

# Economic reform strategies and recovery policies in Italy from Conte to Draghi

Roberto Di Quirico  
UNIVERSITY OF CAGLIARI

## Abstract

Two main aims characterized the 2018–2022 Italian economic policy. The first was reforming the whole economic system to stop the so-called ‘Italian decline’ that eroded the competitiveness and growth of the Italian economy for decades. The second was recovering from an impressive sequence of crises (the Eurozone crisis, the Covid-19 pandemic and later the consequences of war in Ukraine) that endangered the Italian economic system and the sustainability of the Italian public debt. This paper analyses the crucial steps in the reform strategies and recovery policies carried out by the three governments that led Italy from 2018 to 2022, particularly emphasizing the oscillating relationship between the three Italian governments and the European Union. To this end, particular attention will be devoted to the Conte governments’ economic reform proposals and the subsequent recovery strategies. These proposals will be drawn from some crucial documents: the Government contract for the first Conte government, the Colao plan, and the first draft of the Italian Recovery and Resilience Plan (PNRR) prepared during the last days of the second Conte government. These documents will be compared with the Piano Nazionale di Ripresa e Resilienza approved under the Draghi government. The paper will also discuss the role of the EU in addressing Italian economic and recovery policies.

## 1. Introduction

During the Italian XVIII Legislature, three different governments were in charge. Each of these governments had to face a dramatic challenge coming from outside the Italian system. The first Conte government (Conte I), created by the Movimento 5 Stelle (M5S) and the Lega, governed Italy from June 2018 to September 2019 and faced the consequences of the early 2010s Eurozone crisis and the never-solved problems caused to the Italian economy and society by the so-called Italian decline.<sup>1</sup> The second Conte government (Conte II), now based on the partnership of the M5S with the Partito Democratico (PD) and some minor parties, desperately fought against the Covid-19 pandemic that hit in Italy in early 2020. When the Conte II government collapsed in January 2021, a new government was formed under the leadership of the former Governor of the European Central Bank, Mario Draghi. It included all the parties in the Italian Parliament, except for Fratelli d’Italia and Comunisti Italiani. The Draghi government continued to face the impact of the pandemic until the war in Ukraine challenged the international political and economic order, imposing on it new policies and economic strategies.

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<sup>1</sup> On the Italian decline issue and its explanation, see Simoni (2020).



All three governments planned and tried to implement economic recovery policies. However, there were two kinds of recovery policies on their agenda inspired by two different recovery strategies. The first was a long-term recovery policy that aimed to address the Italian economy's structural problems by redefining the nature of Italian involvement in the Economic and Monetary Union. The second was a short-term recovery policy devoted to restarting the Italian economy after the pandemic. While the Conte I government mainly aimed to address the problem of the Italian decline and the impact of the 2010s crisis with a long-term recovery policy, the Conte II government mainly worked on recovery from the damages of the pandemic. The Draghi government had to adapt the two kinds of recovery policies to a new and confusing international context, while facing the consequences of the Covid-19 pandemic and using the opportunities offered by EU financial support.

The relationship between the Italian government and the EU changed from 2018 to 2022 according to the attitude and objectives of the government in charge and its economic and recovery policies. During the Conte I government, particularly in its first months in power, the EU was the primary target of criticism, as it was presented as an obstacle to the implementation of the populist economic programme of the government. After the start of the pandemic crisis, however, the European Union became a reference for defining a recovery strategy and inspiring economic reforms. The EU mobilized considerable economic resources, and ambitious plans for economic recovery were launched. Thus, the interaction of domestic and European activities and multi-level cooperation became crucial for Italian recovery, notwithstanding the controversial attitude of some of the main parties in power towards European integration and EU economic governance.

This article analyses the crucial steps in the economic recovery policies carried out by the three governments that led Italy from 2018 to 2022, particularly emphasizing the oscillating relationship between the governments and the European Union. To this end, particular attention will be devoted to the Conte governments' economic proposals and the subsequent recovery strategies. They were described in three crucial documents: the *Contratto di Governo*, the Colao plan, and the first draft of the Italian Recovery and Resilience Plan (PNRR) prepared during the last days of the second Conte government. These documents will be compared with the PNRR approved under the Draghi government, also considering the new needs that emerged due to the war in Ukraine and the downsizing of economic transactions with Russia. Of course, these documents do not include all the aims nor do they disclose all the three governments' ambitions. Other objectives had been proposed in crucial documents and electoral programmes.<sup>2</sup> However, the stringent needs imposed by the pandemic and the urgency in preparing, submitting and implementing the PNRR defined the priorities. Also, the sequence of the documents illustrates clearly the evolution of the recovery policies carried out by the three governments in charge during the legislature, which meant moving from long-term and very ambitious plans for long-term recovery to a more focussed and less

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<sup>2</sup> An example comes from Draghi's declaration to Parliament on 17 February 2021, in which many long-term objectives and reforms are mentioned. However, among these issues, only those included in the PNRR were carried out during the short period of Draghi's stay in power. See Senato della Repubblica (2021).

ambitious short- and mid-term objectives of the PNRR. This move is the core of the process-tracing exercise proposed in this article.

