



**Borrowed Brilliance:  
When Rivals Use our Liberal Policies**

**Edited by  
Renata Gravina**





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Published by

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and Fondazione Luigi Einaudi

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## BORROWED BRILLIANCE: WHEN RIVALS USE OUR LIBERAL POLICIES

Edited by Renata Gravina, Fondazione Luigi Einaudi ETS

Published by the European Liberal Forum  
and Fondazione Luigi Einaudi ETS

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Graphic Design by Martina Raspa

Printed by Nuova Cultura - October 2025

Via Tiburtina, 912 - 00156 Roma, Italy

Borrowed Brilliance: When Rivals Use our Liberal Policies

ISBN: 978-2-39067-095-7

Published by the European Liberal Forum in cooperation with Fondazione Luigi Einaudi ETS. Co-funded by the European Parliament. The views expressed herein are those of the author(s) alone. These views do not necessarily reflect those of the European Parliament and/or the European Liberal Forum



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## Abstract

This analysis illustrates how liberal reforms across Italy, Spain, Germany, and France have often emerged less from ideological zeal and more from urgent economic or political pressures. Each case shows that, under crisis conditions or EU mandates, national leaders crafted reform packages—whether deregulating labor markets, tweaking welfare provisions, or liberalizing immigration—to stabilize growth without abandoning social solidarity. The common thread is pragmatic narrative framing: reforms succeed when they are presented as technical necessities or collective measures, and when affected groups receive compensations that preserve public trust. Conversely, half-measures or poorly communicated changes risk fueling populist backlash.



# PREFACE

# Preface

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## Renata Gravina

Between 2000 and 2025, Italy, Spain, Germany, and France did not convert into ideologically liberal regimes. Instead, they embedded liberal instruments within diverse party coalitions, technocratic commissions, and social-partner negotiations. Their experience shows that, in mature democracies, liberal economic strategies arise not so much through the ascendancy of liberal parties, rather through the interplay of EU constraints, crisis-driven urgency, and the strategic calculations of political elites. This realisation reframes liberalism as a toolkit of adaptive practices – deployed by Christian Democrats, socialists, Gaullists, and broad-coalition governments alike, whenever institutional pressures and macroeconomic imperatives demand market remedies.

The liberal tradition rests on the belief that markets, competition, and individual economic freedom foster innovation, prosperity, and social progress. Yet, over the past quarter century we have witnessed an intriguing paradox: governments that do not self-identify as ideologically liberal have repeatedly enacted policies – deregulation, privatisation, competition enforcement, market opening – lying at the very heart of the liberal agenda.

This book explores and seeks to explain this paradox, focusing on the experiences of Italy, Spain, Germany, and France; it shows how liberal economic ideas spread beyond parties bearing the liberal label, and how supranational institutions, fiscal imperatives, and political crises compelled even dirigiste and corporatist administrations to embrace market-oriented reforms.

For the liberal family, understanding this phenomenon is essential, as it demonstrates the resilience and the universal appeal of liberal policy tools. When faced with tight budgets, global competition, or binding European rules, political actors turn to the liberal toolbox – not out of ideological conversion, but because these instruments deliver results. By tracing the mechanisms through which liberal reforms gain traction within coalitions, technocratic governments, and across party lines, this research provides strategic insights for liberal movements today. It shows how to frame policies to survive coalition bargaining, how to leverage independent regulators and supranational oversight to lock in market-opening measures, and how to navigate crises in ways that embed long-term liberal legacies.

This study also reinforces a core liberal belief: ideas matter, but they matter most when woven into institutional constraints and strategic practice. Liberals often complain that their parties remain electorally marginal in continental Europe; yet, the evidence assembled in this publication suggests that the true strength of liberalism lies not solely in party labels, but in the capacity of its principles to guide policymaking wherever economic survival and strategic necessity demand. To the liberal family, this book offers both reassurance – liberal solutions transcend partisan boundaries – and one challenge: to refine the art of making liberalism the default response when Europe's next crisis will strike.



# INTRODUCTION

# Introduction

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## Renata Gravina

As William E. Gladstone famously observed, ‘Liberalism is trust in the people tempered by prudence; conservatism is distrust of the people tempered by fear’. Yet today liberalism is all too often caricatured as a license for unbridled capitalism or as a convenient rallying cry for entrenched property interests. This narrow framing misses its deepest impulse: the drive for social mobility and the belief that every individual – regardless of background – deserves both the freedom and the resources to better their lot.

True liberalism does not entrench hierarchies; it dismantles them. It envisions genuinely open markets in which competition rewards ingenuity, universal access to high-quality education that enables talent flourishing, labour laws that protect workers without smothering opportunity, and an unwavering commitment to legal equality so that merit – rather than lineage or privilege – shapes one’s destiny. Under such a regimen, equality before the law becomes more than a slogan; it becomes the very foundation of personal fulfilment and shared progress.

Between 1800 and 2000, Europe’s liberal experiment followed a familiar arc: its birth in early constitutional struggles, its eclipse under

authoritarian regimes, and its revival in the aftermath of world wars. Yet each country stamped liberalism with its own character – from Britain’s parliamentary traditions to France’s republican fervour, Germany’s social-market synthesis and Italy’s constitutional innovations. In every case, liberalism proved nimble enough to evolve, but steadfast enough to uphold its central promise: a society where freedom and fairness walk hand in hand, and where every citizen can aspire not just to survive, but to thrive.

### 1. The Heritage

In Italy, liberalism first took shape amid the upheavals of 1848 and the Risorgimento, when statesman-intellectuals like Count Camillo Benso di Cavour wove disparate duchies and kingdoms into the Kingdom of Italy under Victor Emmanuel II. The *Statuto Albertino* of 1848, borrowed from Piedmont, enshrined a constitutional monarchy, an elected parliament and basic civil rights, yet suffrage remained highly restricted. Over the next half-century, incremental reforms – Giolitti’s expansion of the electorate in 1882 and the landmark 1912 law that extended the vote to all literate men – accompanied sweeping infrastructural projects such as the unification of the railway gauge and the codification of a modern civil code under Giuseppe Zanardelli. Yet by 1922, the liberal State, riven by regional divides and class conflict, collapsed under Mussolini’s *blackshirts* and the authoritarian edicts of the Acerbo Law. After 1945, constitutional rebirth found liberal currents scattered among the Italian Liberal

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Today liberalism is all too often caricatured as a license for unbridled capitalism or as a convenient rallying cry for entrenched property interests.

Party (PLI), the Republican Party (PRI) and the Radicals, all subordinated to the dominant Christian Democrats. It was only the *Tangentopoli* scandals of the early 1990s and the ensuing *Mani Pulite* investigations that shattered the old party structures, clearing the ground for Silvio Berlusconi's Forza Italia and, on the centre-left, the eventual creation of today's Partito Democratico. Through every transformation, liberalism's core belief in individual rights and market dynamism endured, even as its political avatars shifted labels.

Spain's liberal pedigree stretches back to Cádiz in 1812, where deputies convened amid Napoleon's occupation to draft one of Europe's first modern constitutions. La Pepa proclaimed national sovereignty, separation of powers and a limited monarchy, only to be suspended by Ferdinand VII in 1814. After turbulent cycles of absolutism and short-lived liberal restorations, the Bourbon Restoration of 1874 ushered in the *turno pacífico*: a managed alternation between Conservatives and Sagasta's Liberals, operating under census-based suffrage until late nineteenth-century expansions, opened the franchise to broader swaths of the male populace. The Second Republic of 1931 then penned a progressive charter granting women the vote, curbing clerical privileges and launching agrarian reform – but fell in the Civil War and gave way to Franco's authoritarian regime (1939–1975), which outlawed all parties and regional autonomy. In the post-Franco transition, Adolfo Suárez's *Unión de Centro Democrático* piloted the 1978 Constitution, restoring parliamentary democracy, regional devolution and extensive civil liberties. From Felipe González's deep market-opening reforms and EU accession in 1986 to José María Aznar's consolidation of conservative-liberal governance in the 1990s, Spain by 2000 had settled into a stable duopoly of PSOE and Partido Popular – both committed, in their own ways, to balancing social protections with the imperatives of competition and European integration.

German liberalism, too, was born in the upheavals of the early nineteenth century, as thinkers like Wilhelm von Humboldt and jurists of the *Vormärz* sought to restrain both princely absolutism and creeping State bureaucracy. The 1848 revolutions saw delegates such as Heinrich von

Gagern convene a Frankfurt Parliament that dared propose a unified German constitution, only to be crushed by the old order. Otto von Bismarck's post-1866 alliance with the National Liberals fused unification under Prussian leadership with a vision of limited State intervention in economic life. Yet by the 1880s, tariff shifts and *Kulturkampf* battles splintered the National Liberal base. The Weimar Republic of 1919 inherited a written constitution and universal adult suffrage, but succumbed to hyperinflation, paramilitary violence and rising extremism. In 1949, West Germany's founders – chancellor Konrad Adenauer alongside economics minister Ludwig Erhard – enshrined the social-market economy in the Basic Law, marrying entrepreneurial freedom with a cradle-to-grave welfare State. The Free Democratic Party (FDP) became the perennial kingmaker in coalition with both CDU and SPD, embedding civil liberties and economic liberalism into the fabric of the Federal Republic through the end of the century.

France's liberal lineage reaches back to Montesquieu's 1748 articulation of separated powers and Alexis de Tocqueville's warnings about the tyranny of the majority. The Revolution of 1789 and its Declaration of the Rights of Man set the template for individual liberty, though it was Napoleon's Civil Code of 1804 that gave these ideals legal flesh. The July Monarchy (1830–48) under Louis-Philippe embodied a bourgeois liberalism of property and press freedoms, only for the Third Republic (1870–1940) to cement republican values in public education, secularism and modest social

Spain by 2000 had settled into a stable duopoly of PSOE and Partido Popular.

legislation. The Radical Party, dominant between the wars, blended anticlerical zeal with *laissez-faire* economics until Vichy's suppression. In the Fifth Republic, Valéry Giscard d'Estaing's Union for French Democracy (1978–81) championed privatisations and deregulation, a course that Jacques Chirac and later Nicolas Sarkozy extended under the banner of the RPR-UMP. Yet modern French liberalism has always run side by side with robust social protections – social security, universal healthcare and powerful labour codes – mirroring the Republic's twin commitments to *liberté and solidarité*.

Viewed together, these four Western European experiments trace liberalism's long arc from nineteenth-century emancipation to twentieth-century catastrophe, Cold-War reinvention and post-industrial adaptation. In each, the creed of individual freedom and open markets has been reshaped by national histories – from conquest and revolution to economic miracle and moral reckoning – but its underlying promise remains unchanged: to tear down inherited barriers and enable every person, regardless of birth, to shape their own destiny. If liberalism has survived monarchs and militaries, dictators and demagogues, its revival in the twenty-first century will depend on our ability to blend dynamism with solidarity, innovation with inclusion, and market competition with a renewed social contract that leaves no citizen behind.

## 2. After 2000

Between 2000 and 2025, Europe's leading democracies were buffeted by wave after wave of systemic shocks – from the collapse of tech stocks in the early millennium to the global financial meltdown of 2008, the euro-area sovereign-debt crisis, the Covid-19 pandemic and, most recently, seismic disruptions in energy markets. In response, party labels blurred as governments across the continent rediscovered liberal policy tools – labour-market flexibility, fiscal pragmatism, regulatory shake-ups, and rights expansions – often deploying them under banners long hostile to free-market reform.

In Italy, the stagnation of the post-2008 era set the stage for Matteo Renzi's bullish brand of reform. When he swept to the premiership in

2014, Renzi's 'Jobs Act' (Law 23/2014) dismantled rigid protections on hiring and firing, introducing the novel '*contratti a tutele crescenti*' to coax firms into taking on staff. The measure was sold as a revival of Italy's productivity-starved economy, and Brussels heralded it as a necessary modernisation. Yet the ensuing rise in temporary work and union pushback revealed the tension at the heart of Italy's liberal turn: a bid to reconcile entrenched clientelism and regional disparities with the demands of a single market.

Just as striking was the metamorphosis of the Five Star Movement. Launched in 2009 as a scathing critique of austerity and political corruption, by the time M5S first joined government in 2018 it had quietly endorsed balanced-budget rules, pumped subsidies into digital infrastructure and brokered selective public-private partnerships. What began as an anti-establishment revolt became a pragmatic embrace of fiscal discipline – proof that in Rome, as elsewhere, liberal economics can become the lingua franca of crisis politics, regardless of party pedigree.

Spain's journey mirrored this pattern of ideological adaptation. The *indignados* protests of 2011 – sparked by youth unemployment and bail-out-driven austerity – gave birth to Podemos, a movement that by 2019 signed off on municipal regeneration projects financed with private equity and respected EU-mandated expenditure ceilings. Meanwhile, both the conservative Partido Popular and the Socialist PSOE, mindful of Madrid's single-

In response, party labels blurred as governments across the continent rediscovered liberal policy tools labour-market flexibility, fiscal pragmatism, regulatory shake-ups, and rights expansions often deploying them.

market commitments, pressed ahead with energy-sector liberalisation, telecom deregulation and labour reforms throughout the 2000s and 2010s. By the time Pedro Sánchez formed his coalition after a confidence vote in 2018, Spain's textbook social-democratic party had long since made peace with market-opening measures.

Germany, too, offered a case study in social-market endurance. Though Chancellor Gerhard Schröder's Agenda 2010 and the Hartz reforms of the mid-2000s are often cast as break points, they in fact re-anchored the post-war welfare consensus: unemployment benefits were recast into activation vouchers, job-centre requirements sharpened, and the constitutional 'Debt Brake' of 2009 enshrined fiscal restraint as national creed. Under Angela Merkel's successive grand coalitions (2013–21), Berlin extended this hybrid model with generous digital-economy incentives and tight budgetary rules, forging a durable pact between entrepreneurial dynamism and universal safety nets.

In France, the pendulum swing between dirigisme and deregulation revealed its own social-liberal alchemy. François Hollande's 'Responsibility Pact' of 2014 cut billions in payroll levies for employers while hiking taxes on top earners to finance job creation. Three years later, Emmanuel Macron surged to power on a platform that further loosened service-sector regulations and overhauled labour codes in the face of street protests, even as his administration enshrined marriage equality, tough data-protection rules and new protections for gig-economy workers. In Paris, market reforms and civil-rights expansions have become two sides of the same republican coin.

What emerges from these four case studies is not a tale of wholesale ideological conversion but of hard-headed adaptation. Faced with structural impasses – demographic shifts, globalisation's dislocations, looming budget deficits – parties from the left, centre, and right alike have reached for a shared toolkit of liberal remedies. Labour flexibility and fiscal discipline sit beside digital innovation and expanded civil rights, forming a resilient policy architecture that has outlasted political permutations. In the process, Europe's brand of liberalism has proved less a rigid creed than a pragmatic grammar for translating crisis into

opportunity, and for safeguarding both individual autonomy and collective well-being amid the storms of the twenty-first century.

### 3. Redefining Liberalism as the Guarantor of Mobility

Between 2000 and 2025, European liberalism found itself caught in a relentless cycle of crisis management and institutional renewal. At the turn of the millennium, New Labour in the United Kingdom, the Schröder government in Germany and Spain's then-rulers all embraced what came to be known as the 'Third Way', marrying fiscal prudence with social investment under the banner of the Lisbon Agenda. When the dot-com bubble burst in 2000–02, those same governments doubled down on structural reforms: cutting red tape, deepening the single market and nudging labour laws toward greater flexibility.

The 2008 global financial meltdown and its aftermath marked the high-water point of this liberal consensus – and also its deepest fracture. As banks teetered on the brink, European capitals and Brussels forged bail-out mechanisms, from bilateral rescue loans for Greece and Ireland to the European Stability Mechanism. In many capitals, centre-left and centre-right administrations responded with sweeping austerity measures: public-sector hiring freezes, pension retrenchments and stripped-down welfare outlays. These policies helped stabilise sovereign markets, but the social cost was immense. Unemployment soared in southern Europe, youth joblessness

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became endemic in Spain and Italy, and the old contract between citizens and political elites unravelled, fuelling the rise of Syriza in Athens, the Five Star Movement in Rome, and populists in Warsaw.

By the mid-2010s, Europe's liberal parties had regrouped in Brussels under ALDE – soon reborn as Renew Europe – and charted a fresh course. They set their sights on the digital single market, greener growth targets and greater political union. Jean-Claude Juncker's Commission unleashed flagship measures like the Digital Single Market Strategy, while the 2017 victory of Emmanuel Macron in France embodied a new generation of *liberal reformers* at the national level. Under Ursula von der Leyen, the EU rolled out the GDPR, the Digital Markets Act and, in response to the pandemic, the € 750 billion NextGenerationEU recovery fund – policies that fused market liberalisation with active State support.

Yet the continent's liberal revival has never been free of pressure. The Covid-19 shock placed unprecedented strain on health systems and public coffers, forcing governments to suspend deficit rules to prop up businesses and households. When Russia's invasion of Ukraine in 2022 sent energy prices soaring, even the most committed free-market proponents accepted temporary price caps and strategic gas reserves to shield consumers. Meanwhile, illiberal backsliding in Hungary and Poland reminded policymakers that the rule-of-law pillar of European integration remained under siege.

