Are ‘carrots’ better than ‘sticks’? New EU conditionality and social investment policies in the aftermath of the COVID-19 pandemic in Italy and Spain

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Abstract
This article asks whether the novel EU approach to member states’ economic adjustment strategies constitutes a ‘social investment turn’ by the Italian and Spanish welfare states. The analytical framework combines insights from different strands of the literature on policy change, in particular those devoted to policy legacies and to policy-making ‘conditionings’ (constraints and facilitators). The study assesses the extent of social investment, as advocated by EU country-specific recommendations, of the set of measures introduced to fight the socio-economic impact of the COVID-19 pandemic and of programmatic documents issued by the Italian and Spanish executives, such as the State Budget Laws for 2021 and National Recovery and Resilience Plans. In order to evaluate the impact of new conditionality on policy outputs, the article then turns to consider the economic, social and policy legacies of the previous economic crisis and what would have been the prospects for a social investment turn in the absence of Next Generation EU funding. Conclusions show that, at least at the level of intentions, ‘carrots’ seem to be working better than ‘sticks’ on the quest for more intense social investment in Italy and Spain.

Keywords Conditionality · NGEU · Social investment · Italy · Spain · Welfare state

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Introduction

The aim of this article is to assess to what extent the socio-economic consequences of the pandemic and the current changes in the EU approach to member states’ economic adjustment strategies represent a window of opportunity to innovate and to plan a transformation of the European political economy systems and, more specifically, of their welfare states. We focus our empirical analysis on Italy and Spain, two countries among the hardest hit by both the Great Recession (GR) and the COVID-19 pandemic. The cumulative effect of these two major shocks could represent a ‘critical juncture’ (Kingdon, 1995) for the transformation of their welfare states and political economies.

When we refer to policy change and recalibration in relation to welfare states, we want to assess specifically the ‘social investment turn’ (Morel et al, 2011; Hemerijck, 2017; Busemeyer et al, 2018). Almost a decade ago, the EU launched a Social Investment Package (2013) prompting member states to recalibrate their welfare systems in order to enable individuals and families to respond to the new social risks (NSRs) of a competitive knowledge economy, by investing in human capital and capabilities, instead of focusing only on traditional compensatory policies helping individuals cope with the loss of income, whether due to old age (pensions), skill redundancy (unemployment insurance) or illness (disability benefits and sick leave from employment). Typical social investments policies are education, healthcare, childcare and family services, long-term care (LTC), lifelong learning and active labour market policies (ALMPs) (Hemerijck, 2017).

A decade-long literature on social investment (SI) has clarified two points. First, the expansion of social investment policies should not ‘crowd-out’ traditional compensatory policies if a state wants to match economic growth and social cohesion. Instead, advocating social investment means integrating such approach with a more traditional one based on income maintenance. Second, welfare states have been able to couple traditional policies based on income maintenance and social investment ones to different extents. Nordic countries have been relatively more successful in the coupling whereas, at the opposite end, Southern and Central-Eastern European ones have been weaker accomplishes. This finding emerged already from the first comparative studies on the topic (Morel et al, 2011; Beramendi et al, 2015). Hence, the question for the present contribution is whether the two aforementioned major shocks and the political and policy answers to them offer a window of opportunity for Italy and Spain to innovate their social protection systems.

The article is organised as follows. The next section sets the analytical framework. We then focus on whether policy reforms in Italy and Spain have taken a SI direction. For that purpose, the third section deals first briefly with the character of the initial set of measures put in place to cushion the socio-economic effects of the pandemic, and, then more in detail whether the programmatic documents issued by the Spanish Italian and Spanish governments (State Budget Laws for 2021 and national Recovery and Resilience Plans—RRPs) are consistent with the country-specific recommendations stated by the EU advocating for a shift towards social investment. Section four, in turn, analyses what were the economic, social and political legacies.
of the *Great Recession* and whether they can help interpret/understand the observed accommodation (or lack thereof) to EU prescriptions, or, in other words, the current ongoing two-level game. The methodology is based on the analysis of the main official documents related to welfare state topics, produced by the two governments since the beginning of 2020 until spring 2021 (section three) and the authors’ examination of various databases, previous research and literature on the functioning of the main political, economic and social policy institutions related to social policies in Spain and Italy (section four). Similarities and differences among the two cases under scrutiny are systematically analysed throughout the whole study. The concluding section summarises the main findings and discusses future prospects.