## 2. Challenging the EU. The first Conte government and the failure of the populist economic policy

The roots of the early proposal of economic reforms of the first Conte government are to be found in the debate that started in the 1990s about the reasons for the so-called Italian economic decline. After 2008 and particularly in the early 2010s, this debate became more confrontational due to the dramatic impact of the Eurozone crisis and the austerity policies implemented to prevent the dissolution of the Economic and Monetary Union (EMU). Also, the debate moved from academic and political milieus to the level of ordinary citizens and dramatically impacted electoral results, favouring the rise of populist parties in Italy, which proposed economic recovery strategies based on radical economic ideas and a fierce anti-EU attitude.<sup>3</sup> The two main Italian populist parties – the M5S and the Lega – won the 2018 elections and created the Conte I government. When in power, they tried to implement their economic ideas and policy proposals, but soon clashed with a much more complex reality than they had expected.

Explaining the reasons for the Italian decline or analysing the impact of the Eurozone crisis on the Italian economy is not among the aims of this essay. The explanations floated at the time profoundly influenced the ‘populist economic theory’, which inspired the economic recovery policy of the first Conte government and some economic policy choices during the Conte II government. Therefore, it is crucial to understand the genesis of particular policy choices and political behaviours that influenced the attitudes of parties in power towards recovery strategies.

Populists drew from the debate on the Italian decline some elements that addressed their political programmes toward anti-Europeanism and the rejection of monetary integration and the euro.<sup>4</sup> Inspired by the theories of a few thinkers and the re-elaboration of scientific literature, a kind of ‘populist economic theory’ emerged, explaining Italian decline and the persisting crisis as a consequence of European integration and the boundaries of the EMU and its rules (Di Quirico 2021a). Thus, the economic policy proposals advanced by the populists challenged the views adopted by the EU and suggested the dismantling of many constraints, primarily the euro. Consequently, the rejection of the EMU implied the rejection of austerity policies derived from the EMU governance framework and the limits to public debt.<sup>5</sup> In other words, the ‘populist economic theory’ suggested a return to the ‘golden age of the 1980s’ and the economic model of that time.<sup>6</sup>

<sup>3</sup> Among these ideas there are marginal and contested monetary and economic theories such as chartism, economic sovereignty, and misleading interpretations of Italian economic history.

<sup>4</sup> The term ‘Anti-European/anti-Europeanism’ is preferred to the traditional term ‘Euroscepticism’ because the latter is a definition adopted in the past to define actors and concepts that opposed further integration. Today this term is inadequate to define parties, actors and concepts that reject the EU and integration as a whole and propose its dissolution.

<sup>5</sup> One of the main targets of populists and anti-euro activists was the debt-break rule (*principio del pareggio di bilancio*) inserted in the Italian constitution during the Eurozone crisis (Constitutional Law n. 1/2012). The rule limits the government’s power to deviate from the budget balance to specific cases such as deep economic depression, financial crisis, and natural disasters. See Sottillotta, (2020).

<sup>6</sup> Populists insisted on the crucial role of State intervention in the economy, salary indexing, and deficit spending budget policies such as those adopted in Italy during the late 1970s and 1980. See Bagnai (2012).

The M5S and the Lega elaborated these proposals differently in their political programmes. The M5S emphasized the anti-austerity proposals and paid attention to social issues such as poverty and unemployment. At the same time, the Lega recovered anti-Europeanism and the rejection of the euro from its 1990s programmes, proposing Italexit as the primary solution for the economic crisis (Di Quirico 2021b; Ivaldi, Lanzone Woods, 2017; Garcia Lupato and Tronconi 2016; Franzosi, Marone and Salvati 2015; Huysseune 2010). This partial convergence in economic proposals then facilitated the two parties' alliance after the elections. Meanwhile, the main obstacle to implementing their economic recovery programme came from the dramatic divergence of their economic policy proposals from the EU norms and the unavoidable clash that consequentially followed between the Italian government and the EU institutions.

Initially, negotiations between the M5S and the Lega were complicated by the two parties' different political backgrounds and policy aims. They finally created a government and introduced a new instrument for defining a joint political programme. The *Contratto per il governo del cambiamento* (Contract for the government of change) was an agreement which described the aims and the rationale of the activities to be realized by their coalition when in government. It included some specific innovations such as the *Reddito di cittadinanza*, *Quota 100*, and the Flat tax that became the flagship measures of the Conte I government.<sup>7</sup> There were other specific reform proposals, such as the introduction of a Ministry for Tourism, an increase in police officers, and some administrative reforms to accelerate and simplify investments, tax collection, and infrastructure building.