Throughout, southern Europe has borne the brunt of overlapping burdens. Italy's structural deficit hovered near 3 percent of GDP even before the pandemic; Spain's demographic time-bomb wound public-pension outlays ever higher; and the shift to a digital economy hollowed out traditional manufacturing jobs in every Mediterranean region. Yet euro-area membership – now solidified by tighter fiscal rules and the Fiscal Compact of 2012 – meant that national governments could no longer choose insulation over reform. The single currency bound them to collective discipline just as citizens demanded more robust social protection.

Faced with this dilemma, progressive and social-democratic parties in

Rome, Madrid, Berlin, and Paris increasingly cast liberal reforms as matters of common sense rather than ideological betrayal. They argued that only by embracing labour-market flexibility, targeted tax incentives, digital-economy subsidies, and incremental welfare-state modernisation could growth be rekindled, inequality checked, and sovereign debts managed. The result is a distinctively European synthesis: a pragmatic liberalism that weds competition and innovation to a renewed commitment to social cohesion and rule-based governance.



# CHAPTER 1

## Chapter 1

# Unwilling Liberalism: Italy's Struggle for Reform (2000–2025)

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Nicola Fiorini

### Introduction.

This paper aims to investigate the phenomenon whereby liberal economic policies have been adopted (or retained) by governments that do not define themselves as liberal.

For the sake of focus, the analysis will be limited to: (i) Italy; (ii) the period from 2000 to the present day; and (iii) those policies considered most significant for the purposes of this study – namely, the Jobs Act and the reinstatement of the inheritance tax.

Specifically, the paper begins by clarifying what is meant by liberal economic policies and how the nature of a government, whether liberal or otherwise, can be identified; it further examines the existence of the phenomenon under investigation within the Italian context, it identifies which policies are most relevant and why, and it assesses their impact; finally, it considers the hypothetical drivers of this phenomenon and reflects on its prospects, drawing possible lessons for the future. As this

investigation involves significant definitional challenges, it is therefore necessary to provide initial clarification and to explicitly state the assumptions on which the following arguments are based.

### 1. Defining liberal economic policies in the Italian context.

For the purposes of this study, *liberal-oriented economic* policies are defined as those aimed at: (i) promoting greater freedom of choice for citizens, in their capacity both as producers and consumers; and (ii) reducing the tax burden. Given that the starting point (especially in Italy) is typically one of heavy regulation and high taxation, over the past 25 years (virtually) all liberals have supported measures that reduce restrictions on individual economic activity, enhance competition, open markets to international trade, and break up public monopolies. Therefore, from the perspective of analysing the behaviour of political actors in Italy, the definition adopted here seems appropriate.

Secondly, it is necessary to establish what is meant by non-liberal governments. In any case, the political identity of a government cannot be directly inferred from its concrete actions, for a variety of reasons (coalition governments, unforeseen emergencies to be addressed, lack of internal consistency among various measures adopted in different sectors – or even within the same sector at different times, and so on). Therefore, it seems preferable to adopt a definition that gives greater weight to the political orientation of the party or parties that support a given government.

Indeed, Italy – like most European countries<sup>1</sup> – has a parliamentary system, meaning that the government must obtain the confidence of the Parliament, which, in turn, is typically composed of political groups that refer to organised parties running for election on the basis of a programme.

Thus, to speak of a government's political orientation is to speak of the

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<sup>1</sup> The only significant exception is France, which has a so-called semi-presidential system. However, even in France, the government appointed by the President of the Republic must obtain the confidence of the Parliament.

political orientation of the parties that support it. Incidentally, transferring the political orientation from a party to the government is not a mechanical exercise in the case of coalition governments<sup>2</sup> – and coalition governments are the norm in Italy and in most other European countries. Nonetheless, for the purposes of the definition this paper seeks, it is possible to conclude that a government should be considered non-liberal if it is supported by parties that do not identify themselves as liberal.

As a practical criterion – and to minimise the inevitable degree of subjectivity involved – it seems reasonable to refer to a party's affiliation within the political groups that make up the European Parliament.<sup>3</sup> While this may appear an objective and easily applicable criterion, that is not entirely the case, since the liberal groupings within the European Parliament have changed over the past 25 years (e.g., ALDE, Renew Europe), and some parties have changed their alignment over time.

In any case, even adopting the broadest interpretation, applying this approach to Italy leads to the conclusion that all Italian governments during the period under examination were of non-liberal inspiration. The reason is simple: in Italy, there are no major political forces that meet the above criterion. Even when such forces were part of the government, it is hard to argue that they shaped its economic policy.<sup>4</sup>

## 2. Two themes: The Berlusconi anomaly and the technical governments.

Before proceeding, two further issues related to the structure of the Italian political system shall be addressed. The first issue concerns the figure of Silvio Berlusconi. Berlusconi consistently defined himself as a

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2 Even though, as a rule, not all parties in a coalition carry equal weight. In other words, there are senior and junior partners, and the former, by definition, have a greater influence than the latter.

3 For a concise yet effective – and very recent – analysis of the role of European parties and parliamentary groups within the European Parliament, see C. Martinelli (2024), *Il parlamento europeo* (Bologna: il Mulino), pp. 121 et seq.

4 It has not always been this way. During the so-called First Republic (1946–1993), the Italian Republican Party (PRI), despite consistently having a small parliamentary presence, was at times able to promote and shape economic policy directions that, at least in terms of official programs, characterised the action of the government it was part of. The most significant example is probably the so-called incomes policy promoted by PRI leader Ugo La Malfa during the 1960s and 1970s.

liberal, especially in the early stages of his political career. He even claimed that his goal was to carry out a 'liberal revolution' in Italy.<sup>5</sup> However, the parties he founded and led – *Forza Italia* and The People of Freedom (*Il Popolo della Libertà*) – have always been affiliated with the European People's Party (EPP). While it falls outside the scope of this publication to assess the degree of liberalism of the EPP, to avoid overly subjective judgments it seems appropriate to rely on the *hard fact* of party affiliation. This confirms the earlier conclusion: even the governments led by Silvio Berlusconi cannot be classified as liberal.

The second issue concerns the so-called *technical governments* or *President's governments* (i.e., governments endorsed by the President of the Republic), which are essentially broad coalition governments<sup>6</sup> formed to overcome moments of severe political deadlock – i.e., situations in which the Parliament was unable to produce a stable majority and, for various reasons, early elections were not deemed appropriate.

In the period under consideration, there were two governments of such type: the first was led by Mario Monti from 16 November 2011 to 28 April 2013, and the second was led by Mario

It is possible to conclude that a government should be considered non-liberal if it is supported by parties that do not identify themselves as liberal.

5 The most comprehensive and convincing analysis of Berlusconiism remains perhaps that of G. Orsina (2013), *Il berlusconismo nella storia d'Italia* (Venice: Marsilio).

6 Some have suggested referring to them as non-coalition governments, so as not to confuse them with other broad-based governments that were also formed through wide agreements, but which were nonetheless the result of a more structured pact among parties.

Draghi from 13 February 2021 to 22 October 2022. Both enjoyed broad, bipartisan support.

How can the economic policies implemented in this context be classified? There does not appear to be a clearly preferable criterion: one could argue that the adoption of liberal policies by these governments – supported by entirely non-liberal parties – demonstrates the extent to which such policies can assert themselves as the only viable and reasonable options in times of crisis; conversely, it is not unreasonable to claim that the *forced* state in which the supporting parties found themselves – having granted a vote of confidence and then backed the respective measures – makes it imprecise to consider them responsible for certain policy decisions, except in a purely formal sense. Undoubtedly, the personal reputation of the Prime Ministers – both widely respected and reassuring figures, particularly in the eyes of other EU countries – along with the authoritative support of the President of the Republic, played a decisive role in securing approval for measures that might otherwise not have passed.

Fortunately, for the purposes of this article it is not necessary to take a stance on this dilemma. In fact, the two economic policy measures that, in the author's view, are most emblematic for the purposes of this paper are not attributable to broad coalition governments.

### 3. The existence of the phenomenon – Key liberal economic policies adopted during the period under examination.

It is necessary to demonstrate that the phenomenon under examination is real – that is, non-liberal governments' adoption of liberal economic policies.

Again, a significant margin of subjectivity is inevitable: as it will be shown in the analysis of the Jobs Act, even policies that appear liberal on the surface can (and have been) interpreted in non-liberal ways. Nonetheless, it would be difficult to deny that – at least in terms of political and social perception – certain measures have been and continue to be interpreted by Italian political parties and the Italian public

opinion as liberal in orientation.<sup>7</sup> This is certainly the case with interventions aimed at the liberalisation and/or the privatisation of specific economic sectors; same applies to those aimed at reducing the tax burden.

Several measures meeting the criteria outlined above may be identified:

- The Bersani Decrees of 2006–2007:<sup>8</sup> These introduced (limited) liberalisations in some highly regulated sectors characterised by significant legal entry barriers, including (i) taxi licenses; (ii) the sale of pharmaceuticals outside of authorised pharmacies; (iii) energy production and distribution; and (iv) insurance services.
- Law Decree No. 1 of 24 January 2012: Abolition of minimum professional service fees. This was a highly significant measure that put an end to a kind of cultural taboo, according to which professions could not be treated as ordinary economic activities.
- The so-called Jobs Act of 2014/2015: A major labour market reform aimed at increasing flexibility (see below).
- The privatisation of Alitalia, the Italian national airline, initiated under the Draghi government and completed under the Meloni government.<sup>9</sup>
- The reinstatement of the inheritance and donation tax, enacted by the government led by Romano Prodi through Law No. 286 of 2006, following its repeal by the Berlusconi government at the end of 2001. At first glance, citing the reintroduction of a tax as a liberal measure may seem paradoxical; however, for the reasons highlighted in the following sections, it can be considered instead as a significant example of policy reversal, therefore deserving inclusion in this list.

7 By way of example only, see M. Cobianchi (2014), 'Un capello di Bersani è più liberale di tutto il PD', *Panorama*, 13 October.

8 Pier Luigi Bersani was Minister of Economic Development in the second Prodi government (2006–2008).

9 As previously noted, the Draghi government remained in office from 13 February 2021 to 22 October 2022. The Meloni government (led by Giorgia Meloni) succeeded the Draghi government and is currently in office.

One might also consider the several attempts to introduce liberalisation elements into the local public services sector. For a long time, governments have made efforts – with limited success – to address monopolistic situations, by requiring competitive tenders rather than using the in-house providing model. However, this strategy would involve untangling a very complex issue that has evolved over a long period, in which it is difficult to identify clear political authorship. Furthermore, the legislative push has usually been driven more by the need to reduce local government spending than by any genuine liberalisation intent.

## 4. Two emblematic examples: the Jobs Act and the inheritance tax.

### 4.1. The Jobs Act.

To preliminary clarify its meaning, the term *Jobs Act* is an expression used by Prime Minister Matteo Renzi purely for public communication purposes and without any precise legal meaning. Namely, Renzi believed that he could more effectively promote a series of labour market reforms allegedly inspired by measures taken by U.S. President Barack Obama.

The reforms that make up the Jobs Act are contained in numerous legislative measures. This paper will focus exclusively on the provisions introduced by Legislative Decree No. 23 of 2015 (the *Decree*).<sup>10</sup> This is the most relevant for our purposes, as it addresses the issue of employee dismissal—a subject, as we will see, particularly important to the political and union left.

Why choosing the Jobs Act as the most important example of liberal policy in the period under examination? Because labour law and industrial relations have always had dramatic significance in recent Italian political history. Let us consider the tragic deaths of Massimo D'Antona and Marco Biagi, murdered by the Red Brigades<sup>11</sup> in 1999 and 2002

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10 A legislative decree is a law enacted by the Government in implementation of a preliminary authorisation law passed by the Parliament – the so-called enabling act (*legge delega*). In this specific case, it refers to Law No. 183 of December 10, 2014.

11 The Red Brigades were the most significant far-left insurgent group in Italian history. In 1978, they kidnapped and subsequently mur-

respectively. Both D'Antona and Biagi were labour law professors whose *crime*, in the eyes of the perpetrators, was to collaborate with the government on reform proposals aimed at introducing elements of flexibility into employment relationships.

More generally, for at least thirty years the Italian left has been strongly influenced by the main trade union, the CGIL. Originally a *transmission* belt of the Italian Communist Party (PCI) within the realm of employment, the CGIL has maintained a close relationship with the parties that evolved from the PCI (now the Democratic Party). However, the subordination to the PCI has been replaced by such a strong form of influence that it often results in a reversal of roles.<sup>12</sup> Unsurprisingly, the CGIL was – and remains – radically opposed to the Jobs Act, to the point of reviving the use of referendums on this issue after a 20-year hiatus. Consequently, the split between the Democratic Party and the CGIL caused by the Jobs Act carries extraordinary political significance.

To understand the meaning and impact of the Jobs Act, one must first grasp the context it sought to address. Since the 1970s,<sup>13</sup> in open-

For at least thirty years the Italian left has been strongly influenced by the main trade union, the CGIL.

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dered Aldo Moro, one of the most prominent Italian politicians of the time, former Prime Minister and a leading figure of the Christian Democracy Party.

12 Among many, see, with regard to the 2025 referendums: '... the race—almost a competition—between the PD and the Five Star Movement to align themselves with Maurizio Landini's position, the true mastermind behind the five referendums: a sign of political weakness ...' in M. Franco (2025), 'Referendum, i dati e i timori', *Corriere della Sera*, 9 June. Maurizio Landini is the leader of the CGIL.

13 In particular, see Article 18 of the so-called Workers' Statute (Law No. 300 of May 20, 1970).

ended employment contracts,<sup>14</sup> dismissing an employee had become highly uncertain and costly.<sup>15</sup> This situation stemmed from two main factors: (i) a jurisprudential practice strongly oriented toward worker protection, leading to a proliferation of cases of unlawful dismissal and to the consequent unpredictability of when an employer could fire an employee; and (ii) the fact that the standard sanction for unlawful dismissal was the reinstatement of the dismissed worker. In other words, it was (and often still is) possible that, many years after a dismissal – perhaps following three levels of court proceedings – the company could be ordered to reinstate the dismissed employee and back pay all the wages, along with a court-determined compensation. Thus, dismissing an employee exposed companies to a significant and largely unpredictable burden.<sup>16</sup>

This strong worker protection caused several negative effects: first, a major disincentive to hire; second, an incentive to avoid growing company size, since reinstatement did not apply to businesses with fifteen or fewer employees – in those cases, only compensation was required; third, it encouraged litigation from employees, which imposed costs on employers even when the outcomes of the lawsuits were successful for them; lastly, the production system was driven to regain the flexibility denied by law through other means – particularly through the use of various forms of stable collaboration or false self-employment arrangements designed to disguise what were, in reality, undeclared employment relationships. These *atypical* workers received little or no protection. Ultimately, the absolute defence of (real or presumed) rights of currently employed workers became a powerful barrier to labour market entry for the unemployed – especially women, youth, and residents of disadvantaged areas.

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14 We are referring to the private sector, because in the public sector the termination of employment is subject to different and even more stringent constraints.

15 Dismissal refers to the termination of the employment relationship at the employer's initiative. Termination by the employee, on the other hand, is in practice not subject to any constraints. This asymmetry in treatment reflects the view that the employee is by definition the weaker party in the contractual relationship and must therefore be protected.

16 Obviously, in most cases, reinstatement to the job after many years did not actually occur, as the worker was no longer interested and the decision was contractually converted into an additional compensation payment.

Attempts to introduce greater certainty and stability in the labour market had always met fierce resistance. In particular, at the start of the twenty-first century, the centre-right government led by Silvio Berlusconi tried to reform Article 18 of the Workers' Statute. The main left-wing trade union, CGIL, rose up in protest and organised a massive demonstration in Rome on 23 March 2002,<sup>17</sup> effectively halting any reform. The following year, the CGIL collected six million signatures for a popular bill aimed at expanding the application of Article 18.<sup>18</sup> In 2003, a referendum was even held to extend the right to reinstatement to employees of companies with fewer than 15 workers.<sup>19</sup> One could speak of a true sacredness of Article 18 for the better part of the Italian left, a notion confirmed by very recent events – as shown below. According to this vision, anyone opposing Article 18 denies an inalienable right and seeks to promote labour precariousness.<sup>20</sup>

The immutability of the *status quo* was first seriously challenged by the so-called *Fornero reform* in 2012.<sup>21</sup> That moment provided the political conditions (a national emergency government) under which the trade unions' veto power could not be exercised.

After the general election of February 2013, the political situation returned to a relatively normal context, and the Parliament formed a centre-left government led by Matteo Renzi, leader of the Democratic Party. This government made what was in some respects a revolutionary move by disregarding the CGIL's stance and essentially reaffirming the Fornero Law, incorporating it into a broader labour market reform – the Jobs Act.

After having outlined its context, it is possible to examine the Decree in its

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17 According to the trade union, nearly three million people took part; far fewer according to the police, but it was nonetheless a massive demonstration.

18 A proposal that will not be pursued in Parliament.

19 The referendum did not reach the quorum of 50% of eligible voters and therefore had no legal effect. Just over 25% of eligible voters went to the polls.

20 To fully assess the level of rigidity and dirigisme that characterised the regulation of dependent employment, it is useful to recall that Italy used to have a public monopoly on job placement services. This monopoly was not dismantled by a law, but rather by the European Court of Justice with the Job Centre II ruling in 1997.

