in their analysis not only the states and institutions but also the impact that those might have on individuals' preferences and identities. Therefore, they were based on a 'broader and deeper ontology' compared to realist and liberals (Pollack, 2001; p.235). Furthermore even if constructivism is in rivalry with the other theories, it endeavoured 'to build a bridge' among the different perspectives by emphasising ontological and epistemological openness (Geyer, 2003; p.17). Nevertheless, despite these efforts European integration theories 'have continued to exclude and ignore each other, while clinging to the certainty of their orderly or disorderly ontological/epistemological claims' (ibid.). Consequently, the acute rivalry among each theory of European integration on the dynamics and aspects that are considered fundamental, impede to broaden their ontological and epistemological considerations.

1.2 Shortcomings of compliance and European integration theories

From the preceding arguments, it follows that both compliance and European integration theories are ontologically highly reductionist and ahistorical. Compliance approaches such as enforcement, management, and legitimacy, and European integration theories reduce the source of compliance to institutional design and instrumental state interests. As noted by Beach (2005: p.114), explaining compliance solely upon the basis of instrumental state interests and institutional design is problematic. This is even more complicated in the EU context, since there is a great variety of sanction mechanisms and 'the short-term political and economic 'costs' of compliance for governments are often high' (Beach, 2005, p.122). The state choices to comply cannot effectively be understood in isolation without considering the impact of systemic and international pressures. According to Haas (2016; p.292),'international pressures influence existing domestic conditions by creating, amplifying, or inhibiting domestic pressures'. Hence, the assumptions of these approaches restrict the ontological focus to the study of domestic practices. Furthermore, they exclude important dynamics and mechanisms of contemporary capitalism inherent in the social world from which the agents of capital or labour emanate. This neglect of the importance of contemporary capitalism in understanding states' compliance dynamics leads them to an interpretation that does not take into account the inherent contradictions that are embedded in the coercive forces that require capital to continuously renew itself, or what is also referred to as the continued accumulation of capital. By overlooking the historical development of contemporary capitalism and without taking into account a large part of the social dynamics and practices, the extant approaches do not permit viewing the current Italian government's decision comprehensively as the constellation of agents, and their location in the Italian economy/economic context are disregarded. These factors are, however, pivotal in the effort to comprehend the politics that underpin the reactions and strategies of national governments within the EU.

1.3 Regulation theory Background and Core Concepts

During the 1970s, a group of heterodox French economists developed Regulation theory, which has become a specific current of Marxist political economy ever since (Becker et al. 2010: 226). Regulation theory aims 'at finding answers to the dynamics of capitalist accumulation and its crises' (Bieling et al 2016: p.56). It originally emerged in the subfield of economics and in strong opposition to neoclassical mainstream theory, and sought to refine the Marxist tradition (Aglietta, 1979). Over time, different branches emerged and regulation economists increasingly started to refer to post-Keynesian and institutional theories (Becker et al, 2010: p.226). As this thesis draws on the approach developed following the tradition building on Michel Aglietta' s work (1979), the differences between the multiple branches will not be further discussed. Aglietta's work chiefly sought to explain the inherent contradictions of capitalism. In contrast with mainstream economic theory, Regulation scholars consider capitalism to be crisis-prone, inasmuch they maintain that it is pervaded by inherent contradictions. More than explaining capitalist crises, Regulation scholars have emphasised explaining how capitalism was temporarily stabilised through state regulation in spite of its adversarial nature. However, 'the notion of regulation goes beyond a technical understanding of regulation and state intervention and encompasses social norms' as well (Becker et al 2010; p.226). Regulation scholars assume that particular types of regimes of accumulation can reach a level of stability through the following forms of regulation: 'wage relation, competition relation, monetary restriction, ecological restriction'(ibid.). These forms are spatially and historically specific to a certain type of regime of accumulation and counteract its inherent contradictions and tensions. In sum, Regulation scholars seek to identify the inherent mechanisms of a capitalist systems related to capital and labour and to investigate the dynamics that allowed periods of long-term stable growth to occur.

To develop the Regulation theory, scholars elaborated concepts that 'correspond to the historically specific features of capitalism' (Jessop, 2001: p.2). The most fundamental of these concepts are '*industrial paradigm*', '*accumulation regime*', '*mode of regulation*', and '*modes of development*'. According to Jessop and Sum (2006: p.302), together these concepts enable Regulation scholars 'to identify the internal structures associated with more concrete-complex features of specific periods of capitalist development and/or specific national variants of capitalism'. The most fundamental concepts are the *regime of accumulation*, a broadly 'macro-economic concept', and *the mode of regulation*, a more 'meso-level concept encompassing both economic and extra-economic factors' (Jessop & Sum, 2006; p,42). These two are inherently correlated, inasmuch in the perspective of regulation scholars on *modes of regulation* always correspond a *regime of accumulation* (Jessop, 2013). Moreover, through the use of these concepts, Regulation theory endeavours to analyse '*modes of development*'. These are the ways in which an accumulation regime and a specific mode of regulation 'stabilise themselves over the long term and how they enter into a period of crisis and then renew themselves' (Boyer & Saillard, 2002; p.41).

According to Boyer & Saillard (2002; p.335), an accumulation regime is 'a set of regularities that ensure the general and relatively coherent evolution of capital accumulation, that is, which allow the resolution or postponement of the distortions and disequilibria to which the process continually gives rise'. It is defined as a social structure apt to 'connects the individual decisions of producers and the socially determined effective demand they must confront' (Noel, 1987; p.311). Hence, the concept of regimes of accumulation enables one to understand the underlying dynamics of capitalism and its historical changes. These are usually analysed in abstract terms on 'the basis of their typical reproduction requirements but, specified as national modes of growth, they can be related to the international division of labour'(Jessop, 2001; p. 6). Regulation scholars moreover, considers fundamental to distinguish between different types of accumulation regimes to understand their distinct inherent contradictions, since the institutional character of the regime of accumulation is 'held to vary between nation states' (Peck & Tickell, 1992; p.351).

Regulation scholars' focus on national regimes of accumulation and the study of their significant differences was performed in several ways. Nevertheless, in recent studies the most used distinction is the one developed by Becker et al. (2012; p.172) which identified a set of characteristics that together define an accumulation regime. The characteristics of a specific regime of accumulation are detected along three different typological axes. The first axis *productive vs financialised accumulation* distinguishes between investments into the productive or the financial sectors. In the case of a dominant *productive accumulation*, investments will be concentrated in this sphere. Conversely, in the case of dominant *financialised accumulation*, the investment will be directed towards financial assets. Within the *financialised accumulation* there is a distinction between two different types of investment. The first type of accumulation is characterized by investment in 'fictitious capital' (Becker & Jager, 2012; p.172) such as different types of shares and securities. The second type is based on investments 'in different types of interest-bearing capital such as credits' (Becker et al. 2010; p.227). These two distinct types of accumulation are strongly correlated. For instance, some of the 'surplus value coming from the productive sphere is invested in the form of assets and credit in the financial sector' (ibid.). The second axis *extensive vs intensive accumulation* refers to the form of productive accumulation. *Extensive accumulation* is characterised by an increased intensity of work, while *Intensive accumulation* refers to an increased level of relative surplus value achieved by cheapening wage goods (Becker, 2002; p.67). The last axis *introverted vs extroverted* distinguishes a form of accumulation on the basis of its market orientation. *Introverted accumulation* is characterised by 'an expansion of internal demand' (Gambarotto et al. 2018; p.5). By contrast, *Extraverted accumulation* entails an openness towards world markets (ibid.). Furthermore, within this axis, Becker et al. (2012) make a further distinction based on whether there is a 'strong-outward orientation based on exports' or a 'strong import-dependence' (ibid.). The first case is called 'active extraversion' and the second 'passive extraversion' (ibid.). The distinctions among the national regime of accumulation deriving from the typological axes introduced by Becker et al. (2010) permits to identify and concretise the capital accumulation that characterised a national mode of growth. Moreover, it allows to visualise its inherent tensions and contradictions. However, according to Regulation scholars also the mode of regulation is fundamental in order to understand the emergence and persistence of 'a temporarily stabilized accumulation process'(Becker & Jager, 2012; p.172).

A *mode of regulation* encompasses norms, institutions, social networks and organisational forms and mechanisms that might permit to an accumulation regime to reach a level of stability. According to

Aglietta (1979; p.16), this is a set of institutions that develop as a result of class struggles 'within specific historical social relations of production' (Becker & Jager, 2012; p.173). Rather than fundamentalist neoclassical theory, 'a mode of regulation replaces the thought of static equilibrium' (Boyer & Saillard, 1995; p.41) with an investigation of dynamic procedures apt to decrease the disequilibria always brought about by regimes of accumulation, due to their inherent contradictions. Hence, this concept entails a dynamic procedure of altering disequilibria on an everyday premise, thereby increasing the likelihood that 'mode of regulation differs considerably'(ibid.), since contingent upon time and place. Its analysis includes five dimensions: 'the wage relation (labour markets and wage-effort bargaining, individual and social wages, lifestyles); the enterprise form (its internal organisation, the source of profits, forms of competition, ties among enterprises, links to banking capital); the nature of money (its dominant form and its emission, the banking and credit system, the allocation of money capital to production); the state (the institutionalised compromise between capital and labour, forms of state intervention); and international regimes (the trade, investment, monetary settlements, and political arrangements that link national economies, nation states, and the world system)' (Becker, 2002; Jessop, 2001: p.6). Consequently, as confirmed by Bieling (2014; p.35), the concept of regulation is intended to be 'comprehensive' of the whole dynamic procedures adopted to limit the disequilibria emerged from the accumulation regimes.

Since the two concepts regime of accumulation and modes of regulation are highly interdependent, Regulation scholars consider determinant the study of their relationship. However, as noted by Jessop and Sum (2006; p.313), 'the key ontological and methodological question' is whether the regime of accumulation pre-exist the mode of regulation'. 'The regulationists' answer is 'yes and no'(ibid.). This entails that there is not a clear causal relationship between the two (ibid). Hence, both concepts influence each other without a predetermined order, since 'they are products of various and different human struggles' (Pistor, 2005; p.13).

1.4 The emergence of Post-Fordist accumulation regimes in Europe

After the Second World War, Regulation scholars were mainly interested in explaining, through the use of these key concepts, the dynamics that favoured the stability of Fordist regime of accumulation. Even though this regime was similar in most advanced European economies, Regulation scholars recognised the presence of substantial differences among them. Fordism refers to a situation that emerged in the post-war period in which capital was concentrated into large multi-plant enterprises. It was characterised by the active role of the state in determining social and industrial policies and by the 'historical compromise' (Arestis & Paliginis, 1995; p.263) between organised capital and labour. The

Keynesian welfare-inspired policies adopted by most of the European states were perceived as a fundamental element to guaranteeing the stability of the Fordist accumulation regime. However, the collapse of capital profitability which then negatively affected economic growth and workers' wages led to the crisis of Fordism as an accumulation regime. This resulted in 'a profound remodelling and rearrangement of the organization of the production and labour process' (Tauss, 2012; p.56), later described as 'a post-Fordist model of accumulation' (Cox 2002; p.81; Tauss, 2012; p. 56). Following this transition, regulation scholars started to extend the application of their key concepts and related mechanisms in explaining the 'possibilities and conditions' (Bieling et al. 2016; p.57) of this new type of regime of accumulation. They noticed, as argued by Arestis et al (1995; p.263), that the divergences between national regime of accumulation became even more pronounced at the end of the Fordist era. Even though the economic development experienced within Western Europe occurred roughly simultaneously, each EU member state followed different trajectories. The idea of different models of capitalism emerges from the Regulation approach, which maintains that 'capitalism can be differently organised' (Gambarotto & Solari, 2015; p.789), since a great variety of institutional arrangements coexist, each one supporting a different regime of accumulation and specific modes of development.