The Contract was a mix of the most important policy proposals by the parties now allied in the government. Among the three flagship measures, the *Reddito di cittadinanza* was the core of the M5S's social policy proposals,<sup>8</sup> while the Flat tax was the core of the Lega fiscal policy. *Quota 100* was coherent with both the M5S and the Lega criticism of the Fornero pension system reform,<sup>9</sup> which delayed the retirement of many workers. However, the mixed nature of the document is strident in the field of economic policy, where the ecologist approach of the M5S and the anti-European approach of the Lega merged.<sup>10</sup> The Contract sections regarding the economic issues and, in particular, the recovery strategies to be implemented, adopted the logic of the EU Green Deal,<sup>11</sup> and made the circular economy, decarbonization and renewable energy sources the core of

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<sup>7</sup> The 'reddito di cittadinanza' (citizens' income) is a subsidy to working-age citizens with a low income. Instead, the 'pensione di cittadinanza' (citizens' pension) aims to support the elderly and poor. Both subsidies increase the total incomes of the beneficiaries to €780 per month. The 'Quota 100' regards the pension system and aims to allow workers retirement if the sum of their age and the years of paid contributions reach 100 (e.g. 62 year-old workers who paid social security contributions for 38 years). Finally, the Flat Tax is a fiscal regime based on two fixed tax rates (15% and 20%). See Giugliano (2019), Monaco (2022, 10 and 12-13).

<sup>8</sup> In the Contract (p. 29), there is a reference to the 'salario minimo' (minimum salary) to establish a minimum threshold for workers' wages. This became an important issue for social policy in the Conte II and Draghi governments.

<sup>9</sup> The Fornero pension reform (Riforma Fornero) was introduced in December 2011 by the Minister Elsa Fornero as part of the law 214/ 2011 (the so-called Decreto salva Italia) adopted by the Monti government.

<sup>10</sup> The M5S was born as an ecologist movement which focused on 5 main policy issues (one for each of the five stars in its name). These issues were public water, environment, sustainable mobility, growth, and connectivity.

<sup>11</sup> On the EU Green Deal, see <https://www.consilium.europa.eu/en/policies/green-deal/>.

the transformation projects for the Italian economy and industrial growth (pp. 10-11). Meanwhile, contestation of the EU rules and proposals for a drastic change in multilevel governance and the distribution of powers between the member states and the EU were meant to gain the fiscal and operative latitude the government needed to support the recovery of traditional Italian economic sectors such as agriculture and export-oriented industries.

Fiscal and budgetary policies were the core matters in the Contract. Implementing the green transition to make the Italian economy more competitive, reducing raw material and energy imports, and innovating productions in new and technologically advanced sectors, which are other expensive aims of the Contract, needed money and state support. Lowering taxes and supporting infrastructure building also needed to be financed. Thus, the crucial problem of the Conte I economic and recovery plans was the impossibility of reconciling the long-term recovery policy with a necessarily constrained fiscal policy, particularly the fiscal policy required by the EMU governance and the Stability and Growth Pact. This contrast is particularly strident in the field of public debt reduction. With regard to this issue, the Contract (p. 17) explicitly rejected austerity measures and stated that debt reduction had to come from GDP growth. In practice, the Contract implied expansive economic and fiscal policies based on subsidies (*Reddito di cittadinanza*), fiscal incentives for the energetic requalification of public and private buildings and the support of firms involved in the circular economy, tax cuts (Flat tax and ‘friendly’ collection of fiscal credits), compensations for savers and shareholders damaged by the crisis and bankruptcy of some Italian banks, and public investments in infrastructures to be financed mainly with new public debt.<sup>12</sup> These policies were unfortunately irreconcilable with EMU rules. The only possibility to change this situation depicted in the Contract would have entailed ‘further discussion of the EU treaties and the European-level rules’ (p. 17). In the meantime, pressures have to be exerted to induce the European Commission to exclude the expenditure on public investments from the deficit calculation.

So, in the Contract, anti-Europeanism and de-integration were the fundamental strategies to gain operative space to finance long-term recovery. This also emerged in sector-specific strategies. In the agriculture and fishery section, the Contract proposed revising EU policies and empowering member states and parliaments to approve external trade agreements (p. 9). Besides, the Contract proposed the further discussion of EU rules for the fishery sector and the Basel rules on micro-enterprise rating to access banks’ credit (p. 15). Finally, the influence exercised by the EU on Italian fiscal and budgetary policy and its constraints would have to be diminished by abolishing the EU safeguard clauses which impose raising the VAT rates and other taxes in the event of non-fulfilment of deficit flexibility rules negotiated by the previous Italian governments.<sup>13</sup>

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<sup>12</sup> The Contract identifies some specific sources for funding the programme. Among them, there are savings obtained from waste costs reduction, an ambiguous and poorly defined ‘management of the debt’, and ‘a limited recourse to the deficit’ (p. 17). Savings and resources from the first two sources are not quantified and probably largely inadequate to the programme’s financial need.