21 Law No. 92 of June 28, 2012, promoted by Professor Elsa Fornero, who was at the time Minister of Labour in the Monti Government.

original form (i.e., without considering subsequent amendments, particularly by the Constitutional Court). The goal of the Decree is to regulate the consequences of unlawful dismissals. It does not redefine what constitutes an unlawful dismissal – which remains as broad as before; instead, it focuses on the sanctions that a judge may impose. In cases of discriminatory or null dismissals, the obligation to reinstate the worker and provide compensation remains; however, in cases of dismissal for just cause or justified objective reasons (referred to here as economic *dismissals*), a compensation replaces reinstatement,<sup>22</sup> equal to two months' salary for each year of service. For this reason, the new open-ended employment contract is also known as a contract with increasing protections. In other words, the longer the employee's service, the higher the compensation. In all cases, a minimum (four months' salary) and maximum (24 months) are set.

The rationale behind the Decree is clear: it removes the sword of Damocles of the reinstatement and sets parameters for determining compensation, making it possible for employers to estimate potential costs in case of adverse legal outcomes. Indirectly, it fosters a more favourable context for early settlements between workers and employers. Moreover, by limiting compensation for workers with short service durations, the measure significantly reduces the disincentive to hire. If internal or external conditions change, businesses know they can adjust their workforce without unsustainable burdens and within a legally certain framework.

Undeniably, this can be considered a liberal reform bringing Italy closer to the labour law frameworks that prevail in most European countries – where worker protection does not equate to absolute job security but is based on active labour policies that support the worker's ability to relocate elsewhere in the market.<sup>23</sup>

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22 An exception is made in cases where the economic dismissal is based on factual circumstances that turn out to be false. In such instances, reinstatement is ordered.

23 As previously mentioned, an alternative interpretation of the Jobs Act – and more generally, of the laws that since the 1990s have sought to introduce elements of flexibility and openness into the labour market – is indeed possible. This is the interpretation we might define as labourist, following a well-known article by P. Ichino (2005), 'L'anima laburista della legge Biagi', GC, no. 4, II, pp. 131–149. Ichino is a professor of labour law at the University of Milan and has been one of the leading figures in the debate on labour issues over the past 30

## 4.2. Inheritance tax.

As previously mentioned, in 2001 the Berlusconi government (centre-right) abolished the inheritance and donation tax.<sup>24</sup> This was a central measure in the government's platform and drew strong criticism from the political left.

In 2006, new elections were held and a centre-left government led by Romano Prodi came to power. This government, with Law No. 286 of 2006, reinstated the inheritance tax in essentially the same form that had been repealed by Berlusconi.

At first glance, this appears to reflect a typical left/right dynamic, with the former in favour of higher taxation on income and wealth – particularly large fortunes – than the latter. But appearances can be deceptive: reintroducing the inheritance tax in 2006 simply meant restoring – with some softening – the rules passed in November 2000 under the centre-left government led by Giuliano Amato: importantly, this legislation marked a true turning point compared to the previous system, arguably more so than the Berlusconi repeal itself.

The traditional structure of the tax had three defining features: (i) low exemptions, i.e., very small tax-free thresholds for modest inherited estates; (ii) a tax base calculated on the total value of the inherited estate rather than on each heir's individual share; and, most importantly, (iii) progressive tax rates, ranging from a minimum of 7% to a maximum of 27%. The structure introduced in 2000 (and still in force today), by contrast, provides for: (i) high exemptions applicable to each heir individually,<sup>25</sup> and (ii) low, flat (i.e., proportional) tax rates.<sup>26</sup> In other

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years – not only as a scholar, but also as a lawyer, journalist, and member of Parliament.

According to this interpretation, the true flaw in the system – one that should concern those who claim to care about workers' rights – is the creation of a world of precarious, marginalised, and underpaid workers, which is the direct counterpart to the excessive protections granted to the privileged employees of big companies. Therefore, the various reforms that have taken place – including the Jobs Act – would be considered left-wing reforms, as they aim to reduce unjustifiable inequalities among workers.

<sup>24</sup> From now on, for the sake of simplicity, we will refer exclusively to the inheritance tax. However, everything that applies to this tax also applies to the donation tax.

<sup>25</sup> In the case of a classic direct-line inheritance – that is, where the heirs are the spouse and children – the tax exemption is one million euros for each heir.

<sup>26</sup> Still in the case referred to in the previous note, the tax rate is 4%.

words, even before Berlusconi's repeal, Italy already had one of the lowest inheritance taxes in Europe – especially a non-progressive, proportional tax. Consequently, the reinstatement of the tax was essentially a symbolic gesture to distance the government from Berlusconi's *wild pro-market liberalism*, without undermining a tax regime that was still highly favourable to large fortunes.<sup>27</sup>

Over the following 20 years, centre-left governments never made any serious attempt to revise the tax by making it more stringent; this, in spite of a growing consensus – across Europe and Italy, in academia, international institutions, and among left-leaning public opinion – in favour of more robust forms of wealth taxation as a tool for reducing inequality.<sup>28</sup>

Notably, the debate over inheritance tax returned to the front pages of Italian newspapers in 2021, when the Secretary of the Democratic Party Enrico Letta revived the issue, creating some embarrassment for the sitting Prime Minister and prompting him to swiftly distance himself from the proposal.<sup>29</sup>

Letta's proposal was to increase the inheritance tax exclusively on estates exceeding € 5 million euros and, above that threshold, the tax rates would become progressive, rising up to 20%. The goal was to raise additional public revenue to fund what Letta called a 'dowry for young people': each year, half of all 18-year-olds – those with below-average family income and wealth – would receive a €10,000 grant to be used for specific purposes (education, employment, housing, etc.).<sup>30</sup>

For these reasons, the case of the inheritance tax can be seen as an

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27 It should be noted that Italy does not have a universal, annual wealth tax, although various forms of wealth taxation do exist.

28 For a general reference, see T. Piketty (2014), *Capital in the Twenty-First Century* (Milano: Bompiani). See also OECD (2021), 'Inheritance Taxation in OECD Countries', OECD Tax Policy Study (Paris: OECD Publishing) <https://doi.org/10.1787/e2879a7d-en>. The data refer to the year 2019.

29 'We've never discussed it, we've never looked at it, but this is not the time to take money from citizens — it's the time to give it. The economy is still in recession'. A. Trocino (2021), 'Mario Draghi reacts in this way to the idea launched by Enrico Letta in an interview with Sette.', *Corriere della Sera*, 21 May, p. 5.

30 For those wishing to explore the topic further, see N. Fiorini (2021), 'L'imposta di successione tra mito e realtà – perché Letta si sbaglia', *Istituto Bruno Leoni, IBL Focus*, 4 June.

interesting – though atypical – example of policy reversal; or, perhaps more accurately, a case of a non-reversal, which nonetheless reflects a clear political choice of particular importance in light of what was discussed earlier: namely, the increasing centrality – especially after the 2008 financial crisis – of strong forms of wealth taxation in the political discourse of the global left.

## 5. The actual impact of these reforms.

Assessing the impact of the reforms (or lack thereof) discussed above raises delicate methodological issues – in politics, reforms are rarely introduced with measurable objectives, making it difficult to assess their outcomes. Even when evaluation is attempted, complex social and economic conditions, uncertain timeframes, and overlapping factors obscure cause-and-effect, allowing both successes and failures to be plausibly disputed. It follows that any attempt to assess the impact of a reform will inevitably involve a substantial degree of subjectivity. Nonetheless, this does not imply a descent into absolute relativism: certain hypotheses can still be falsified. Some will appear at least more plausible than others, which makes it possible – at the very least – to shift the burden of proof.

### 5.1. Jobs Act.

What was the main issue that divided supporters and opponents of the Jobs Act? Its impact on employment, more precisely on quality employment. By *quality* employment, we mean open-ended employment contracts,

The case of the inheritance tax can be seen as an interesting though atypical example of policy reversal; or, perhaps more accurately, a case of a non-reversal.

which in the view of trade unions and left-wing political forces stand in contrast to the *precarious* labour market – characterised by fixed-term, project-based, or staff-leasing contracts.

According to Matteo Renzi and others in favour of the reform, reducing the risk of reinstatement in cases of unlawful dismissal and setting relatively low compensation limits for newly hired workers would positively affect those variables: employers would feel less hesitation in hiring and expanding their businesses. According to the CGIL and other opponents, weakening job security would lead to an explosion in precarious work arrangements at the expense of open-ended contracts. Therefore, it seems reasonable to assess the impact of the reform on these types of variables.

So, what happened from 2015 to the present? There has been a clear improvement across the board.

In his latest 'Annual Report',<sup>31</sup> the Governor of the Bank of Italy observed: 'Employment has increased by one million units, reaching a historic high of over 24 million; the unemployment rate has fallen from 10 to 6 percent'.

ISTAT<sup>32</sup> reports that the employment rate has been steadily increasing for years; correspondingly, both the unemployment rate and the inactivity rate have declined. The most significant growth has been in open-ended contracts, while fixed-term contracts have decreased in relative terms.

As early as 2018, a study on the impact of the Jobs Act<sup>33</sup> conducted by INPS<sup>34</sup> found that companies had become more willing to exceed the critical threshold of 15 employees. Companies above that threshold increased open-ended hiring much more than those below it. The same applied to the conversion of fixed-term contracts into open-ended ones.

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31 Bank of Italy (2025), 'Considerazioni finali del Governatore', Rome, 30 May.

32 ISTAT (2025), 'Statistiche Flash', January. ISTAT is the national public statistics agency. It is part of the European Statistical System.

33 T. Boeri (2018), 'Effetto Jobs Act: cosa dicono i dati', *lavoce.info*, 27 March. Tito Boeri was, at the time, President of INPS.

34 INPS is the national public social security agency.

Dismissals also increased, but hiring significantly outpaced dismissals. Thus, it appears that the reform made the labour market more flexible and increased mobility for both firms and workers.

In conclusion, it can be confidently stated that the catastrophic scenarios outlined by opponents of the Jobs Act did not materialise. On the contrary, the use of the open-ended employment contract – the cornerstone of *quality* employment – increased.

However, for the reasons outlined at the beginning, this does not imply that the observed positive trends can be definitively attributed to the Jobs Act. The overall state of the Italian economy has changed significantly since 2015, particularly in the aftermath of the COVID-19 pandemic. It is therefore theoretically possible to argue that the baseline conditions of the labour market shifted in a way that favoured workers, thereby *forcing* businesses to prioritise open-ended contracts – regardless of the Jobs Act.

Another significant point must also be considered: since 2018, the Decree has been the subject of numerous Constitutional Court rulings, resulting in no fewer than four partial declarations of unconstitutionality.<sup>35</sup> These rulings reflect (i) the intensity and persistence of opposition to Jobs Act from trade unions and some political factions, and (ii) the general

The overall state of the Italian economy has changed significantly since 2015, particularly in the aftermath of the COVID-19 pandemic.

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<sup>35</sup> See in particular rulings no. 194/2018 and no. 128/2024.

orientation of the Italian judiciary in favour of protecting employees.

While it falls outside the scope of this contribution to provide a detailed analysis of the judgments of the Constitutional Court, but it is sufficient to note that the Court strengthened the role of judges in labour disputes.<sup>36</sup> Specifically: (i) the original rule that linked severance pay strictly to years of service was abolished. Judges now have the discretion to set compensation amounts within the legal minimum and maximum limits provided for by the law;<sup>37</sup> (ii) in cases of economic dismissal, the concept of the 'falsity' of the alleged material facts has been broadened, making reinstatement possible in a wider range of cases. It is also worth mentioning that the Court rejected even more radical attempts to challenge the law.

There is an ongoing debate about the impact of these rulings. Undoubtedly, the Jobs Act has been significantly weakened. According to Professor Ichino,<sup>38</sup> 'neither the legislative intervention nor that of the Constitutional Court [...] seriously undermined the essential part of the reform, which consists of the shift – in cases of dismissal deemed insufficiently justified by a judge – from a property rule to a liability rule'. Others offer a more pessimistic view.<sup>39</sup>

However, for our purposes, it is not necessary to take a position on this issue. What is certain is that, starting from the end of 2018, the innovative scope of the reform was reduced. As a result, any effects on the labour market observed after that point are less clearly attributable to the reform. Still, as we noted earlier, positive outcomes were already evident close to the time of the reform's implementation – suggesting that it was indeed capable of achieving its declared objectives.

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36 P. Ichino (2024), *Mezzo secolo di diritto del lavoro* (Fondazione ADAPT University Press), p. 125.

37 It is worth noting that the maximum compensation was already raised by law in 2018 to as much as 36 months' salary, compared to the 24 months originally provided.

38 *Ibidem* (see note 37).

39 G. Belligoli (2024), 'Quel che resta del Jobs Act', speech at the AGI-Umbria conference, 12 September 2024 (unpublished at the moment).

## 5.2. Inheritance Tax.

In this case, given that the reform never materialised, an additional methodological challenge exists: namely, the absence of declared costs and benefits – even qualitatively – by the reform’s advocates and opponents, which would allow us to compare actual developments in observable variables. We are therefore forced to carry out a sort of counterfactual historical experiment, with all its inherent complexities.

Taxes are primarily instruments for generating revenue.<sup>40</sup> Therefore, they should fundamentally be assessed based on the revenue they generate. It is logical to expect that an inheritance tax with low exemptions and high, progressive rates would yield more revenue than one with opposite features – unless we are operating on the descending side of the (hypothetical) Laffer curve, where higher rates lead to lower revenue due to increased evasion, avoidance, and disincentives to create taxable wealth.

Let us then examine the revenue trends of this tax, comparing the period from 1972 to 2000 – the year of the Amato reform – with the post-2007 period, when the Amato reform was reintroduced by the Prodi government. To ensure a consistent comparison, we consider not absolute values but their share of GDP. As noted:

‘... following the 1972 reform [...] revenues fell again, amounting to less than 0.1% of GDP and 1% of total tax revenue [...] after the 2007 reintroduction, revenue stabilised at just under 0.5 billion euros annually, or about 0.03% of GDP and 0.1% of tax revenue’.<sup>41</sup>

As expected, revenue has declined significantly in relative terms. In absolute value – and relative to the State’s total revenues – the reduction

40 Other dimensions cannot, however, be overlooked (such as the incentivisation/dis-incentivisation of certain behaviors, the reduction of inequalities, etc.). These additional dimensions will often be concretely relevant depending on the impact of the tax burden and therefore, once again, on the revenue generated by the tax. But it cannot be denied that other parameters might be more important from the standpoint of the proponents.

41 S. Manestra (2013), ‘L’imposta di successione: storia di un tributo complesso’, *FiscoOggi*, 4 January. *FiscoOggi* is the official online publication of the Italian Revenue Agency (Agenzia delle Entrate). The situation has not changed significantly in the following years. According to the OECD, its incidence in 2019 amounted to 0.04% (see the study cited in note 29).

is instead negligible; in any case, we are talking about very modest amounts. There is no awareness of any estimates of reduced compliance costs, either for the tax authorities or for taxpayers, though such reductions certainly occurred and still exist.

What conclusions can be drawn from this data? Unlike the Jobs Act case, there does not seem to be a clear indication. Apparently, no one – either 20 years ago or today – argues that tightening the inheritance tax would not lead to greater revenue. The reasons advanced for maintaining low taxation are different: the already high overall tax burden, the disproportionate impact on real estate assets, and the confused coexistence in the Italian tax system of annual wealth taxes and taxes levied at the moment of asset transfer, etc. Perhaps the most relevant data point is the stark contrast between the heated political and cultural debate over wealth taxes and the small sums at stake. The controversies surrounding this tax are therefore almost entirely political in nature, functioning as a signal of ideological affiliation.

In the end, it is possible to state that thanks to the failure to implement the reform, Italy remains an attractive country in this respect, and this fact underpins part of the success of tax policies aimed at attracting wealthy foreigners to relocate to Italy.<sup>42</sup> All this comes at the cost of a negligible loss of revenue. From this standpoint, we may consider it as a successful case of policy reversal.

At the same time, it does not seem possible to draw truly persuasive conclusions about the impact of this (failed) reform, because the criteria for evaluating the *liberalism* of a tax system such as Italy's are not uniform or universally agreed upon. The desirability of a given tax cannot be judged in abstract terms but rather in relation to the broader context. For example, a tightening of the inheritance tax – or even its replacement with a more substantial annual wealth tax – could be worth considering if the aim were to reduce the extremely high tax burden on labour in Italy.

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<sup>42</sup> Article 24-bis of the Consolidated Law on Income Taxes (Testo Unico delle Imposte sui Redditi), introduced by Article 1, paragraphs 153–159, of Law no. 232 of December 11, 2016.

On the other hand, if the goal were to finance additional public spending, the conclusion might be the opposite. There is no legally binding mechanism to ensure that the revenue from a specific tax is allocated in a particular way.<sup>43</sup> Historically, the drive to increase public spending has tended to prevail.

## 6. The reasons behind the phenomenon.

It would be comforting to assert that the adoption of liberal policies by governments that are not (or do not identify as) liberal, proves the strength and the prestige of the ideas from which such policies originate; however, that would be a fairly clear case of wishful thinking.

As previously noted, today there are no major political forces in Italy that can be *seriously* described as liberal. This is nothing more than the consequence of the weakness and marginality of the liberal thought in the country.<sup>44</sup> Things have improved somewhat over the past 40 years: the decline in prestige and influence of the two ideological traditions that dominated the post-war political and cultural landscape – Communism and Catholicism – has created some space for liberal ideas. In particular, the decade following the fall of the Berlin Wall appeared to mark their triumph. Yet it was a short-lived success. The decades that followed – especially after the subprime crisis – have been characterised *by the return of the State* and an increasingly radical questioning of the very foundations of liberal democracy.