Specifically, Regulation theorists argue that to maintain the rigid spatial division of labour and in an attempt to recover profitability, multinationals 'sought refuge in the New Industrialized Countries, the Peripheral countries, where low-cost production existed due to the low wages of workers'(Arestis & Paliginis, 1995; p.266). This development was central in the post-Fordist accumulation regime and was labelled by Lipietz (1987) as 'peripheral Fordism'. National economies, particularly peripheral economies with low-wages, started to open up to financial investments coming from the core capitalist economies (Tauss, 2012; p.56). A necessary consequence of this was the emergence of a new international division of labour 'in which technological development and innovation is concentrated in a core area, while physical production of goods is moving slowly from the core area [...] into peripheral areas [...], periphery production being linked to the core by control mechanisms located in the core area' (Cox 1980, p. 384).

The accumulation of capital became transnational as a consequence of the expansion and integration of production processes across national borders. Post-Fordism was characterised by the enhanced mobility of capital and by the internationalisation of financial, trade, and industry capital (Tauss, 2012; p. 57). Keynesianism was increasingly replaced by neoliberal policies both in the centre and in the periphery. Financialisation has been the dominant feature of the neoliberal policies that were adopted in this period. As argued by Kotz (2010; p.4), 'the most inclusive definition' is given by Epstein (2005, p.3): 'financialization means the increasing role of financial motives, financial markets, financial actors and financial elites in the operation of the economy and its governing institutions, both at the national and international levels'. In contrast with previous definitions that included only some aspects of the phenomenon, this broad definition highlights its global nature and worldwide influence. Financialisation was central in the development of an accumulation regime that to maintain a high level of consumption in spite of stagnating real wages 'combined flexible labour markets with the expansion of credit' (Luo, 2017; p.45). This alternative regime introduced 'flatter, leaner, more decentralized and more flexible forms of organization' (Jessop 2002: p.100). According to Bieling et al. (2016; p.57), regulation scholars were increasingly interested in the study of this new type of 'finance-dominated accumulation' and they began to highlight its inherent instabilities and contradictions. Furthermore, they noticed that these economic developments provoked changes in the modes of regulation. Thus, 'financialisation requires far-reaching changes in regulation' (Becker et al. 2010; p.228), that encompasses both legal and social realms that are often 'socially and politically contested' (Becker et al. 2010; p.228). These changes are experienced by most of the advanced economies even if some countries are more financialized than others (Amable et al. 2005).

1.5 The late development and the centre-periphery divide in Europe

According to Regulation scholars, countries have undertaken different patterns towards financialisation and their understanding is fundamental to grasp the different economic patterns of accumulation. This thesis analysed a country that has in part pursued, together with other Southern European countries, a different model of economic development. According to Arrighi (1985) and Wallerstein (1985), even if these countries experienced a significant economic growth they were trapped by underdeveloped institutions and Keynesian social policies. This divergent process of development is captured by the notion of process of 'late development' (Fua, 1980, as cited in Gambarotto et al. 2018 p.2), which entails an 'idiosyncratic model of capitalism' (ibid.) that characterised these economies. By and large, 'late development tends ultimately to evolve into semi-peripherality' (ibid p. 3). According to Arrighi, the Southern European countries tend to be included in the category of semi-periphery. The transformation of the world economy has pushed those 'countries towards the periphery of Europe and back into the semi-periphery of the developed world economic system' (ibid. p.2).

Regulation scholars initially were mainly focused in explaining 'the nature of financial accumulation and related process of financialisation' within a single nation state (Bieling et al. 2016; p,.57). They recognised that its related neoliberal mode of regulation was pervaded by inherent contradictions that ultimately led to different developments of the regimes of accumulation within Europe, framed in the *core-periphery* division. However, they tended to ignore 'the contradictions and crisis tendencies of transnational heterogeneity and asymmetric interaction of different regimes of accumulation in the context of European integration until a big crisis started to become visible on the surface' (ibid). Later, they began to broaden their analytical perspective by including a more comprehensive and persuasive analysis of the dynamics deriving from the emergence of 'increasing asymmetric interaction of regime of accumulation' (Becker et al 2015; p.81) to explain the impact that the financial crisis of 2008 had on the economies, politics, and societies of the member states. Contrary to the expectations of many scholars and European policymakers, they noticed that the introduction of the EMU has further magnified the *core-periphery* division, in spite of the presence of similar transnational accumulation strategies and a common supra-national form of regulation (Becker & Jager, 2011, Gambarotto et al. 2015; Becker et al. 2015; Gambarotto et al, 2018). The increasing competitiveness and the expanding capital mobility experienced at the EU level created sharp divergences between the economies of member countries, resulting in a scenario where inequalities tend to be strengthened, thereby provoking an 'illiquidity crisis' (Gambarotto et al 2015; p.792).

To broaden their analytical perspective, Regulation scholars decided to adopt concepts pertaining to the neo-Gramscian international political economy (Bieling, 2014; p.37-39), since their concepts were mainly focalized on the national level (Becker & Jager, 2012; p.174). This broadening was facilitated by a 'certain elective affinity' (Bieling, 2014; p.38) between the two theories. This can be demonstrated by both theories offering similar insights: firstly with regard to the interaction between economy, politics, and society; secondly, they offer an analogous understanding of the influence played by national and transnational patterns of reproduction dynamics on capitalist development; and third, both consider social conflicts as defined partially by the inherent contradictions of capital accumulation (ibid). The neo-Gramscian international political economy approach is primarily based on the study of the mechanisms related to the concepts developed by the Italian politician and political thinker Antonio Gramsci, including 'hegemony', 'historical bloc', 'civil society', and 'passive revolution'. These concepts together with those of Regulation theory permit including more dimensions in the analysis, thereby overcoming the limitations of both the 'accumulation regime' and 'mode of regulation'. Furthermore, these 'are particular sensitive to the dynamics of uneven and combined development' (Bieling et al. 2016; p.58) within the EU. These dynamics are determined by the 'transnational accumulation strategies' that are ideological 'models of economic management' that endeavour to smooth the differences between the 'different functional and sectoral business interests' by defining 'the objects of regulation, supranational forms of regulation and their interplay'(ibid.). According to Bieling (2014; p.38), at the basis of this interplay there is an alliance between national, transnational, and supranational politicians and institutions, that since 'the mid-1980s has been based on a neoliberal framework'(Becker & Jager, 2012; p.174). Thus, in Gramscian terms, this represents *a (trans)national historical bloc*. Such a bloc is present when there is a convergence in a specific historical period of the interactions and discourses 'between economic accumulation, political and institutional regulation, and civil society (ibid). Regulation scholars assume that the emergence of European political economy was determined by the formation of such a bloc that favour and support the implementation of policies demanded by the EU neoliberal hegemony in all EU member states (Bifulco, 2017). Furthermore, they maintain that the emergence of the financial crisis of 2008 and its subsequent political management at both the national and supranational levels were determined by a *(trans)national historical bloc* that favoured the implementation in the member states of new restrictive neoliberal policies (Becker & Jager, 2012; Ryner, 2015; Bieling et al. 2016).

1.6 The ontology strengths and weaknesses of Regulation theory

Ontologically, the Regulation school describes the world through the lens of critical realism (Jessop, 2001; p.3; Jessop & Sum, 2006; p.300) that was derived from Marx and then further elaborated. In contrast with the reductive and rational ontological assumptions of the various approaches within compliance and European integration theories, its concepts of 'regime of accumulation' and 'modes of regulation' and the study of their causal relationship can enrich the explanatory power of the analysis. Firstly, they allow Regulation scholars 'to move beyond the conceptual opposition of agency and structure and a reductionist conceptualization of the base-superstructure theorem' (Pistor, 2005; p.12). On the one hand, the regime of accumulation that represents the material capitalist structure and its inherent contradictions are considered in the ontological assumptions and then used as explanatory mechanisms. On the other hand, the mode of regulation is viewed as the result of the conflictual interaction between different norms and ideas. By considering the regime of accumulation and the mode of regulation as institutional and ideological products, the inclusion of more dimensions in the analysis is allowed, thereby creating a more comprehensive theoretical framework. As Pistor (2005; p.13) argues, 'by doing so, they make it possible to develop a non-reductionist and non-functionalist conceptualization of political practices, institutions or ideology'.

Secondly, Regulation scholars consider the underlying mechanisms and developments within the social world as inherently dependent on the historical and spatial context (Jessop & Sum, 2006; p.214). Regulation theory treats the social world as open-ended, whereby no generalisation can be drawn from the theory. This entails that Regulation approach studies the changes within the 'regime of accumulation' and 'mode of regulation' through a 'truly dynamic perspective'(Noel, 1987; p.327). The emergence of a new mode of regulation is viewed as a response to the inherent contradictions and tensions within a certain kind of capital accumulation in a given historical and spatial context (Di Giovanna, 1996; p.375). Thus, the capitalist regulation of economic relations is also historically and geographically specific (Di Giovanna, 1996; p.376). This ontological consideration allows the development of a 'theoretically informed understanding of time-change empirical patterns' (Noel, 1987; p.308). Moreover, this approach helps to identify the spatial difference across national patterns of accumulation and regulation. As Noel (1987; p.329) indicates, each country has pursued a development with a particular time framing and spatial context, thereby resulting 'in specific forms of the ideal typical patterns of accumulation and regulation'. Thus, the historically and spatially contingent character of the Regulation ontology broadens the understanding of national governments' decisions and strategies in the realm of the political economy (Noel, 1987; Bieling et al. 2016). Hence, this ontological assumption enables this approach to overcome the ahistorical and reductive perspectives employed within compliance and European integration theories. Whilst the extant approaches consider governmental and economic practices as a result of fixed preferences of rational actors, these characteristics of Regulation theory enable to consider the decision of the current Italian government as reactions to historically specific conditions. According to Boyer and Saillard (1995; p.41), Regulation theory adopts a 'situated rationality' that takes into account the limits that a specific institutional arrangement might have on the rationality of the economic and political agents.

Thirdly, the Regulation perspective extended by neo-Gramscian international political economy includes more dimensions into the ontology. Specifically, its theoretical concepts place 'a stronger emphasis on the social nature of prevailing relations of (re)production' (Bieling et al 2016; p. 58). Their use broadens the theory's 'analytical focus' by including both the social battles and power relations within national but also transnational civil society. Furthermore, they provide a more 'systemic' perspective on the role and effects of supranational system such as the EU and its related mode of regulation (ibid). As noted by Jager and Springler (2015; p.27), this broadening of the research paradigm focus creates the space for the study of the impact of agency over structure.

