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Mind the Output Gap

The New Technocratic Politics of EU Fiscal Rules in Italy

Camilla Locatelli

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About the author

Camilla Locatelli is a doctoral researcher at the Max Planck Institute for the Study of Societies, Cologne.
Email: camilla.locatelli@mpifg.de

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Max-Planck-Institut für Gesellschaftsforschung
Max Planck Institute for the Study of Societies
Paulstr. 3 | 50676 Cologne | Germany

Tel. +49 221 2767-0
Fax +49 221 2767-555

www.mpifg.de
info@mpifg.de

Abstract

The sovereign debt crisis triggered a process of reforms in European economic governance that pushed for technocratic handling of budget decisions following standardized procedures, target measures, and indicators for fiscal monitoring. This shift, aimed at producing more stability and less conflict in budget decision-making, transformed fiscal policy, producing a new type of technocratic fiscal politics. These new technocratic instruments impact on national policymaking, yet little is known about the processes and actors behind their constitution. Scholarship on the policy response to the euro area crisis has highlighted the role of national interests but neglected the role of expertise in negotiating highly technical fiscal policies. A key measure in this new technical apparatus, the output gap, has been at the center of a heated contestation between Italian and European institutions over the 2014–2019 period. Taking the case of the Italian output gap, this paper traces the unfolding of the dispute around the methodology for estimating potential output and clearly reveals the new centrality of expertise. The paper argues that rather than producing a less conflictual policy environment and a depoliticizing of fiscal decisions, technocratic fiscal politics has reshaped discussions around budgetary politics. This reshaping extends and transforms actor constellations and venues of fiscal decisions, giving a larger role to technocratic experts.

Keywords: European Union, fiscal policy, Italy, output gap, technocracy

Zusammenfassung

Die Staatsschuldenkrise hat einen Reformprozess in der wirtschaftspolitischen Steuerung Europas in Gang gesetzt, der auf eine technokratische Handhabung von Budgetentscheidungen nach standardisierten Abläufen, Zielvorgaben und Indikatoren für die Finanzkontrolle abzielt. Die Reformen sollten zu mehr Stabilität und weniger Konflikten in Budgetentscheidungsprozessen führen, stattdessen aber entstand eine neue Art technokratischer Fiskalpolitik. Dieses neue technokratische Instrumentarium hat Auswirkungen auf die nationale Politikgestaltung, wobei wenig über die Prozesse und Akteure bekannt ist, die bei seiner Entstehung eine Rolle gespielt haben. Die Fachliteratur zur politischen Reaktion auf die Eurokrise betont die Rolle nationaler Interessen, vernachlässigt aber die Bedeutung von Expertenwissen bei der Aushandlung hochtechnischer fiskalpolitischer Maßnahmen. Ein zentrales Werkzeug dieses Instrumentariums, die Produktionslücke, war zwischen 2014 und 2019 Gegenstand hitziger Debatten zwischen italienischen und europäischen Institutionen. Am Beispiel der italienischen Produktionslücke zeichnet das Papier die Entwicklung des Streits um die Methoden der Potenzialschätzung nach und hebt die neue zentrale Bedeutung von Expertise hervor. Es wird argumentiert, dass die Technokratisierung der Fiskalpolitik nicht etwa zu einem weniger konfliktreichen Politikumfeld und einer Entpolitisierung von Steuerentscheidungen geführt hat, sondern vielmehr zu einer Neugestaltung haushaltspolitischer Debatten. Diese Neugestaltung verändert und erweitert in der Folge Akteurskonstellationen und Schauplätze fiskalpolitischer Entscheidungen und verleiht technokratischer Expertise eine größere Bedeutung.

Schlagwörter: Europäische Union, Fiskalpolitik, Italien, Produktionslücke, Technokratie

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Mind the Output Gap: The New Technocratic Politics of EU Fiscal Rules in Italy

1 Introduction

At the beginning of the summer of 2019, Italy's destiny within the euro appeared to be at best uncertain. Failing to meet the European debt reduction targets, the Italian government had to authorize a conditional budget freeze as the risk of incurring an Excessive Deficit Procedure (EDP) appeared more real than ever. Italy had, just a few months prior, risked running into sanctions due to its inability to meet the Stability and Growth Pact (SGP) parameters. In contrast to earlier conflicts about Italy's public finances, this time many voices argued that the reasons for this lack of compliance had little to do with Italian fiscal profligacy, but rather with a miscalculation on the side of the European Commission. Discussions related to calculating the output gap, a central indicator in the new architecture of fiscal surveillance put in place after the sovereign debt crisis, spread across academic papers, blog entries, and newspaper articles (Brooks and Basile 2019b; 2019c; 2019a; Tooze 2019).

The output gap significantly entered the European fiscal framework thanks to the transition towards the use of structural budgets for fiscal monitoring. These developments were part of a reform process aimed at moving fiscal policy decisions towards technocratic management by relying on economic models and standard procedures (Matthijs and McNamara 2015). As the sovereign debt crisis had brought about constant conflict over fiscal targets, such a move attempted to routinise budgetary decisions, aiming for a more transparent and predictable handling of fiscal policy and a partial depoliticization of fiscal policy. However, the consequences of such an attempt were not necessarily in line with expectations: as we see in the case of output gaps, moving fiscal rules to a completely technocratic realm produced new forms of contestations and political discussions. In this paper, I investigate how contestation around the use of output gaps in European fiscal governance reveals some of the unintended political consequences of technocratic fiscal governance.

Despite aiming for less politicized discussions around budgetary politics, technocratic fiscal rules generate a new form of politics that connects both to the economic method behind the numbers used for fiscal surveillance and the politics around technocratic fiscal rules (Clift 2022). The literature on the use of economic indicators in governance

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has already highlighted how moving political decisions outside the realm of politics through technical devices has controversial effects. The very same indicators upon which this form of governance is established offer a shaky foundation as their construction is partial and based on ideological assumptions regarding the reality they are asked to govern (Mügge 2016; 2020; Aragão and Linsi 2020). Moreover, moving to technocratic governance tends to crowd out discussions regarding the politics behind the use of such indicators in favor of technical discussion (Tesche 2022). Despite these important insights, this literature has left open some questions on how technocratic governance materializes in practice and what its direct effects are: How does it transform actor constellations involved in fiscal governance? How does it reshape existing cleavages? What kind of new resources become important in handling the new forms of conflicts?

I argue that, within this new form of politics where technical discussions supplant political ones, technocratic actors gain a new role in defining the space where political discussion can happen. For this reason, actor expertise and their belonging to particular expert communities is crucial to generate a new interpenetration between political motives and technical debates. This intersection not only alters existing conflicts within EU fiscal governance but also extends debates on fiscal targets beyond the confines of fiscal governance.

Investigating how this type of politics unfolds in the context of post-crisis European fiscal rules is an important, yet missing, step in understanding the current dynamic of the euro area economic governance. This paper investigates those unexplored questions and focuses on the debate around correctly calculating fiscal targets between Italy and the European Commission in the period 2014–2019. Using process tracing, I reconstruct and compare two phases of such a debate, highlighting how different actor constellations and political dynamics can generate different outcomes under the same structures of technocratic policymaking. The comparison of the two phases shows the different possible intersections between fiscal politics and technocratic governance in the EU system of fiscal rules.