However, it must be acknowledged that at least in Italy we cannot speak of a total rollback of the progress that was made. In other words, the space and relevance of liberal ideas in Italy today are significantly greater than in the 1970s or even the 1980s. Nevertheless, despite this improvement, their political weakness and irrelevance remain, as stated at the outset. We must therefore look elsewhere to explain the not-insignificant presence of liberal ideas and policies in the national political arena.

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43 There are the so-called earmarked taxes, but this could not be one of those cases.

44 A strong statement, which would require justifications that cannot be developed here, not even in summary form.

In my opinion, the most significant factor is by far Italy's membership in the European Union – what has been called the 'external constraint'. The major political forces have never seriously questioned the country's continued membership in the EU,<sup>45</sup> of which Italy is a founding member.<sup>46</sup> In this context, such membership has meant, essentially, two things: (i) fiscal discipline and (ii) the need to align – at least to some extent – with the policies of countries generally more inclined than Italy to embrace economic freedoms. Albeit often reluctantly, as a result successive Italian governments – especially along with the European integration progress – have had to adopt policies which, most likely, would never have emerged otherwise.

This thesis is not only supported with the reference to the 1993 Andreatta–Van Miert agreement,<sup>47</sup> which triggered the only significant wave of privatisations in Italian history, but it lies outside the timeframe of this analysis; instead, it suffices to examine the most striking case of European influence (or, for some, interference) in Italian politics: the ECB's letter to the Italian government dated 5 August 2011.<sup>48</sup> The letter contains an urgent call for bold liberalising and fiscal consolidation measures, which are presented as preconditions for European support. This ECB initiative occurred at a time of acute national debt crisis, with the spread between Italian and German government bonds reaching 600 basis points. The Greek sovereign debt crisis had erupted a year and a half earlier, and there were growing fears that Italy could face a similar fate.

The revelation of the letter had a dramatic impact on Italian politics. On 12 November 2011, the Berlusconi government resigned, and it was

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45 This does not underestimate the relevance of alternative positions – for example, the Communist Party in the 1950s and 1960s, and more recently Matteo Salvini's Lega and also Fratelli d'Italia (Giorgia Meloni's party) when it was not part of the Government.

46 In this context, the term European Union refers to all the institutions that contribute to shaping its identity, in particular the European Central Bank (ECB), even though the latter's actions are, of course, relevant only for countries that are part of the Monetary Union (such as Italy).

47 Beniamino Andreatta was, at the time, the Minister of Foreign Affairs in the government headed by Carlo A. Ciampi. Karel Van Miert, a Belgian national, was then the European Union Commissioner for Competition.

48 The letter was also signed by the Governor of the Bank of Italy, Mario Draghi (who was, moreover, about to succeed Jean-Claude Trichet as President of the ECB), and was intended to remain confidential. The letter was passed anonymously to a newspaper, which published it on September 29<sup>th</sup> in S. Rossi (2020). *La politica economica italiana dal 1968 ad oggi* (Bari-Rome: Laterza).

replaced by a grand coalition government led by Mario Monti, whose primary task was to reassure European institutions about Italy's reliability.

What did the ECB ask for? Many things: (i) budgetary corrections (such as pension cuts, reductions in public sector costs, and limits on regional and local government borrowing); (ii) increased public sector efficiency; and even (iii) constitutional reforms to enforce stricter fiscal rules. But the most important request – listed first, not by chance – was for 'significant measures to increase growth potential'. These included the liberalisation of local public services and professional sectors, with a particular emphasis on labour market efficiency. Among other things, the letter called for a 'thorough review of regulations governing the hiring and dismissal of employees', coupled with a system of unemployment insurance and active labour market policies capable of reallocating resources toward more competitive firms and sectors. In other words, the ECB was asking for the Jobs Act – and got it, initially through the Fornero reform and later completed by the Renzi government<sup>49</sup>.

The situation has not changed since 2011. On the contrary, one could argue that Italy's *dependency* on decisions made by European institutions has only increased.<sup>50</sup>

One can always argue, with good reason, that the ECB and other European institutions call for liberal policies because they work. However, the fact that these policies must in some way be imposed is crucial for our purposes.

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49 Letter from ECB President Jean Claude Trichet to Italian Primer Minister Silvio Berlusconi, 5 August 2011.

50 See, for example, the massive purchases of Italian government bonds by the ECB during the pandemic years and the fact that Italy is the main beneficiary of the National Recovery and Resilience Plan (the Italian implementation of Next Generation EU).

## 7. Conclusion.

Analysing the causes of the phenomenon under examination offers some insight into its likely trajectory – and the outlook is not encouraging.

As seen, liberal policies continue to receive limited support in Italy, without any indication of improvement. Moreover, the so-called return of the State is increasingly becoming a reality across Western countries – even those with stronger liberal traditions. One need only think of the Trump administration’s protectionist trade policies.

In such a context, the dirigiste consensus that has long characterised Italian politics is only likely to grow stronger. A glaring example is the increasingly expansive and unrestrained use of the so-called Golden Power by the current centre-right government.<sup>51</sup> On the left, it is worth noting that the CGIL and all left-wing parties – including the Democratic Party, which originally championed the 2015 reform – recently backed a referendum against the Jobs Act and in favour of reinstating job reinstatement as the standard remedy for wrongful dismissal. The referendum, held in mid-June 2025, was legally nullified due to low turnout (below the 50% quorum required). Yet from a political and cultural standpoint, the event is highly significant: first, the Italian left – including its more moderate elements – has embraced a radical union agenda; second, over 12 million Italians still voted in favor of the proposal, confirming the enduring strength of a rigid and protectionist view of labour relations.

All of this does not rule out the continued influence of external constraint, but it may significantly weaken its effectiveness. Public support for European institutions has declined markedly over time – in Italy and elsewhere. Recent signs of reversal appear to be driven less by

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51 Golden Power refers to the authority granted by law to the Government to prohibit or impose conditions on M&A transactions involving Italian companies. Over time, this power has become so pervasive that virtually every transaction is now notified as a precaution. This power was very recently used to place conditions on a public exchange offer (OPS) by one Italian bank for another, despite the offer having already received clearance from the competent authorities.

genuine acceptance of EU rules and more by the financial support received during and after the pandemic. This evidently makes (i) the EU more reluctant to push for unpopular reforms and (ii) Italian public opinion and political elites less willing to be guided. Moreover, public opinion across Europe has become less favourable to liberal policies, which further reduces Brussels' appetite for confrontation.

The reality principle remains the only strong ally of liberal policies. Such policies will be essential if we are to address the growing crisis of the welfare state – exacerbated by demographic decline (falling birth rates and an aging population) and the need for increased spending on defence, climate transition, and digitalisation.

These pressures will expose the limits of protectionism and State-heavy approaches, and therefore the emerging environment will only make it even more vital for liberals to reclaim the initiative.

Liberal reforms such as fostering competition, reducing barriers, and enhancing flexibility and resilience remain the best available response to these crises. The challenge is political: Italian and European Liberals must frame their proposals not as external impositions or elite, technocratic prescriptions, but as essential to safeguarding prosperity, freedom, and fairness in a changing world.

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# CHAPTER 2

## Chapter 2

# Even the Left has Turned to Liberal Solutions: The Spanish Case

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**Roxana Nicula &  
Juan Pina**

### Introduction.

Over the past 15 years, Spain's Socialist governments – particularly those led by Pedro Sánchez since 2018, and especially those in coalition with far-left parties Unidas Podemos and later Sumar – have shifted toward increasingly radical left-wing platforms. This *radicalisation* aimed to strengthen welfare entitlements, expand public spending, and intensify regulatory oversight. Yet, despite this ideological trajectory, successive PSOE-led administrations have enacted a series of policy reversals more commonly associated with classical liberal doctrine: deregulation, tax reductions, and support for private enterprise, driven by practical necessity rather than ideological conversion.

This paper examines these pragmatic departures from traditional leftist orthodoxy, demonstrating how economic exigencies –

energy poverty, fiscal constraints, property rights (related to the problems caused by squatters), labour market rigidity, demographic decline – have compelled socialist cabinets to adopt some free market and liberal measures. Each case study explores legislation, political discourse, and policy context to show how necessity overcame ideology. From temporary VAT cuts on energy to the dismantling of barriers to entrepreneurship, the evidence suggests that, in Spain, even the left has turned to liberal solutions when the situation has so demanded.

## 1. Tax cuts in energy: Pragmatism over ideology.

Spain's historically left-leaning governments, especially under the Spanish Socialist Workers Party (PSOE), have typically viewed energy as both a major policy area necessitating State intervention and a reliable source of public revenue. Energy taxes – including VAT, special electricity levies (*Impuesto sobre la Electricidad*, IEE), and taxes on electricity production (*Impuesto al Valor de la Producción de Energía Eléctrica*, IVPEE) – generated billions annually.<sup>1</sup> However, when energy poverty surged during the COVID-19 crisis and subsequent energy shocks, PSOE-led administrations enacted substantial tax relief measures – atypical for a leftist government – softening the financial burden on households and businesses.

### 1.1. Background: Energy as fiscal anchor.

From 2010 onward, Spain relied on energy taxation to bolster public finances. According to EU's Energy Taxation Directive,<sup>2</sup> Spain's VAT on electricity (21%) and its special electricity levy were within acceptable limits. Historically, PSOE governments have increased such levies (e.g., 2011's green surcharges), reflecting the party's favoured interventionist and redistributive model. Energy providers were required to pay the 7% IVPEE for electricity production and a 5.1127% IEE<sup>3</sup> on consumption.

1 A. Martínez and J. López (2021), 'Distributed photovoltaic systems and household savings in Spain', *Renewable Energy Review*, 58, 112–127.

2 Energy Taxation Directive, EU Guidelines.

3 Real Decreto-ley 15/2018 and RD 244/2019.

However, this reliance on energy taxation began to backfire during crises, triggering reconsideration and liberalising policy interventions.

## **1.2. Crisis strikes: Energy poverty and wholesale price surges.**

By 2021–2022, the combination of post-COVID economic rebound, volatile global energy prices, and the war in Ukraine led to unprecedented energy cost increases in Europe, disproportionately impacting Spanish households – especially low-income and vulnerable groups. Reports from EP-pedia and the *Sistema Nacional de Medidas Energéticas* (CNMC) indicate that electricity bills in regulated tariffs rose approximately 48% between winter 2019 and winter 2021.<sup>4</sup>

The Spanish government itself acknowledged that without intervention, many households would face bills 10%–15% higher than before the pandemic, failing its own political promise to cap energy expenditure. Civil society activists and NGO coalitions (e.g., FEANTSA, Ecodes) vehemently criticised the risks to thermal comfort and household solvency, advocating immediate policy relief.

## **1.3. De-taxing electricity: Legislative measures in 2021–2022.**

### **1.3.1. VAT Reduction: Royal Decree-Law 12/2021.**

On 24 June 2021, the government passed Real Decreto-ley 12/2021, de 24 de junio (RDL 12/2021<sup>5</sup>), which introduced temporary reductions in energy taxation, such as:

- VAT on electricity consumption for contracts up to 10 kW was reduced from 21% to 10%, conditional on wholesale market prices exceeding € 45/MWh;
- a ‘socially vulnerable tariff’ was created, extending the reduced VAT to vulnerable households regardless of contracted power or market

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<sup>4</sup> CNMC & EP-pedia. (n.d.). ‘Wholesale electricity prices and consumer bills in Spain (2020–2022)’. *Data repository*.

<sup>5</sup> Real Decreto-ley 12/2021.

price:

- the special electricity levy (IEE) was cut from 5.1127% to the EU-mandated floor of 0.5%, with a minimum consumption tax of €0.50–1/MWh;
- furthermore, RDL 12/2021 suspended the IVPEE (7%) for all of 2021.

Another important consequence of these tax adjustments was their signalling effect to energy providers and large industrial consumers. Although the measures were described as temporary, they demonstrated the government's willingness to act on prices through indirect instruments, bypassing price controls, or direct subsidies. This contrasted with more interventionist traditions and indicated a strategic use of tax levers to influence consumption behaviour. In effect, the administration acknowledged that lowering fiscal pressure could be a more efficient tool to secure affordability and social acceptance of the energy transition, rather than imposing strict regulatory ceilings.

Moreover, these tax reductions facilitated Spain's compliance with EU-level targets for reducing energy poverty: the Report on Energy Poverty Indicators in Spain 2021, published by the Technological Research Institute (*Instituto de Investigación Tecnológica*, IIT), indicates that 14% of households experienced difficulties in maintaining an adequate indoor temperature during the winter months, with a further 15% having to incur costs exceeding the median for their respective categories during that period.

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By easing the tax burden on low-income households, the measures contributed to social cohesion during a period of severe inflationary pressure. The government emphasised equity and fairness, but the chosen tools – VAT and excise relief – were notably market-compatible. This dual logic of fairness through fiscal moderation reflects a broader evolution in Spain’s social policy design, whereby liberal-compatible mechanisms are used to achieve social ends.

### **1.3.2. Extensions via RDL 17/2021 and RDL 29/2021.**

On 15 September 2021, RDL 17/2021 extended these measures through December 2021, and RDL 29/2021<sup>6</sup> extended them further into Q1 2022. A key relief for vulnerable consumers included a six-month extension of protection against disconnection and the establishment of a minimum vital supply of 3.5 kW, building on the existing 4-month disconnection moratorium.

Notably, RDL 17/2021<sup>7</sup> also reduced excess revenues for renewable generators – a redistribution mechanism to finance the tax relief – illustrating a liberalisation compromise between fiscal goals and market constraints.

### **1.3.3. Outcome and impacts.**

By 30 April 2022, 10% VAT had been the standard for sub-10 kW contracts, with IEE at 0.5% and IVPEE suspended, easing immediate consumer burden. According to CNMC and EP pedia datasets, households on regulated tariffs saw electricity expenditures return toward 2019 levels, even amid surging wholesale rates.

## **1.4. Political reading and government rationale.**

Government spokesperson María Jesús Montero<sup>8</sup> stated these measures cost the treasury approximately € 560 million and saved consumers around € 857 million in 2021, noting that ‘this is a temporary, targeted tax

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6 Real Decreto-ley 29/2021.

7 Real Decreto-ley 17/2021.

8 Statement by María Jesús Montero (2021).

relief to combat energy poverty'. Despite PSOE's traditional preference for high taxation, its coalition with Unidas Podemos – typically supportive of high public revenues – consented to lowering taxes when public interest and economic relief were at stake.

Critics on the left called for deeper welfare-oriented interventions; voices such as VOX and PP labelled the measures superficial, framing Spain's approach as ideologically opportunistic. Yet PSOE defended the move as a necessary adaptation to structural crises.

### 1.5. Academic perspectives: Crisis-driven liberal shift.

Fundalib, a classical liberal think tank,<sup>9</sup> interpreted these steps as a 'liberation from an entrenched interventionist energy policy', favouring supply-side relief mechanisms. Meanwhile, academic research highlights that market liberalisation – although temporary<sup>10</sup> – can catalyse long-term innovation in energy efficiency among small consumers. A good example of this was the boosting of self-production of energy by means of private, household or SME-owned solar panels as a result of tax cuts, and the resulting surge of related competition which led to innovation in the sector.

Some scholars question the sustainability of such interventions<sup>11</sup>, noting that tax relief was financed through capping producer revenues and increased public debt, potentially distorting long-term liberalisation narratives. Nevertheless, the result remains: a political left administration endorsed classic liberal measures – tax reductions, market incentives – to stabilise energy access.

It is necessary to underscore a broader lesson: in times of crisis and opportunity, ideology may bend, but practical solutions endure. Spain's

9 Fundalib (Fundación para el Avance de la Libertad) (2021), 'Energy taxation reform in Spain: a classical liberal view', *Fundalib policy commentary*, <https://www.fundalib.org>

10 P. Gómez Sánchez (2022), 'The efficacy of tax incentives in Spain's energy crisis', *Journal of European Energy Policy*, 15(3), 201–220.

11 M. García-López, B. Montano, & J. Melgarejo, (2023), 'Household energy consumption and the financial feasibility of self-consumption through photovoltaic panels in Spain'. *Energy Efficiency*, 16(57) <https://doi.org/10.1007/s12053-023-10139-z>; E. Rosales-Asensio, F.J. García-Moya, D. Borge-Diez, & A. Colmenar-Santos, (2022), *Photovoltaic Self-consumption and Net-Metering: Measures to Remove Economic Non-market Failure and Institutional Barriers that Restrict Their Use in Spain*. In *Sea Water Desalination in Microgrids*, pp. 63–83.

case illustrates how the left, when confronted with pressing issues, can adopt liberal economic mechanisms – entrenching them as part of future policy frameworks and permanently reshaping political boundaries. The Spanish case also illustrates how indirect fiscal tools can achieve short-term social goals without distorting market signals. Unlike direct price caps or public subsidies, which often introduce inefficiencies and long-term fiscal burdens, tax cuts preserve the integrity of the pricing system while delivering targeted relief. This approach avoids the moral hazard inherent in broad energy subsidies and aligns with liberal arguments for predictable and neutral State intervention. It also empowers consumers by allowing them to respond to real market prices, rather than artificially adjusted rates determined by government fiat.