However, some weaknesses of Regulation theory need to be addressed. First of all, regulation scholars are primarily interested in the study of economic policy and struggles and tend to ignore other policies. In this regard, Jessop (1990; p.197) states that, 'priority is given to economic function over state form' in Regulation theory. This thesis aims to overcome this by paying sufficient attention to the roles played by the various Italian governments' and EU supranational institutions' policies. Secondly, Regulation scholars are apt to favour the study of structure over agency(Peck & Tickell, 1992; p.360; Pistor, 2005; p. 14; Jessop & Sum, 2006; p.101). Some regulationist writings, for instance, tend to observe 'the mode of regulation through the way in which it stabilises the accumulation regime' (Bieling, 2014; p.36). However, the changes in the mode of regulation are not directly reducible to the immediate requirements of the accumulation system (Clarke, 1998; p.67-70). According to Bieling (2014; p.36), this led Regulation theory to incur in 'the risk of suffering from implicit functionalism'. This weakness is partially addressed in the empirical analysis of this thesis by highlighting the emergence and impacts of social contestations that accompanied the various changes experienced by the Italian accumulation regime. For instance, this thesis demonstrates how changes in the Italian accumulation regime, especially the ones after the financial crisis of 2008 with regard to labour relations, were followed by a rise in conflictual relations among business and workers' organizations. By focalizing the research attention on the social contestations following the implementation of neoliberal policies in the Italian productive and financial systems and in the labour, it is shown that also the agency of national and transnational civil society affected both the changes in the Italian accumulation patterns and governments' decisions and strategies. Thirdly, regulation scholars' analytical perspective is ontologically entrenched 'in a dichotomous view of nation states/ world market relations'(Bieling, 2014; p.36). This further complicates the understanding of the mechanisms inherent in the capitalistic development at the international and transnational levels. This thesis aims to overcome this limit of Regulation theory by expanding it through a neo-Gramscian international political economy approach.

Chapter 2: Epistemology, Methods, and Operationalisation

Epistemology is a branch of philosophy that concerns assumptions about knowledge. In particular, it questioned 'what constitutes acceptable, valid, and legitimate knowledge, and how we can communicate knowledge to others' (Saunders et al. 2009: p.127). In the present day, 'within the community of academic students of international politics there is a deep epistemological rift over the extent to and ways in which we can know our subject' (Wendt, 1998; p.101). As discussed in the previous chapter, Regulation theory is entrenched in the assumptions of critical realism that typically employs an implicitly critical realist ontology and epistemology (Jessop, 2001), which is in stark contrast to empiricism and positivism that underpin mainstream theories, such as liberalism and realism – theories that founded on rationalism. This chapter will revolve around this epistemological debate and outline the main epistemological assumptions of the Regulation theory. In a second section, the methodology applied in this thesis will be presented and finally, the abstract key concepts will be operationalized to move towards a more concrete analysis.

2.1 A Critical Realist Epistemology

Critical realist philosophy provides 'an alternative both to the scientificity of positivism and to idealist and relativist reactions to positivism' (Sayer, 2004, p. 6). In the academic debate, critical realism is generally labelled as a post-positivist paradigm or even as an 'anti-positivist and anti-empiricist paradigm' (Jessop & Sum, 2006; p.299). Epistemologically, it denotes a stark departure from positivist theoretical approaches that rely on empiricism and that assume to improve scientific knowledge through the study of constant conjunctions or other empirical regularities (Wight, 2007). Positivism assumes that science is built up through empirical generalizations expressed as universal statements of the 'covering law' (Steinmetz, 1998, p.172). Revolving around a set of axioms, rules, and procedures, positivism is premised on the idea that the methods for conducting social research can be obtained from the natural sciences (Wight, 2007, p.384). This entails that its philosophy is rigorously based on 'empirical nature' (Bhattacherjee, 2012; p.18). Moreover, positivism assumes that a regular relationship between social phenomena can be established by developing hypothesis directly derived from theory, which later can be tested and thus proven correct or false by direct empirical observations. From a positivist perspective, it would be meaningless or even impossible to investigate and study deep structures that cannot be directly observed (Lowndes et al., 2017; p. 186). Approaches that draw on positivism, such as realist, neo-realist, and neoliberal institutionalist theories of IR only recognize 'the existence of a reality that can be directly observed' (Joseph, 2007; p.346). Thus, positivism's rejection of the presence of underlying relations and structures within the social world is inevitably a 'weakened basis for making causal claims of any kind'(ibid.).

Conversely, a purely relativist epistemological approach claims that 'persons with different cultural backgrounds, education, religion, social class, gender, conceptual frameworks, or theoretical assumptions' (Niiniluoto, 1991, p.152) tend to endorse different epistemic systems for forming beliefs about what is true or false (Goldman, 2010, p.1). As argued by Shapere (as cited in Sayer 1992; p.75), relativism, and the derived doctrines, are not the outcome of an examination of real science and its history; 'rather, it is the purely logical consequence of a narrow preconception of what meaning is'. The resulting reduction of the social sciences as mere interpretations of meaning is at odds with the critical realist ontological foundations about a deeply structured reality that consists of both observable and unobservable entities and objects. Therefore, critical realism refuses the reductionist ontological considerations envisaged by a purely relativist epistemological approach (Jessop, 2001).

For Bhaskar, scientific investigation is not a matter of observing and recording regular experienceable recurrences, but rather the more challenging task of discovering real causal powers or mechanisms that are at the basis of these occurrences. The resulting scientific knowledge is 'tendential' (Dean et al. 2006; p.7). This implies that an explanation is not generalizable to other similar recurrences since it is only adequate with regard to a given definition of the explanandum. According to Price and Martin (2018; p.90) this method of research is called 'retroduction' and is the 'central mode of inference' in critical realism (Lawson, 1998, p. 156). Retroduction is 'a distinctive form of inference…which posits that events are explained through identifying and hypothesising causal powers and mechanisms that can produce them'(Price & Martin, 2018; p.90). This method allows the researcher to 'move beyond a specific ontic context to another' (Downward &Mearman, 2006; p.88), thereby enriching the explanation of causal mechanisms with ontological depth. Since Regulation theory is ontologically and epistemologically based on critical realism (Jessop, 2001), this argumentation is followed by its scholars. In their studies, they utilise a dual method, namely the method of 'articulation'(Jessop & Sum, 2006; p.304). This method, as the retroduction, is neither based on deduction or induction, but conversely, it entails that to detect the sufficient and necessary conditions of specific causal mechanisms, the researcher must move from abstract phenomenon towards more concrete ones, and from simplified models to more complex ones that contain several dimensions of a given phenomenon (ibid.). This permits research to move beyond and identify the necessary and sufficient contextual conditions for a particular causal mechanism. Therefore, the main goal of Regulation scholars is to utilise the information gathered through their research to develop their scientific knowledge with regards to the latent mechanisms that might be at the basis of its occurrence (Jessop, 2001).

Furthemore, they assume that ‘a theory is an open process, not a final product’ (ibid. p.308). As noted by Patomaki & Wight (2002; p.230), the scientific endeavour will never reach an end. Consequently, the critical realist nature of the epistemological approach of Regulation theory implies that the use of hypothesis in this thesis would be incoherent with its ontology and epistemology. Therefore, the key concepts of Regulation theory extended by neo-Gramscian international political economy are not transformed into hypothesis since theories’ expectations do not need to be verified or falsified. On the contrary, the concepts have been operationalised and broader expectations are constituted and exposed. In this regard, a retroductive method has been applied with the aim of detecting the necessary and sufficient conditions of the explanandum.

2.2 Methodology

The study of the reasons behind the decision of Italian government to not comply with EU fiscal rules will be pursued through the application of a research method that is in line with the epistemological and methodological assumptions of critical realism. Although, critical realism does not automatically favour one method of research over the other, several scholars sustain that a triangulation of research methods is suitable to cope with a critical realist epistemology of retroduction (Downward & Mearmann, 2006; Modell, 2009; Fletcher, 2017). ‘Triangulation’ is a multi-method approach (Modell, 2009; p.209) which entails that different insights are utilised to examine a specific phenomenon. These insights were obtained in two ways. One consists of combining different types of data, using different sources for example. The other implies the use of different research methods, for instance by integrating both qualitative and quantitative measures. According to Sabina and Kahn (2012; p.157-158), there are essentially two aims to adopt the method of triangulation for research. The first is for ‘confirmatory purposes’(ibid.). Specifically, triangulation is utilised in this case to enhance the validity of the findings, for instance by validating qualitative results through quantitative studies. The second is for ‘completeness purposes’(ibid.). In this case, this methodological approach is used by researchers to increase their understanding of the phenomenon under investigation, for instance by combining multiple theories, data, and methods. To recapitulate, triangulation ‘minimizes the inadequacies of single-source research’ (Yeasmin& Rahman, 2012; p.159) allowing ‘researchers to be more confident of their result’(ibid.).

This thesis also utilises the data triangulation method, which implies that different types of data are used to analyse the explanandum. Two different types of qualitative sources were used, namely primary and secondary. Primary sources such as governmental and transnational institutions documents, media articles and papers of research institutes were used to obtain a greater understanding of the role of agency and its impact in determining governments' decisions and strategies. Secondary sources such as academic articles, working papers, and books were also employed to offer a historical contextualisation of political and economic developments in Italy from the Fordist to the post-Fordist era. Data triangulation through secondary literature not only helps to enrich empirical analysis, but also its explanatory power. Although these various qualitative sources provide numerous information, quantitative data was also utilised to obtain insights on the Italian accumulation regime, politics and society. Quantitative data were retrieved from the OECD database, World Bank database, ISTAT database and Eurobarometer database. These data provide insights that allow to better understand the trends within the Italian accumulation regime, politics and society and the impact of the Sovereign debt crisis on them.

According to Bowen (2009; p.28), triangulation is often combined with document analysis. This is 'a systematic procedure'(ibid. p.27) utilised to review and evaluate different types of documents. It implies that data found in documents can be analysed by the researcher to obtain more comprehensive empirical knowledge. Different types of documents can be utilised for this purpose, such as agendas, background papers, letters and memoranda, press releases, and program proposals (for a complete list, see Bowen, 2009). This method was used in this thesis to analyse documents that need particular attention. These are specifically the Country Specific Recommendations, the opinions on the national budget issued by the European Commission with regard to Italy. Furthermore, other documents such as the political programs of the two parties forming the current Italian government will be analysed. These documents offer more accurate and in-depth information about the EU fiscal regulations and on what specifically the Italian government decided to not comply with,in addition to the policies favoured by the two leading parties.

The different types of sources from which qualitative and quantitative data was retrieved was then combined into an explanatory narrative tracing how the Italian accumulation regime and the agency have determined the emergence of the decision of the current Italian government (explanandum). Not so long ago, the explanatory narrative was considered among scholars as theoretically impoverished and only marginal to exciting developments in social science theory. However, in the present day, its use is ubiquitous and its value as a mode of explanation is hardly contested anymore in academia. In fact, it has become a fundamental research tool in several disciplines such as economics, psychology, sociology, political science, and even management theory. Undoubtedly, 'it is possible to talk of a 'narrative turn' across the human sciences' (Roberts, 2006; p.703). As argued by Suganami (2002; p.346) a strength of the application of this method in IR studies is that it allows scholars to formulate an argument that not only look at the reasons why a specific phenomenon occurred but also how it occurred.

The explanatory logic of the empirical analysis is articulated as follows: *Historical Instabilities in the Italian accumulation pattern have further exacerbated the impact of the financial crisis thereby creating the necessary and sufficient condition for the emergence of a populist government that strongly opposed the EU austerity measures.* However, the identification of these instabilities is not enough for providing a comprehensive answer to the research question. Even though the thesis does not include hypotheses, based on the reasons previously explained, it does contain some prior expectations regarding the explanandum.These are specifically:

The lack of economic recovery after the implementation of measures imposed by the EU institutions and implemented and favoured by centre-left and centre-right Italian governments and a large part of the civil society of Italy have favoured the emergence of a newly elected populist government that opposed the European austerity reforms, since they were considered futile for the recovery of Italian economics and in conflict with their electoral promises.

Hence, the sequence of political economic dynamics following the changes in the accumulation regime and in the historical bloc are expected to be determinant in explaining why it happened in that moment and with that government. On the basis of these expectations, there is a focus on how these transformations affected the Italian economy and its society through drastic changes in labour relations and in the political arena.