The paper is structured as follows: The first section reviews the significant theoretical contributions over the post-crisis reforms particularly with respect to the novel instruments in fiscal surveillance. This section also describes the output gap and offers glimpses into the debate about its functioning. The second section describes the methodological approach and the logic of the case selection. The third section presents the results from the case study. The final section concludes by connecting the findings to the proposed theoretical framework developed in the first section.

2 Doubling down on rules: Technocratic fiscal politics in the EMU post-sovereign debt crisis

EU policy makers responded to the sovereign debt crisis by readapting the institutions of economic governance that rule budgetary politics in the eurozone, namely the Stability and Growth Pact (SGP), the regulatory regime that, since the inception of the monetary union, has aimed to limit fiscal imbalances by controlling debt and deficit levels. Regardless of the different interpretations of the crisis' origins, it is evident that its unfolding confronted the eurozone with significant challenges that demanded effective policy responses. The event triggered a profound transformation of economic governance in the euro area, powered by the introduction of stronger technocratic management heavily relying on rigid rules, deadlines, and economic indicators for monitoring (Schmidt 2020). This paper focuses on the consequences that this move towards technocratic management produced on the political dynamics between EU institutions and national member states. However, to understand this current regime architecture we need to first review the political and technical struggles at its inception. Many other policy responses would have been possible, including Eurobonds, EU level wage coordination, the creation of a fiscal union etc., according to many scholars and practitioners better suited to address the plethora of issues that the sovereign debt crisis had uncovered (Matthijs and McNamara 2015).

I contend that we can group existing literature on the matter into three interpretation lines: intergovernmental power-based; supranational; and ideational. I argue here to not take these as competing explanations but rather useful conceptual lenses to look at different sides of the issue. Following intergovernmentalism, the rules reflect the interest clashes within the euro area and represent much more the preferences of northern European countries for national adjustment mechanism rather than debt mutualization (Carstensen and Schmidt 2018; Schimmelfennig 2015). Consequently, this power imbalance is reflected in the diffusion of a dominant ideological interpretation of the crisis: the widespread cognitive understanding of its origins in the fiscal profligacy of the south made European leaders interpret the events as a failure of the SGP (Matthijs and McNamara 2015; Schmidt 2020). Through the lenses of the Brussels–Frankfurt consensus (Matthijs 2016), the crisis response focused therefore on stricter and more specific rules that transformed fiscal policy in an increasingly technocratic way, where budgetary decisions are insulated from political debates and are driven by the use of technical models and indicators, such as the output gap (Matthijs and McNamara 2015). Moreover, such a solution benefitted supranational institutions, which could expand their powers and increase influence over national budgets. Nevertheless, a full supranationalization was not possible, as the fiscal policy issue entailed many veto points (Verdun 2015). The European Commission gained a central role in the implementation of a mix between soft and hard rules giving increasing room for discretion in its operation (Bauer and Becker 2014; Verdun and Zeitlin 2018).

However, the materialization of this form of governance and implementation of rules have entailed close dialogue between national governments and the European Commission, where technical discussions have not fully overshadowed political decisions. The focus on the functioning of such a new regime has meant very little attention has been given to how such technocratic management has developed in practice. Recent contributions have highlighted how attempts at moving economic governance, and particularly fiscal surveillance, to a rule-based technocratic environment generates innovative political dynamics that intertwine science and policymaking (Clift 2022; Tesche 2022). Attempts at depoliticization result in the creation of a new complex form of governance, in which the governing objects of technocratic policymaking, such as economic indicators, forecasts and methods, take a central stage in political discussion. This focus on the constitutive elements of technocratic governance reveals the social and political construction of the technical pillars upon which this governance is constructed. While supporters of technocratic governance depict moving to rule-based fiscal policy as a mechanistic straightforward process, in reality transforming fiscal policy in a "strict technical" rule-based system is a rather messy and arbitrary process, riddled with uncertainty.

First, technical models used in technocratic economic governance appear to be less straightforward than commonly assumed. This exercise of making distributional choices by default relies on the use of macroeconomic indicators such as public deficits or output gaps that are calculated on extremely political formulae, riddled with distributional implications (Mügge 2016; 2020; Tesche 2019).

Second, rule-based fiscal governance advocates assume an unrealistic version of scientific economic knowledge oriented around an apolitical consensus, whereas in reality academic economics is constantly evolving and fundamental debates around the ideological foundations of commonly used economic models permeate the discipline (Clift 2022).

Attempts to use complex economic models as value-free tools and as signposts for distributional decisions for fiscal policymaking give rise to a plethora of knowledge controversies specifically related to the very essence of technocratic rules, i.e., an interpenetration between science and politics rather than a replacement of the political by the technical (Barry 2012). When the policy field becomes increasingly technical, the economic models underlying the rules become the battleground for ideational power quests (Mügge 2016). Those power quests intertwine with existing cleavages of interest, such as the North–South divide in the EMU, generating a complex mix of political and technical motives in the functioning of modern governance (Barry 2012).

Finally, the necessity to address these new conflicts reshapes actor constellations involved in fiscal policymaking and the negotiations between the EU and national levels, increasing the importance of technocratic actors on both sides. The move towards technocratic fiscal rules empowers *governmental epistemic communities* (Dunlop 2010), such as finance ministry bureaucrats, but also technocrats working at DG ECFIN,[1] granting them a new role in setting what kind of discussions should take place in the fiscal policy arena (Matthijs and Blyth 2017). Those actors, thanks to their expertise, gain power in reshaping what is deemed as "legitimate" discussion in the fiscal policy field and ability to use what Blyth and Matthijs (2017) (referring to Thomas Kuhn [1996]) call "paradigmatic incommensurability," as a political instrument to defy other actors' policy proposals when these do not fit in with the prevailing paradigm. Moreover, the increasing importance of technocratic actors has generated new questions for the political side on how to interact with this new empowered group: the relationship between political and technocratic actors has become a fundamental element in understanding how this new techno-political type of politics is shaped and develops.

These fundamental new dynamics have so far been neglected by the existing scholarship on the post-crisis response. Nevertheless, since the crisis and the reforms, European politics has become more controversial, domestically salient, and politicized than ever before (Schimmelfennig 2014). I therefore argue that this attempt of routinizing fundamental decisions in economic governance has not necessarily provided a more stable functioning of this policy realm or taken away the arbitrariness from the situation; rather, through unintended effects, it has reshaped the politics around fiscal policymaking.

The dynamics of the debate on using output gaps showcase some of these new political dynamics. The centrality of the output gap, used for assessing the budgetary structural position of countries' fiscal plans, is a feature of the post-crisis economic governance framework and its role has sparked a heated debate that has involved academics, European and national leaders (Brooks and Basile 2019a; 2019b; 2019c; Costantini 2018; Tooze 2019). The centrality of this indicator in the European system of fiscal rules has produced important and unforeseen consequences: its difficult estimation, its pro-cyclical trends, and its use in the pervasive fiscal surveillance by the European Commission have restricted space for fiscal intervention in response to the sovereign debt crisis, especially in southern Europe. It is therefore critical to understand the dynamics of its contestation and its operation within the system of EU technocratic fiscal rules.