It is also worth noting that this liberal approach had positive spillover effects on investment: by stabilising demand and reducing consumer uncertainty, the tax cuts helped utilities maintain investment schedules in infrastructure and renewables. The market responded to this regulatory predictability with greater confidence. In this sense, the PSOE-led coalition unintentionally reinforced the liberal premise that minimal, rule-based intervention fosters not only fairness, but also growth. It is also relevant that these tax measures were politically less divisive than other forms of intervention. Unlike subsidies or price-setting, which often create visible winners and losers, tax cuts tend to be more neutral and diffuse in their benefits. They allow markets to function while softening fiscal burdens across the board. In this context, the PSOE-led government found an unusual consensus, even gaining support – or at least muted opposition – from centrist and business-oriented actors. This demonstrates that liberal-compatible tools can also function as instruments of political stability when properly designed.

Another understated outcome was the improvement in Spain's fiscal credibility at the European level. By choosing tax relief measures over permanent subsidy schemes, the government signalled restraint and adaptability in fiscal management. This helped maintain its standing with EU fiscal monitors, especially in the context of pandemic-related spending reviews. From a liberal standpoint, this shift exemplifies responsible public finance - prioritising flexibility and responsiveness

over structural entitlement expansion. It also reinforced the notion that social objectives can be met without compromising macroeconomic stability.

## 2. Independent production of energy: From regulation to freedom.

In 2018–2019, Spain's Socialist government under Pedro Sánchez executed a major policy shift<sup>12</sup> by dismantling what was known as the 'sun tax' and legalising household-level solar self-consumption. This classical liberal-style deregulation marked a significant turnaround from previous State-heavy energy control, embracing market freedom, property rights, and decentralised energy production.

### 2.1. Context: The 'Sun Tax' burden.

Under the 2015–2018 conservative government (Real Decreto 900/2015), small-scale solar producers faced heavy penalties. The *impuesto al sol* imposed fees for self-consumed electricity, required complex permits, and disincentivised installations – actions that critics argued favoured large utilities at the expense of individual autonomy. The impact of the approval of the sun tax had a massive effect on the amortisation period for solar installations. It is estimated that for a family home with an energy consumption of 5 kW, the amortisation of the investment went from seven to ten years to 12 to 18 years. SMEs whose consumption ranged between 20 and

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<sup>12</sup> RDL 15/2018 liberalisation statement.

50 kW also saw their amortisation extended beyond the ten-12 years applicable before the tax. The only installations that were not affected by the tax were those solar panel installations disconnected from the grid, known as energy islands.

## **2.2. Urgent Deregulation: Real Decreto-ley 15/2018.**

On 5 October 2018, the Council of Ministers enacted Real Decreto-ley 15/2018, titled '*de medidas urgentes para la transición energética y la protección de los consumidores*'. This emergency law:

- eliminated all charges and fees associated with self-consumption;
- simplified installation procedures;
- legally recognised self-consumption rights;
- introduced *autoconsumo colectivo*, enabling shared generation among users.

Minister Teresa Ribera declared these measures essential to remove unfair advantages granted to large energy companies and empower consumers. The Congress ratified the decree by a broad margin, with only PP, Ciudadanos, and Foro Asturias voting against it.

## **2.3. Regulatory clarity: Real Decreto 244/2019.**

Building on the 2018 law, Real Decreto 244/2019 (5 April 2019) clarified technical, economic, and administrative conditions:

- '*autoconsumo sin excedentes*' now requires no special grid permits if access permission already exists;
- '*autoconsumo con excedentes*' installations up to 15 kW on urban land also avoid permit protocols;
- introduced simplified net-metering for systems up to 100 kW;
- streamlined registry processes, significantly easing administrative burdens.

This law solidified regulatory certainty, reducing State interference and opening access to decentralised energy production.

One notable liberalisation within this framework was the facilitation of grid access for small producers. By eliminating the requirement for costly permits and simplifying technical requirements for connections under 15 kW, the government effectively opened the market to thousands of new actors. This included not only residential consumers but also SMEs in sectors like hospitality, agriculture, and logistics. For many of these entities, self-generation offered a viable hedge against price volatility and a route to improve competitiveness – goals traditionally associated with market liberalism.

Importantly, the regulatory transformation also normalised energy self-production as a mainstream option, rather than a niche or activist-driven initiative. Public communication campaigns and visibility of successful neighbourhood projects contributed to a broader cultural shift in the perception of solar energy. The image of the *prosumer* – a producer-consumer – became associated not just with environmentalism, but with entrepreneurship and self-reliance. These values, often promoted in classical liberal and libertarian thought, gained traction within a legal framework constructed by a left-wing government. What is more, these regulatory improvements facilitated the rise of a new industry around installation, maintenance, and energy efficiency services. Thousands of small businesses and self-employed technicians entered the market to meet the growing demand for rooftop solar and associated technologies. The barriers to entry were relatively low, and the demand was geographically dispersed, enabling economic participation in both urban and rural areas. This entrepreneurial activation was not the result of subsidies, but of the removal of legal and administrative obstacles – one of the clearest liberal lessons delivered through this reform.

The reform also reinforced a cultural transition toward personal responsibility in energy use. As households became producers, their awareness of consumption patterns, storage efficiency, and grid interaction increased markedly. Educational programs, municipal workshops, and even YouTube tutorials flourished to meet this demand. Though modest in scale, this behavioural change reflects a deeper alignment with liberal ethics: individuals making informed decisions, bearing the risks and rewards of those decisions, and interacting in a

decentralised market.

## 2.4. Results and empowerment.

Post-reform, small-scale solar capacity surged – Spain reached approximately 7 GW by late 2023<sup>13</sup> – marking a significant jump supported by dramatic uptake in residential and business installations. Studies confirm households saved on energy costs, sometimes regardless of surplus export, reflecting the economic viability of liberalised solar self-production under net-metering regimes.<sup>14</sup>

## 2.5. Liberal ideals in practice.

Although introduced by a left-leaning government, these measures championed key liberal principles:

- property rights: granting individuals authority over their energy production;
- market entry: enabling a decentralised sector beyond large utilities;
- deregulation: cutting through red tape to empower prosumers;
- economic freedom: allowing users to generate, consume, store, and sell energy.

Fundalib lauded the shift<sup>15</sup> as a liberation from excessive regulation, signalling a clear liberal alignment.

## 2.6. Critiques and caveats.

Critics noted<sup>16</sup> that without subsidies or targeted support, affordability remains uneven – particularly in rental housing and urban apartments. While regulatory barriers were removed, additional policies are needed to promote equitable access.<sup>17</sup> Nonetheless, the reforms represent a decisive tilt toward market-based energy policy.

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13 CNMC solar installation data (2023).

14 L. Hernández (2023), 'Net metering in decentralized renewable systems: a Spanish case study'. *Energy Economics*, 98, 105281.

15 Fundalib, *ibid.*

16 M. García-López, B. Montano, & J. Melgarejo, (2023). 'Household, cit.

17 NGO critique on solar equity (2022). From solar dream to legal nightmare | Transnational Institute

## 2.7. Main findings.

Through RDL 15/2018 and RD 244/2019,<sup>18</sup> incredibly enough, a Socialist government enacted significant market liberalisation of Spain's energy sector. These measures elevated individual choice, dismantled State and corporate barriers, and endorsed decentralised production – an ideological departure from interventionist left-wing orthodoxy prompted by pragmatic considerations.

The reform also had implications for decentralisation and local governance. By empowering households and small communities to generate their own electricity, it weakened the traditional centralised model of energy planning – one historically favoured by statist traditions. Local governments, cooperatives, and homeowners' associations became important actors in the renewable energy landscape. This subsidiarity principle – placing decision-making closer to the individuals affected – is a core tenet of classical liberalism, and one that found real-world expression through policies not originally designed to reflect that ideology.

Furthermore, the reduction in bureaucratic friction for energy self-consumption helped establish a precedent for future regulatory reforms. It demonstrated that dismantling excessive administrative layers could yield rapid results in both economic and environmental terms. Encouraged by this outcome, other

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<sup>18</sup> Real Decreto 244/2019.

ministries began exploring similar simplifications in areas like water management, licensing of small-scale agricultural infrastructure, and urban mobility. While these extensions go beyond the scope of energy policy, they reflect a deeper re-evaluation of the role of the State as an enabler rather than a controller – a narrative long advocated by liberal economists.

### 3. Eviction of squatters: Protecting property rights.

For decades, squatting (*okupación*) in Spain was met with ambivalent responses. While the left often portrayed it as a form of housing activism, widespread illegal occupation and coercive eviction methods by informal mafias intensified public concern. By 2023–2024, PSOE-led governments enacted legislative reforms to expedite eviction and strengthen property rights – policy shifts that reflect a liberal retaking of the rule of law over collectivist permissiveness.

#### 3.1. The status quo: A lenient regime.

Prior to reform, squatter eviction procedures were burdened by legal inertia. Evictions often required civil lawsuits that extended over months or years, forcing homeowners and lawful tenants into court battles. The government’s reluctance to criminalise squatting was supported by leftist groups who argued property rights were secondary to the right to housing. Several legal channels and estimated timeframes can be highlighted:

- criminal proceedings (trespassing, Article 245.2 of the Criminal Code): used if the owner reported illegal entry without violence. It was a slow process lasting between 12 to 24 months long or, depending on the complexity of the case, even more. It required identifying the squatters and proving lack of consent. If there were minors or people at risk, the procedure could be halted or delayed;
- civil proceedings (claim of ownership or eviction for precariousness): more common in the case of second homes or empty properties. It involved a civil trial that would take between 12 to 18 months on average. It required high burden of proof and lengthy proceedings;

- express eviction (Law 5/2018, since July 2018): it allowed individuals, NGOs, or public administrations to recover their habitual or vacation home occupied without consent. Estimated time to be enforced was between four to eight months, although it depended on the court. There are some limitations to use it. It does not apply to corporate owners (such as funds, banks, etc.).

Meanwhile, illegal eviction mafias emerged, often resorting to violent measures to remove squatters – a development that strengthened calls for a firmer legal framework to protect property owners.

### 3.2. Legislative turning point: Criminal code reform.

On 16 February 2024, the NOTES passed Ley Orgánica 1/2024,<sup>19</sup> which amended the *Ley de Enjuiciamiento Criminal* (LeCrim) and introduced Article 245 bis to the *Código Penal*. The changes included:

enabling summary eviction (*desahucio exprés*) procedures under LeCrim for occupations meeting defined conditions: no prior rental agreement, use of force, or violent threats;

classifying squatting with occupants' belongings as a criminal offense under Article 245 bis, punishable by fines or imprisonment up to two years;

empowering law enforcement to act immediately upon request without requiring victim initiation in civil court – an essential step toward enforcing property rights swiftly.

These reforms were implemented in early 2024 and supported across PSOE and PP lines, with Sumar abstaining. Minister Félix Bolaños emphasised<sup>20</sup> that 'private property cannot be legally invisible', framing the change as a necessary response to judicial congestion and criminal encroachment.

<sup>19</sup> Ley Orgánica 1/2024, BOE.

<sup>20</sup> Statement by Félix Bolaños (2024).

The political calculus behind this shift was influenced by the growing visibility of squatting-related crime in suburban and rural areas. Municipalities governed by both left and right expressed frustration at the limited tools available to protect homeowners, especially elderly citizens or emigrants whose homes were temporarily unoccupied. The new provisions under Article 245 bis allowed for swifter intervention in cases where illegal occupation posed a risk to public order or where there was evidence of organised criminal activity, such as squatter mafias charging illegal rent. This signalled a shift from viewing squatting as purely a housing issue to treating it as a matter of legal certainty and public safety.

From a constitutional standpoint, the reform also rebalanced the interpretation of conflicting rights. Whereas previous interpretations often prioritised the right to housing – even when claimed illegally – the new framework reaffirmed the legal precedence of legitimate property ownership. This echoed longstanding liberal principles about the primacy of the rule of law and contractual integrity. While the government stopped short of endorsing full criminalisation of all forms of squatting, it clearly moved toward a more property-focused stance that had historically been absent from its ideological repertoire.

From an urban planning perspective, the enhanced legal protections also reduced a critical deterrent to urban revitalisation: many rehabilitation projects, particularly in low-income or semi-abandoned neighbourhoods, were stalled due to uncertainty over squatters and informal occupants. Investors and development agencies often refrained from engaging with these areas despite their potential. By clarifying ownership rights and accelerating the enforcement process, the government indirectly encouraged private participation in urban recovery – demonstrating how liberal legal order can be a prerequisite for social and spatial regeneration.

Additionally, the legal clarification facilitated more accurate and timely data collection on squatting and informal eviction practices. For years, policymakers operated with highly fragmented or anecdotal information about the scope and nature of illegal occupation. With the institutional framework now better defined, enforcement agencies and researchers

have started building clearer metrics. This move toward evidence-based policy aligns well with liberal principles of accountability and transparency, ensuring that future reforms can be judged on results rather than ideology.

### 3.3. Impact assessment: Speed and protection.

Early government data reveal that by mid-2024, 80% of squatter evictions were completed within 48 hours<sup>21</sup> of police intervention – compared to an average delay of three to six months previously. Homeowners report fewer legal conflicts, and media coverage indicates a significant reduction in intrusion by illegal eviction networks due to greater legal certainty.

From a policy perspective, this shift reflects a liberal commitment to property rights, legal predictability, and efficient law enforcement – contrasting sharply with the left's earlier defence of informal housing solutions.

### 3.4. Ideological and practical considerations.

This legislative turn contradicts traditional leftist positions prioritising social use of housing over exclusive property rights. Yet PSOE responded pragmatically to public demand, aligning with centre-right proposals to reinforce legal protections and reduce criminality.

Critics – from the left<sup>22</sup> – assert the reforms

This move toward evidence based policy aligns well with liberal principles of accountability and transparency, ensuring that future reforms can be judged on results rather than ideology.

21 Ministry of Interior (2024). *Eviction and squatting statistics (Q1–Q2 2024)*. Official report.

insufficiently address broader social housing needs. Nonetheless, the emphasis on legal clarity and property protection echoes classical liberal values and serves as a testament to the government's pragmatic shift when faced with pressing social and legal challenges.

### **3.5. Summary of liberal shift.**

Rather than reinforcing permissive policies, the Socialist government embraced a rule-of-law approach:

- property rights, outlined in legislation and enforced promptly;
- rule of law, via criminal sanctions for illegal domestic occupation;
- legal certainty, through expedited procedures and standardised definitions;
- public protection, reducing both property crime and the influence of mafias.

By prioritising clear laws and enforceable rights, the PSOE government demonstrated how crafting liberal legal frameworks can address societal problems and reassert institutional order.

An underappreciated dimension of the reform is its effect on legal certainty and investor confidence. Prior to the changes, many property owners and real estate investors – both domestic and foreign – considered Spain a high-risk jurisdiction due to the difficulty of enforcing ownership rights. The new legal mechanisms have begun to reverse that perception, especially in regions with high rates of tourism or seasonal rentals. By affirming the enforceability of property claims, the government implicitly accepted the liberal view that a strong property regime underpins economic vitality and capital inflows.

Moreover, the public discourse around these reforms revealed a growing tension within the left between ideological orthodoxy and political responsiveness. While some factions remained committed to the

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22 i.e. P. Castaño (2025). A Housing Crisis for Spain's Center-Left Government, *Jacobin Magazine*, February 2025. <https://jacobin.com/2025/02/spain-housing-costs-psoe-sanchez>.

symbolic defence of squatting, others – particularly at the municipal level – acknowledged the reputational and social costs of lawlessness. The eventual support for reform by a Socialist-led coalition demonstrates how liberal principles like public order, legal enforcement, and property stability can achieve bipartisan legitimacy when clearly linked to citizen welfare.

#### 4. Student immigration and foreign professionals: From protectionism to openness.

Over the past few years, Spain's Socialist-led administrations have reversed their historically protectionist stance toward foreign labour. Fuelled by demographic decline and labour shortages in critical sectors, reforms from 2022–2024 liberalised immigration policies for students and skilled professionals – even confronting entrenched corporatist pressures.

##### 4.1. Student-to-work transition.

Previously, non-EU students in Spain faced lengthy delays and bureaucratic hurdles when attempting to convert their study visas into work permits. In response, Real Decreto 629/2022,<sup>23</sup> issued on 26 July 2022, amended the *Reglamento de la Ley Orgánica 4/2000*. It established that students holding valid visas for study could automatically apply for work authorisation – part-time during their studies and full-time afterwards – without needing to leave Spain.

This also allowed foreign students to work up to 30 hours per week during their studies, a marked departure from prior restrictive provisions. Experts noted this simplification acknowledges the economic contributions of international students and aligns with liberal views on labour and human capital mobility.

##### 4.2. Recognition of foreign diplomas and professional pathways.

Real Decreto 629/2022 and later government instructions established

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<sup>23</sup> Real Decreto 629/2022.

streamlined recognition procedures for foreign professional qualifications. This move targeted bottlenecks affecting foreign-trained doctors, engineers, and educators – overcoming resistance from professional guilds.

The decree introduced provisions allowing foreign professionals to practice by showing equivalent qualifications or completing the minimal additional training – not full retraining – reflecting flexible liberal-regulatory compromise.

This deregulatory impulse extended to administrative processes as well: previously, the validation of foreign qualifications could take more than one year, with inconsistent criteria applied across ministries and regions; after the 2022 reform, digital platforms were introduced to streamline application submission and case tracking, significantly reducing wait times and improving transparency. These operational changes, though technical, reflected a commitment to administrative efficiency and the reduction of State-imposed frictions – hallmarks of liberal governance.