2.3 Operationalisation

Before conducting the empirical analysis of the thesis, it is necessary to concretely operationalise the key concepts of Regulation theory. To enhance the transparency, traceability and reproducibility of the empirical analysis, key concepts were defined and analysed in relation to units of measurement. Although the concepts introduced by the Regulation theory extended by the neo-Gramscian international political economy are copious, the operationalisation will be concerned with two that are expected to influence the Italian government decision, respectively: regime of accumulation and transnational historical bloc.

Regimes of Accumulation

Regimes of accumulation can be distinguished along three different axes (Becker & Jager, 2012), as previously described in the theoretical chapter. As argued by Becker et al (2011; p.3), this distinction offers further insights to analyse the accumulation crisis and to understand the 'reactions' and 'strategies' of the national governments among EU member states (Bieling et al. 2015; p.64).

(1) The first axis – *financialised versus productive accumulation* – is determined by looking at the changes in the capacity and power of a country's financial market compared to the entire economy. A shift toward financial accumulation can become manifest when there is an increasing liberalisation of the financial market. Quantitative and qualitative sources can be employed in order to measure it. Two different economic indicators will be utilised. The first indicator measures the value added by financial and insurance sector as a percentage of value added in total (OECD, n.d.). This was obtained from the OECD dataset called 'value added by activity'. The OECD database for this indicator does not allow for separating the financial and insurance industries. This represents a limitation since it cannot provide the exact percentage of the added value that is derived exclusively from financial operations. Nonetheless, this data will be integrated with qualitative ones, such as governmental official documents, to obtain a more reliable support.

The second indicator included in the analysis is given by World Bank dataset and is the 'Gross Fixed Capital formation as a percent of GDP'. 'Gross fixed capital formation (GFCF) consist of acquisition less disposal of new or second-hand tangible fixed assets'(World Bank, n.d.). This indicator measures the investments in the productive capacity of the economy made by both foreign and domestic investors. Nations tends to be more on the productive side of the axis when the level of gross fixed capital formation as part of their GDP is high. Rather, a decrease in this level accompanied by an increase in the value added by the financial and insurance sectors tends to be associated with a movement towards a more financialized accumulation. This triangulation of data can lend support to establishing whether or not and how Italy has moved towards a financialised regime of accumulation.

In addition to these quantitative indicators, qualitative evidence regarding changes of policy over time were also included to obtain a more concrete and complete framework. The primary focus will be on the liberalisation programs towards global competitiveness promoted on both national and supranational level before and after the Euro's introduction. Furthermore, financialised accumulation can be further distinguished whether the accumulation is based on 'different types of securities' or into interest-bearing credits (Gamabarotto et al, 2018; p.4). This is indicated by the OECD Bank profitability statistics that provides data on the level of net provisions of loans and securities of the whole Italian banking system. This distinction is fundamental for understanding the process of financialisation.

(2) The second axis – *extraverted versus introverted accumulation* – is measured through quantitative indicators in combination with historical qualitative evidence exposed in an explanatory narrative. An accumulation regime is identified as extraverted when it is based on enlarging the market by opening to global competitiveness and investment, and introverted when is based on an expansion of internal demand by investing mostly into the local economy. The first indicator used is called Foreign Direct Investment flows and is obtained from World Bank dataset. FDI net inflows are 'the value of inward direct investment made by non-resident investors in the reporting economy'(World Bank, n.d.). In general, high levels of FDI, either positive or negative, tend to be correlated with an extraverted accumulation regime and vice versa. A further distinction of extraverted regime of accumulation has been introduced by Becker et al (2010; p.277), who distinguished between active and passive extraversion. The former indicates an import dependent economy while the latter implies an export-oriented economy. As noted by Gamabarotto et al. (2018; p.5): 'an extroverted accumulation regime can also result in a passive form of import orientation'. The second indicator used for identifying this further separation is the 'External balance on goods and services (%of GDP)'. The World Bank (n.d) described this data as the export of goods and services minus the import of goods and services. A negative current account balance indicated a passive extravert accumulation and vice versa. The data for this indicator was obtained from the World Bank.

Historical bloc is measured by examining the political, civil and economic levels of the Italian society in relation with the EU. The political level is analysed by looking at the position within the European Parliament of the national parties in charge of successive Italian governments. Whether the national parties are allied with the majority of the European Parliament this represent unity of political ideology. The civil level is measured by focalizing on the degree of trust among the Italian public opinion for the European Commission. The data was retrieved from the surveys conducted by the Eurobarometer. The question posed to the participants was as follows: *tell me if you tend to trust it or tend not to trust the European Commission?* The possible answers are: 'tend to trust', 'tend not to trust', and 'don't know'. If the level of trust is higher compared to others this indicates the presence within the civil society of a dominant positive consideration of the role of the European Commission, thereby reinforcing a common perception of the European Commission and the EU in general. In to detect the level of trust even qualitative data was also employed. Qualitative data was retrieved from various academic articles and working papers, thereby providing more empirical support. Finally, the economic level is measured by tracing the development of the Italian accumulation regime by paying attention to implementation of measures suggested by European Institutions.

In the next chapter, the two axes of accumulation and their further distinctions are analysed for Italy throughout the Fordist and post-Fordist eras. After this analysis, four sections are included. The first concerns the impact of the sovereign debt crisis and the related measures adopted by the European institutions to overcome the crisis. The second presents the consequences experienced by workers and organised labour following changes in accumulation patterns and economic and financial crises. The third traces the political dynamics that followed the implementation of these changes in the Italian labour market. The fourth provides a more detailed analysis of the policies supported by the two leading Italian parties. These sections strengthen the claims of this thesis by including an analysis that provide insights both on the role of the structure and agency in determining the Italian government's reactions and strategies.

Chapter 3: An explanation of the Italian populist government's decision not to comply with EU fiscal regulations

The current Italian government explicitly declared the intention to violate EU fiscal rules since their spending plan contains all the costly election promises. The Five Star Movement and the League, the two leading parties, are political forces that are firmly opposed and 'hostile to the EU in its current form'(Braun et al. 2019; p.44). Hence, this represents a 'deliberate attempt to test European reactions' (UN report, 2016). Their criticism of European fiscal rules encompasses the whole framework of the European Semester, particularly the mix of severe and strict fiscal principles and political circumspection (Braun et al. 2019). The main goal of the empirical analysis is to explain why the Italian government decided to not put forth efforts to comply with the EU fiscal regulations contained within the SGP[4] despite past efforts made by previous governments. Before diving into the details of the case, a brief overview of the EU fiscal regulations is provided to better comprehend what the Italian government decided to not comply with.

3.1. Explanandum: The Italian government's behaviour and the Italian government's lack of compliance with EU fiscal regulations

Throughout the financial crisis and economic crisis of 2008-2009, most member states, including Italy, were subjected to the excessive deficit procedure, the corrective 'arm' of the SGP. Since then, all of these member states have followed the procedure without remarkable objections from national governments, thereby exiting from the procedure in recent years. Notably, Italy was one of the first countries to exit in 2013 after Ireland (Sørensen et al 2017; p.41-42). However, the European Commission officially declared on 21 November 2018 its willingness to open an excessive deficit procedure against Italy. This decision was made following the presentation of Italy's 2019 revised draft budgetary plan on November 13th, 2018. This was the second time that the Italian government submitted its draft budgetary plan for 2019, since the first one was openly against the budgetary policy obligation laid down in the SGP.[5] However, the changes in the revised budgetary plan were marginal, mainly consisting in an increase of 'the privatisation target for 2019' (European Commission, 2018; p.6). Therefore, the Commission on 5 November 2018, after exposing its objections in-depth, requested to the Italian government to submit another budgetary plan that was in line with its recommendations in order to avoid the preventive and corrective arms of the SGP. However, the

[4] See note 1.
[5] See note 1.

Italian government initially proved to be intransigent and reluctant to any type of compromise. The Commission's solicitations were seen as an 'empty threat' (Braun et al. 2019; p.50); as Matteo Salvini stated, 'we open the little letters from Brussels, we read them, we respond to them […] but we are not changing a comma of the budget' (Mishke, 2018 as cited in Braun et al 2019; p.50). Before exposing the specific violations of rules identified by the European Commission within Italy's 2019 revised draft budgetary plan, to which the Italian government did not want to comply, it is necessary to outline in greater detail the fiscal regulations contained within the SGP.[6]

The SGP is an 'EU rule-based framework' that endeavours to reach 'fiscal sustainability' through a mechanism that preventively warns and sanctions Eurozone countries (European Commission, n.d.). It was signed by the member states in 1997 and was further amended in 2005 and 2011. It was revised in 2005 to face 'the effects of cyclical fluctuations on budget position' (Karagounis et al. 2015; p.32). In 2011, after the financial crisis, it was further reformed. The new amendments inserted were mostly devised with the ultimate scope of increasing the fiscal discipline among member states. These consisted in a reinforcement of 'the surveillance and enforcement capabilities'(ibid. p.33). In particular, it began to monitor 'macroeconomic policies in the framework of an Excessive Imbalance Procedure and fiscal policies in the realm of the European Semester'(Becker & Jager, 2012; p.182). In 2013, additional measures were added to the European Semester, namely the Two Pack and the Fiscal Compact. These were designed with the ultimate scope of increasing 'the EU control over national budgetary policies'(Braun et al.2019; p.44) and are generally referred to as 'EU austerity measures[7]'.

The SGP comprises a 'preventive arm' and a 'coercive arm' (ibid.). The former was designed to reinforce the 'surveillance and coordination of economic policies'(Larch & Pench, 2012; p.213) with the aim to 'ensure sound budgetary policies' (European Commission, 2019). The Commission evaluates each member states' compliance on the basis of a document called the Stability Programme, which is submitted annually in April. Through this, member states inform the Commission about their medium term budgetary objective (MTO), by presenting the measures that they want to implement. Those have to be in line with the EU budgetary rules, otherwise a member state have to motivate the deviations from the 'Commission's latest forecasts'(Braun et al, 2019; p.44). Conversely, the latter consists of 'the implementation of the excessive deficit procedure' (Larch & Pench, 2012; p.213). Within this procedure are specified 'a series of steps' (Braun et al. 2019; p.45) meant to avoid gross errors in budgetary policies, which may result in increasing risks for the sustainability of public finances and thereby posing a threat to the stability of the EMU. This results in the obligation for EU

[6] See note 1.
[7] The austerity measures are generally interpreted in economics as measures aimed at reducing the country's structural deficit. The most famous examples are spending cuts and tax increases.

member states to avoid incurring excessive government deficits by not overcoming the agreed numerical threshold of 3 percent of GDP for the deficit and 60 percent of GDP for public debt (European Commission, n.d.). The member state that is not in compliance with these regulations receives financial penalties up to 0.5 percent of GDP. Moreover, all the payments coming from the European Structural Funds are interrupted.

In the case of Italy's 2019 revised draft budget plan the European Commission contested mainly the same violations of the first draft budgetary plan since the changes between the two draft budgetary plans were 'marginal'(European Commission, 2018; p.2). It questioned mainly two violations of the rules contained within the SGP[8] that were not addressed. First of all, it contested to Italy 'the deviation from the fiscal targets' (Braun et al. 2019; p.49) that were lie down in the Country-Specific Recommendations issued by the Council on July 2018 under the framework of the European Semester, since Italy was subjected to the 'preventive' arm of the SGP (European Commission, 2018; p.1). In contrast with the Country-Specific Recommendations that suggested a threshold of 0.1 percent for the net primary government expenditure, Italy's 2019 revised draft budgetary plan contained a higher level of 2.4 per cent. This was only slightly lower compared to the 2.7 per cent foresaw in the first draft budgetary plan. In addition, even the level of the deficit for 2019 was 0.2 percent higher than the one previously agreed. Second, due to the high level of public expenditure foreseen in the revised draft budgetary plan, the Commission questioned the noncompliance with the debt reduction benchmark, since the government's debt was above the agreed threshold of 60 percent of GDP and there were no indications of adequate advancement towards compliance as SGP rules prescribed. Italy's public debt, which stood at 131.2 percent of GDP in 2017, remains a key vulnerability (European Commission, 2018; p.1) both for the Italian economy and for EMU stability.