<sup>13</sup> The safeguard clauses (*regole di salvaguardia*) were introduced during the last Berlusconi government in 2011 (law decree 98/2011) to obtain EU approval of the Italian budget. These clauses had been applied

The anti-EU nature of the Contract and the Conte I recovery strategy also emerge in the section dedicated specifically to the EU (pp. 53-55). The key aims here are reforming the EU economic governance framework and disempowering those supranational decision-makers with no democratic legitimization in favour of empowering the European Parliament. A critical attitude also emerges about some EU economic governance elements, such as the Fiscal Compact and the constitutionalization of the debt brake, the Stability and Growth Pact and the European Stability Mechanism (ESM)<sup>14</sup>. However, to understand the fundamental attitudes of the Conte I government toward the EU, it is helpful to consider the section about the EU in a previous draft of the Contract dated May 14 (Huffington Post 2018). In this draft, there is an explicit reference to reforming the EU treaties and introducing procedures to permit member states to exit or permanently opt out of the EMU (p. 35). The same document considers the possibility of freezing or writing off part of the Italian debt in bonds in the ECB's hands (p. 38). The Contract's final version then reformulated these statements toward less ambitious and disruptive proposals. However, the extreme anti-EU and anti-euro attitude of at least part of the government coalition and the influence of 'populist economic theory' survived inside the Conte I government. They sometimes re-emerged in the Conte II government, influencing its economic and European policy choices.

When the Conte I government initiated its work, the contradictions of its recovery and budgetary policies emerged as well as the contradictory attitudes of the government towards the EU. The problem was financing the expensive reforms programme while converging toward an economic model promoted by the EU. The solution adopted by Conte I was an 'outflanking and blackmailing' strategy based on the possibility of Italexit, which could damage and destabilize the whole EU economy.<sup>15</sup> The aim was to obtain at least broad flexibility regarding deficit and public debt reduction. A 'budget war' between the Italian government and the EU resulted in the abandonment of the anti-euro strategy and acceptance by the Conte government of the EU rules.<sup>16</sup> Consequently, the lack of funds and the budget constraints made the Contract plans for economic recovery unattainable, jeopardizing some flagship policies. This situation and the subsequent competition on the distribution of funds between the flagship measures undermined the government alliance well before Salvini's attempt to change the balance of power in the coalition drove the alliance to a stalemate and caused the government to fall.

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under the Monti government (law decree 201/2011) and renewed in various forms by subsequent Italian governments. The clauses were abrogated in 2020 (law decree 34/2020).

<sup>14</sup> The European Stability Mechanism (ESM) is a financial institution created in 2012 by the Eurozone member states. Its main function is mobilizing financial resources to support EMU member states in financial distress. Those states that ask for ESM aid are subject to stringent conditionality on their budget and fiscal policies. See Gocaj and Meunier (2013); Howarth and Spendzharova (2019).

<sup>15</sup> The opposition of President Mattarella to the appointment of the Italexit strategist Savona as Minister of Economic Affairs did not completely curb the possibility of Italy leaving the EMU. Other episodes such as the mini-bot issue, suggest that members of the government coalition continued to support Italexit plans. Also, the possibility of an Italian default because of a sovereign bonds crisis remained an option and could have caused Italy's abandonment of the EMU. See Di Quirico (2021b).

<sup>16</sup> About these events and the dismissing of the Italexit strategy, see Fabbrini and Zgaga (2019), Marzino (2020), Di Quirico (2021b), and Monaco (2022).

### 3. Begging the EU. The second Conte government and the pandemic crisis

Prime minister Conte resigned on August 20, 2019, due to the withdrawal of the Lega from the alliance. The risk of a landslide electoral victory for the Lega induced the M5S and some parties from the centre-left to agree on a new government pact. The Conte II cabinet entered office on September 5, 2019. A few months later, the Covid-19 pandemic overwhelmed Italy and caused a dramatic economic downfall. Recovering from the pandemic's economic impact added to the previous need for recovery from the Eurozone crisis and decades of economic decline, changing the nature of the Italian recovery policy. This situation required a new and ambitious policy and a solution to the budget and financial constraints that had made the Conte I recovery policy unachievable.

The pandemic emergency generated a U-turn in Italy's EU policy. The EU became the only institution capable of supporting the Italian economy in resisting the impact of the pandemic and lockdown, and this required a change in attitude on the part of the government. However, such a drastic turnaround of mind was unacceptable for parties and supporters who had spent years criticizing the invasiveness of EU economic governance and contesting the legitimacy of supranational actors. The most evident case regards the M5S and the European Stability Mechanism. Echoes of former anti-Europeanism emerged in December 2019 when a reform of the ESM had to be approved in the Italian Parliament, but it was not (Marzinotto 2020, 5-7).

Further opposition mounted when the EU proposed to use a reformed ESM to fund healthcare costs that had skyrocketed due to the pandemic. The Conte II government rejected the possibility of using such a financial instrument due to the conditionality and constraints the ESM funding could impose, mainly because they had abhorred these limitations for years in their political programmes (Bastasin 2021). However, the need to fund the post-pandemic economic emergency and recovery could not be ignored.

Soon after the onset of the pandemic, the EU had tried to tackle the emergency. However, the measures implemented were fragmented and addressed specific problems (e.g., the scarcity of sanitary products and masks) or keeping the EMU financial framework stable, notwithstanding the suspension of the Stability and Growth Pact (SGP). The main risk, in this respect, was a collapse of the bond market for the countries hardest hit by the pandemic. The ECB countered this risk by creating in March 2020 the Pandemic Emergency Purchase Programme (PEPP), an instrument funded with 750 (later augmented to 1,850) billion euros to buy assets on the secondary market.<sup>17</sup> Flexibility in EU rules and funds from the EU budget were also used to address the pandemic emergency. In addition, the EU established the Support to Mitigate Unemployment Risks in an Emergency (SURE), a temporary instrument to support member states' efforts to preserve employment.<sup>18</sup> The EU also recognized the impossibility of keeping in force many constraints imposed by EU economic governance in ordinary times, particularly those imposed by the Stability and Growth Pact, and suspended it on 23 March 2020.