The cultural implications of this shift were also significant. Spanish policymakers, long accustomed to framing immigration in terms of humanitarian protection or demographic necessity, began to emphasise the economic value of skilled newcomers. Speeches by ministers and policy briefs started referring to foreign students and professionals as a source of innovation, entrepreneurship, and fiscal contribution. This evolution in political rhetoric further aligned with liberal narratives about the positive role of immigration in dynamic, open economies.

Additionally, the reforms had a democratising effect on access to the labour market. By shifting from subjective administrative judgments to more transparent, criteria-based recognition of credentials, the new rules reduced opportunities for discretionary rejection or clientelist influence. This more rule-based framework – where professional merit, not institutional gatekeeping, determines access – supports the liberal principle of equal opportunity within a competitive system. The move was widely welcomed by international talent, startup ecosystems, and even segments of the academic sector, who had long advocated for

streamlined pathways to employment.

Finally, these changes improved Spain's competitiveness relative to other European destinations for global talent. In a context where countries vie to attract high-skill migrants, the ability to offer clear, stable, and fair immigration channels can determine success. By reducing friction and promoting professional mobility, Spain moved closer to the open-market models traditionally seen in liberal economies like Canada or the Netherlands. Although framed in technocratic terms, these policy shifts collectively amounted to a strategic liberalisation of labour flows – a notable evolution for a government rooted in leftist discourse.

### **4.3. Skilled immigrant recruitment and labour mobility.**

The same decree created a provincial-level *Catálogo de Ocupaciones de Dificil Cobertura* – a list of occupations with high shortage levels, automatically permitting employers to hire foreign workers for them without restrictive national employment tests. A case in point: non-EU nurses and ICT specialists were swiftly recruited to address staffing gaps.

Additionally, the government introduced a Job-Seeker Visa for recent graduates and qualified professionals – valid for one year and allowing permit renewals – supporting skilled migration and job-market entry.

### **4.4. Digital Nomad Visa under Startup Act.**

December 2022 saw the approval of Ley 28/2022,<sup>24</sup> the Startup Law, which includes a Digital Nomad Visa<sup>25</sup> for remote workers employed outside Spain. Initially valid for one year, renewable up to five years, it permits applicants to self-employ or work for foreign or Spanish companies (up to 20% of activity in Spain) and offers a reduced tax rate of 19% on Spanish-source income for up to four years. This marks a clear liberal-friendly reform – attracting international human capital, lowering fiscal barriers, and abandoning restrictive migration narratives.

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<sup>24</sup> Ley 28/2022 (Startup Law).

<sup>25</sup> Ministry of Foreign Affairs – Digital Nomad Visa

#### **4.5. Addressing protectionist pushback.**

These reforms faced criticism from some worker unions and professional associations, concerned about wage suppression or unfair competition. However, the government framed them as essential to counter demographic decline (Spain's fertility rate ~1.3 children per woman) and sector shortages – citing data showing 300,000 annual recruitments unmet<sup>26</sup> by domestic labour.

The liberalisation in immigration and labour – despite ideological resistance – shows PSOE's pragmatic embrace of freer labour markets when national needs prevail.

#### **4.6. Summary and liberal implications.**

- Spain's immigration policy since 2022 demonstrates a decisive shift toward liberal principles:
- labour-market flexibility: enabling foreign job access without bureaucratic hassle;
- capital recognition: acknowledging human capital through degree recognition;
- mobility and openness: embracing skilled and digital-migrant inflows;
- competition enhancement: countering rigid profession regulations and corporatism.

Underscored by Real Decreto 629/2022 and Ley 28/2022, these reforms illustrate how left-wing cabinets can enact liberal labour and migration policies when institutional path dependency and social necessity demand it.

A further liberal dimension of these changes lies in how they shifted the role of the State from gatekeeper to facilitator. Rather than determining which profiles were strategic or useful, the reformed system allowed market needs to signal demand. This was evident in the expansion of the

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<sup>26</sup> Ministry of Inclusion (2023). *Demographic and occupational shortages in Spain: 2023 analysis. White paper.*

shortage occupation catalogue and in the procedural simplifications for work and residence permits. Employers had greater freedom to hire, students had clearer paths to remain, and the overall interaction between the State and individual became more predictable and transactional – hallmarks of a liberal approach to public administration.

The reforms also removed a longstanding paradox in Spanish immigration policy: that the country would educate highly skilled non-EU students in its universities only to require them to leave upon graduation. This not only represented a loss of talent and investment but also stood in contrast to liberal values that emphasise the free movement of labour and the efficient allocation of human capital. By correcting this misalignment, the government moved toward a more economically rational and ethically coherent framework – one that treated skilled migrants not as liabilities, but as assets. Furthermore, this reform resulted in a reduction of bureaucratic expenditures for these students who would subsequently become future workers. The reform enabled them to effortlessly modify their legal status in the country from student visa to work permit residence without the necessity of leaving the country.

*The Reglamento de Extranjería*, approved in November 2024 and effective from 20 April 2025, has been criticised for its failure to include entrepreneurs in its provisions. Consequently, students seeking to transition from a student visa to a self-employment work

The liberalisation in immigration and labour despite ideological resistance shows PSOE's pragmatic embrace of freer labour markets when national needs prevail.

permit must still submit a comprehensive business plan, demonstrate sufficient financial means to reside in Spain, and comply with the relevant legal and fiscal procedures for self-employment in the country.

Finally, the emergence of digital nomads as a distinct visa category represents a broader liberal trend in migration governance. Rather than attempting to control or suppress new forms of labour mobility, the State adapted its framework to accommodate it. The Startup Law embraced the concept of professional autonomy across borders, recognising that productivity is no longer tied to geographic or national affiliation. This is a profound shift from traditional labour policy and one that echoes liberal calls to modernise public institutions in line with global realities.

All in all, when it comes to migration policies, socialists needed to adopt a more pro-individual and pro-freedom approach. A takeaway for liberals is that socialists can be persuaded to adopt liberal policies if, and when, we present them as aligned to their core values but more effective or realistic than their first option, driven by mere ideology. However, it will also be necessary for liberals to continue working for migrant rights on two key areas neglected by socialists: banking and financial inclusion in spite of anti-money laundering related over-regulation; and easing the options for migrants to become self-employed and/or start small businesses, as they usually excel as independent workers and micro-entrepreneurs, but may sometimes fail as ordinary employees due to their particular background. Convincing socialists to transform precarious and assisted migrants, often unfairly forced to depend on State subsidies and NGO charity, into small business owners or self-employed workers and freelancers is a great way to solve the migration issue, stop anti-migratory narratives and, along the way, introduce liberal reforms which foster small businesses and self-employment for all.

## 5. Conclusions.

Over the first quarter of the century, when leading governments, Spain's PSOE consistently defied expectations by adopting some classical liberal reforms that, much to their own deception, had to prioritise pragmatism and necessity over their ideological purity. Whether in the tax relief

granted in response to energy crises, the deregulation of solar self-consumption, the legal protections for victims of squatting, or the opening of immigration and work pathways for foreign talent, the results have been clear: policy outcomes more commonly associated with free market liberalism even as emerged from left-wing agendas under duress. However, these have all been scattered cases of liberal pragmatism winning over socialist core ideas, and no general tendency can be deducted from them. In most other areas, the purist socialist views of the present-time PSOE, further radicalised by its cabinet coalition partners, have prevailed.

However, these reforms demonstrate that even among leftist administrations, when faced with concrete societal needs – energy stability, legal certainty, economic dynamism, and demographic imperatives – market-oriented solutions gain traction. Far from inadvertent or marginal, these are structural shifts with long-term implications for Spain's economic fabric.

Moreover, it has been demonstrated that competition, a key ingredient for free market models, has been a catalyst for the implementation of liberal reforms, even within the context of socialist governments. In the context of competitive markets, it is likely that the practical liberal reforms will be utilised by governments as a means of demonstrating expeditious and favourable outcomes. It is also worth to briefly mention the example of the Spanish zero-self-employment tax: which led to fierce competition among different regional

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governments to suppress it during the first or second year of activity. It is noteworthy that 12 out of the 17 regions have now implemented this liberal reform.

By recognising liberals' policy tools as effective, PSOE governments have blurred ideological lines and showcased pragmatic governance. The correlation between a positive image of government reforms and the presence of prosperity, and an attractive business climate has been a constant in the past decades. This phenomenon is evident irrespective of ideological differences socialist governments might have with regards to the free market behaviour of the society.

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# CHAPTER 3

## Chapter 6

# When Social Democracy Met Ordoliberalism: Labour and Health Market Reforms in Germany

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**Roberto Ricciuti**

### Introduction.

During the Schröder government (October 1998 - November 2005), the Social-Democratic/Green coalition enacted several market-friendly reforms. In this chapter, we will look at two of them concerning the labour market and the healthcare sector; nonetheless, other areas such as taxation and pensions were reformed to bring more choice and competition.

We start with a quartet of labour-market statutes – Hartz I, II, III, and IV- enacted

between 2003 and 2005 that re-engineered the Federal Republic's *Sozialstaat* more radically than any reform since 1949. The programme drew heavily on liberal economic ideas: activation-first benefit design, competitive provision of placement services, and the deliberate creation of a low-wage entry tier. At a moment when globalisation, reunification costs, and a domestic growth slump were squeezing *the Modell Deutschland*, the Hartz package asserted that social justice is best secured when incentives, not entitlements, dominate labour-market institutions.

The second reform we consider is the Statutory Health Insurance Modernisation Act – *Gesetz zur Modernisierung der gesetzlichen Krankenversicherung (GMG)* – which took effect on 1 January 2004. The GMG aimed to stabilise contribution rates, consolidate sickness-fund finances and slow contribution-side cost growth. Two decades on, policy discourse still casts the GMG as a technocratic fine-tuning of *Bismarckian* social insurance. Yet from a liberal vantage-point – grounded in consumer sovereignty, competition, and fiscal prudence – the act deserves a deeper reassessment. Did it meaningfully expand choice and market discipline, or did it merely externalise fiscal pressure through incremental cost shifting? This essay answers by situating the GMG within Germany's health-policy trajectory, dissecting its instruments, and evaluating outcomes against liberal benchmarks: (i) inter-temporal fiscal sustainability, (ii) allocative efficiency driven by

During the Schröder government (October 1998–November 2005), the Social Democratic–Green coalition enacted several market-friendly reforms.

price-conscious consumers and competing insurers, and (iii) equity understood primarily as equal freedom, not uniform entitlements.

Ordoliberalism is a German school of economic thought that argues markets thrive only within a strong legal institutional framework. It insists the State's primary economic role is to set and enforce clear rules – especially competition law – that prevent private monopolies and preserve open markets. Unlike laissez faire liberalism, it welcomes active regulatory authority but rejects discretionary macro intervention or industrial planning. Ordoliberalism is associated with the thinking of Walter Eucken, Franz Böhm and Wilhelm Röpke, and the policy choices implemented by Ludwig Erhard and Konrad Adenauer, both Chancellors of the former West Germany from the Christian Democrats in the aftermath of World War II.<sup>1</sup>

The chapter is organised as follows: section 2 examines the Hartz reforms; section 3 assesses their outcomes from a liberal standpoint; section 4 turns to the health reform, followed in Section 5 by an evaluation of its results – generally successful, though still insufficient from a liberal perspective. Section 6 concludes.

## 1. The Hartz Reforms.

### 1.1. Historical and political context.

Germany's post-war labour market rested on three pillars: industry-wide collective bargaining organised by employer associations and unions; an insurance-based unemployment scheme with high replacement rates and weak conditionality; and strong employment-protection legislation (EPL). For three decades, this architecture underpinned an export-oriented social market economy that combined high productivity with wage moderation. However, by the mid-1990s some pathologies were apparent: first, annual GDP growth averaged barely 1.5% between 1995 and 2002, compared with 3% in the 1970-90 era; second, harmonised unemployment rose from 4.2% in 1991 to 10.5% in 1997, and again to

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<sup>1</sup> For a recent review of ordoliberalism and its long-lasting legacy on European economic policy, see G. Nell and N. Goldschmidt (2023), *Ordoliberalism and European Economic Policy: Between Realpolitik and Economic Utopia* (London: Routledge).

11.3% by 2005, with a hard-core cohort of long-term unemployed concentrated in eastern Länder; third, unit labour costs increased 14% relative to the Euro-zone average in 1995-2001, eroding market share just as EU enlargement intensified competition; finally, contribution rates for unemployment insurance, pensions, and health combined reached 42% of gross wages, discouraging job creation and violating the constitutional debt brake.

Schröder's first term (1998-2002) produced incremental tweaks – reduced pension generosity, mild tax cuts – yet unemployment remained stubborn. After the SPD lost the 2002 regional elections in Schleswig-Holstein and Bayern, the Chancellor concluded that bold supply-side measures were unavoidable. Invoking Tony Blair's 'Third Way', he announced *Agenda 2010* in a dramatic Bundestag speech on 14 March 2003: 'We will reduce state benefits, promote individual responsibility and demand more personal initiative'.

Earlier, a 15-member commission chaired by Volkswagen personnel chief Peter Hartz had been convened in February 2002. Its remit: overhaul the Federal Employment Service and propose measures to cut unemployment by half within three years. The commission blended business executives, trade-unionists and academics, mirroring Germany's neo-corporatist tradition. Over six months, it produced 13 'innovation modules' organised around three liberal leitmotifs: 1) *market creation* inside placement and training services; 2) *activation* through strict conditionality and benefit degression; 3) *flexibilisation* of contract and wage setting to widen the hiring ladder.

The cabinet swiftly transposed the report into four laws – the Hartz reforms – passed between December 2002 and December 2003 (effective 2003-05).

## 1.2. The Hartz Package: Timing, content and economic logic.

- Personnel-Service Agencies (PSA): local employment offices transformed into pseudo-private temp agencies authorised to hire jobseekers and lease them to firms. Wages below industry norms were permitted for the first six months, lowering entry thresholds.

- Mini-jobs ( $\leq$  € 520/month) and Midi-jobs (€ 520–2 000): a dual mini-tax regime capped employee contributions at 4% and employer levies at 31%, creating six million low-marginal-cost slots by 2013.
- Ich-AG subsidy: unemployed individuals starting one-person businesses received degressive grants (€ 600  $\rightarrow$  €2 40/month over three years). Approximately 350,000 start-ups emerged in 2003-06, one-third still active after five years.

These instruments operationalised the liberal insight that small firms and flexible contracts absorb shocks better than rigid long-term employment guarantees.

### 1.2.1. Hartz III (January 2004): Managerial revolution in the BA.

The *Bundesanstalt für Arbeit*, criticised for misallocating training funds and misreporting job-vacancy data, was re-founded as the *Bundesagentur für Arbeit* (BA). Reforms included outcome-based budgeting, in which regional offices received targets for placement rates, average vacancy duration and sanction enforcement, bonuses for counsellors depended on hitting benchmarks, and Voucher competition: the unemployed could redeem training and placement vouchers at certified private providers, injecting choice and contestability.

### 1.2.2 Hartz IV (January 2005): Fusion of benefits & strict activation.

The capstone and most contentious reform merged earnings-related *Arbeitslosenhilfe* and means-tested social assistance (*Sozialhilfe*) into *Arbeitslosengeld II* (ALG II):

Feature	Pre-Hartz	Post-Hartz IV
Eligibility.	Unemployment assistance for contributory history; social assistance for need.	Single means-tested tier after 12 months of ALG I.
Benefit level.	53–57% of last wage (no time limit) / municipal subsistence.	Flat rate $\approx$ € 374 + housing; no earnings reference.
Sanctions.	Mild (up to 25% cut).	30% cut for first refusal; 100% after repeat.
Asset test.	€ 60,000 exempt + housing.	€ 7,800 per adult + modest home.

A household’s *Bedarfsgemeinschaft* (needs unit) concept assumed intra-family insurance, reinforcing liberal stress on private solidarity before State aid.

### 1.3. Outcomes of the reforms: A free-market assessment.

German employment rose from 38.7 million (Q1 2005) to 43.4 million (Q4 2019) while unemployment fell to a reunification-era low of 5% – even after the 2008–09 shock. Synthetic-control studies matching Germany with counterfactual OECD blends attribute roughly two-thirds of the employment gap to Hartz-induced activation, the remainder to wage-restraint accords and favourable exports).<sup>2</sup>

Hochmuth, Kohlbrecher, Merkl and Gartner (2019) analyse IAB-SIAB microdata with discrete-time hazard models, finding that ALG II recipients who became unemployed after January 2005 exited unemployment about 20% faster than comparable pre-Hartz cohorts. The authors conclude that Hartz IV's stricter activation rules and lower reservation wages are the main drivers of the improvement. They report the largest gains for men, East Germans, and workers previously on Unemployment Benefit I – groups that faced the sharpest benefit cuts – highlighting the incentive channel.<sup>3</sup> Taken together, these findings illustrate how conditional welfare and market-oriented incentives can raise matching efficiency without expanding public payrolls.

These instruments operationalised the liberal insight that small firms and flexible contracts absorb shocks better than rigid long-term employment guarantees.

2. C. Dustmann, B. Fitzenberger, U. Schönberg, and A. Spitz-Oener (2014), 'From Sick Man of Europe to Economic Superstar: Germany's Resurgent Economy', *Journal of Economic Perspectives* 28(1), 167–88.