### The Framework for Analysis

The rich literature on policy change indicates two main ways through which deep institutional change can take place: radical abrupt change or incremental transformative change. In the first case, policy transformation takes place through an incrementa- 
tional institutionally path-dependent pattern, unless external shocks of different kinds (wars, socio-economic crises, etc.) become ‘critical junctures’ that open a ‘window of opportunity’ for socio-political actors who are not satisfied with the traditional setting of a policy field to introduce radical innovation. In the second case, change can be reached through several mechanisms (e.g. policy drifts, layering, etc.), which have in common the fact that several cumulative and incremental changes have a transformative effect in the medium term on the policy design and how institutions work. In this respect, the pandemic can be framed as a huge worldwide health-related shock, with deep socio-economic consequences that can represent a ‘critical juncture’ and a ‘window of opportunity’ for radical policy change. At the same time, the literature on the topic expresses two caveats that are extremely important for our analysis and that set the perimeter and the limitations that our research has. First, institutional change does not follow a sudden rise in social demand in an automatic and functionalist way. In other terms, a shock is not necessarily conducive to radical policy transformation. Coalitions of actors are needed to exploit this window of opportunity. Second, it requires several years before a shock can be defined as a ‘critical juncture’ that effectively transformed a policy field.

We base our analysis on two different though complementary theoretical approaches. The first one is historical neo-institutionalism, which focuses on policy legacies and the role played by decisions inherited from the past in current decision-making, as well as policy feedbacks and learning. The second one adopts the concept of conditionings (constraints and facilitators), which do not refer only to the role of institutions (intended as policies), but looks also at the socio-economic and political domains on the verge of the COVID-19 pandemic. Important in this respect is the role of the different types of actors involved at both EU and national levels and their interplay. Put differently, radical change needs a set of actors (political and policy entrepreneurs) that exploit the window of opportunity created by shocks in order to take place (Capano and Galanti, 2020). Among this set of actors, EU institutions may play an important role as well as national political actors.
In the next section, we assess to what extent a policy change (in terms of outputs) has taken place in Italy and Spain in relation to the room for and role of SI in the actual and planned recalibration of the Italian and Spanish welfare states.

Given how recent the pandemic is and that the situation is in flux, the present article cannot yet assess the outcomes of the policy process that COVID-19 has triggered since early 2020. What we can, however, do is observe the outputs. In this paper, we analyse and compare the contents of the 2021 National Budget Bills and the RRPs for our two countries to try to disentangle the extent to which these indicate intentions towards an SI turn in social policy. Our assessment of these policy outputs also take into consideration the legacies of the previous economic shock. When the pandemic hit Italy and Spain in February 2020, both countries were still struggling with the socio-economic consequences of the 2008 economic crisis and the austerity policies that followed. This created important policy legacies and had pervasive consequences on social demand and political competition in both countries. We take these socio-economic and political conditionings into account when assessing the room of manoeuvre in the response to the pandemic crisis in section four.

The Italian and Spanish government responses after the onset of the pandemic: what room for social investment?

The economies of Italy and Spain were among the most affected by the first wave of the pandemic. In Italy and Spain, the drops in quarterly GDP during the first semester amounted to a cumulative reduction of 18.5% and 23% respectively. The impact on employment was also very high. During the first semester of 2020, total employment fell by 3.8% in Italy and 6.8% in Spain, this latter the third largest drop among OECD countries (Moreira et al., 2020: 344).

The first initial efforts to contain the economic impact of the COVID-19 pandemic in Italy and Spain were concentrated on putting forward income protection schemes to support demand and to limit poverty risks. As in most countries, an important share of the immediate expenditure during the first wave of the pandemic (from March to June 2020) went to healthcare, furlough programmes and extraordinary measures to support the unemployed, self-employed and other non-standard workers. Emergency social protection measures for vulnerable groups were also implemented. Internal flexibility introduced by these furlough schemes certainly contained the increase in unemployment in both countries. It also stood in sharp contrast with the measures enacted during the Great Recession, which mostly focused on external flexibility mechanisms through intense resource to temporary contracts, especially strong in the Spanish case. Besides the furlough schemes, both countries enacted means-tested schemes to protect the most vulnerable households. In Italy, the government also introduced some additional measures, such as paid

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1 For Italy these were: Decree n. 18/2020 issued on March 17th, called ‘Decreto Cura’, and ‘Decreto Rilancio’ Decree n. 34/2020 issued on May 19th. For Spain: Royal Decree-Laws 8, 11, 15, 18 and 24.
parental leave or one-off payments for quarantined employees and those with caring responsibilities.