The Italian government was fully aware that even the revised budget plan was against the EU fiscal rules contained within the SGP[9]; nevertheless, it was not willing to substantially change it in order to be able to be in line with European rules. The two deputy Prime Ministers Di Maio and Salvini did not wish to postpone some of their measures contained in their electoral programs. Only on December 12th, 2018 following the declared intention of the European Commission to open an excessive deficit procedure against Italy, Prime Minister Conte announced the reduction in his government's budget deficit from the previous target of 2.4 percent to 2.04 percent, by delaying some of the measures contained in the electoral programs of the Five Star Movement and the League. The European Commission accepted this proposal and the consequent Italy's 2019 draft budgetary plan. However, as

[8]See note 1.
[9]See note 1.

noted by Braun et al. (2019; p.52) the 'Italian draft of government budget was still not fully in line with the SGP[10] rules', since 'Italy will not be able to reduce its government debt ratio' (Gehringer, 2019; p. 2). This decision of the Italian government of not to seek to comply with EU fiscal regulations represents something unprecedented in the Italian political history.

The next sections in the empirical analysis attempt to trace the economic development of Italy's regime of accumulation to offer an historical explanation of the dynamics that has led Italy to reach this precarious and highly unstable economic situation. By highlighting its inherent contradictions, it is possible to understand the underlying reasons. Then, the section demonstrates how the lack of an economic recovery after the onset of the financial crisis and the implementation of the measures suggested by the European institutions and supported by Italian governments of both left and right wing has impacted on the civil society and on the labour relations. These mechanisms are considered pivotal for understanding the emergence of the decision of the newly elected Italian government to not comply with EU fiscal rules.

[10]See note 1.

3.2 Analysis: Italy' economic, political and societal developments

3.2.1 The Italian accumulation regime

The Italian accumulation regime will be analysed to explain the reasons behind the emergence of the current Italian government's decision to not comply with the post-crisis fiscal rules of the EMU. Southern European capitalist regimes of accumulation are pervaded by inherent contradictions. The Italian model of growth is characterised by a strong instability both in the Fordist and post-Fordist eras. The most pressing instabilities are the dependence on foreign credit to finance the increasing level of public debt, domestic underinvestment and the sharp decrease in the level of productivity. These economic imbalances led to a drastic economic decline, further aggravated after the financial crisis, where the world economy and the European regulatory framework were experiencing profound changes. Despite these events that have led to radical changes, especially in the Italian labour market, the Italian economy never fully recovered. These led to the emergence of political parties that were promoting different policies to overcome the long-lasting impact of the financial crisis.

3.2.3 Productive versus financialised accumulation in Italy

At the beginning of the 1970s, a large part of Italian companies have increasingly accumulated financial assets (De Luca, 2002). Several national and international dynamics, for instance the end of the Gold Standard and the problems deriving from the oil crisis, have pushed a large amount of investments towards the 'world of finance' (Salento, 2013; p.5). According to De Luca (2002, p. 25), there was a mounting 'tendency among the Italian capitalist elite, since the oil crisis of 1973, to concern themselves less and less with industry and increasingly with finance; the latter is conceived [by them] not as a means to support the growth of production, but as a separate asset, a real 'industry' capable of generating the bulk of the profits'. This shift was further confirmed by the increase registered in the Italian Stock Exchange of the number of companies listed (Salento, 2013). One key actor in the Italian financial system was Mediobanca, an investment bank which actions and strategies were extremely influential in determining the shape and form of the Italian stock market and the banking system (Quaglia, 2009). Since the post-war era, Mediobanca has been controlled by a 'restricted elite of industrial, financial and political power brokers' (Quaglia, 2009; p.10). Thus, it organised a 'trust of intertwined shareholdings' (Rangone & Solari, 2012; p.1190) to increase the power of the majority shareholders at the detriment of minority shareholders. Consequently, this type of practice led to a 'reduced transparency of the stock exchange' and pushed household savers to invest in treasury bonds rather than shares, 'thereby facilitating the growth of government debt (until the middle of 1990s)' (Rangone & Solari, 2012; p.1190).

Before the emergence of the European Monetary Union in 1992, the Italian financial system was chiefly characterised by its 'banks orientation'(Quaglia, 2009; p.9), since the majority of the financial activity was conducted by banks (Ciocca, 2005). Hence, it was mainly compared to the financial system present in Germany, since it was diametrically different with the market oriented one present for instance in the United Kingdom (Quaglia 2009, p.9-10). However, starting in the early 1990s, several important reforms occurred, leading the Italian financial market towards a more 'market-oriented' system (ibid.). These reforms included the privatisation of banks through the transposition of the Second Banking directive in 1992, and the demise of all the large public banks. Italian banks began to open up by undertaking different kinds of financial activities, thereby they became 'universal banks (ibid.). This led to an increase in the level of capital into the financial market. However, it should be noted that this reform framework was pushed by Italian political and economic elites to conform with the corollaries imposed by the Maastricht Treaty that called for more accessibility and transparency of the financial investments with the ultimate purpose of improving market efficiency. Nevertheless, these reforms did not provoke a radical change of the Italian form of capitalism that remained unbalanced in favour of the majority shareholders. As noted by Salento (2013; p.17), they only facilitated the transition of the powerful Italian elite from manufacturing industries 'towards finance-based company management, with dramatic consequences for the solidity of the Italian industrial system and the social sustainability of the mode of production'. In addition, throughout these years, the foreign investments into the Italian financial market were considerably constrained due to normative and competitive reasons (see Quaglia 2009), resulting in a restricted and modest openness towards investments compared to other European countries. Between 1990 to 1995, the value added by the financial and insurance industries decreased from 5.04 percent to 4.69 percent as a percentage of value added (OECD, n.d.), following the instabilities brought about by 'devaluation of the Italian lira within the European Monetary System' (Consonaldi et al, 2012; p.21).

After the establishment of the European Monetary Union, the Italian market started to open to foreign financial investments, in order to be 'in line with the logic of the Single Act and the Maastricht Treaty' (Rangone & Solari, 2012; p.1196). The power of majority shareholders was reduced through the introduction of reforms that were favouring 'the contestability of corporate control and transparency for investors'(ibid. p.1190). Furthermore, the Italian Stock Exchange achieved the 'internationalisation of securities trading' following 'the merger with the London Stock Exchange' (Quaglia, 2009; p.11). From 2000 to 2004, the financial value added out of the total value added averaged 4.47 per cent (OECD,n.d., Consolandi et al. 2012). In 2010, even though the negative spill-over effects of the financial crisis of 2008 were rather severe, the contribution of the financial sector raised to 5.75 percent as a percentage of the value added (OECD, n.d.). Despite pressure from other EU member states, EU bodies and financial markets, the Italian financial system remained strongly underdeveloped in comparison to other European economies and anchored to a banking system of lending. Banks are still heavily engaged in lending chiefly to small and medium enterprises that represent 'the backbone of the Italian model of capitalism' (UN report, 2016). As a result, most of the financial operations are performed by national banks, and 'fewer than 16 percent of financial intermediaries in 2010 were independent of banking groups' (ibid.; p.21). Furthermore, its financial accumulation is primarily based on interest-bearing capital rather than different types of securities. In 2009, Italian net provisions on loans were more than double than the net provision coming from securities (OECD, n.d.).

By and large, as argued by Consolandi et al. (2012), Italy can be regarded as an economy that has considerable potential and valuable assets. However, the Italian financial sector remained quite traditional and modest in size, partly because of the 'late development' caused by a recent liberalisation of the market, and partly because the players within the financial markets are relatively small and reluctant to undertake long-lasting investments.

In parallel to the financial system, the Italian productive industries have also undertaken far-reaching reforms. The most significant changes in the productive system occurred during the so-called 'Italian miracle' (1950s-1970s) when Industrial Policy switched from agriculture, livestock, and fishing to the construction industry and craftsmanship. This shift transformed Italy from an agriculturally based economy to one of the world's most industrialized nations. Italy is still perceived as one of the largest manufacturing countries in the world, and is the second largest manufacturer in Europe (UN report, 2019) 'thanks to the competitive advantage coming from its many small and medium firms and its industrial districts' (Amatori et al, 2011; p.29). However, the productive sector has experienced radical changes in its organisation and structure due to the competitive challenges posed by competitive emerging economies and emerged from the entry into the European Monetary Union. Thus, to compete and remain competitive, the governance of agriculture and manufacturing industries have undergone *a marked neoliberal turn* through a process of deregulation and a subsequent private re-regulation. These changes provoked a drastic decrease in the value added by agriculture as a percentage of total value added in favour of manufacturing industries. From 1970 to 2000, the value added by agriculture as a percentage to the total value added decreased from 32.02 percent to 3.466 per cent (OECD, n.d). On the other hand, in the same period, the value added by manufacturing increased from 10.34 percent to 20.89 percent as a percentage of total value added. In 2018, the gap between the two sectors has enormously sharpened, the former's value added is 2.099 percent as a percentage to total value added and the latter's value added is 16.72 percent as a percentage of GDP. However, it is important to highlight the fact that the Italian manufacturing activities never reached the value added to the GDP before the onset of the financial crisis. In 2007 the level of value added by the manufacturing sector to the GDP was 17.75 percent (OECD, n.d.). In the following years, the level of the value added always remained below the levels pre-crisis. Only in 2018, the gap was slightly narrowed, where the value added by manufacturing industries was roughly one percent less than the value pre-crisis.

Turning to the gross capital formation as a percentage of GDP in Italy, it remained relatively low and unstable from the 1970s to 2018, experiencing different negative trends accompanied by limited and modest phases of growth always below 10 per cent (World Bank, n.d.). These data demonstrate that while profits from the financial sector have risen especially after the establishment of the EMU, though in a limited amount compared to other European economies, the level of investment in the domestic economy remained rather modest. Furthermore, it began to decrease at the onset of the financial crisis and it never rebound to pre-crisis levels in the successive years.

Figure 3.1: Italy's gross fixed capital formation (1960-2017)

Source: own graph, data from World Bank (2019)

In a nutshell, Italy was pushed by the changing dynamics within the world economy and by the new regulations imposed by the European institutions towards a more financialised regime. However, its regime is still strongly characterised by its manufacturing production that remains a significant aspect of Italy's economy. Nevertheless, its value added remains considerably well below pre-crisis levels, thereby highlighting the absence of an effective economic recovery after the 2008 financial crisis.