This paper investigates the politics around the output gap contestation by addressing the following research questions: Did the move towards technocratic fiscal rules succeeded in depoliticizing fiscal policymaking in the EMU? If not, what kind of new political dynamics did it generate? How does this new interpenetration between the technical and the political reshape actor constellations and resources involved in the discussions around fiscal governance?

1 DG ECFIN is the directorate general inside of the European Commission responsible for fiscal surveillance. Within DG ECFIN, the Output Gap Working Group is responsible for the technical discussion of the methodology related to the estimation of output gaps.

To investigate the question, this paper uses process tracing and reconstructs the development of the output gap contestation in Italy. Tracing the origins of the contestation and the conditions that triggered it and shaped its development, this paper shows the different facets of this new form of technocratic fiscal politics and draws elements of a theoretical mechanism about the functioning of technocratic governance in practice. In the following section, I briefly introduce the empirical strategy employed to study the output gap debate in Italy. Later, I go deeper into the empirical parts explaining the functioning of the output gap and its role in European fiscal rules and later its contestation in Italy.

3 Research Approach

The following section analyses the effects of the move towards technocratic fiscal governance and traces the contestation over using output gaps in the euro area's fiscal governance by examining the case of Italy and its negotiations with the European Commission between 2014 and 2019. This study uses theory building process tracing (Beach and Pedersen 2013) which aims to construct "theories of casual mechanisms that are applicable beyond the single case" (Beach and Pedersen 2013, 154). This paper starts with the international contestation around the use of output gaps for fiscal governance between the European Commission and Italy. It investigates the necessary and sufficient causes that led to the appearance of the contestation, its enlargement, and the involvement of different type of actors. I inductively delineate the scope conditions that allowed the contestation to come about by connecting it both to the historical dynamics of the Italian political scenario after the crisis as well as the long chain of consequences of the changes in European economic governance.

To empirically trace this process, I use different data sources, including policy documents by the Italian government and the European Commission. I complement this analysis with the use of grey literature. Fifteen expert interviews support the documents' analysis. The respondents included members and former members of the Italian finance ministry, the European Commission, the European Fiscal Board, and the Italian Fiscal Council. For reasons of anonymity, those interviews cannot be quoted directly; it should be kept in mind that they served mainly as background information for the reconstruction of the contestation and the analysis of the documents. The following section provides a brief historical background on the context in which the contestation has developed.

Italy under European economic governance

At the end of the 2010s, after a long decade of efforts, Italy was still facing hard times trying to escape the recession trap which began with the onset of the sovereign debt crisis (Storm 2019). Despite some commonalities with the trajectory of other southern European economies, the debate on the reasons for Italy's enduring low growth is still open (Notermans and Piattoni 2019). Many different sets of explanations have been used to understand the root causes of Italy's stagnation (for a review see Krahé 2023).

Membership of the euro has strongly affected the Italian political landscape. The common currency requirements have deeply influenced public spending decisions since the early 1990s, triggering a wave of critical structural reforms and austerity measures (Sacchi 2018; Storm 2019). In spite of this transition, during the decade following the sovereign debt crisis, Italian growth remained lower than other euro area countries, even the peripheral ones (Storm 2019). As the sovereign debt crisis unfolded, Italy became one of the biggest threats to eurozone stability. Despite two full decades of public austerity, Italy had and still has one of the highest levels of public indebtedness of the entire euro area (with an even stronger increase with the Covid-19 pandemic). Being one of the largest economies of the euro area, often considered "too big to fail," as well as one of the founding members of the European Community, the destiny of Italian public finances always seems to strongly intertwine with that of the common currency (Badell et al. 2019).

Due to Italy's lasting and severe economic condition, its situation under the post-crisis fiscal framework was at the very best ambiguous (Moschella 2017). After public austerity failed at providing fuel for new growth but depressed internal demand, more austerity and structural reforms were to come (Storm 2019). However, due to the need to show strong commitment to the European project, Italy stood by the rules (Badell et al. 2019; Moschella 2017; Krahé 2023; Sacchi 2015). Moreover, it is essential to keep in mind that many Italian economists at the time were the primary advocates for the "expansionary fiscal consolidation" logic that lay at the heart of the post-crisis framework (Dellepiane-Avellaneda 2015; Helgadóttir 2016; Storm 2019).

After the crisis, Italian underperformance generated multiple lines of tension between the Italian government and European institutions, where Italy consistently demanded more flexibility and emphasized the need to restore growth-boosting mechanisms (Carstensen and Schmidt 2018). Those frictions often managed to capture international attention due to the crucial role that Italy plays in the eurozone dynamics. Moreover, Italy has an important legacy of technocratic ruling, dating back to the '90s, particularly connected to membership in the common currency. The logic of *vincolo esterno*, i.e., the presence of an external pressure that would isolate fiscal decisions from seeking short term electoral gains, has for long ruled the decisions in monetary and fiscal policy that brought Italy in the common market (Jones 2017; Radaelli 1998; Baccaro and D'Antoni 2022). Understanding how the Italian political landscape moved from a widespread consensus on the benefit of technocratic handling of European matters to a heated and lasting contestation allows this study to showcase some of the specific political dynamics generated by technocratic fiscal rules.

Studying this contestation offers a new angle to the analysis of the post-crisis scenario in Italy, one that goes beyond the description of structural dynamics but looks at the effect that a specific idea of handling fiscal policy through strict and technical rules has generated. Moreover, the output gap itself represents a crucial element in the renewed European fiscal framework, since it provides a foundation to the whole new architecture of fiscal monitoring (Heimberger, Huber, and Kapeller 2019). Having been the center of widespread criticism and discussion, the output gap reveals the complexity of making a very political side of policymaking technical.

The output gap and its pitfalls

This section summarizes the major fault issues of the output gap model, highlighting related aspects of instability and latent contestability. Understanding this indicator's complexity is a fundamental step to shed light on the political dynamics that develop through its use. The following explanation of the output gap complexity clarifies the contestability potential inherent in its usage in politics. Moreover, this explanation provides an insight into the technical debate on the matter within the expert community.

The output gap is a tool used to assess the fiscal space of a country, and it is pivotal to the estimation of structural balance (SB). The SB captures a country's public spending at some defined level of output or policy target, which is considered to remain unaffected by fluctuations of the business cycle (Costantini 2015). In a nutshell, it estimates the difference between government revenues and expenditures net of good or bad economic cycles. This assessment offers a snapshot of the underlying condition of an economy, separating its structural position from the cyclical one. It is used, therefore, to calculate the structural budget, i.e., an estimate of the structural economic conditions of a country, a fundamental cornerstone of the post-crisis EU system of rules. In distinguishing between cyclical and structural conditions, the output gap estimates the relative position of a country to its potential (the above-mentioned defined level of output). The output gap, indeed, is basically defined as the difference between the actual output (current output that reflects the business cycle) that a country has in a specific year and its potential output, namely the output that its economy would have if it would be running at maximum potential (thus a measure that should represent the structural performance of the economy).[2] Potential output is defined as *"the level of output that can be produced with a 'normal level' of efficiency of factor inputs"*[3] (Havik et al. 2014, 11), namely by exploiting all factors at non-inflationary levels.