<sup>17</sup> The fund was increased to 1,850 billion euros between June and December 2020. <https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html>.

<sup>18</sup> The SURE establishment was proposed on 2 April 2020. However, it was activated only in late September 2020. [https://economy-finance.ec.europa.eu/eu-financial-assistance/sure\\_it](https://economy-finance.ec.europa.eu/eu-financial-assistance/sure_it).

While addressing the pandemic's immediate consequences, these measures were insufficient to support post-pandemic economic recovery. This applied particularly to countries like Italy and other Southern European member states that still had not recovered from the previous Eurozone crisis. On 17 March 2020, Conte himself urged EU partners to issue joint debt (the so-called Coronabonds) to tackle the financial needs of recovery. A few days later, Conte and other EU member states leaders sent a letter supporting the Coronabonds issue to the President of the European Council, Charles Michel.

The negotiation for a European recovery policy, specifically for funding it and issuing Coronabonds, was painful and generated harsh contrasts between groups of member states. Some member countries were sceptical about the convenience of subsidies and jointly issued debt in favour of the Southern European debtor states. Echoes of the 2010s debate about common debt issues (the so-called Eurobonds) re-emerged.<sup>19</sup> Conte's pressures for direct EU financial support for the Italian recovery became vehement, and tension emerged with the German Chancellor Merkel.<sup>20</sup>

The debate and negotiations that followed finally led to the creation of the Next Generation EU programme (NGEU) in July 2020.<sup>21</sup> The NGEU required Italy to prepare a national plan (later called *Piano Nazionale di Ripresa e Resilienza* or PNRR) to identify the specific activities to fund. These activities would have to lead Italy towards a general recovery which also included recovery from previous weakness and, in the Italian government's eyes, recovery from the thirty-year economic decline. Italy obtained almost 200 billion euros for funding its recovery plans. The main problem was then defining these plans in detail.

In April 2020, when Italy was still under a regime of maximum lockdown, the government established a committee led by the international manager Vittorio Colao to define a pandemic exit and recovery strategy for the Italian economy after lockdown. This committee produced a document dubbed the 'Colao plan'. This plan represents a link between the recovery strategy formulated in the Contract and the subsequent PNRR adopted by the Draghi government.

The Colao plan was admittedly less ambitious than the Contract or the PNRR. It aimed to advance proposals realizable within twelve months and did not consider most of the Italian economy's long-term problems that curbed its competitiveness and public debt sustainability. Thus, in the Colao plan, there was no space for institutional reform proposals or innovative strategies to challenge the Italian decline. Instead, most proposals aimed to relaunch economic activities and growth in the early post-pandemic years. The long-term perspective emerges only in the core proposals for economic and industrial recovery because they share the same aims of the EU (digitalization and the

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<sup>19</sup> About Eurobonds and the Italian pressures for their creation, see European Commission (2011), Reuters (2011).

<sup>20</sup> In an interview with the German newspaper *Sueddeutsche Zeitung*, Conte openly criticised Merkel. He had already done the same a few days before in another interview with the German ARD TV channel. Rumours surfaced that Merkel had accused Conte of being childish in his pretention to obtain all he asked. Finally, Conte remained isolated in proposing Coronabonds, which were dismissed as a solution for recovery. See (Bastasin 2021).

<sup>21</sup> In official documents, references to the need to establish a Recovery Fund have circulated since April 2020. See Council of the EU (2020).



transition to a green and circular economy). Also, infrastructures have a central role in that plan, despite the fact that only some of them are new projects.

The most surprising characteristic of the Colao plan is the scarce attention devoted to the financial coverage of the proposals. Some references regard private capital and incentives for attracting it or public-private partnerships in financing industrial innovation and infrastructures. However, it lacks an explicit budget to identify the sources for funding investments, subsidies and incentives. The Colao plan was probably prepared with the idea that the EU recovery funds would arrive soon to feed its expensive proposals. Arguably, the return of Colao as a minister in the Draghi cabinet suggests his proposals were not just the personal consideration of an insulated group of experts.

#### **4. Pleasing the EU. The PNRR from Conte II to Draghi government**

The success of Conte in securing funds in the framework of the NGEU plan urged the definition of an Italian plan for recovery to organize funding activities that fitted with the requirements and the guidelines established by the EU. This turned out to be a very challenging task. Collecting and coordinating coherent proposals from the different Italian administrations was complicated. However, it was still more difficult to reconcile the different requests for funds and power distribution in the PNRR from the parties in the Conte II cabinet. Finally, the Conte II government collapsed, handing the power to Mario Draghi, who led the country until September 2022.