While the governments in both countries were taking immediate action to support households’ income and socio-economic conditions, the EU provided recommendations oriented also towards the European Green Deal (EGD), the digital transformation and a social investment welfare state. Weighing to what extent Spain and Italy complied with reform recommendations issued by the EU in the State Budget Laws for 2021 and in the design of their National Reform Plans during the first year of the Pandemic is pivotal to assess the attention in the two countries for a SI reform agenda.

**EU council 2020 recommendations**

Country-specific recommendations for Spain and Italy, issued by the European Council in July 2020 (respectively, 2020/C 282/09 and 2020/C 282/12) as to social protection, included for both countries the following five major points: a) a ‘warning’ to the unfulfilled deficit and debt criteria as defined in the Treaty; b) the need to strengthen national healthcare systems, which are characterised in both countries by regional disparities, ineffective multilevel coordination and, especially in Italy, bottlenecks in the training, recruitment and retention of the health workforce; c) the need to ensure adequate income replacement to all workers, including atypical workers and the self-employed, and strong active labour market policies, beyond the emergency measures already taken by the two governments; d) the need to invest in education and skills and to rise the share of students in science and digital technologies, making vocational education and training more attractive and ensuring flexible upskilling and reskilling opportunities. In the Italian case, this latter recommendation made explicit reference also to the need to narrow the large regional gaps between the Northern and Southern regions in basic skills attainment and the rate of early school leavers well above the EU average and to improve tertiary attainment; and e) the European Council asked both countries to recalibrate social protection expenditure, currently too oriented towards older generations, fostering stronger support to younger generations and also women.

To what extent did programmatic decisions taken in 2020 in both countries react to such recommendations? In the following two sections, we look at the Budget Laws for 2021 and the drafting of the national RRPs.

**The budget bills for 2021**

The Spanish State Budget Bill for 2021 (Law 11/2020, December 30) was the first to be approved since 2018. Hence, from a political stability point of view, its most important benefit was that of supplying the current government with enough support and legitimacy to complete the legislature, which began only in early 2020. The bill was presented by the incumbent government as the most ‘social’ state budget since the advent of democracy over forty years ago. Indeed, expenditure on social protection in general and on healthcare, in particular, increased significantly. However, on
the whole, the national budget is clearly biased towards so-called old social risks with very limited space for social investment. There is no significant budgetary increase for ALMPs or family benefits (although the latter improved in 2019). The State Budget Law foresees an increase of pensions amounting to 0.9% in 2021 while it fails to address longer-term issues of sustainability of the public pension system.

The Italian Budget Bill for 2021 included only limited innovation to address the recommendations from the European Council (EC), with one major exception in relation to family policies. A three billion Euro funding increase for family-related cash transfers and childcare was introduced, pointing to an intention to harmonise and strengthen this whole policy field also thanks to the introduction of a Universal Cash Benefit scheme for families with children. This latter intervention is highly innovative but could hardly be described as a social investment strategy, given that it is only based on income support. In addition, a new *Fund for Active Labour Market Policies* was introduced, but with a relatively limited amount of resources provided (500 million euros). Further resources have been dedicated to strengthen healthcare with one billion euros.

The other social policy interventions cited in the Italian Bill refer often to some of the EC recommendations but the amount of resources dedicated to them can hardly be described as major breakthroughs. At the same time, similarly to the Spanish case, there is practically no reference to pension reform and the need to avoid a further increase in expenditure due to the temporary relaxation of retirement age criteria introduced in 2018. Overall, both countries can find themselves in what Ronchi (2018) calls ‘reversed resource competition’, meaning that the budgetary effort put into old social risks increases at the expense of new social risks.

**The drafting of the national recovery and resilience plans**

The Spanish and Italian Governments and Parliaments were involved since the late months of 2020 in the drafting of the RRPs, which were sent for approval to Brussels in April 2021. These documents are mostly a mix between investment plans and reform proposals in different fields, with an emphasis on digitalisation and environmental policies.