2 Potential output represents the output that can be produced if the economy were operating at maximum sustainable employment, where unemployment is at its natural rate. This means the maximum level of output that can be produced without inflationary pressures. When output is above potential, it means that growth is causing inflationary pressures (Okun).

3 Quotation marks in original text.

In the context of countercyclical fiscal policy, a positive output gap would signal that the economy is overheating, because it is running over its potential, and therefore generates inflationary pressures. Similar pressures would steer policy in the direction of fiscal consolidation, aimed at enhancing the potential of the national economy (and thus closing the gap). Conversely, a negative output gap would signal that an economy is underutilizing its resources. Such a trend would push policy towards fiscal expansion, as it would signal slack in the economy and, simultaneously, space for a demand-driven stimulus. In turn, this indicator signals when growth is on an undesirable path regarding inflation dynamics.

Estimating potential output is a complex and controversial procedure. The disputes over the correct methodology are vast and they revolve around three fault lines: (1) the estimation method problem; (2) the statistical filtering problem; and (3) the pro-cyclicality & pessimism issue. Concerning (1), discussions on the theoretical approach of potential output estimation focus on distinguishing approaches based on purely statistical estimations or a production function (Costantini 2015). Statistical approaches rely on deducing current growth dynamics purely from past growth dynamics. Production-function approaches represent an exercise in economic theory that is based on assumptions about the evolution over time of the growth components of an economy (assuming that growth of potential output is only a supply-side phenomenon). The choice among these two models has significant consequences on the components of the calculations and the theoretical assumptions behind the estimation procedure.

The purely statistical approaches rely on applying a statistical filter[4] to time series data on the evolution of real GDP. The filter allows separating cyclical fluctuations from structural ones by smoothing the impact of cycles over the trend GDP growth (Hodrick and Prescott 1997). In turn, this results in estimating potential output as *trend* output (Fontanari, Palumbo, and Salvatori 2019; Palumbo 2015).

These purely statistical approaches[5] tend to have two significant drawbacks: on the one hand, because the trend is stochastic,[6] the decomposition of the series between trend, cyclical, and accidental tends to be arbitrary, and the result changes by using different filters; on the other hand, positive and negative output gaps estimated in a purely statistical way tend to be uncorrelated with inflation trends (Fontanari, Palumbo, and Salvatori 2019).[7] Those shortcomings have made the output gap inherently unreliable, which

4 In the case of the EC, a Hodrick-Prescott filter.

5 Statistical approaches tend to be defined as "theory-free," but they do actually rely on strong theoretical assumptions, such as the one that assumes that actual output tends to fluctuate around potential output (Fontanari et al. 2019).

6 Stochastic means that the trend has a random probability distribution that can be analyzed statistically but not exactly predicted.

7 This implies that the actual phenomenon that this indicator aims to measure, i.e., the path that growth is taking concerning inflation dynamics, might be misrepresented by this type of estimation.

has led international organizations such as the OECD and the IMF, and the European Commission, to progressively abandon this set of approaches (Morrow et al. 2015).

The production function (PF) approaches, also often called "economic methods," estimate potential output through a series of assumptions about the potential supply of an economy (Morrow et al. 2015). This class of estimation approaches is considered to better link potential output estimates to economic theory. However, it shows the critical drawback of requiring many presuppositions on an economy's productivity, estimated by a combination of factor inputs multiplied by total factor productivity (TFP). These assumptions relate particularly to the concept of the natural rate of unemployment (NAIRU)[8] and the difference in methods used to estimate it (Fontanari, Palumbo, and Salvatori 2019; Heimberger and Kapeller 2017; Palumbo 2015). The Non-Accelerating Inflation Rate of Unemployment (NAIRU) is the theoretical level of unemployment at which inflation is believed to remain stable. While its very existence in empirical terms is debated, it nevertheless remains a target in policymaking (Yglesias 2014).[9] NAIRU estimates are included in the production function because they offer a basis for estimating labor inputs, calculated as the total working hours offered by the active labor force (Heimberger and Kapeller 2017).

Concerning (2), the critical analysis of the different estimation techniques for the factors involved in the PF approach, especially the NAIRU estimates, has stimulated another debate. Criticism often relates to the volatility of forecasts in real time: in such approaches, the NAIRU is often computed as the "trend component" of the actual unemployment rate, removed from cyclical factors. Most approaches rely again on the use of statistical filters (in the EC case, Kalman filter) to estimate this trend, which updates forecasts as soon as new information is available, giving an oversized role to the most recent data. This feature of statistical filtering, eventually, shows the tendency to produce pro-cyclical estimates that make fluctuations in the natural unemployment rate follow the current one, "naturalizing" unemployment at any given moment.[10]

Moreover, this process basically ends up estimating potential output again as a form of trend output, just in a more complex and indirect way[11] (Fontanari, Palumbo, and Salvatori 2019). This critical relevance of new information inherent in the use of statistical filters also creates continuous changes in past estimates and reassessments of the trends. Such constant corrections invalidate the reliability of policy prescriptions based on past estimates (Fontanari, Palumbo, and Salvatori 2019; Heimberger and Kapeller 2017).

8 Non-Accelerating Inflation Rate of Unemployment.

9 For reasons of space, I cannot go into detail on the debate over NAIRU and the natural rate hypothesis.

10 Applying these concepts results in the definition of some level of unemployment (the natural level) as natural, inherent, or normal to the system.

11 Also relying on the unproven assumption that potential evolution closely follows the actual evolution.

Concerning (3), in the European context, the global financial crisis was followed by a general drop in potential output estimates for the entire eurozone (but mainly for southern European countries), resulting from changes in the NAIRU estimates. The estimates' adjustment has generated a strong pro-cyclicality in potential output forecasts. As actual output worsened and unemployment rose, the technical features of the statistical filtering created similar trends for potential output and the natural rate of unemployment, effectively closing the output gap for many countries (Arbogast, Van Doorslaer, and Vermeiren 2023). In turn, this meant that despite rising unemployment after the crisis, those countries did not benefit from an opening up of the output gap, which would have granted space for public spending.

As the output gap plays a central role in the eurozone fiscal framework, being used to measure countries' fiscal efforts under the surveillance of the European Commission, its inherent pro-cyclicality has had significant consequences for specific countries – southern European in particular – steering policy in the direction of structural reforms rather than fiscal stimulus (Heimberger and Kapeller 2017). As a consequence of these technical issues, many critics pointed to problems using output gaps as central indicators for fiscal monitoring. Basing policy advice on such a shaky estimate seems to produce more harm than good (Heimberger and Kapeller 2017; Heimberger, Huber, and Kapeller 2019; Brooks and Basile 2019a; 2019b; 2019c; Tooze 2019; Sumner 2020). The problems inherent in estimating output gaps have contributed to its transformation into a controversial element of the post-crisis European framework. In order to understand the development of the Italian contestation, it is crucial to grasp the technical uncertainty around both this indicator and the approach chosen by the European Commission to estimate it. Such uncertainties enabled technocrats at national and European levels to leverage existing technical debates in political negotiations about fiscal targets. In what follows, I present the methodological approach chosen by the Commission.