3.2.4 Introverted versus extraverted accumulation in Italy

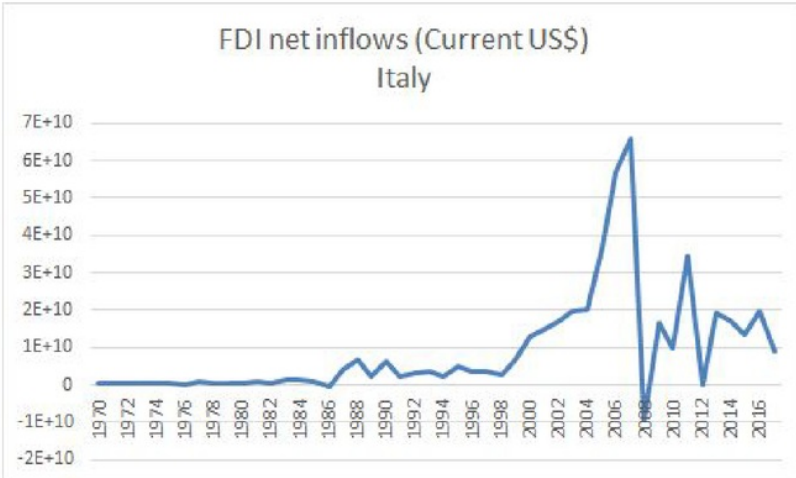
According to Dalla Sala (2004: p.1046), the pressures coming from the increased international competition in the market and from the EU were pivotal in shaping Italian political economy towards more privatisation and foreign investments in the period from the 1970s to the mid-1990s. However, despite the fact that worldwide FDI has seen sustained economic growth in several European countries, the Italian economy has never been a major FDI source or destination. Foreign direct investment in Italy was not promoted by state authorities; on the contrary, they were committed to protecting several top industries and firms from foreign investors. In addition, the ownership structures present in Italian enterprises 'were hostile to foreign mergers and acquisitions' (dellaPubblicaAmministrazione, S. S., 2008; p.30). Thus, the reticence of the state and firms and the foreign perception of Italian institutions as underdeveloped 'negatively affect FDI in the country' (ibid.).

The FDI flows in Italy have followed a fluctuating path, alternating phases of rapid growth and sudden decline. Since the 1980s, Italy's levels of FDI 'inflows and outflows' have increased regularly (Mubandi& Navarra, 2003; p.42). However, this not lasted for a sustained period. At the beginning of the 1990s, there was a general decline in the level of FDI inflows of around 4 billion dollars (World Bank, n.d.). Several causes were at the basis of this fall. According to Mudbandi and Navarra (2003; p.42), this was probably caused by the inability of the country to 'compete internationally' in order to attract more investments. In particular, among the largest countries, Italy attracted only a lower share of FDI inflows. Over the 1998-2007 period, FDI inflows started to rise constantly achieving a remarkable growth of approximately 63 billion dollars. From 2004 to 2007, the FDI inflows have experienced a remarkable surge abruptly interrupted in 2007 by the onset of the world financial crisis. The regional distribution of FDI in Italy was characterized by the persistence of a North/South divide, as most of the manufacturing industries attracting investments were located in cities of the North of Italy. Despite this increase being the highest ever recorded in Italy, it was rather low compared to the European average, confirming the lag of Italy in attracting foreign investments. This gap in the level of FDI inflows was shortened only after the financial crisis of 2008 where the Italian levels decreased at the same path of other European advanced economies.

Between 2010 and 2011, FDI inflows in Italy have experienced a positive trend, its amount increasing up to 25 billion dollars. This surge was perceived as the result of the acquisition by foreign investors of several Italian firms (e.g. Parmalat, Bulgari) that were close to bankruptcy due to the recent financial crisis. However, the FDI inflows were mainly brownfield investments (mergers and acquisitions), on the contrary, the greenfield investments decreased around 52 per cent (Borin & Cristadoro, 2014; p.16-17). This tendency has resulted in the swift decrease of FDI inflows in 2012, where the level reached 93 million dollars compared to the 34 billion of 2011 (World Bank, n.d.). According to many economists, several factors might be considered as the main drivers of this negative trend. As highlighted by Tridico (2015; p.166-167), the most prominent one was the attempts made by the newly elected Monti's government to impose a more rigid fiscal discipline within the country in order to reduce internal demand by favouring exports over imports. The reduced internal demand led foreign investors to decrease their investment within Italy (ibid.).

From 2012 to 2017, the changes in FDI inflows were following a positive trend, with two notable exceptions in 2015 and 2017 where the level slightly decreased. According to the 2018 FDI Conference Index, in 2018 Italy achieved a positive trend even after the national elections that have seen the triumph of two anti-establishment parties. This trend was not aligned with the general expectations of economists that retained the political uncertainty coming from the results of the elections a possible source of instability, thereby reducing the willingness of foreigners to invest in Italy. By and large, the trend followed by FDI inflows in Italy indicated that its economy became increasingly open to foreign investments, although its levels of FDI inflows remains rather low compared to the European average. According to Becker et al. (2011), these dynamics are consistent with an extraverted accumulation regime.

Figure 3.2: Italy's FDI net inflows (Current US $)



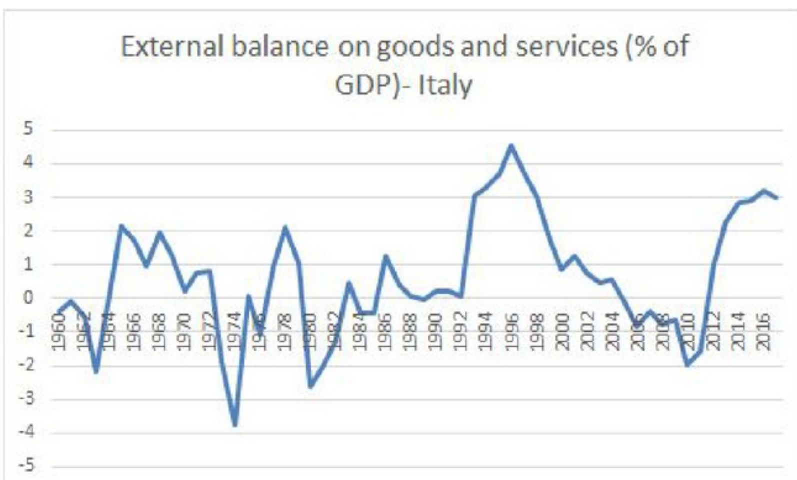
Source: own graph, data from World Bank (2019)

Italy is the eighth-largest export economy in the world (World Economic Forum, 2019). Italy's economy seems to embody the definition of Becker et al. (2010) of an active extravert regime. However, besides its large amount of exports to the rest of the world, the Italian economy also contains a similar amount of imports from the rest of the world (World Economic Forum, 2019). This complicates the choice of where to collocate Italy's accumulation regime on the axis of active versus passive extraverted regime. This difficulty is overcome by taking into account the historical context and subsequent dynamics. By examining the external balance of goods and services as a percentage of GDP, it emerged that in the past few years Italy's exports slightly grew as a share of GDP in comparison to its imports. However, as depicted in figure (3.3), the Italian current account balance has been highly cyclical, alternating phases of positive and negative trends. Beginning in the 1970s, the structure of the Italian balance of payments underwent a transformation. After several years of surplus in the current account, there was a period of considerable deficits further intensified by the oil crisis. This was a consequence of an economy that was highly dependent on the imports of oil from the Middle East.

Throughout the 1980s, the Italian current account faced phases of slight recovery with periods of drastic downturn. In the early 1990s, Italy experienced a period of profound domestic crisis. The current account reached a historical negative peak in 1992, following political scandals involving several members of the Italian political elite and the devaluation of the Italian lira that was forced out of the European Exchange Mechanism. Joining the euro in the late 1990s was the exit strategy adopted by the new political elites. This strategy was considered as an 'unqualified success' (Silveri, 2015; p.191) because it allowed anchoring the Italian economy to a more stable currency, thereby registering a slightly positive trend in the current account balance until 1996. Nevertheless, the reforms implemented following mounting requests of liberalisation of financial markets and privatization of public enterprises coming from EU institutions were undertook in a precarious and hastily way compared to other European economies, 'in particular the process of liberalization' (Tridico, 2015; p.165). In addition, the openness of the market has led Italy and other peripheral countries to face increased competition for their goods and services, resulting in imported goods being more convenient for consumers compared to goods and services produced at home. Consequently, the current account balance gradually worsened since the adoption of the euro (1999) to the mid-2011 where it worsened significantly after the financial crisis of 2008. As argued by Duman (2018; p.221): 'the establishment of the euro contributed to the perpetuation of asymmetries in the current account balances of member states'. Therefore, as noted by Cesaroni and De Santis (2014; p.9), within the EU there was an 'European core-periphery dualism of current account', since the peripheral countries (Greece, Spain, Italy, Portugal and Ireland) had a 'large and persistent' trade deficit while the core countries (Germany, Belgium, the Netherlands, Finland and Austria) achieved 'a large surplus'(ibid.). In the pre-crisis period, the latter, giving the collapsing demand in Italy and in other trade deficits countries, modified their export strategies by switching their trade relations increasingly towards the rest of the world and mainly with Asia (Bieling et al. 2015; p.64). Conversely, the former undertook an accumulation pattern in which the increased amount of imports were financed through 'an expansion of public and private credit' until the outbreak of the financial crisis (Duman, 2018; p.221), representing what Bieling et al. (2015) and Gambarotto et al. (2014) referred to as 'dependent financialized regimes of accumulation'.

At the outbreak of the financial crisis most of the peripheral countries, including Italy, experienced a large current account deficit. However, the imbalances and debts of these countries initially were not considered problematic (Bieling et al.2015), since they were 'mainly funded' through inflows from Northern European countries 'in the form of portfolio debt securities and bank loans' (Quaglia & Rojo, 2014; p.496). Furthermore, the Italian banking system was relatively resilient to the negative spill-overs that emerged from the financial crisis, since it was not involved in US subprime mortgages and its operations were very limited in the financial market. As a result, since mid-2011 the Italian current account experienced a positive trend (European Commission, 2013). In 2012, the trade deficit narrowed due to a decline in imports and the presence of weak internal demand, but also thanks to the recovery in exports facilitated by the depreciation of the euro that 'enabled Italy to regain some cost and price competitiveness vis-à-vis not EU trade partners' (European Commission, 2015; p. 14). Italy's membership of the eurozone has favoured this situation, inasmuch it 'eliminated the risk of a currency crisis' (Quaglia & Rojo, 2014; p.497). From 2011 to 2017, the Italian current account rose sharply with only a slight decrease in 2015. However, throughout these years Italy has regularly increased its public debt and deficit, in spite of the European fiscal austerity measures aiming to ensure fiscal discipline and budget consolidation. Signs of declining fiscal creditworthiness in Italy are highlighted by the fact that from 2015 to 2019 the spread between the ten-year treasury yields of Italy and those of Germany has risen from 102 to 259.6, close to the peak reached in 2011 of 505.2 following the dissolution of the Berlusconi government (World Government Bonds, 2019). This situation is increasingly worrying for the European institutions and financial markets that consider the Italian state to be on the verge of a solvency crisis. The former advised the Italian government to do not implement measures that further worsen the state's public finances. The latter began to decrease the purchase of Italian government bonds.

Figure 3.3: Italy's external balance on goods and services (%of GDP)



Source: own graph, data from World Bank (2019).

To recapitulate, Italian accumulation regime contains elements that characterized an export growth model but simultaneously its development was also favoured by 'consumption led-growth financed partly by foreign credits' (Niechoj, 2015; p.155), that aggravated its public finances and economic performance. Consequently, to attract capital to finance the increasing current account deficit after the financial crisis, 'it had to offer relatively high-interest rates' (Becker et al. 2015; p. 86). This further increased the level of public debt that is still worryingly high, as highlighted by the European

Commission in its opinion over the draft budgetary proposal of the current Italian government. The high current account deficits and a rising external debt led Italy to be included in the countries that have pursued a 'peripheral financialisation' (Becker et al. 2011, Niechoj, 2015). As peripheral economy, Italy is plagued by the absence or weakness of investments in goods and services and by its dependence on foreign imports in periods of economic upturns. By empirically analysing the two axes of accumulation throughout the Fordist and post-Fordist eras, it was possible to discern why Italy is still facing macroeconomic problems that further complicates its relationship with the EU institutions and the government's decision with regard to national spending.