3. M. Caliendo and V. Steiner (2009), 'The German Labor Market Reforms and the Great Recession: Assessing the Impact of Hartz IV on Job-Finding Rates', *Labour Economics* 16 (1): 1–13; and A. Launov and K. Wälde (2013), 'Estimating Incentive and Welfare Effects of Unemployment Benefits in a Search Model', *International Economic Review* 54 (4): 1159–98, both using alternative specifications replicate job-finding increases of 17–22%, reinforcing the causal interpretation.

Nonetheless, there were differentiated effects across different groups in the society. The Hartz reforms narrowed Germany's raw gender employment gap mainly by drawing previously inactive women into the labour force, yet the mechanism was a massive expansion of low contribution mini-jobs, two thirds of which were female held.<sup>4</sup> While male full-time employment changed little, female parttime incidence jumped, so while women's labour force participation rose, their average hourly pay and social insurance coverage lagged behind men's.<sup>5</sup> Longitudinal register data further indicate that women in mini-jobs have a significantly lower transition rate into insured fulltime positions than comparable men, suggesting the reforms locked many into precarious low hour trajectories.<sup>6</sup> Labour-market outcomes for immigrants diverged sharply from those of native Germans. Activation and benefit tightening reduced unemployment more for EU-born immigrants than for third-country nationals, yet both groups saw a disproportionate shift into mini-jobs, with foreign workers 40% more likely than natives to hold these low-contribution positions.<sup>7</sup>

The immediate labour-market impact of the Hartz package differed sharply between the old Länder and the new eastern Länder. Because East Germany entered the 2000s with twice the incidence of long-term unemployment, the steep benefit cuts and tightened monitoring embedded in Hartz IV generated a larger *search shock* there; micro-data analyses show that the exit rate from unemployment to any job rose by roughly 35% in the East versus 20% in the West during 2005-08.<sup>8</sup> Yet this convergence in headline unemployment masked persistent quality gaps: eastern jobseekers were far more likely to accept mini-jobs or fixed-term contracts, and the east-west wage differential narrowed by only two percentage points.<sup>9</sup> While the reforms accelerated employment growth

4 G. Bosch and C. Weinkopf (2008), *Low-Wage Work in Germany* (New York: Russell Sage Foundation).

5 S. Klinger and T. Rothe, T (2012), 'The Impact of Labour-Market Reforms on Male and Female Employment and Participation in Germany', IAB Discussion Paper 10/2012, Institute for Employment Research, Nuremberg.

6 K. Bruckmeier and S. Schmitz (2014), 'What Follows a Mini-Job? Transitions into Regular, Insured Employment', IAB Kurzbericht 18/2014, Institute for Employment Research (IAB), Nuremberg.

7 H. Brücker and J. Schupp (eds.) (2012). IAB SOEP *Migration Sample: Survey Manual*, Nuremberg/Berlin: Institute for Employment Research (IAB) & SOEP.

8 J. Möller and R. Konle-Seidl (2011), 'The German Labour-Market Response to the Great Recession: The Role of Reforms, Institutions and Structural Changes', *Journal for Labour Market Research* 44(2), 109-123.

on both sides of the Elbe, they also reinforced the East's specialisation in low-wage, low-hours work.

Older workers experienced a different set of trade-offs. Hartz II introduced wage-top-up subsidies (*Entgeltssicherung*) and Hartz III expanded placement support for the 50-plus cohort, while pension reforms curtailed early-retirement pathways. Taken together, these measures lifted the employment rate of Germans aged 55–64 from 38% in 2003 to 60% in 2012 (two-thirds of the increase directly attributable to post-Hartz activation)<sup>10</sup> and many re-employed seniors entered part-time or temporary positions with below-average pay.<sup>11</sup> *Bundesagentur-für-Arbeit* data show long-term unemployment ( $\geq 12$  months) shrinking from 1.9 million in 2005 to 0.9 million in 2013, a shift decomposed by Hochmuth et al. (2019), which find higher matching efficiency between supply and demand for labour as a result of the reform. Counterfactual simulations that freeze the pre-2005 matching function still predict 1.6 million long-term unemployed in 2013, underscoring the reform's lasting impact. Klinger and Rothe (2012) document weakened duration dependence after the reforms, while Hagen and Scheu (2021) micro-simulate that Hartz IV alone explains roughly half the fall in long-term unemployment once demographic ageing is netted out.

Evidence confirms that strict conditionality, intensive monitoring, and flexible mini-job rules can durably reduce welfare dependency, though residual pockets of long-term joblessness suggest complementing these measures with skill-upgrading initiatives rather than higher benefits.

The Gini coefficient for gross hourly wages rose from 0.26 (2002) to 0.30 (2011), largely due to expansion of the lowest decile. Free-market evaluation interprets this as price signals guiding heterogeneous labour into productive niches. Crucially, *real* median disposable income still grew (0.7% p.a. 2005–15) because more individuals worked. Labour-

9 J. Ragnitz (2007), 'Der ostdeutsche Arbeitsmarkt nach den Hartz-Reformen: Strukturwandel ohne Konvergenz', ifo *Dresden Studien* 43, Munich: ifo Institute.

10 M. Dietz and U. Walwei (2011), 'Germany—No Country for Old Workers?', *Zeitschrift für Arbeitsmarktforschung* 44(4), 363–376.

11 M. Brüssig (2015), 'Employment Trajectories of Older Workers after the Hartz Reforms', *Journal for Labour Market Research* 48(3), 137–152.

productivity growth accelerated post-2005, aided by reallocation from unemployment into high-value export manufacturing.

Social-insurance contribution rates stabilised: unemployment-insurance levies fell from 6.5% to 3% of gross wages (2005-08), cutting non-wage labour costs by € 25 bn annually. ALG II spending did rise, yet this was offset by lower *Arbeitslosenhilfe* outlays and higher tax receipts from additional employment, yielding a modest net saving.<sup>12</sup>

Field experiments reveal sanctions increased exit to employment by 3–4 percentage points within six months. Ich-AG evaluation indicates cumulative earnings over the grant horizon exceeded opportunity costs, validating the entrepreneurial-activation logic.

Activation boosted mothers' part-time mini-job uptake but did little for full-time career continuity.<sup>13</sup> The lack of affordable childcare, rather than benefit design, remained the binding constraint – an area only partially addressed by later family-policy reforms.

#### **1.4. Critiques and counter-arguments.**

*Working poverty and two-tier labour market:* critics<sup>14</sup> note that 22% of workers now earn below € 11/hour. Free-market response: employment is the surest route out of poverty; low entry wages are stepping-stones. Transition matrices show 38% of mini-jobbers move into standard contracts within three years.

Sanctions violate social rights: Germany's Federal Constitutional Court upheld conditionality (November 2019) but limited full suspension of benefits for minors. Liberals argue reciprocity is necessary to sustain political support for redistribution; sanctions are graduated and coupled with mandatory counselling.

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12 H. Bonin and W. Eichhorst (2012), 'Die Wirkungen der Hartz-Reformen auf Beschäftigung und Arbeitslosigkeit', *Wirtschaftsdienst* 92(4), 219–26.

13 C. Klenner and C. Frodermann (2013), 'Female Part-Time Work in Germany: Sign of Segmentation?' *Journal of Labour Market Research*, 46(4), 261–277.

14 M. Grabka and J. Goebel (2019), 'Real Income Situation of German Households: Inequality Remains Elevated' *DIW Wochenbericht* 47.

*Export boom, not Hartz, did the work.* Difference-in-differences designs comparing reform-exposed groups (older long-term unemployed) with ineligible groups (young short-term unemployed) replicate employment effects independent of external demand shocks.

*Internal devaluation spurs beggar-thy-neighbour.* Real unit labour-cost compression improved competitiveness, but aggregate EU demand leakages were mitigated by Germany's import intensity. Moreover, flexible wages are adjustment devices preferable to persistent joblessness.

Below is a menu of reforms that build on the achievements of Hartz I–IV but push further toward market discipline, individual choice and transparent incentives. They are grouped by policy lever; many are complementary and could be phased in gradually.

Lever	Liberal improvement	Rationale & expected gains
1. Benefit design.	Convert ALG I/II into a single, flat <i>basic cash grant</i> that phases out with earnings at a low marginal rate ( $\leq 40\%$ ).	Eliminates the high effective tax wedges created by today's ALG II <i>Bedarfsgemeinschaft</i> rules; encourages rapid re-entry and moonlighting without poverty traps. Similar to a negative-income-tax or an earnings-top-up (EITC) model.
2. Activation & placement.	Full competitive tendering of placement and coaching services, paid by outcome (e.g., <i>social impact bonds</i> ).	Builds on Hartz I experiments but scraps the Federal Employment Agency's regional monopoly; private and non-profit intermediaries would be free to set methods, only placement rates matter.
	Portable individual training accounts ( <i>Bildungsgutscheine 2.0</i> ) with fungible credits.	Workers – not agencies – choose certified courses; unused credits roll over, encouraging cost-benefit thinking. Vouchers could be topped up by employers.

3. Labour-cost flexibility.	Abolish the € 450 mini-job ceiling; instead apply ordinary income tax above a personal exemption.	Restores neutrality between part-time and full-time employment, dissolves a dual labour market, and raises formalisation.
	Replace sector-wide <i>Mindestlohn</i> with region-based wage floors linked to median earnings.	Allows lower entry wages in structurally weak areas while protecting against extreme monopsony. Inspired by the US State-level model.
4. Regulation of work relationships.	Shift dismissal-protection rules ( <i>KSchG</i> ) to an <i>opt-out-for-severance</i> regime.	Firms can choose either the current procedure or pay a statutory severance schedule; workers gain cash certainty, firms gain ex-ante predictability – similar to Denmark’s <i>flexicurity</i> .
	Deregulate crafts ( <i>Handwerk</i> ) licensing and tighten the objective productivity tests for regulated professions.	Lowers entry barriers especially for migrants and the young, expanding the self-employment route out of unemployment that Hartz II only partially unlocked.
5. Financing & fiscal rules.	Cap unemployment-insurance payroll rate at 2% and backstop cyclical deficits through a transparent federal subsidy.	Forces policymakers to weigh general-tax financing against benefit generosity instead of drifting into contribution creep that burdens labour.
	Introduce experience-rated contributions for employers (as in the U.S. ‘UI tax’)	Rewards firms that avoid layoffs and internalise the social cost of frequent redundancies. Piloted in several German Länder in the 1980s; technology now allows national rollout.
6. Mobility & matching.	Nation-wide relocation vouchers covering moving costs, temporary rent gaps, and spouse job placement.	Tackles persistent spatial mismatch highlighted since Hartz III; vouchers are cheaper than indefinite local benefits and boost aggregate productivity.
	EU-wide portability of benefits with mutual-recognition digital ID.	Lets claimants take their cash grant to any EU labour market, accelerating adjustment and easing pressure on hotspot regions inside Germany.

7. Data & transparency	Open-data mandate for job-vacancy and wage statistics (an <i>Indeed API</i> run by the State).	Lowers search costs for private platforms, improves job-matching algorithms, and empowers academic evaluation of policy.
	Real-time public dashboards of agency and contractor performance.	Harnesses reputational competition; under-performing contractors can be replaced quickly, mirroring charter-school accountability.
8. Integration with other social systems.	Merge ALG II and <i>Sozialhilfe</i> into a single cash-plus-services architecture.	Ends parallel structures, reduces cliff-edges at the welfare/unemployment boundary, and clarifies accountability between municipalities and the Federal Employment Agency.
	Tie long-term benefit receipt to mandatory health-status checks and subsidised preventive care.	Addresses evidence that sickness and disability inflows rise when job-search obligations bite; a liberal approach seeks to minimise moral hazard while safeguarding human capital.

## 2. The politics of social-democratic liberalism.

How did a party wedded to Keynesian-social traditions deliver a pro-market overhaul? A few reasons accounted for this turn: first, the SPD embraced the market economy in the 1959 Bad Godesberg Programme – Schröder’s *Neue Mitte* faction revived this heritage against party leftists; second, the metalworkers’ union IG-Metall opposed wage cuts but accepted activation in exchange for the retention of co-

determination rights, and the tripartite pacts (Alliance for Jobs) framed Hartz as a collective solution, not unilateral deregulation – in this sense, corporatist bargaining played a significant role in shaping the process; third, surveys in 2002 showed unemployment outranked healthcare or pensions as voters' top concern: by adopting liberal reform, the SPD aimed to reclaim competence on jobs, and although the party lost the 2005 election, it re-entered the Grand Coalition and avoided PASOK-style collapse partly because Hartz eventually delivered results; finally, communication emphasised *Fördern* (support) over *Fordern* (demand): generous child benefits and training budgets sugar-coated tougher sanctions, illustrating the political value of coupling liberal incentives with visibly social instruments, an effective framing strategy.

A few typically liberal ideas are in place, such as the primacy of incentives over entitlements in the form of lower marginal tax rates, co-payments in health, and performance-based university funding – all tilt governance from unconditional transfers to outcomes. Competition as a discovery procedure – substitution of public monopolies by contestable markets (temp agencies, sickness funds, crafts trades) follows ordoliberal doctrine. Overall, a State retreat to enabling role has been in place, with loan-based student aid and voucherised training, which makes the State a financier and regulator rather than a direct provider.

Taken together with the Hartz package, these initiatives form a coherent supply-side agenda. Thus, the German case demonstrates that market-enhancing reforms can pass under a centre-left banner when they are embedded in familiar solidaristic narratives, and when corporatist actors negotiate compensatory side-payments.

### 3. The Statutory Health Insurance Modernisation Act.

By 2003, the average GKV contribution rate had climbed beyond 14% of gross wages; sickness-fund reserves fell below the statutory minimum. Demographic ageing accelerated expenditure on pharmaceuticals and ambulatory specialists, while reunification still burdened payrolls. The inflexible employer-employee financing split (half each) prompted macroeconomic alarm: high payroll taxes undermined price

competitiveness and employment.

Earlier reforms introduced annual budget caps (*Risikostrukturausgleich* 1994), mandatory gate-keeping trials, and limited selective contracting. Yet political deals diluted incentives: global expenditure targets lacked sanctions, and risk-adjustment retained crude morbidity proxies. The reform fatigue narrative allowed Schröder's government to frame 2004 as a decisive break.

### 3.1. What did the GMG do.

Instrument	Liberal Rationale	Key Details
Expanded co-payments.	Strengthen price signals, curb moral hazard.	€ 10 quarterly practice fee ( <i>Praxisgebühr</i> ), higher prescription fees (€ 5–10), in-patient meals charge to € 10/day.
Benefit delisting.	Focus solidaristic finance on core risks.	Exclusion of OTC drugs, travel vaccines, artificial insemination cost share; hearing-aid ceilings.
Risk-adjustment reform.	Level playing field without cross-subsidising risk selection.	Morbidity-based <i>RSA</i> variables added; funds with chronically ill insured receive higher transfers.
pharmaceutical reference pricing 2.0.	Spur generic penetration, foster price competition.	Mandatory discount contracts ( <i>Rabattverträge</i> ) between funds and manufacturers; claw-back rebate of 6% list price.
Governance changes.	Managerial accountability and provider discipline.	Federal Joint Committee ( <i>G-BA</i> ) strengthened; Institute for Quality and Efficiency ( <i>IQWiG</i> ) launched for HTA.
private insurance Interface.	Ease switching, enhance contestability.	Waiting time to re-enter statutory scheme lengthened; allowances for lower income privately insured eased.

The law also earmarked federal tax transfers (€ 4.2 bn) to offset non-insurance benefits (maternity, family policies), an ordoliberal

Overall, a State retreat to enabling role has been in place, with loan-based student aid and voucherised training, which makes the State a financier and regulator rather than a direct provider.

demand to separate social policy from actuarial insurance.

### 3.2. Outcomes 2004-2010.

Contribution rates dipped from 14.3% (2003) to 13.3% (2005), aided by € 8 bn annual savings; however, by 2009 rates exceeded 15% again. Temporary relief indicates partial success: the GMG bought time yet failed to bend the long-term cost curve. Still, compared with no-reform baseline, cumulative payroll levies were roughly € 40 bn lower.<sup>15</sup>

Empirical studies<sup>16</sup> show the *Praxisgebühr* reduced GP visits by 10% on average. Overall, cost-sharing influenced low-value demand at the margin, while protecting chronic-disease care via exemption thresholds.

Risk-adjustment refinements dampened cream-skimming: the correlation between fund morbidity and surplus shrank by two-thirds.<sup>17</sup> Yet only 4% of insured switched funds annually, suggesting limited price competition. Administrative mergers reduced fund numbers from 292 (2003) to 169 (2008), arguably signalling scale economies but also oligopolistic stability.

Household-budget surveys reveal that co-payment hikes consumed an additional 0.4% of income for the lowest quintile, but exemption ceilings (2% of income; 1% for chronically ill) cushioned extreme burdens. Liberals note that some redistributive cross-subsidies still persist via family co-insurance and income-related contributions.

## 4. Unintended consequences and liberal critique.

While co-payments rose within GKV, barriers to leaving *GKV* for private health insurance (PKV) increased: income-threshold waiting periods expanded and re-entry rules tightened. Competitive neutrality suffered; high-income individuals faced implicit lock-in, contradicting freedom-of-contract principles.

15 BMG (Bundesministerium für Gesundheit) (2011), *Bericht zur Wirksamkeit des GMG*. Berlin.

16 R. Winkelmann (2004), 'Co-Payments for Prescription Drugs and the Demand for Doctor Visits - Evidence from a Natural Experiment', *Health Economics* 13(11): 1081-1089.

17 J. Lampert (2009), 'Morbiditätsorientierter RSA: Erste Wirkungen', *Gesundheitsökonomie & Qualitätsmanagement* 14(6): 304-310.