The interesting main finding when analysing both the Spanish and Italian RRPs is that, contrary to the State Budgets analysed above, social policy in these documents is mostly framed within a social investment approach and strategy. In particular, the Italian Plan is structured around six main missions/axes: (1) Digitalisation, innovation, competitiveness and culture; (2) Green revolution and ecological transition; (3) Infrastructures for a sustainable mobility; (4) Education and Research; (5) Inclusion and Cohesion; and (6) Healthcare (Ministero dell’Economia e delle Finanze, 2021). These six axes are then articulated around several broad investments and reforms. The total amount for the whole plan is 191.5 billion Euros: around 55 billion are allocated to welfare state and education goals (29% of total resources). Practically, the whole welfare state and education expenditure follows a social investment approach and framework.
| Interventions                                                                 | Planned expenditure* | Interventions                                                                 | Planned expenditure* |
|-------------------------------------------------------------------------------|----------------------|-------------------------------------------------------------------------------|----------------------|
| **Education and ECEC**                                                        |                      | **Healthcare and long-term care**                                              |                      |
| 1. Improvement in education and training services, including ECEC expansion   | 19.4 (10.2%)         | 1. Strengthening territorial healthcare and LTC                              | 15.6 (8.2%)         |
| (228,000 new places), Development of the tertiary vocational training system, |                      | 2. Innovation, digitalisation and research in the NHS                         |                      |
| strengthening scholarships and students’ housing in tertiary education        |                      | 1. Renewal and expansion of the capacities of the NHS—including strengthening | 3.16 (4.6%)         |
| 2. Improvement in teachers’ recruitment and training                          |                      | Primary and Community Care                                                   |                      |
| 3. Investment in new (digital) skills and infrastructures                     |                      | 2. Long-term care and support plan: deinstitutionalisation, equipment and    |                      |
| 4. PhD programmes’ reinforcement                                              |                      | technology                                                                     |                      |
| 5. Fast internet connections (Ultra-broadband and 5G) for all school facilities |                      |                                                                               |                      |
| **Labour market policies**                                                    |                      |                                                                               |                      |
| 1. Active Labour Market Policies (ALMPs) and employment support               | 6.01 (3.1%)          | 1. New public policies for a dynamic, resilient and inclusive labour market:  | 2.36 (3.4%)         |
|                                                                               |                      | Youth employment New territorial projects for rebalancing and equity          |                      |
|                                                                               |                      | Labour insertion policies through the National Minimum Income: inclusion      |                      |
|                                                                               |                      | itineraries female employment and gender equality in ALMPs                   |                      |
|                                                                               |                      | Acquisition of new competencies for digital, green and productive            |                      |
|                                                                               |                      | transformation. Target: employed, unemployed and workers in ERTE            |                      |

*Expenditure figures in billions of euros, figures in parentheses indicate percentages.
| Italy | Planned expenditure* | Spain | Planned expenditure* |
|-------|----------------------|-------|----------------------|
|       |                      |       |                      |
| **Other social policies** |       | **Other social policies** |       |
| 1. Social services, disability and fighting social exclusion | 12.5 (6.6%) | 1. Plan for the modernisation of Social Services: technological transformation, innovation, training and reinforcement of childcare | 7.8 (15.5%) |
| 2. Social housing and urban renewal |       | 2. Housing rehabilitation and urban renewal plan |       |
| 3. Sport and social inclusion |       | 3. Plan ‘Spain protects you against sexist violence’ |       |
| 4. Interventions for ensuring territorial cohesion |       | 4. Sustainability of the public pension system under the Toledo Pact* |       |

*Million € and as share of total resources

*The Spanish Recovery Plan is divided into thirty ‘components’—areas of public policy, and within each component we find specific policies. In table 1 we have incorporated both components and specific social policies for the Spanish case, depending on the relevance of the issue. The budgets are adjusted.
The Spanish Plan is structured along four main dimensions: (1) Ecological Transition; (2) Digital Transformation; (3) Social and Territorial Cohesion; and (4) Gender Equality. These four axes are then articulated through ten broad strategies (‘palancas’ or levers). The total amount for the whole Plan is 69.5 billion Euro, half of which will be spent by 2023 (Gobierno de España, 2021).

Table 1 synthetises the main contents of the reforms and strategies connected to welfare topics in both countries (see online annex, table A-1, for a more detailed reconstruction on the Plans’ contents). There are many similarities between the two plans. Policy-wise both plans have four main thematic foci:

(a) Education: Around 10% of the total plan expenditure in both countries goes to education: from ECEC services (with an expansion of nurseries, especially in Italy), to primary and secondary education—with a particular focus on vocational training, especially in Spain) and to post-secondary and tertiary education (especially in Italy).

(b) Health: 5–8% of the resources go to healthcare and LTC; most of the investments follow an approach based on technological modernisation, strengthening home and territorial care, prevention and research.

(c) Active Labour Market policies: Just over 3% of the resources go to this area. Young people and women are specifically targeted here and there is a strong emphasis to the acquisition of digital skills and territorial cohesion.