3.2.5 The impact of the sovereign debt crisis and European crisis management of Italy's economy and society

The sovereign debt crisis that spread in the eurozone at the beginning of 2009 strongly impacted the Italian economy and other Eurozone economies (Spain, Portugal, Ireland, and Greece) plagued by their high level of public debt. From early 2010 onwards, a common austerity agenda was implemented, thereby restricting the decision making of national government and parliaments with regard to budget policies and structural reforms[11] (Becker et al. 2011; p.13). Conversely, this new austerity regime extended the competence of European institutions. This was perceived as an imposition of 'ordoliberalism', a German variant of liberalism on the EU's new macro-economic governance (see Ryner, 2015; Papadopoulos &Roumpakis, 2018). As noted by Ryner (2015; p.276), the European crisis management was similar to an 'iron cage' for European economies, since it permitted the EMU to endure despite its inherent contradictions, social costs, and conflicts. These provoked profound repercussions especially for the highly unstable and anaemic socioeconomic dynamics of Europe's periphery. According to Papadopoulos and Roumpakis (2018; p.509), the only instrument that remained at the disposal of the national government of the Southern European countries to promote competitiveness and to speed the economic growth was 'wage policy', since adopting anti-fiscal policies was prohibited. This new regulatory framework has put increasingly high pressure on the economies of Southern European countries, typified by the presence of 'rigidities' in the labour market, thereby resulting in an asymmetric impact of the crisis on the European economies by increasing further the centre-periphery divide. In the case of Italy, these measures have brought about several repercussions for its economy, politics, and populations. Before exposing them in detail, it is important to highlight how the implementation of these reforms was favoured and sustained by most of the Italian political and civil actors. Since 2009, the national parties of the successive centre-right and centre-left Italian governments were allied in the European Parliament from the fall

[11]See note 7

of Berlusoni until the step down of the Renzi government in December 2016 at the national level. This alliance was perceived as necessary to counteract the negative effect of the crisis by implementing measures suggested by the EU, since it was considered by both as the only viable solution. Even a large part of the civil society was confident in the ability of the European institutions to counteract the negative effect of the crisis through its measures. This is confirmed by the level of trust of the Italian public opinion in the European Commission that since the onset of the financial crisis in 2007 until the end of 2012 the level of popular trust in the institution outweighed the level of distrust (Eurobarometer, n.d.). These convergence between the political sphere and the civil society, and of the economic accumulation as highlighted by the moves towards neoliberal reforms in both the axis previously analysed, marked the presence of a historical bloc in Italy (Amable & Palombarini, 2015; Bifulco, 2017; Palombarini, 2019). This has facilitated the implementation of the austerity measures within the country after the crisis, by provoking several consequences. Firstly, the economy never fully recovered (see above section) even after the implementation of the restrictive reforms contained within the EU austerity agenda. Second, the policies implemented by the successive Italian governments were increasingly influenced and determined by the EU institutions. Third, the austerity reforms were a 'full spectrum attack on established socioeconomic rights of workers both in and out of employment' (Papadopoulos & Roumpakis, 2018; p.510). The impact of the austerity agenda and continued stagnation of the economy, together with a decrease in the level of real wages and a deterioration of working conditions, have provoked a worsening of the living conditions of a large part of the Italian population (Petmesidou, 2013). According to the Italian statistics agency ISTAT in 2016, 30 percent of people in Italy, around 18 million, were in severe deprivation and with low work intensity (ISTAT, 2018). Moreover, there is a growing trend in income inequality where most of the income are concentrated in the hands of the richest fifth of the population (ISTAT, 2018). This situation has resulted in a growing social and political contestation, thereby created 'an Italy of resentment' (CENSIS, 2018). The 'shock therapy' (Papadopoulos and Roumpakis, 2018; p.509) of austerity measures mostly impacted the Italian labour market (Sacchi, 2013). This provoked an acceleration in the implementation of reforms promoting 'flexible' employment that were already initiated before the onset of the sovereign debt crisis.

3.2.6 Changes in labour relations: the long-lasting path towards flexibilisation

The Italian labour market in the post-war era has been shaped by profound changes inspired by the broader political and institutional environment. In the first decades of the Republic, the trade unions and the political parties were extremely influential. However, their 'partisan and ideological divisions' impeded them 'to act in a united, concreted way' (Dalla Sala, 2004; p.1050). The structure of the labour market and its principal driving forces were drastically different from the ones of others European countries since it was not 'completely deregulated' (e.g. the UK) and there was a restricted number of high skilled workers since 'there were few structures' for their training (ibid). However, the increased competition in the markets and the loss of control over monetary policy have led Italian governments to concentrate on wages in order to remain competitive since devaluation was no longer a viable option (ibid.; Tridico 2015; p.156). According to Brunazzo and Dalla Sala (2012; p.11) since Italy's entry in the EU, both the EU institutions and the IMF highlighted the need for the Italian economy to introduce flexibilisation in the labour market to foster greater competition of the European Common Market.

Before the onset of the financial crisis, several labour market reforms favouring flexibilisation were already implemented. Firstly, to align with the Maastricht criteria, 'first and foremost, the reduction in the inflation rate' (Tridico, 2015; p.169) that was particularly high compared to other European countries, the Premier of the Government Carlo Azeglio Ciampi on July 1993 signed a tripartite agreement with the three major confederations and unions. In this agreement, they planned to reduce the inflation rate through 'wage moderation and others income policies'(ibid; p.166). The agreement established that wage increase would not be any more in line with the wage indexation but with the inflation rate estimated in the government's annual budgetary forecasts. According to Tridico (2015; p.169) most of the measures of the agreement remained disregarded, only 'the policy of wage moderation' directed towards reducing inflation 'has been successful'.

Secondly, after the European Employment strategy in 1997 and the Lisbon strategy in 2000, Italian politicians began to implement more measures favouring labour flexibility. These were respectively the Law n.196 (so-called 'PacchettoTreu') in 1997 the Law n.30 of 2003 ('LeggeBiagi'). The former was the direct transposition of the guidelines contained within the European Employment Strategy that recommended the introduction of flexibility within the labour market. It was implemented by the centre-left government of Prodi and it introduced reforms governing part-time and other flexible forms of contracts. Instead, the latter was derived from the objectives included in the Lisbon strategy, aiming at reaching 'a social balance through a model that is commonly called 'flexicurity' able to ensure and combine security elements with the labour flexibility that firms require' (Tridico, 2015; p. 167). This was realized by the centre-right government of Berlusconi, which implemented new forms of flexible contracts such as 'job sharing and just-in-time calls'(Della Sala, 2004; p.1052). These measures increased labour flexibility 'in entrance' (Tridico, 2015; p.168). However, this last change was characterised by the tragic episode of the murdering of Marco Biagi, the economist responsible for drafting the reform, by a left-wing terrorist in May 2002. According to Dalla Sala (2004; p.1053), this episode marked 'the culmination of a period of heightened social tension around the centre's right proposal to change the basic structures of labour markets'. These social tensions were the direct consequences of the attempts through this reform to repeal the Article 18 Worker's statue. Historically, this represented a 'milestone' for trade unions and workers since it prohibited employers to fire without a righteous cause and to choose who to hire. The repeal was considered as one of the causes of the 'rigidities' of Italian labour legislation (Fana et al., 2015; p.4). Workers and trade unionist, especially CGIL, perceived it as an 'acquired right of citizenship' (Baccaro & Simoni, 2004; Dalla Sala, 2004; p.1053), thus any attempt to abrogate it and subsequent measures towards flexibility encountered strong opposition.

The onset of the financial crisis and its sharp repercussions on Italian economy reinvigorated the debate regarding the 'need for structural reforms' (Fana et al. 2015, p.10) and accelerated the pace in the implementation of measures favouring flexibilisation in the labour market. All the Italian governments in power after 2011 have had as a key priority a further liberalisation of the labour markets, since they were encouraged and requested by the European Commission, IMF, and ECB under the fiscal adjustment plans. First of all, in 2012 the 'LeggeFornero' (law 92/2012) was introduced. This law was considered an extension of the process towards flexibilisation previously introduced by the two laws (PacchettoTreu and LeggeBiagi) (Brunazzo & Dalla Sala, 2012; Fana et al. 2015; Tridico; 2015). This measure undermined the effectiveness of the 'Articolo 18' of the Worker's statute. Specifically, it 'weakened the discipline of protecting workers, without completely abolishing it'(Fana et al 2015; p.10). However, as noted by Tridico (2015; p.168), this measure was not simultaneously accompanied 'by a higher level of public expenditure for the social dimension, employability and general labour policies'. Consequently, this new flexibilisation in the Italian labour market differed from the one present in other European countries, such as the Netherlands and Denmark, where there was a flexicurity model characterized by flexible labour markets and high public social spending (ibid.). This led to the persistence of a high level of income inequality and 'the indirect wages and the purchasing power of workers decreased' (ibid.). Therefore, the level of consumption and the aggregate demand severely declined by further exacerbating the impact of the sovereign debt crisis.

The definitive turn towards 'a substantial liberalization of the Italian labour market' (Fana et al. 2015;p.2) has been determined with the Law 183 (so-called 'Jobs Act'), introduced in 2014 by a centre-left government. One of the key elements of the Jobs Act was the introduction of an open-ended contract and the subsequent abolishment of Article 18 Worker's statue. This new type of contract (so-called '*Contratto a tutele crescenti*') has been introduced for the new hires and it implies that 'no reinstatement in case of dismissal declared unlawful by a court (unless in case of discriminatory dismissal)' (Sacchi, 2018; p.37). Hence, the workers enrolled from the Jobs act onwards could not benefit any more from the protectionist policies contained within Article 18. This drastic change in the labour market legislation towards measures favouring flexibilization was accompanied by huge contestation led by trade unions, especially CGIL, and populist parties, such as Five Star Movements and the League. Later in the following years, despite several European institutions and economists promoted flexibilization as the only viable path to increase Italian competitiveness and overcome the economic slowdown, the Italian labour market and the economic situation did not improve as it was intended (Fana et al. 2015; p. 23). According to several scholars and economists (Antonioli & Pini, 2014; Fana et al. 2015; D'Agostino et al., 2018; Bosco &Valeriani, 2018) it failed to meet its main promises of boosting employment and tackled Italy's economic decline. According to Antonioli & Pini (2014; p. 6), these 'flexible labour reforms' will benefit only employers as they can fire workers more easily and without justification and they 'will do nothing to reverse the backwardness of Italy's economy'. This trend has even been confirmed by a quantitative study performed by Boeri and Garibaldi (2018) where they estimated an increase in the level of firing, especially in the large firms.

3.2.7. The change in power and the end of the historical bloc

The changes towards progressive liberalisation experienced in the labour market, following Italy's entrance within the EMU, were always accompanied with strong popular contestation. However, despite the enduring sacrifices experienced by a large part of the civil society following these reforms, there was a common perception that those were necessary in order to modernise the country and boosting the economy. As noted by Balfour &Robustelli (2019,p.2) among the political class and the civil society there was a common slogan used to justify and accept those changes, specifically '*Ce lo chiede l'Europa'* (Europe is asking us to do this). However, the lack of economic recovery following the implementation of the austerity measures further increased the hostility of the population towards the governing Italian elite, both left-wing and right-wing. As noted by Amable and Palombarini (2014; p.177), Italian elites were caught in a 'vicious circle'. The Italian political elites of both the right- and left-wing governments that were in charge from 2011 to 2018 considered the implementation of neoliberal reforms suggested by EU institutions to be fundamental; however, they feared that the electorate would not support them anymore if the economic situation did not improve rapidly. This led them to opt for 'half-hearted attempts at neoliberal reforms'(ibid.). Consequently, this 'fuelled voters' dissatisfaction and politicians' pusillanimity'(ibid.), further exacerbating the economic and financial difficulties. The trust in the European Institutions among civil society began to decrease, as confirmed by the increase in the level of people's distrust in the European Commission relative to trust that reached a gap of four percent at the end of 2015 (Eurobarometer, n.d.). Moreover, Palombarini and Amable (2014) noted through an in-depth study of the policy demands coming from different social groups in Italy that the historical bloc previously formed to sustain the implementation of neoliberal reforms as suggested by the EU institutions, was primarily composed by the upper classes in Italy, thereby excluding the majority of society. This provoked a sharp rise of the 'populist' movements and parties sustained mainly by the lower classes (Palombarini, 2019), thereby leading to the end of the historical bloc formed among the political class and parts of the civil society following the Sovereign debt crisis. After the Italian general election of 2018, this has become even more evident, since the main losers were pro-European parties such as Silvio Berlusconi's Forza Italia, and especially the Democratic Party of Matteo Renzi (Baldini & Giglioli, 2019). As a result, this election was shaken by a populist surge, with the two populist parties, the Five-Star Movement (M5S) led by Luigi Di Maio and the League led by Matteo Salvini, reaching respectively 32.7 percent and 17.4 percent of the vote.