The NGEU immediately appeared as a historical opportunity for Italy because it solved the crucial problem that made the Contract economic strategy unfeasible: lack of funds and budgetary flexibility. In the meantime, such an option provoked bitter political conflicts in the government over the distribution of funds and the power to manage them because of the electoral and clientelist opportunities generated by the PNRR. Preparing the PNRR was also tricky because of the short time at the government's disposal to define a complex strategy for solving structural problems and overcoming the backwardness problems accumulated by Italy in the previous decades.

Theoretically, the Colao plan was a blueprint for the PNRR, whose preparation was facilitated by the EU framework to address innovation and industrial transformation milestones. Green and circular economies and digitalization are at the core of this framework, while gender balance is a general criterion to consider. Also, the EU guidelines impose the dedication of a share of funds to the green economy transition. Thus, the budget structure was, in part, predetermined.

The passage from Conte II to the Draghi government is also the story of the PNRR preparation and implementation. Therefore, an analysis of the different drafts (the one presented at the end of Conte II and the final version sent to Brussels by Draghi) helps to understand the progress towards an Italian recovery strategy initially destined to shape the country's future for years, and later made partially obsolete by the consequences of war in Ukraine.

The first step in preparing the PNRR was defining the strategic vision. In June 2020, the conference *Progettiamo il rilancio* (Planning the Relaunch) was organized in

Rome with different stakeholders affected by PNRR aims.<sup>22</sup> Thus, when in September 2020 the EU published the guidelines for writing the PNRR, the Colao plan and the results of conference debates contributed to defining the priorities to pursue. The EU policies and their priorities also addressed the recovery strategy depicted in the PNRR. In mid-October 2020, the Italian Parliament issued an act for the government (*Atto d'indirizzo*) to identify the contents of the PNRR, and on 7 December 2020, a first draft of the PNRR was presented in the Italian Council of Ministers for discussion. A new draft (here called Conte PNRR), to be used for debating with Parliament and stakeholders in view of submitting the final draft to Brussels, was approved by the Council of Ministers on 12 January 2021, and presented in the Italian Parliament on January 15. Two weeks later, after the withdrawal of Matteo Renzi's new Italia Viva party from the government, Prime Minister Conte resigned. During the discussion of the plan, tensions emerged between the M5S and Renzi's party, eventually causing Conte's resignation. Renzi accused Conte of supporting a PNRR draft that concentrated too much power in his hands. However, the real reasons for this crisis did not lie with the PNRR. Indeed, a comparison of the Conte and Draghi PNRR versions demonstrates that the differences are minimal and that, in the case of PNRR governance, the Draghi PNRR concentrated more power in the government's hands than the Conte PNRR (Guidi and Moschella 2021, 422).

When, on 13 February 2021, Mario Draghi's government took office, preparing the PNRR was the most important and urgent mission for the new executive. However, the vast parliamentary majority that supported the government granted Draghi an almost free hand to adjust the PNRR (here called PNRR Draghi) and submit it to Brussels, despite the fact that some critical points that had emerged in PNRR Conte and been criticized by the EU Commission had not been solved.<sup>23</sup> The Draghi PNRR was submitted to Brussels on 30 April 2021, and approved on 13 July 2021.

The Italian recovery strategy then entirely concentrated on the PNRR and on obtaining the EU funds. The needs of the PNRR permeated Italian politics as a whole. Accomplishing the missions and respecting the roadmap indicated by the EU Commission for realizing reforms and implementing the PNRR became the core of Italian economic policy. Draghi became the *deus ex machina* of Italian politics and the most (maybe the only) point of reference for the EU institutions in guaranteeing Italian credibility and compliance with the agreements. When Russia invaded Ukraine in February 2022, Draghi was the most authoritative among European leaders and adopted a firm position against Russia, despite the risks for the Italian and European economies from the impact of sanctions and the Russian reaction in terms of gas supply cuts. When these consequences became evident to Italian voters, and some reforms carried out to fulfil the EU requests and implement the PNRR were relaxed or openly opposed by some majority parties, Draghi resigned.

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<sup>22</sup> An alternative translation could be Planning Economic Revitalisation due to the specific aims of the debate.

<sup>23</sup> These problems mainly regarded quantitative estimates of the impact the PNRR could have in the different sectors it affects.

## 5. The strategies for Italian recovery and the PNRR: comparing the plans

The Conte II and the Draghi PNRRs are very similar, despite the fact that the Draghi PNRR dedicated more attention than Conte to the reform issue. However, it must be kept in mind that the Conte PNRR was a preliminary draft of the final PNRR version prepared by the Draghi government. Thus, it was to be expected that the final version would be more detailed and pay more attention to those topics that the Commission was keener on.

The similarities between the two PNRRs also emerge from comparing the funds' distribution (Table 1). Differences are minimal, apart from a transfer from the budget item Green Revolution to the item Education and Research, and a redistribution of funds internal to the item Green Revolution from the sub-item Energy Efficiency and Building Requalification to the sub-item Energy Transition and Sustainable Local Mobility. This redistribution is coherent with the transition from the Conte government, which implemented a subsidy policy to finance the energy efficiency of buildings, to the Draghi government, which acknowledged the criticism against those norms regarding abuses and problematic implementation.