(d) Social services: A relatively large share of resources, particularly in Spain, go to this area. These include a wide array of actions in both countries. From intervention in support to people with disabilities to housing and, for Spain, a plan to combat violence against women.

Overall, if the ‘social shield’ introduced during the initial months of the pandemic mostly concentrated on compensation measures to contain the impact of the health and economic crisis, RRPs could represent a game changer (at least when looking at planning as we do not know yet how implementation will work). Not only do all resources in the RRPs practically go to social investment policies, but the amount of resources invested is considerable compared to previous public expenditure. Some examples can show the magnitude of what the two RRPs propose. The creation of 228 thousand ECEC places in Italy over the next five years means practically doubling public provision in this policy field. The amount of resources for housing policies is significantly higher than what both countries have spent in recent years. Healthcare investments in Italy are the equivalent of 11% of current Italian annual expenditure on the National Health Service. At the same time, the two countries share policy priorities only partially. Although the relative share of investments’ expenditure on ALMPs and education is similar in Spain and Italy, Italy decided to put much more resources on healthcare and LTC, while Spain prioritised housing policies and social services. We turn now to the analysis of the economic, social and political legacies of the Great Recession and their potential as facilitators/constraints for understanding the accommodation to EU prescriptions of the official documents evaluated in this section.
Old and new conditionality and social investment: better ‘carrots’ than ‘sticks’?

In Spain, before the onset of the financial and economic crisis in 2008, demand-side factors (problem pressure) together with a favourable fiscal position and political conditions created a window of opportunity to substantially reorient social policies towards SI. Taking the ‘high road’ to SI (Ronchi, 2018), Spain increased resources for both old and new social risks. In contrast, in Italy, a weaker problem pressure, higher fiscal constraints, strong policy legacies (‘pension state’), and the preferences of policy-making actors explain a less accentuated pre-crisis turn towards the protection of new social risks (León and Pavolini, 2014).

However, these two relatively diverging trajectories changed after 2010. In Spain, policies of fiscal consolidation by a conservative government affected especially the implementation path of then still immature SI policies, namely family policies and care provisions as well as ALMPs, while efforts on minimum income schemes grew at the regional level. Therefore, during the crisis, expenditure on new social risks was hit harder by fiscal austerity that consolidated spending on old social risks, mostly unemployment and pensions. This confirms that expenditure on new social risks is more prone to retrenchment than the ‘immovable objects in the budget—such as pensions and, increasingly, debt service’ (Mertens, 2017: 921). In contrast, in Italy, enhanced unemployment protection, ALMPs and some measures aimed at fighting poverty were introduced during the wake of the crisis period to maintain political and social support, but at the same time there were severe cuts to education expenditure, healthcare care and ECEC services and most SI policies.

To compare old and new conditionality and their effects (obviously, still potential in the case of the NGEU), we build a counterfactual argument here. As just noted, under the old conditionality exercised by the EU during the Great Recession, reversed resource competition was the case in both Spain and Italy. In this paper, we examine conditioning factors (constraints and facilitators) in the economic, social protection and political domains at the verge of the COVID-19 pandemic. What would be the prospects for enhanced SI if there was a second edition of austerity-oriented conditionality?

Economic conditioning factors

In the intention of the EU, the reforms that member states had to implement during the 2010s were supposed to boost their capacity to grow economically again, to improve public budget balances and to create a sounder social protection system. These were intended to cover old social risks while following at the same time a social investment approach. Such reforms were mostly prompted by formal EU fiscal governance rules as well as informal conditionality mechanisms imposed by the European Central Bank after the onset of the sovereign debt crisis in spring 2010, which bore salient impact on social and labour protection and progressively
restricted the room for national actors’ manoeuvring (Sacchi, 2015; Guillén and González Begega, 2019).

If we compare the situation at the onset of the Great Recession with that at the outbreak of the pandemic, macroeconomic imbalances were higher in Italy than in Spain in 2010, especially as to public debt (119.2% and 60.5%, respectively). However, the situation deteriorated rapidly in Spain (95.5% in 2019), while the figure for Italy did not grow so much but remained at a higher level (134.2%). Much more worrying for ‘repair and recover’ prospects are some structural traits of the political economies under scrutiny because they constitute highly vulnerable flanks. Three are outstanding as constraints for recovery: first, the composition of the productive systems; second, the comparatively high proportion of self-employed workers and micro firms; and third, high levels of temporary and precarious employment.