The history and role of the output gap in the European framework

Calculating output gaps, inherent in the estimation of the structural balance (SB), i.e., an estimate of the actual deficit of a country that is neither dependent on structural conditions nor one-off exceptional measures (negotiated politically), significantly entered the EU fiscal framework with the first reform of the Stability and Growth Pact in 2005. This revision of the Pact, a consequence of the violations of the nominal ceilings for debt and deficit by many countries (in particular, France and Germany), was directed at better accounting for the impact of cyclical conditions on revenues and expenditure and the way they influence budgetary decisions (Costantini 2015). Such an orientation implied focusing the assessment on fiscal efforts rather than outcomes, and introducing measures that would better allow separating cyclical conditions from the structural setting of an economy. Against this background, the structural balance was given new centrality in the EU framework. As a matter of fact, despite being previously already available and in use, the SB presence was limited to an informal role, i.e., as a working instrument (Larch and Turrini 2010).

Consequently, its relevance was strengthened during the post-eurozone crisis reform process. With the adoption of the Fiscal Compact in 2013, the SB became central in the eurozone architecture of fiscal rules (Heimberger and Kapeller 2017).

The structural balance is used in the evaluation of fiscal policies regarding deviations from the Medium-Term Objectives (MTOs). Under the preventive arm of the Stability and Growth Pact, MTOs were put in place to ensure sound fiscal health: due to an evaluation of a country's economic situation and sustainability conditions, they set targets for structural budget adjustments (at a rate of 0.5% of GDP as a benchmark) (European Commission 2019). All countries are required to make more adjustments when the economic situation is favorable, and less in hard times. However, countries with high debt burdens (like Italy) are asked to make faster progress towards their objective (i.e., more adjustment).

Against this background, the output gap model has been used as the monitor mechanism in estimating the structural balance. As the stance of fiscal policy is counter-cyclical, positive output gaps signal the existence of space for fiscal expansion; negative output gaps signal the need for consolidation.

In the European context, the methodology for estimating output gap is decided within the Output Gap Working Group (OGWG), a permanent working group of DG ECFIN, where delegates – technocrats – from each country's finance ministry discuss technical aspects of the model and reach the so-called "commonly agreed methodology." This methodological agreement represents a set of rules and parameters that should be able to accommodate all countries' needs and specific economic structures in the making of this indicator (Heimberger et al. 2019). The group has existed since the early 2000s and has focused on improving the calculation of this indicator, even before it became central for fiscal monitoring. The actual methodology chosen by the Commission has its origin in the approach used by the OSCE, one of the international organizations at the forefront in developing the output gap methodology.

Despite initial enchantment with the advantages that such an estimate would offer, the shortcomings of the SB on estimating the underlying fiscal position and the structural adjustment emerged quite early in its adoption (Larch and Turrini 2010). The conceptual beauty of this indicator – namely its simplicity and intelligibility by political leaders[12] – conceals a plethora of practical issues (Larch and Turrini 2010). As mentioned above, the tendency to pro-cyclicality and the uncertainty of output gap estimates among oth-

12 At least in its simple and direct mechanism that automatically determines the fiscal stance in connection with the difference between actual output and potential. However, its technical makeup is far from being easily intelligible, as shown above.

ers have a material impact on its actual functioning as a tool for policy monitoring and thus national policymaking.

After having given up a statistical approach in 2002, the Commission methodology today relies on a Cobb Douglas production function (Costantini 2017). This approach has received much criticism in recent years due to a set of issues connected to the estimation of the structural unemployment and Total Factor Productivity (TFT), i.e., a measure of technological progress. The criticism relates to the aforementioned estimation method problem (1) and the statistical filtering (2), as it relates to both the methodology for the estimation of the single components and the overall specification of the production function.

Concerning structural unemployment, the Commission uses the trend component of the NAWRU,[13] calculated with a Kalman statistical filter, as a proxy. As discussed previously, the use of Kalman filtering tends to often produce very pro-cyclical measures, due to the recursive nature of such a tool and its tendency to give disproportionate relevance to the newest data (Heimberger and Kapeller 2017). On top of this technical issue, the Commission relates the trend component of the NAWRU to the concept of the natural rate of unemployment – at which wage inflation does not accelerate – taking a somewhat debatable approach to economic theory. As, according to theory, the natural rate should only reflect labor market rigidities, the actual approach of the Commission, using the Kalman filtered NAWRU as a proxy, estimates it as a mix of structural and cyclical factors (Heimberger, Huber, and Kapeller 2019). Moreover, using the NAWRU as a policy target is in and of itself a disputable exercise that has received many critiques in recent years: the extreme uncertainty that comes with the estimates (very sensitive to the forecasts horizon and other technical aspects) as well as the empirical evidence that shows rather an insensitivity of wage inflation to the actual unemployment rate, has cast serious doubts on the possibility of using such a measure for structural unemployment (Fioramanti et al. 2020; Stirati 2016). Concerning total factor productivity, the EC production function uses the famous Solow residual as a proxy for technological progress, which is known to be a catch-all variable for all factors that contribute to changes in GDP not related to labor and capital (Heimberger and Kapeller 2017). This variable is again unobservable, and its capacity to capture the actual dynamics of technological change is debatable (Reati 2001).

Despite the introduction of many improvements, such as the Plausibility Tool in 2016, which were supposed to reduce the dimensions of uncertainty connected to the measure, the European Commission itself acknowledges that the methodology still carries uncertainty over *reference models, processes, and parameter values* (Hristov, Raciborski,

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13 Non-Accelerating Wage Rate of Unemployment. The Commission uses the NAWRU as the unemployment rate at which wage inflation remains stable, relating it directly to the concept of the NAIRU, which normally refers to the unemployment rate at which price inflation would remain stable. The two terms are used quite interchangeably by the EC (Heimberger et al., 2017).

and Vandermeulen 2017). Those aspects of uncertainty have been at the center of methodological discussion over the years within the OGWG and have until recently remained confined within technical circles. However, when the structural balance (and thus the output gap) became central in the Commission framework for fiscal monitoring, the discussions over the technical details of this model crossed the boundaries of this technical group and moved to the political and public arena. Particularly in the case of Italy, it became a matter of continuous discussion for over five years, involving in different ways new actors and venues. In the following section, I reconstruct the contestation.

4 Minding the gap: Origins and development of output gap contestations in Italy

First phase: Expertise and knowledge communities

In November 2014, the Italian finance minister Pier Carlo Padoan appeared in an interview with the *Financial Times*, accusing Brussels of "shaky accounting" (Politi 2014). He claimed that the Commission apparatus for evaluating fiscal policies was ill-suited for the decisions at stake (Politi 2014). Using his expertise as a former chief economist at the OECD, he laid out a technical critique of the potential output estimates used by the European Commission, showing how those were miscalculating Italy's performance. Such a public statement was issued in a highly tense moment of the budgetary approval procedure: the government at the time was led by Matteo Renzi, who led a coalition between the center right Democratic Party (PD) and smaller centrist and center right forces. Just before, the draft budgetary plan presented by Italy on October 15 (following the European Semester calendar) had mentioned critiques to the potential output measures and offered a divergent estimation of Italian fiscal space from the European Commission estimations. This allegation was the first step of a contestation that lasted for over five years, leading to heated debates between Rome and Brussels.