On the other hand, it is interesting to note some crucial differences between the Draghi and Conte PNRRs and the Colao plan. While the Colao plan shares the centrality of Green Transition and Digitalization issues with the PNRR plans, it also pays attention to the banking sector and credit problems and the fragmentation of Italian firms, which need instruments and funds for recapitalization and support for export. Also, the Colao plan considers the need to support Italian firms in taking advantage of post-pandemic reshoring opportunities that could be important for reorganizing the Italian industrial system and increasing jobs.<sup>24</sup> Finally, the Colao plan explicitly describes essential strategic criteria not revealed in the later PNRRs.

Despite the fact that the logic of the Colao plan and that of the PNRR are similar and mainly based on investment for short- and mid-term recovery and stimulating internal demand, the rationale for these investments is deeply influenced by specific internal problems that could limit the effectiveness of the PNRR in supporting mid-and-long-term growth. The Colao plan refers explicitly to infrastructures at the end of their lifecycle that need rebuilding. In reality, many infrastructures had been depleted by lack of maintenance and excessive usage because of predatory activities by private concessionaires and the corruption of controlling officers.<sup>25</sup> Many of these infrastructures are included in the PNRR. Other funds had been devoted to repairing school buildings and coastal infrastructures depleted by decades of neglect. Thus, part of the PNRR funds will not generate growth

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<sup>24</sup> Reshoring regards a return to the homeland of national industries and production formerly moved offshore to countries which offer opportunities to save taxes or pay lower wages. The pandemic shows how offshoring could create fragile supply chains and hinder the production of firms which use components produced abroad. The supply side problems also emerged in sanitary and other strategic supplies. The convenience of supporting and funding reshoring then became evident also for governments.

<sup>25</sup> The Morandi Bridge collapse is Italy's primary and dramatic example of an infrastructural crisis. After this tragedy, many infrastructures were discovered to be at risk, but there was no space in the Italian public budget for a national plan for infrastructural rebuilding. Also, Morandi's case nudged the Conte I government towards a punitive policy against private concessionaires, threatening to revoke concessions without compensation. However, the Conte I government had no time to carry this proposal to its conclusion. The fall of the Conte II government seemed to be in conjunction with a turning point in the concessions issue.

returns; they will just avoid the collapse of bridges and roads and allow us to keep today's infrastructures working. Repairing existing infrastructures will not change the Italian economy, offering new opportunities and creating new industrial sectors as new and modern infrastructures can. Thus, only that part of the PNRR funds devoted to new infrastructures can improve Italian industrial competitiveness and generate the GDP growth required to repay NGEU loans. This means that the PNRR's effectiveness in counteracting Italian decline by acting as a long-term recovery plan is limited.

Many criticisms emerged after the approval and the initial steps for implementing the PNRR. The excessive fragmentation noted in the Conte PNRR (Guidi and Moschella 2021, 408) was not solved by the Draghi PNRR. The problem of implementation planning detected by the Conte PNRR critics (Baratta 2021) emerged during the early implementation phase (Viesti 2022). Also, the poor involvement of Italian regions (Profeti e Baldi 2021) in PNRR definition reduced their role to competitors for funds. Failure to assign a coordination role to the regions, and the dramatic limits of the administrative capability of municipalities, will probably be a major problem in the next steps of PNRR implementation.

The relevance of the PNRR as a recovery policy is evident in its short-term recovery potential. Instead, its ability to tackle Italian economic decline is more doubtful. Investments will inject liquidity into the Italian economic system and will favour post-pandemic recovery in those sectors affected by the plan. It will probably help relaunch the economy through the infrastructural expenditures, acting as a driving force, and support new startups with subsidies and, less certainly, with a reorganization of taxes and bureaucratic dues.

However, some other crucial problems remain poorly considered or wholly unaddressed. The PNRR assigns a relevant role to advanced training and research to support industrial renewal and long-term growth. However, no appropriate reforms are planned for the university nor has the creation of an efficient link between universities and industries been defined. The aim of attracting PhD holders and skilled technicians to the public administration is bound to fail due to the unattractiveness of the jobs offered. This puts at risk the full implementation of the plan, also considering the short time provided for its implementation (2026). Thus, while expenses could support the post-pandemic recovery anyway, the risk is that long-term recovery will be undermined by the likely partial failure of PNRR implementation. On the other hand, some crucial measures for solving the Italian decline problem are not eligible for PNRR funds. The reorganization of the financial and banking sector, a general institutional reform, and all of the problems of Italy's re-insertion into the EMU governance framework when the SGP is re-activated remain unsolved and unaffected by a recovery policy based on the PNRR.

The impact of the war in Ukraine could dramatically change the effectiveness of the PNRR, creating shortage-based inflation, the closure of export markets, and turbulence in European macroeconomic and financial dynamics. The first effects of war inflation have already emerged to hinder the allocation of PNRR funds because of rising costs that have made signing contracts problematic. On the other hand, the turn towards green energy is unavoidable today due to the suspension of economic relations with the EU's leading energy supplier. This could help to avoid the obsolescence of PNRR strategies.