3.2.8. The 'populist-style' change of course

Throughout the national electoral campaign, both populist parties promised a clear-cut change of direction regarding the political-economic measures adopted by the Italian mainstream parties. One of the common elements in their electoral programme was the total opposition to EU austerity measures, perceived as an impediment to the recovery of the Italian economy. Contrary to previous governments, they do not consider the fiscal rules contained within European regulation as constructive constraints (Jones, 2017) but as an attempt made by German elites to impose their economic model to all other member states. This is even reinforced by the fact that both parties are allied with Eurogroups within the European Parliament that are in opposition to the national parties which comprised the successive left- and right-wing Italian governments from 2009 to 2018.

Hence, only four months after taking power, the newly elected populist government began a fight with Brussels regarding its spending plans and the related reforms. Contrary to the previous pro-Europe left and right-wing parties, they clearly stated their intention to seek order to comply with the set of fiscal rules contained within the SGP[12] since they were considered the main cause of the lack of Italian recovery following the financial crisis. The 'people's budget' as it was called by Di Maio and Salvini, enclosed all the election promises of both parties. These were measures in complete opposition to the ones suggested by the European austerity programme, and more closely resembling a 'new-style of

[12]See note 1.

Keynesian stimulus' (Follain, 2018). Hence, the decision of the current Italian government over the national budget might be viewed as an attempt made by the newly elected populist government to maintain their electoral promises in spite of the rules previously agreed and signed by preceding pro-Europe governments.

3.2.9 Summary and main findings of the empirical analysis

The reasons behind the decision of the Italian government to not put forth any effort to comply with the EU fiscal regulations requires explanation. The decision was made in a time when the Italian economy was experienced an extended period of recession and the politics were in the hands of a newly elected populist government. The analysis of the capitalist accumulation regime of Italy in this chapter demonstrates that it was pervaded by inherent contradictions. Its late economic development and 'peripheral path towards financialization' caused imbalances in the Italian economy. The underdeveloped financial market, the difficulties encountered by its productive system in order to remain competitive, and the increasing trade deficit financed partly by foreign credits have further increased the level of government debt throughout the years. After the entry within the EMU, these deficiencies of the Italian accumulation regime began to exacerbate. The financial sector and the productive sector were plagued by their inability to face increased competition, introduced by the new EU regulatory framework and common currency. The consequent lack of several radical changes in the following years in the accumulation regime, that remained characterised by its elites' power relations and underdevelopment, drew the Italian economy towards the periphery of Europe, thereby further intensifying and extending the negative effects of the financial crisis of 2008. Following the onset of the financial crisis, the Italian public debt reached an unsustainable level together with other Southern European countries. This paved the way for the emergence of a new EU regulatory framework, inspired by the German 'ordoliberalism' that was devised to manage the crisis and preserve a Monetary Union characterised by its inherent contradictions, social costs, and conflicts. The implementation of those measures in Italy was allowed by the presence of a historical bloc, since there was a convergence and similar considerations among the political class and a large part of the civil society of the need of these reforms in order to counteract the crisis. However, those were disastrous for the regime of accumulation of Southern European economies, including Italy, since they prevented the governments to continue to fuel the economic growth and to enhance social benefits through the increase of public debt. Therefore, the late move towards the 'flexibilisation' of the Italian job market, due to the mounting difficulties faced in the implementation of neoliberal reforms by centre-right and centre-left Italian governments, compared to other core EU economies (e.g. Germany) were catastrophic for the Italian population, resulting in a drastic decrease of the living standard and subsequent increase in social inequalities. The lack of an effective recovery of the Italian economy, following the implementation of these reforms, provoked a strong popular contestation, reflected in the workers' political preferences and trust in European Commission. This has led to the end of the historical bloc and paved the way for the emergence of populist parties that were promised a radical change in the policies so far implemented by the successive pro-European centre-left and centre-right governments. These political promises combined with their stated intention to oppose the entirety of the austerity measures implemented after the financial crisis by the EU has led the populist parties to obtain the majority in the Italian parliament after the general elections. The resulting populist government, consisting by two main populist parties (Five Star Movement and League), in line with its electoral promises decided to oppose the pressing European Commission's and Eurogroup's requests to adopt its Draft budgetary plan for 2019, since they were considered the main causes of the lack of recovery of the Italian economy and the worsening of Italian living standards.

Chapter 4: Conclusion

The question at the centre of this thesis was the following: *Against the long history of successive pro-Eurozone governments in Italy, what explains the change of course of the current Italian government not seeking to comply with the post-crisis fiscal rules of the EMU?* This thesis approaches the change of course of the current Italian government not as a case of rational strategy of political agents, but rather it endeavoured to explain it by taking into account the historical context. It emerged that the changes in the Italian regime of accumulation and the impact of the sovereign debt crisis and the related austerity measures on Italian politics and society are fundamental explanatory factors. In order to perform this thesis, critical realist philosophy and the perspective of Regulation theory extended by the neo-Gramscian international political economy were employed. The analysis demonstrates that the emergence of this non-compliance reaction can be best understood and explained by observing the development of the Italian regime of accumulation and the impact of its inherent contradictions on the political and social spheres. This change of course of the current Italian government stems from the end of the historical bloc formed by both left- and right-wing political parties and large part of civil society following the financial crisis of 2008.

The answer to this research question entails several steps. Primarily, the Italian accumulation regime underwent several neo-liberal changes in both the productive and the financial axis, especially following the establishment of the EMU. However, the measures were implemented in a hastily and unstable way, since Italy's late economic and financial development. This has led to an economic situation characterised by a worsening of the economic and financial public finances, particularly after the financial crisis. In practical terms, this has resulted in mounting difficulties for the civil society that were further sharpen due to the implementation of restrictive neoliberal economic measures. These initially were favoured and supported by a large part of the political class of both left- and right-wing parties and civil society, thereby leading to the formation of a historical bloc, that conceived them as the only viable solution to the economic downturn. However, the lack of economic recovery and the increasing social inequalities following the implementation of austerity and neoliberal policies imposed and suggested by EU institutions has led to the emergence of criticism within the Italian population towards the governing elites thereby provoking the end of the historical bloc. The discontent of a large part of the population, in particular of the popular classes, was captured by the two Italian populist parties and channelled into their electoral promises that were in stark contrast with the EU fiscal regulations and policies. Following the elections of 2018, they decided to form a populist coalition government and to implement their electoral promises. Hence, the non-compliance decision is an attempt to implement measures in the hope of spurring an economic recovery, in spite of the rules previously agreed upon and signed by previous governments.

4.1.1Theoretical and Methodological considerations

This analysis has offered the possibility to demonstrate that the Regulation theory extended by the neo-Gramscian international political economy is suitable for explaining the reactions of EU member states governments (Bieling et al. 2016; p.64). It challenges 'mainstream' European integration approaches as well as compliance approaches by overcoming the prevailing separation between the economy, normative, and political realms. Moreover, the application of its insights in the investigations of states' non-compliance decisions consent to develop the scientific knowledge about latent economic, political and social mechanisms that might be at the basis of their occurence. The concepts of regime of accumulation and historical bloc allows the inclusion of different spheres into the analysis. Their use enabled us to investigate the current Italian government' decision by paying attention not only at the role played by the structure but it also sheds light on agency. Moreover, this thesis endeavoured to extend the application of these concepts by highlighting their explanatory strength in the study of national governments' decision in a supranational context. This more integral view has enabled the researcher to conduct a more comprehensive empirical analysis.

However, whilst putting forward the suitability of the regulation school's approach extended by the neo-Gramscian international political economy to the study of the Italian government's non-compliance behaviour, this thesis recognises some *limitations* which would necessitate to be addressed in future research. In this regard, there are three issues which are pertinent to this thesis and deserving of note here. First, one of the key concepts of Regulation theory, namely 'mode of regulation', is not operationalized. This choice was made since the concept is suitable to analyse the changes in national legislation but it does not consent to include in a clear and defined way the impact that the EU multilevel regulation might have on it (Becker & Jager, 2012, p.173-174). Secondly, in exploring the changes in the Italian society, the analysis focused primarily on the national politics and labour legislation. This decision can be justified since the austerity measures suggested at the European level and implemented in Italy following the Sovereign debt crisis were mainly promoted by a certain part of the political class and they were essentially devised in order to transform the structure of the Italian labour market. However, a more in-depth analysis of how these measures impacted in other fields, such as in the enterprise form could provide a deeper and more substantial understanding of the current Italian government's decision by including the role of other agents in the analysis.Thirdly, as highlighted in other works that employed a similar operationalisation of the two axes of ‘regime of accumulation’ (DeRock, 2015; van Heijster, 2016; van der Vaart, 2018), the economic indicators used to measure the two axes of accumulation might not be appropriate since they can depict a different economic reality. This thesis endeavoured to minimise this problem by including a large amount of different qualitative sources. Furthermore, even the quantitative indicators used for analysing the presence of a national historical bloc, particularly with regards to civil society might not be the most suitable indicators. However, qualitative sources were also employed to mitigate this problem. According to Bieling (2014; p.40), this last difficulty can be justified since this aspect ‘proved to be difficult to investigate empirically’. Fourth, this thesis overlooks several transnational dynamics that might be important for explaining the current Italian government change of course. For instance, the inclusion of an analysis of the practices of foreign policy undertaken by the Italian populist government might provide a more accurate and exhaustive answer to the research question. However, this research choice can be justified since the presence of two different populist parties within the Italian government makes difficult to analyse it clearly. Lastly, the lack of comparison with the economic, political and social situations experienced by other Southern European countries following the sovereign debt crisis hampers the generalisability of the results in light of other national governments' non-compliance behaviours.

4.1.2. Avenues for future research

Future research might investigate the still ongoing Italian government's dispute with the European Commission regarding the expansionary measures contained within the 2019 Italy’s draft budgetary plan. It would be worthwhile to examine this subject in greater detail through the use of other qualitative and quantitative methodologies the measures promoted by the current Italian government and their possible effects on the Italian economy and the European Union. Another potential avenue for future research would be to utilise the perspective of the Regulation school extended by the neo-Gramscian international political economy to the non-compliance behaviour of other EU member countries. While the analysis of countries' non-compliance behaviour is already covered by European integration and compliance theories, the Regulation approach has been applied in a few similar studies. Conversely, the application of its insights could improve the explanatory power of the analysis by including both the economic and political causes lying behind. Furthermore, although this thesis has analysed the Italian government non-compliance behaviour, it could be worthwhile to analyse how the former has affected the European integration process and the entirety of neoliberal crisis management.

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