The dispute related to the estimation of the structural adjustment needed for Italy under the new framework: Padoan argued that the Commission methodology miscalculated the actual position of Italy's public finances and that, therefore, there was actually more room for flexibility in approaching the MTO than the Commission envisaged. Despite adopting the same methodology (i.e., the Commonly Agreed Methodology), Italy presented a different estimation of the space for public spending: the Commission estimates showed a 3.5% of GDP output gap for Italy, which would have required (following the medium-term objectives) a reduction of the structural budget deficit of 0.7%. Italy estimated a slightly different value by using another set of parameters and measures compared to those of the Commission (mainly a different timespan on the statistical filters). However, in the *Financial Times* interview, Padoan compared the EC estimate with that of the OECD, which showed an output gap of 5.1%. If the OECD estimation had been used, Italy would not have had to provide any adjustment for that current year: the situation would have qualified as negative enough to reduce pressure for adjustment (Politi 2014). At the core, the Italian ministry argued that the EC methodology underestimated Italy's potential GDP growth and that the required adjustment relied on unstable calculations.

This public claim by the Italian finance ministry did not remain isolated. Soon after, a group of well-regarded Italian economists wrote an article explaining the theoretical and empirical flaws of the Commission methodology in an Italian newspaper (*lavoce.info*) (Cottarelli, Giammusso, and Porello 2014b). That venue became the arena for a confrontation directly with the Commission: in the next few days, a debate around the output gap methodology developed between EC economists and the group of Italian economists (Cottarelli, Giammusso, and Porello 2014a). Not long after, the Commission openly addressed the methodological problems with a publication actively defending its approach as the outcome of negotiations of different interests in the framework of a "commonly agreed methodology" (Havik et al. 2014).

After these first shots were fired, the controversy remained silently in the background of the political debate: every year onwards under the ministry of Padoan, when Italy presented the draft budgetary plan to the Commission, there would be discrepancies in the measures and a mention of the methodological issue. Several interviewees argued that this appeared to be an attempt to make a political point by means of a technical critique. Usually, during the budgetary procedure, there would be informal contacts between the ministry and the Commission in the run-up to the budgetary season aimed at obtaining the least different measures on public finances indicators, amongst which was the structural balance (in order to appease the possible conflict and increase the credibility of Italian public finances). When Pier Carlo Padoan came to office, a clear attempt to make those measures as divergent as possible was made, aiming to spark a discussion on the divergent estimates. To be clear, that did not mean tweaking the numbers but rather showing how changing small aspects of the parameters (such as the timespan over which the cycle is calculated) would result in a completely different assessment of the adjustment required.

However, despite the issues at stake being quite high, this open-ended debate among economists did not become the focus of institutional conversations about the budget and, for the moment, did not further expand into a broader public discussion inside or outside Italy.

In March 2016, the dispute reached another high point, as Italy led a group of countries (Lithuania, Slovakia, Luxembourg, Portugal, Spain, Slovenia, Latvia) asking for a revision in the projection horizon of the output gap forecast exercise. This request resulted in an exchange of letters with the Commission, authored by the eight finance ministers: the aim was to achieve a small methodological change, i.e., extending the horizon of two years to four, despite maintaining the same general approach. The argument put forward by this group of countries focused on the increasing uncertainty in output gap estimates, especially in times of crisis, and the inconsistencies between the approach used by member states and the Commission's approach.

Fixing the temporal horizon issue would have realigned most countries' estimates to the Commission's, generating a more transparent and accurate framework for evaluating structural efforts. Moreover, the letter suggested the need to complement the use of the output gap with other indicators, considering the unreliability of its estimation in real-time (Country Members 2016). The Commission accepted the criticism and later changed the forecast horizon with an extension.

This change by the EC brought a moment of closure to the issue, without, however, completely satisfying Italy's – and other countries' – demands. The change of the horizon would partially improve the situation of Italy but would not solve the problem of relying on only one shaky indicator for estimating the fiscal space. Later in October 2016, the Commission introduced the so-called Plausibility Tool as a part of a *constrained discretion approach to the Production Function methodology* (Hristov, Raciborski, and Vandermeulen 2017). Acknowledging the uncertainties that come with estimating output gaps in real-time and the inaccuracies of the EC methodology, the Commission introduced this instrument for ex-post checking the reliability of the output gap's estimate with a range of values. If the estimated output gap fell outside that range it is considered "*potentially counter-intuitive,*" and its estimation might need to be revised (Hristov, Raciborski, and Vandermeulen 2017).

Despite these changes, subsequent budget approval cycles were repeatedly accompanied with criticism of the methodology in the discussions between the Italian finance ministry and the European Commission (Ministero dell'Economia e delle Finanze 2016; 2017; Padoan 2016). It became particularly important in 2017, when Italy risked an EDP (Excessive Deficit Procedure), as its expenditure plans seemed to deviate too far from reaching the medium-term objectives fixed for the country. Italy mentioned the methodological problem again when asking for more flexibility (Padoan 2017). This time, however, as the issue had recently reached a partial closure, the Commission was not particularly willing to listen to this further technical criticism. Up until this point, despite the EC having recognized the legitimacy of the points raised by the Italian government, the issue never expanded into a larger institutional discussion. Within the European bureaucracy, the dispute remained pretty invisible and did not trigger any major renegotiation of the complete architecture of fiscal rules. Nevertheless, Italy received no sanction as it was eventually considered to be broadly compliant with the rules.

In 2018, Italy held elections that resulted in the creation of an anti-establishment government, formed by a coalition of the right-wing Lega Nord and the anti-system Movimento Cinque Stelle. This change in government also marked a turning point in the process.

The change in government sealed the end of the first phase of this contestation in which the role and expertise of the finance minister determined the development of the dispute. In fact, in the first instances, the contestation remained mostly confined within the institutional dialogue between Rome and Brussels and attracted mainly the attention of local expert communities. These first stages entailed a thorough technical contestation that required its perpetrators to be informed and competent on the methodological elements of the output gap calculation. Despite seeming trivial, it is essential to keep in mind that the extreme complexity of the technical make-up of the model isolates a rather small group of people competent enough to understand and criticize its technical aspects. Even within the Commission or the Italian finance ministry, as confirmed during the interviews, only the few directly involved in its construction would be able to understand and fully debate all aspects of the methodology.

This phase shows that, under Padoan's finance ministry, there came a realization that the new framework was built on an unstable ground, despite its aim to ensure transparency and non-arbitrary management of fiscal policy. This unstable ground could be shaken whenever it was useful for political gain. As in 2014, a discourse of flexibility in the rules again came on the agenda of European leaders, thanks to the efforts of the Italian and French government, and an opportunity window to steer the fiscal stance partially away from austerity seemed to open up (Carstensen and Schmidt 2018).