**Table 1.** Comparison between the budget of the PNRR as defined by the Conte II and Draghi Governments

	Nominal Values (billions of euros)			%		
	Conte	Draghi	Balance	Conte	Draghi	Balance
<b>Digitalization, Innovation, Competitiveness and Culture</b>	<b>46.3</b>	<b>50.07</b>	<b>3.77</b>	<b>20.68</b>	<b>21.29</b>	<b>0.62</b>
Digitization, innovation and security in Public Administration	11.75	10.95	-0.80	5.25	4.66	-0.59
Digitization, innovation and competitiveness of the production system	26.55	30.98	4.43	11.86	13.18	1.32
Tourism and Culture 4.0	8.00	8.13	0.13	3.57	3.46	-0.12
<b>Green Revolution and Ecological Transition</b>	<b>69.8</b>	<b>69.96</b>	<b>0.16</b>	<b>31.17</b>	<b>29.75</b>	<b>-1.42</b>
Green Business and Circular Economy	7.00	6.97	-0.03	3.13	2.96	-0.16
Energy transition and sustainable local mobility	18.22	25.36	7.14	8.14	10.79	2.65
Energy efficiency and building requalification	29.55	22.26	-7.29	13.20	9.47	-3.73
Protection and enhancement of land and water resources	15.03	15.37	0.34	6.71	6.54	-0.18
<b>Infrastructure for Sustainability Mobility</b>	<b>31.98</b>	<b>31.46</b>	<b>-0.52</b>	<b>14.28</b>	<b>13.38</b>	<b>-0.90</b>
High-speed railway and road maintenance	28.30	27.97	-0.33	12.64	11.90	-0.74
Intermodality and integrated logistics	3.68	3.49	-0.19	1.64	1.48	-0.16
<b>Education and Research</b>	<b>28.49</b>	<b>33.81</b>	<b>5.32</b>	<b>12.72</b>	<b>14.38</b>	<b>1.66</b>
Skills enhancement and study support	16.72	20.89	4.17	7.47	8.88	1.42
From research to business	11.77	12.92	1.15	5.26	5.49	0.24
<b>Inclusion and Cohesion</b>	<b>27.63</b>	<b>29.62</b>	<b>1.99</b>	<b>12.34</b>	<b>12.60</b>	<b>0.26</b>
Employment policies	12.62	12.63	0.01	5.64	5.37	-0.26
Social infrastructure, families, communities and the voluntary sector	10.83	12.58	1.75	4.84	5.35	0.51
Special geographical cohesion measures	4.18	4.41	0.23	1.87	1.88	0.01
<b>Healthcare</b>	<b>19.72</b>	<b>20.22</b>	<b>0.50</b>	<b>8.81</b>	<b>8.60</b>	<b>-0.21</b>
Community-based care and telemedicine	7.90	9.00	1.10	3.53	3.83	0.30
Innovation, research and digitization of healthcare	11.82	11.22	-0.60	5.28	4.77	-0.51
<b>TOTAL</b>	<b>223.92</b>	<b>235.14</b>	<b>11.22</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>

Sources: Camera dei Deputati, *Proposta di Piano Nazionale di Ripresa e Resilienza presentata dal Presidente del Consiglio dei Ministri*, January 15 2021, (PNRR Conte), p. 22; *Piano Nazionale di Ripresa e Resilienza #Next Generation Italia*, final version (PNRR Draghi). P. 22.

## 6. Conclusions

During the XVIII Italian legislature, three different governments alternated in power. Each of them proposed recovery policies that combined in different ways solutions proposed to solve the crucial short-term and long-term problems of the Italian economy. The main differences between these recovery policies regarded the nature of the problems and the role of the EU in solving them. The Conte I recovery policy mainly targeted long-term economic decline and the competitiveness gap that Italy had accumulated in previous decades. Instead, the Conte II and the Draghi governments mainly focused on the pandemic's consequences and the need for post-pandemic recovery, leaving aside some structural problems previously addressed in the Colao plan and the populist economic programmes. The first Conte government combined a European-like plan in the industrial policy field centred on a green and circular economy and an anti-EU attitude that contemplated exiting the EMU and abandoning the euro, at least as last-resort option. The core of the Conte I recovery policy failed because of its inconsistency, budget narrowness, and the impossibility of mobilizing additional financial resources over the limits imposed by the EU. When the pandemic made the Italian situation desperate, the NGEU allowed the Italian government to fund part of the previous recovery policy, privileging those items that fitted EU requirements. However, the long-term objectives of the Conte I government had to be redefined and restricted to be coherent with the PNRR. Thus, under the Draghi government, the PNRR became the primary (if not the only) plan for recovery and attention was concentrated entirely on its implementation, while other crucial weaknesses of the Italian economic system remained unchallenged. In particular, the Italian position in the EMU governance framework when the Stability and Growth Pact is reactivated remains problematic. Defining a long-term recovery strategy for Italy remains crucial for tackling Italian economic decline and the impact of the Eurozone crisis and the pandemic on the Italian economy. The limits of the PNRR in this field – its implementation problems, the lack of political projects in tackling the political and institutional ineffectiveness of the country, and the economic and electoral consequences of the war in Ukraine – suggest that the mission will be particularly challenging.

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