Overall, from a comparative perspective, both economies have been heavily relying on consumption services, including hospitality, recreation and tourism, all sectors severely affected by lockdown and social distancing measures. The Centre-Northern Italian regions have presented an exception, given the stronger role of the manufacturing industry compared with the rest of Southern Europe (Baccaro, 2021). In both Italy and Spain, the presence of small firms, with a fragile financing structure and difficulties to access credit, is very high comparatively speaking, while both countries have shown large proportions of fixed-term jobs, especially Spain. Finally, fiscal room for manoeuvre became severely constricted since the Great Recession: one could talk about exhausted treasuries in both cases.

Social protection conditioning factors and the role of policy legacies

Both Italy and Spain implemented important reforms between 2010 and 2014 aimed at increased labour market flexibility, conducive to less security in both employment and unemployment and narrowing the distance between insiders and outsiders through ‘flex-precarity’ for all (Guillén et al., 2021).

As already stressed, the 2010s were a lost decade for SI policies, defined in broad terms. Cuts or expenditure freezing were the rule for most of the decade in education, childcare or ALMPs (Guillén et al., 2021), matched by cuts/cost containment in healthcare and LTC (Petmesidou et al., 2020). Spain suffered relatively more than Italy from this freeze, given the fact that it had more clearly attempted to recalibrate its welfare state towards a social investment perspective in the 2000s (León and Pavolini, 2014).

The imbalance in favour of income maintenance policies instead of SI ones worsened during the Great Recession in a context of a generalised ‘dual retreat’ of both types of policies, as also welfare state expenditure trends show. In particular, on the one hand, overall social protection expenditure increased between 2005 and 2018 in both countries. At the same time, however, such expenditure grew at a higher pace in the Western part of the EU (EU-15) compared to Italy and Spain. Moreover, if we exclude social protection expenditure on unemployment benefits and pensions (which follow quasi-automatic mechanisms of growth related to the functioning of the labour market and the ageing of the population), the remaining social
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Protection expenditure actually decreased since the late 2000s and the gap on per capita expenditure in Western Europe and Italy and Spain widened, as shown in Fig. 1.

Overall, during the last decade, the Italian and to a slightly lesser extent the Spanish welfare state strengthened their dominant pattern on social protection through cash transfers and less through services, which is indicative of the difficulties of both these two countries to evolve towards intensified social investment (Fig. 2; see also Guillén et al., 2021).

Overall, the Great Recession in itself and welfare state reforms during last decade did not only leave a weaker welfare state (at least in relation to SI policies) but also a very complicated socio-economic situation. Both countries arrived at the onset of the pandemic with economies and societies still trying to recover from the
consequences of the previous economic crisis on companies, labour market and the population.

**Political conditioning factors**

Government stability, other aspects of the functioning of the political system, as well as public and political support to the European integration project are also important factors in the capacity for welfare state reform led by EU funds. In both Italy and Spain, the *Great Recession* left a much more fragmented political landscape with stronger and more radical political confrontation and a considerable diminishing public support for EU institutions.

Three facets of the political scene are important to consider: governments’ stability; party competition around EU issues; and public opinion on EU institutions, a facet strictly connected with the previous one. In the two cases under scrutiny, what happened in the 2010s created the conditions for a more unstable political environment. However, also in this case, some differences appear between the two countries. Italy features a long-term problem of government instability with changes in the landscape of political parties, especially acute since the last quarter of the twentieth century onwards. Spain by contrast has had a relative stable de facto two-party system (consisting of the Conservative People’s Party (PP) and the Socialist party PSOE) since the period of transition to democracy up until 2015.

In the last decade, this difference between the two countries partially diminished (see tables A.2–A.3 in the online annex). New political actors entered the policy arena with electoral success, although with different approaches and ideological orientation. The core new actors in Spain have been Podemos, a radical left-wing (populist) party; Ciudadanos, a conservative-liberal party and, more recently, in 2018, a radical right populist party (VOX). In Italy, the scene has been increasingly dominated by populist parties not belonging to the left tradition, namely, the Five Star Movement (M5S), which is a party difficult to frame in terms of traditional left-wing ideologies, the League and, more recently, Brothers of Italy (FdI), which are or have

![Fig. 2](image-url)
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become radical right-wing parties. These parties entered a competition where the policy orientations between the traditional centre-left and centre-right parties were increasingly narrowing in relation to how to transform the welfare state.