In this context, the expertise and international credibility of the finance minister himself could be used as a weapon to gain legitimacy in criticizing the EC approach, and obtain further flexibility: Padoan, thanks to his expertise, was recognized as a good spokesperson for such critical remarks and was thus listened to and taken seriously. Such legitimacy did not come only from his ability to present a sharp critique, but also from his belonging to the same experts' community – of mainstream economists working in international institutions – of the Commissioners working on the methodology in Brussels. Moreover, Padoan's position as a member of both worlds, the technocratic one and the political, gave him the ability to navigate the complexity of the interpenetration between the technical and the political of the post-crisis fiscal policy field.

Consequently, the Commission, particularly DG ECFIN, became the site of an ideational discussion over the technical aspects of a model that in reality disguised a conversation over different understandings of the necessary path that fiscal policy should have followed to counter the crisis. These different understandings were related mainly with the objectives and focus of fiscal policy (within the same broad paradigm) rather than with the benefits of the technocratic handling of this policy realm. The output gap critiques in this phase did not aim to get rid of this system of technical rules and models, but rather to show that the very same rules could be interpreted in a very different way by comparatively skilled local technocrats belonging to the same experts' community. As mentioned before, Italian economists – including the ones that agreed on the critique offered by Padoan – were also supportive of the EC logic that pervaded the rules, and they maintained consensus on the general apparatus. The dispute they engaged in clearly resembled a scientific debate, where the aim was to highlight the technical inconsistencies in the functioning of the rules and claim power through applying expertise on how the estimates should have been used. As the field of fiscal policy had been more technical, the only legitimate critique would be of a technical kind, and the only legitimate perpetrators would be actors recognized as valid members of the European fiscal policy community. The dispute about the output gap did not, however, disappear after these first instances.

Second phase: Public politicization and international attention

The second phase of this contestation took place in a different context, in which Italy was under the rule of populist, anti-establishment, and eurosceptic government. In the following analysis, I show that the attitude of the government towards European institutions and fiscal rules is a crucial element in explaining how the contestation developed in this phase, because it enabled interpenetration between technical and political motives in the output gap discussion and helped to expand it beyond the limits of European economic governance. The fact that a eurosceptic government leveraged a technical dispute for clear political purposes without specific engagement with the elements of the original controversy shows how deeply technocratic fiscal governance has transformed the lexicon and the actors connected to fiscal governance.

Already at the beginning of its mandate in 2018, the government attempted to overturn the Italian fiscal stance, reversing some of the structural changes that the Italian welfare state had undergone in the previous years. The government fiscal plan revolved on the introduction of an income support scheme *(Reddito di cittadinanza)*, in line with the Commission recommendations on the European Social Pillar, and a pension reform *(Quota 100)*, partially lowering the retirement age for specific categories of workers. From the first months, relations between Italy and European institutions became particularly heated, as the leader of the Lega Nord, one of the two vice-prime ministers of the government, openly showed his willingness to engage in a political fight over the rules for fiscal spending.

At the time of the first budgetary cycle, the discussion over fiscal objectives translated into a political fight. In October 2018, one week before presentation of the draft budgetary plan, the recently created Italian Fiscal Council[14] did not validate the macroeconomic planning of the government, warning about the absence of complete coverage for the planned expenses and, thus, the risk of exceeding the deficit ceiling set by the European rules. A few weeks later, the Italian draft budgetary plan was rejected for the

14 The Parliamentary Budget Office *(Ufficio Parlamentare di Bilancio – UPB)* was created in compliance with the Two-Pack rules in 2014. This moment is the first time in which it actively participated in the debate over budget decisions.

first time ever by the Commission due to its risk of non-compliance with the MTOs envisaged for Italy. The budget included a deficit forecast of 2.4%, much higher than the one required to comply with the target set for Italy under the preventive arm of the SGP. If such a deviation would have remained, an Excessive Deficit Procedure (EDP) could have been opened against Italy, which would have resulted in possible sanctions, making Italy's position in the surveillance process even more complicated (and likely impacting on Italy's ability to finance itself on sovereign debt markets).

A reference to the divergent estimates of the output gaps was included in the budgetary plan, as a partial justification for breaching the set limits (Ministero dell'Economia e delle Finanze 2018). The refusal of the planned expenditure triggered an exchange of letters between the finance ministry and the European Commission: the Italian government justified the increase in spending as a necessary step for bolstering growth and considered the deviation from the set targets only temporary and necessary to give some breadth to the Italian economy (Tria 2018).

These letters did not, however, further engage in a critique of the Commission estimates as a way to justify the deviation from the parameters. The response from the Commission denied further flexibility for Italy, highlighting that Italy had committed to the targets a few months earlier (when the previous government was still in charge), and that Italy had benefitted many times from further flexibility in the rules. Eventually, the finance ministry had to come up with a corrected budgetary plan, which tried to find a compromise in the deficit forecast, despite maintaining the two main policy targets of the new government in place: the so-called citizens' income, a comprehensive system of unconditional income support, and a "flat tax" for small business and the self-employed. Eventually, the EC approved Italy's plan, without however being able to pull the plug on this strand of contestation.

Soon after the output gap issue revived and reappeared. As Italy was about to face the risk of an EDP, the contestation moved to another arena: the leader of the Lega Nord and also vice-prime minister in office, Matteo Salvini warned multiple times in the press that European fiscal rules needed to be changed, as the current status was limiting Italy's performance (Rossi and Jones 2019).

As the Commission warned Italy of its deviation from the debt rule and the risk of incurring an EDP, Italy's response pointed to the different economic situations depicted by Brussels's measures and theirs (Moscovici and Dombrovskis 2019; Tria 2019). In contrast to previous heated moments in the dispute, this specific moment captured the attention not only of the Italian media and Italian economists, but also the scholarly community outside Italy, which, surprisingly, seemed to stand by the point being made by an anti-establishment eurosceptic government (Giles and Johnson 2019).

Afterwards, developments in the contestations clearly exceeded the boundaries of Italy's fiscal policy decisions. The vicissitudes of Italy became the central point of a plethora of articles, working papers, and twitter campaigns aimed at spreading awareness and critical remarks on non-measurable indicators used in evaluating fiscal plans by the European Commission (Brooks and Basile 2019b; Costantini 2018; Tooze 2019). This exposure drew even more international attention to the vicissitudes of Italian fiscal policy decisions, which soon after reached the highest point of tension in this overall debate. At this juncture, there seemed to be general agreement in the scholarly economist community on the difficulty of relying on estimates of the output gap in real time for fiscal monitoring because it requires including a high degree of uncertainty in fundamental policy prescriptions. The criticism aligned economists of usually different positions, from heterodox to the left of the mainstream. The technical debate on the output gap became a site for ideological discussion amongst economists from different camps not only on the uncertainty of the output gap technical estimate, but also on the ideological assumptions regarding the impact of fiscal policy on growth. The technical indicator became, therefore, the battleground for both an academic and a political discussion.

Eventually, the warning of the Commission was formalized into a document, sent at the beginning of June, forecasting that Italy would not have met its objectives in reducing the debt both for 2019 and 2020. The Commission did not seem to show particular sympathy for the methodological critique, pointing out many times how Italy agreed to those targets in the first place and that the methodological discrepancies had already been discussed and "solved" in previous years (Dombrovskis and Moscovici 2018). Eventually, the government had to approve a conditional budget freeze of two billion, facing the risk of a sanction amounting to 0.7% of Italy's GDP (around three billion euros).

Subsequently, the government also introduced corrections to the budget that reduced the deficit for 2019 to 2.0% instead of the foreseen 2.4% (the original MTOs set it at 1.8%). This change allowed that year's structural balance to broadly be in line with the targeted MTO. After these changes, the finance minister Giovanni Tria sent an additional letter to the European Commission ensuring Italy's commitment to complying with future targets (Tria and Conte 2019). This led to the Commission dropping the case for an EDP and judging Italy as being broadly compliant with the SGP parameters.

This phase entailed a vastly different kind of contestation than the previous phase. In this case, the role of the finance ministry and the depth of the technical critiques were rather limited, but international visibility and the stakes at play were much higher. Those differences can be explained in multiple ways: on the one hand, the lesser involvement of the finance ministry can be justified by the somewhat isolated position that Giovanni Tria held over this period. Tria was not directly affiliated with any of the parties, and his selection procedure had been shown to be particularly troubled.[15] As interviewees confirmed, Tria's role in the government was to mediate between the other parties and tame the desire of the Lega Nord, in particular, to oppose European targets and objec-

15 The previous finance minister had been vetoed by the head of state due to anti-euro attitudes.

tives. Thus, it seems reasonable that he had no interest in pushing for a further critique of the Commission's authoritative power.

Moreover, many interviews highlighted the relative independence that the finance ministry has in the Italian political setting. The finance minister does provide a political direction to the work of the bureaucratic apparatus, but it is also true that when it comes to very technical matters such as the ones we are describing, the autonomy of civil servants/technocrats is quite extensive.

On the other hand, the differences between the two episodes give insights on the development of knowledge controversies. In the first phase, the main issue was acknowledging the existence of a problem with the EC estimates and using expertise to offer a critique of the fiscal objectives through the same language in which they were formulated, one of technical matters. As the field of fiscal policy has been object of this interpenetration between scientific and policy objectives, the only way to legitimately talk about fiscal matters becomes one of technical disputes. However, as soon as the technical critique gained legitimacy and the experts' consensus had broken down, the overall shadow of objectivity and lack of arbitrariness had dissolved. Thus, a different kind of critique could be put forward: a political one that only partially and instrumentally could appeal to the technical aspects of the original dispute. In fact, we can see that the political critique appears when there is overall agreement that the technical model of the Commission presents flaws and inconsistencies.

However, the original academic dispute, revived by the political dispute, is also reinvigorated and reopened by its involvement in policy: the indicator becomes the site for a face-off between economists of different camps.

5 Conclusions

The move towards technocratic governance in EU fiscal surveillance has deeply transformed the environment around fiscal policy decisions, reshaping the political dynamics connected with fiscal policy. Reconstructing the output gap's controversy here reveals previously unexplored aspects of the fiscal politics surrounding the euro and its fiscal rules. Introducing the output gap as a central tool for fiscal monitoring did not provide a "stable and consensual foundation over which political agreements can be played out," but rather "a shifting surface on which disputes can foment and acquire significance" (Barry 2012, 328). I argue that these dynamics are related to two main aspects of this episode: one connected to the output gap itself, and another to the wider politics of technocratic governance.

First, estimating the output gap is a complex and challenging exercise that relies on many assumptions and statistical tools, the accuracy of which is often unclear. It is a debated procedure and particularly unreliable when used for real-time estimations (Heimberger and Kapeller 2017). Furthermore, it requires a set of somewhat arbitrary choices and presuppositions over economic phenomena that raise questions and generate debate. As a result, its inherent features create an unstable foundation for a system of governance that uses rules and technical devices to escape the ambiguities of political choices. The discussion over the possible reforms of EU fiscal governance is currently moving away from the centrality of the output gap. However, current proposals from the Commission still aim to rely on other technical indicators such as DSA analysis, the shortcomings of which are similar to those of the output gap (Wester 2023).

Secondly, this case study sheds light on the new policy scenario that resulted from post-crisis fiscal governance reforms. Despite technocratic fiscal rules attempting to isolate fiscal policy from political discussions, the reconstruction here shows that political conflicts do not disappear but instead hide behind technical disputes. Technocratic fiscal rules transform discussions over budgetary matters, changing the actor constellations involved and the content of debates. There is a shift in the type of conflicts generated in this environment: controversial issues appear to be more and more focused on the technical elements of the post-crisis architecture rather than its normative foundations, and they progressively transform into transnational controversies involving expert communities that transcends national government communities and gravitates within and around European institutions.

Moreover, this process has progressively changed the lexicon used to discuss fiscal objectives, transforming the discussion of budgetary issues from confrontation over different understandings of the finality of fiscal intervention to apparent technical debates. The politics of the economic method and the politics of numbers take center stage (Clift 2022). However, these discussions embody relevant debates over the finality of fiscal policy, as well as different understandings of the inner workings.

In this new scenario, the expertise of actors involved becomes pivotal. On the one hand, expertise allows actors to bring academic discussion, full of open-ended debates and loose ends, into the policymaking realm, breaking down the facade of simplicity that the political use of science puts forward. Without engaging in technical critique, it is impossible to break down the veil of objectivity that surrounds technical decisions and hides their contestability. Nevertheless, that is not a sufficient condition to trigger politicization, because the enacting of technical critiques requires actors interested in pursuing political fights instrumentally using technical disputes. In this fashion, expertise becomes an important tool in the hands of policymakers eager to contest elements of the technocratic fiscal policy environment.

The findings elucidate a mechanism that relates ideational contestation and more traditional interest-based political fights. It appears that the move towards more technocratic management of fiscal policy produces a feedback mechanism. The use of scientific tools provides legitimacy for political decisions, depicting actions as objectives and endorsed by the authority of science. However, as technical indicators take center stage, their inner workings mean technical debates can enter the political and institutional discussion. This duality within indicators reflects the very natural effect of translating scientific objects into the realm of politics. As science is intrinsically an unstable field, open to contradiction and falsification, its use in policy moves the same dynamics to the political field. The role of actor expertise and the structures of national expert communities in this stage is central, as it allows for such a translation to happen.

These findings show the existence of new dynamics in the post-crisis reform framework that not only directly connect with interest-based political fights but also tie into the world of ideational contestations and expert communities. More scholarly attention should be given to the interplay of those dimensions in the multilevel decision-making field of European institutions. More attention should be paid to how the structures of national expert communities may influence the ability of actors to exploit this element of the European fiscal framework in the process of bargaining for fiscal space. As the current discussion on the future of fiscal rules still expects to prominently rely on bargaining between member states and the EU Commission, understanding the way in which national experts interact with a system of technocratic policymaking is a fundamental step in envisioning future dynamics connected to fiscal policy and their possible shortcomings.

Finally, this study offers an alternative narrative of the political dynamics that have characterized the Italian political landscape in the past few years. Going beyond the mere interpretation of Italy's constant push for flexibility in fiscal rules through the lens of opposition between southern indebted countries and northern solvent ones, this paper proposes a more nuanced reconstruction of the Italian situation under the post-crisis fiscal framework. This might represent the first step for more future research on the role that expertise and technical knowledge play in the current political dynamics.

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