Back in 2008, PP and PSOE gathered around 85% of votes and 92% of parliamentary seats, practically monopolising the competition (Bosco and Verney, 2016). After the 2015 and 2016 general elections, party politics were deeply reshaped (Rodón and Hierro, 2016; Rodríguez-Teruel et al., 2016). On the left, Podemos became a party able to obtain 11 to 13% of votes. On the right, Ciudadanos and later VOX managed to contest PP’s hegemony. Governing Spain has become increasingly difficult, as clearly shown by the fact that six general national elections took place in 11 years (2008–2019).

In Italy, the two main parties on the left and on the right have been able to collect votes to a lesser extent than in Spain. Several parties have always been competing with the two main ones although the parties changed over time. Political instability in Italy has translated into a sequence of government crises. Between 2008 and 2021 there have been eight different governments.

Parties’ ideological and political position on the EU also shifted significantly during the past decade. As shown in Fig. 3, Euro-scepticism increased strongly in Italy since the beginning of the Great Recession and around 40–45% of citizens believe in recent years that Italy would fare better outside the EU. Euroscepticism has also increased in Spain but is still at lower (and probably politically more manageable) levels.

Overall, in both countries there has been an intensification of ideological polarisation, radicalisation of attitudes and preferences both among the population and within the political system in a climate of growing political confrontation (EsadeEcPol, 2020). However, important differences persist between the types of competition in both countries, especially in relation to the role of the EU.

The very rich information contained in the Manifesto Project database (MP), as well as in the Chapel Hill Expert Study (CHES), includes aspects such as the role

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**Fig. 3** Attitudes towards the EU in Spain and Italy since the mid-2000s. *Source*: Eurobarometer online database

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of and vision on the EU, how the market economy should be regulated, nationalist and moral stances as well as the parties’ positions on welfare education issues and typical populist issues such as the role of elites and corruption (see tables A.4 and A.5 in the online annex). The main differences and similarities between the two countries in terms of political competition and landscape are the following. The main divergence concerns the debate around the EU. In Spain practically all main parties (especially the traditional ones but also Ciudadanos) express support for the EU. Podemos shares a more critical, but still positive view of EU institutions, and only the radical right VOX has a critical negative stance (specifically on European bureaucracy and migration policies). If the relationship with the EU is not a heated topic for party competition (with the exception of VOX) in Spain, the situation is very different in Italy. Only the main social democratic party (PD) and to a lesser extent the other smaller left-wing parties, as well as the traditional (Berlusconi’s) conservative party (although adopting a critical stance), are clearly in favour of the EU. The populist M5S has had a more ambiguous position, and the other two right wing parties (Lega and FdI) are very critical and sceptical, with the former advocating an ‘Italexit’ from the EU in the recent past.

The analysis just carried out shows that neither macroeconomic conditions and demand-based political economies (with the partial exception of Northern Italy) nor the ‘state of the welfare state’ at the outset of the pandemic presented much room for manoeuvre for expansionary SI policies, especially considering that both Spain and Italy are among the most aged societies in the EU. Political conditions were very adverse in Italy as to population attitudes towards the EU and political parties positioning and much less so in Spain but still significant. This implies low to very low tolerance to yet another phase of austerity.

However, so far, the two crises have seen two very different regulatory models adopted by EU institutions towards national policy-making. During the Great Recession, the EMU governance structure fixed the austerity and fiscal consolidation contexts in all Southern European countries, bearing a predominant top-down approach, even if through indirect/informal mechanisms in countries such as Spain and Italy (de la Porte and Heins, 2015). Instead, the novel and more recent approach of the EU to the present crisis (Armingeon et al., 2022; de la Porte and Heins, this issue), induced by the COVID-19 pandemic, seems so far different and of the utmost importance for countries of the South. Temporary relaxation of the deficit and debt criteria, emergency measures supporting national healthcare systems and copious financial aid are likely to allow welfare states to breathe, at least in the short term. Most importantly, though, the novel bottom-up approach as to the formulation of RRPs (proposed by each member state) together with a double surveillance exercised by both the EU and other member states, poses new challenges and affects the potential capacity of welfare states to weather the storm.

The analysis of economic, social protection and political conditions allows for an interpretation of the findings of section three. Because of economic and productive constraints, State Budget Bills for 2021 show little intention to expand on SI in the absence of European funding. Conversely, RRPs speak against a ‘legacy laden’ stance and rather of a desire to exploit the ‘window of opportunity’ by devoting resources to all SI-type policies.
The change in the type of EU conditionality, matched by an EU approach towards SI, helped to direct resources towards SI policies. The RRPs’ structure clearly limits the possibility to use EU resources for welfare state realms different than social investment ones and this type of conditionality has triggered the opportunity for reforms. Therefore, it was easier for Spanish and Italian governments to introduce reforms thanks to this new stance of EU institutions. At the same time, the task of the respective executives was also facilitated by the common positioning of most of the political parties in favour of welfare expansion. In addition, in both countries there is a general partisan consensus on the need for the improvement of key public services, especially education (see tables A.6 and A.7 in the online annex). In this context, populist parties in both countries show a quite articulated and differentiated approach. Podemos and M5S have been in favour of welfare expansion and redistribution to a similar extent to the more traditional left wing parties, adding a strong populist touch in terms of anti-elitist and anti-corruption discourse. Radical right parties in both countries are highly nationalist, in favour of welfare expansion to a certain extent but strongly against redistribution. In relative terms, VOX seems a traditional far right party, more focused on law and order, neoliberal policies and nationalism, rather than a ‘new’ radical right party, promoting welfare expansion in an exclusionary manner (Guillén et al., 2021).

In both countries, governments realised that SI could be a strategy combining limited immediate economic costs and prompt high returns in terms of their legitimation. All in all, although it is not possible to go beyond the plans’ intentions given their recent character, at the time of writing the new conditionality in the form of a ‘carrot’ strategy seems to be yielding better results in the domain of SI policies than old-style conditionality in the form of a ‘stick’.

Conclusions

The pandemic hit Italy and Spain during a relative state of stress for their welfare states. Almost a decade-long period of austerity had not only weakened their social protection systems but had also made them even more focused than in previous decades towards the coverage of predominantly old social risks. If in Italy this was the outcome of a welfare state traditionally based on mainly old social risks (pensions above all) (Ascoli and Pavolini, 2016), in Spain it was also the result of the austerity measures introduced during the previous economic crisis that posed severe difficulties for the implementation of SI reforms.

The first reaction to the pandemic, also for obvious reasons related to the sudden dramatic health and socio-economic situation created by the virus, followed a path that reinforced the traditional approach to social risks’ protection, based on income maintenance with scarce attention to social investment. Not only the main emergency legislation but also the 2021 Budget Bills in both countries failed to focus on SI policies. In this first phase, as previously in the 2010s, EU hints aimed at strengthening a social investment approach fell short. EU Council recommendations were relatively similar for both countries. They called attention to the strengthening of income maintenance schemes for families and young and working-age individuals
(with cuts in pension schemes), while inviting the two governments to take steps along the SI road in relation to several welfare domains (from healthcare to education and vocational training). However, they were not particularly followed by the two countries in relation to the latter part of the recommendation. Political factors also hindered potential compliance with EU recommendations, especially in Italy, because of greater and increasing Euroscepticism, grounded in the public opinion’s view of the role of the EU during the 2010s (see also Armingeon et al., 2022).

What the analysis of the economic, political and social protection legacies shows is that the room for manoeuvre towards a social investment welfare state would have been very tight in both countries, almost non-existent, in the absence of the Next Generation EU funds, or, in other words constraints were much stronger than facilitators. However, within the new EU financial framework, Italy and Spain were able to draft a modernising strategy for their welfare states through the RRPs and at the same time provide an immediate answer to the social demand created by the pandemic. After the first immediate response based on income maintenance, a second longer-term one is emerging, based on investments in healthcare, education, ALMPs, housing and other forms of social inclusion and growth promotion. Therefore, the new context represents an opportunity for Italy and Spain to recalibrate their welfare states in a SI direction.

Finally, one last caveat is necessary to avoid potentially excessive expectations on the capacity of the national RRPs to play a role as game changer in relation to the modernisation and transformation of the Spanish and Italian welfare states towards more SI policies. First, these plans finance mostly investments and not current expenditure. It means that both countries in the near future will have to find their own national resources to finance the day-to-day functioning of the newly established/strengthened SI services stemming out of the RRPs. Accomplishing this task could be hard. It will require many resources in countries not accustomed to spend to such extent on SI policies and political competition over the distribution and allocation of national resources might weaken any SI turn. Second, RRPs are very ambitious in their goals, but the success of their implementation needs the support of an efficient and pro-active administration. The next five years will tell if the social policy change fostered through the new EU approach will manage to muddle through all the limitations and conditions present in both states.

Supplementary Information The online version contains supplementary material available at https://doi.org/10.1057/s41295-022-00281-w.

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