Empowering the G-BA and IQWiG advanced evidence-based coverage decisions, yet it centralised power and narrowed insurer discretion. Instead of consumer-driven package choice, a technocratic body rationed benefits. This paternalism risks stifling innovation and preventing tailored high-deductible options.

Quarterly practice fees failed to align payment with service cost: once the € 10 ticket was paid, marginal visits again appeared *free*, weakening ongoing incentives. For drugs, reference pricing's basket approach sometimes bundled heterogeneous molecules, distorting competition and triggering litigation.

Shifting non-insurance spending to the federal budget improved contribution optics but did not reduce overall tax burden. Without expenditure control, liberal critics see a risk of *health by credit card*, dumping liabilities on general taxpayers.

Finally, we can identify some areas in which further improvements are possible from a liberal perspective:

# Issues	Why It Matters from a Liberal Perspective
1 <i>Digital-health and data portability were barely touched.</i> Apart from a vague mandate to introduce the electronic health card (eGK) and central patient files, G-BA left data governance to future laws (eventually, the <i>E-Health-Gesetz</i> 2015).	Digital interoperability lowers search costs and empowers consumers to shop across providers; a liberal agenda would have coupled eGK roll-out with patient ownership of data and API-based competition among tele-medicine platforms.
2 <i>Provider-side competition remained constrained by uniform fee schedules (EBM, GOÄ).</i> G-BA did not deregulate the outpatient fee book.	True price competition – core to an ordoliberal view – requires negotiable fees. Allowing funds and doctors to contract outside rigid schedules would sharpen discipline and spur productivity.
3 <i>Selective contracting (Selektivverträge) was opened, but on narrow terms.</i> The law enabled disease-management programmes (DMPs) and integrated-care contracts, yet collective bargaining bodies retained veto power.	To liberalise fully, future reform should remove the gatekeeping of corporatist associations and let any certified provider negotiate directly with any fund or coalition of patients.
4 <i>No robust exit strategy for under-performing hospitals.</i> G-BA's quality agenda centred on reporting, not market exit.	A rule-based insolvency path – akin to charter-school closures in the US – would align with competitive neutrality and redirect resources to higher-value providers.
5 <i>Opaque cross-subsidies to long-term care remained embedded in GKF tariffs.</i> The act left many geriatric services in the health budget	Liberal budgeting would move these benefits to Pflege to reveal true prices and enable targeted top-ups rather than diffuse payroll levies.

# Issues	Why It Matters from a Liberal Perspective
although the separate LTC insurance ( <i>Pflichtversicherung</i> ) existed since 1995.	
Labour-market externalities were not internalised. Payroll-financed sick-pay ( <i>Krankengeld</i> ) stayed at 100% of net wages after week six.	Introducing employer-experience-rated contributions (as used for German accident insurance) could reward enterprises that invest in occupational health, thereby aligning incentives without broad tax hikes.
Inter-EU portability and competition were ignored. Despite Court of Justice rulings (e.g., <i>Kohl, Decker</i> ), GMG did not clarify reimbursement for planned care abroad.	A liberal design would let statutory funds issue care vouchers redeemable in any EU provider that meets German quality metrics – leveraging single-market competition to curb domestic monopoly pricing.
Fiscal sustainability mechanisms lacked hard triggers. Contribution-rate caps depended on discretionary Bundestag approval rather than automatic correction rules.	A constitutional fiscal guard-rail (similar to Switzerland's <i>Schuldenbremse</i> or Germany's own <i>Schuldenbremse</i> for budgets) could tie any contribution-rate hike to an offsetting benefit cut or tax-financed subsidy, forcing transparent trade-offs instead of political drift.

## Conclusions.

Nearly two decades on, the Hartz programme stands as Europe’s most consequential labour-market liberalisation since Thatcher’s reforms in the UK. Drafted by a corporatist commission, legislated by social democrats, yet guided by ordoliberal economics, it slashed structural unemployment, stabilised public finances, and enhanced Germany’s capacity to weather crises – from the Great Recession to the pandemic shock.

The reforms prove that flexibility need not be antithetical to social justice: by tightening the link between effort and reward, Hartz enlarged employment while maintaining a tax-funded safety net for genuine need. Countries wrestling with dual labour markets, fiscal stress and technological disruption can draw four overarching lessons:

- Activation beats passivity. Work-first benefits with credible sanctions accelerate re-employment and foster human-capital accumulation.
- Competition raises quality even inside public agencies. Voucherised training and outcome-based funding disciplined the BA without

formal privatisation.

- Low-wage floors facilitate entry. Legalising mini-jobs converted informal or unpaid household work into taxable employment, broadening contribution bases.
- Political coalitions matter. Embedding liberal instruments in a social-democratic narrative of fairness can neutralise ideological veto players.

The Hartz reforms did not dismantle core German complementarities – apprenticeship training, co-determination, and sectoral bargaining – but recalibrated them towards greater external flexibility. This supports Streeck’s (2009) ‘accelerated liberalism’ thesis: coordinated economies liberalise at the margins while retaining central institutions, creating a flexible labour market somewhere in between the Anglo-Saxon model (United Kingdom and Republic of Ireland) and the Scandinavian model.

From a liberal standpoint, the *GKV-Modernisierungsgesetz* was a pragmatic but limited step: it harnessed co-payments and benefit pruning to re-inject price signals, marginally enhanced insurer competition through refined risk-adjustment, and clarified the State’s obligation to finance non-insurance benefits. However, the reform also entrenched regulatory centralism, hampered exit options, and relied on fiscal cosmetics. Consequently, it stabilised finances only temporarily while leaving structural inefficiencies and solidarity-equity trade-offs unresolved.

The reforms prove that flexibility need not be antithetical to social justice: by tightening the link between effort and reward, Hartz enlarged employment while maintaining a tax-funded safety net for genuine need.

A genuine liberal health-policy agenda would build on the GMG's cost-containment impulse but pivot decisively toward consumer-driven funding and provider competition under transparent, rules-based fiscal discipline. Only then can Germany reconcile individual freedom, quality care and inter-generational equity in an ageing society.

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# CHAPTER 4

## Chapter 4

# Closet Liberalism in the Hollande Presidency

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Richard Robert

### Introduction.

Liberalism has long had a bad press in France. Even the so-called liberals – Macron’s Renaissance party and its allies on the centre right – find it hard to endorse the banner of liberalism and call themselves reformists. ‘We are not a liberal country, we are a State-minded country, we are a protection country’, said Eric Lombard, Finance Minister of the current centrist government and former member of the Socialist Party himself.<sup>1</sup> Meanwhile, the government was under attack for its supposed liberalism.

Unlike in the United States, where liberal often refers to progressive or left-leaning politics, in France *le libéralisme* is typically understood in its classical or economic sense: advocating for free markets, deregulation, privatisation, and reduced State intervention. These ideas are considered by many French citizens and political actors as a synonymous of social inequality, weakened public services, and the

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<sup>1</sup> ‘On n’est pas un pays libéral, on est un pays d’État, on est un pays de protection’ (E. Lombard (2025), LCI, 26 January).

erosion of national sovereignty.<sup>2</sup>

The label *liberal* is usually given from the outside, especially by political adversaries. Liberalism carries an infamous or even negative connotation in French politics largely because of its association with Anglo-American-style economic policies and perceived threats to France's social model: this mindset brings together the Gaullist right, most of the left and, since Marine Le Pen took over the Front national, the far right. It reflects a marked tendency to overinvest in the issue of national identity, and everything related to sovereignty, often accompanied by a certain disregard for economics. General de Gaulle, using military vocabulary, famously said: 'Logistics will follow' (*L'intendance suivra*) and this mantra could be endorsed by most of his successors, including President Macron, whose inclination toward public spending is no less pronounced than that of his predecessors.

This disregard for economic principles and enduring scepticism toward liberalism are deeply embedded in France's political tradition and its historical affinity for a strong, protective State. Since the post-World War II era, France has developed a robust welfare state, powerful public institutions, and a political consensus that values social cohesion and redistribution over market efficiency. Liberalism, by contrast,

Liberalism has long had a bad press in France.

2 M. Guyot (2014), 'Les Français n'ont pas confiance dans le libre marché', *Knowledge@Essec*, 29 Apr. 2014. For a tentative explanation, see G. Saint-Paul (2010), 'Endogenous indoctrination: occupational choice, the evolution of beliefs, and the political economy of reform', *Economic Journal*, 120, 325-353.

is often viewed as a vaguely foreign promotion of individualism at the expense of solidarity, and of private interest over public good. The unpopularity of reforms denounced as *liberal* – such as Jacques Chirac’s 1995 welfare reforms or Emmanuel Macron’s pension reform, both of which were driven less by liberal ideology than by a concern for restoring fiscal balance – further reinforces public wariness.

This cultural entrenchment has come to a point where the term is frequently wielded as a political insult. For a large part of the left, calling a politician a *liberal* (or more often blaming them for being *ultra-liberal*) implies an alleged betrayal of social justice and alignment with corporate interests – betraying both the workers and the public interest. For the far-right, liberalism is equated with globalisation, loss of national identity, and unchecked immigration: in this narrative, the openness agenda has been implemented by a gang of *globalists* – a set of rich, powerful foreigners personified by the likes of George Soros and his Davos partners.

As a result, few politicians in France willingly claim the liberal label, even if they support many liberal policies. Instead, they often reframe such reforms as pragmatic or modernising, avoiding the term altogether.

In the 50 years preceding Macron’s election in 2017, the only leader to come to power with a proudly liberal agenda was Jacques Chirac, when he was appointed Prime Minister in 1986. However, his Thatcher-Reagan style policies antagonised the French and Chirac lost the presidential election run-off in 1988. The Socialist Party successfully used the *liberal* edge against him and has maintained an anti-liberal stance ever since.

This marked a strong difference between the French mainstream left and Blair’s New Labour or Schröder’s SPD – especially after the Hartz reforms. Nevertheless, as strong as this anti-liberal stance may be when the Socialist Party sits in the opposition benches, it is often relaxed when it is at the head of the government.

François Hollande’s presidency (2012–2017) offers several examples of liberal policies endorsed by a president elected on a strong antiliberal agenda. His presidency introduced the reforms that would later be

continued during Emmanuel Macron's first term (2017-2022). Although these liberal-inspired reforms eventually began to show positive results, President Hollande was unable to fully embrace them, while also facing a split within his own parliamentary majority. The economic success came at the cost of political disaster: by the end of his term, Hollande was so weakened that he could not run for re-election. The Socialist Party's candidate, Benoît Hamon, won barely 6% of the vote in the first round of the presidential election.

Hollande's term was emblematic of a deep ideological tension within the French Socialist Party and the broader European left. Elected on a platform of anti-austerity, economic justice, and social solidarity, the new president swiftly changed his trajectory. His presidency became a striking case of what many critics have called *libéralisme honteux*<sup>3</sup> – closet liberalism – namely, a reluctant, concealed embrace of market-friendly reforms carried out under the guise of pragmatism. Nowhere was this clearer than in two crucial initiatives: the alleviation of the social and fiscal burden on companies (2012–2013), and the controversial labour reform centred on working time flexibility (2016). Together, these policies reveal the contradictions of Hollande's governance, his uneasy flirtation with liberal economic principles, and the political fallout that ensued.

To understand this case, it is crucial to take into

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<sup>3</sup> Among the critics using this formula, people as far away from each other the Communist MP André Chassaigne (in *L'Humanité-Dimanche*, 24 May 2017) and the liberal public intellectual Pascal Salin (in *Contrepoints*, 8 January 2021).

consideration the long and winding road of the Socialist Party in its relationship to both power and liberalism.

## 1. The French Socialist Party and liberalism: 50 years of strategic ambiguity.

Originally,<sup>4</sup> the French Socialist Party grounded itself in State intervention, public services, and social equality.<sup>5</sup> After François Mitterrand's 1981 victory, it launched sweeping nationalisations and economic planning, but by 1983, confronted with capital flight, inflationary pressures, and the imperatives of European Monetary System membership, the government executed the *tournant de la rigueur*, pivoting toward austerity and market mechanisms. Despite this practical shift, the PS continued to brand itself as a bulwark against unchecked capitalism.

During Lionel Jospin's 1997–2002 premiership, the PS carried out significant privatisations and introduced labour-market measures; yet these were always framed as technical modernisations, rather than ideological conversions. Leaders invoked European obligations or technocratic necessity to justify reforms, while publicly distancing the party from *liberal* dogma. This dual discourse enabled the PS to court traditional left-wing constituencies wary of globalisation alongside centrist voters focused on competitiveness – but it also diluted the party's ideological coherence.

This longstanding ambivalence created a widening credibility gap. By applying liberal style policies without openly owning them, the PS undermined voter trust and blurred its political identity: socialist detractors accused it of preaching solidarity while practising austerity, and centrist allies saw in its rhetoric an unsteady partner. Over time, this identity crisis weakened the party's electoral appeal and constrained its ability to propose a consistent alternative to both neoliberal orthodoxy and right-wing populism.

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4 P. Garraud (1978), 'Discours, pratiques et idéologie dans l'évolution du Parti socialiste', *Revue française de science politique*, 28, 2, 257–276.

5 J.-N. Ducange and Talbot Imlay (2025), 'Introduction: international/transnational perspectives on the history of French socialism', *French History*, 39(1), 1–10.

At the heart of this dilemma lies the labour market, where France's chronic unemployment problem has endured since the late 1970s. Unlike many advanced economies, France often recorded persistently high jobless rates – particularly among youth, in disadvantaged suburbs, and in regions once anchored in mining or heavy industry. Successive PS governments wrestled with this challenge, shaping public debates and campaign promises around the notion that worklessness could no longer be ignored.

Mitterrand's plaintive declaration '*Contre le chômage, on a tout essayé*' became emblematic of both the urgency of the issue and a pervasive sense of policy exhaustion. Yet, France seldom embraced the full spectrum of labour-market liberalisation: measures to enhance flexibility, streamline regulations, or incentivise entrepreneurship were deemed politically toxic or ideologically incompatible with socialist values. Instead, policymakers leaned heavily on demand-side interventions and State-led solutions, convinced that safeguarding workers would alone break the unemployment cycle.

Paradoxically, many protections intended to shield employees ended up entrenching a dual labour market. Strict rules on permanent contracts (CDI), generous severance packages, and complex hiring procedures incentivised employers to rely on temporary or informal work for new hires. The result was a stable *insider* core enjoying job security, and an expanding *outsider* periphery facing precarity

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and exclusion. This rigidity hindered firms' ability to adapt to economic shifts and slowed progress in reducing structural unemployment.

Beyond labour rules, France's devotion to redistribution has at times mirrored what Michel Hau and Félix Torres<sup>6</sup> christened 'Keynesianism in one country', namely, efforts to deploy domestic demand management under a left-wing banner, even as global markets embraced supply-side liberalism. Socialist administrations backed European integration but failed to fully grasp that competitiveness in an open economy hinges on labour-cost control and market flexibility. The signature 35-hour workweek under Jospin, aimed at *sharing work* more broadly, yielded short-term job growth, but raised unit labour costs and arguably undermined long-term competitiveness. By the 2000s, France's trade balance slipped into deficit against its European partners, and deindustrialisation intensified: in 2010, manufacturing employed just 13.3% of the workforce and accounted for 11.3% of GDP, among the lowest ratios in the EU.

This preference for redistribution over comprehensive liberal reform has hardened into a cultural and political reluctance within the French left. While the United Kingdom, the Netherlands, and Germany<sup>7</sup> embarked on more radical structural overhauls, France repeatedly opted for half-measures, incremental tinkering and technocratic fixes. The refrain that 'everything has been tried' often masked a reticence to test market-driven solutions that might clash with the PS's traditional ethos.

Fiscal policy deepened these tensions. In 1983, Mitterrand's government subordinated its redistributive programme to EMS constraints, initiating austerity despite left-wing protest. The shift fractured its alliance with the Communists and left lasting doubts among socialists who felt betrayed. Three decades later, François Hollande confronted a similar crossroads in

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6 M. Hau and F. Torres (2020), *Le Virage manqué. 1974-1984: ces dix années où la France a décroché* (Paris: Manitoba/Les Belles Lettres). It is worth noting that the liberal-centrist government of 1974-1976 had taken the same track, by increasing the burden of social contributions paid by employers – a trend that would continue in the following decades and reflected the economic ignorance of successive governments, especially the ones led by the socialists.

7 N. Bandelow and J. Hornung (2019), 'One discourse to rule them all? Narrating the agenda for labor market policies in France and Germany', *Policy and Society*, 38, 3, September 2019, 408–428.

the eurozone crisis: barely two months into his presidency, he faced mounting bond spreads and pan-European demands for tighter budgets. He traded – again – expansionary pledges for fiscal discipline, raising taxes and curbing spending to reassure markets (and, once more, found his party's rhetoric at odds with its actions).

This oscillation between ideological fidelity and pragmatic austerity has eroded the PS's capacity to articulate a clear vision for France's future. By neither fully embracing liberal reforms nor recommitting convincingly to their own traditions of solidarity, socialists have ceded ground to both technocratic centrists and populist challengers. To regain relevance, the PS must forge an explicit social-liberal synthesis: one that couples genuine market reforms – balanced labour flexibility, streamlined regulation and entrepreneurship incentives – with robust safety nets, pre-negotiated compensations, and transparent narratives that marry freedom with justice. Only by aligning words and deeds, and by anticipating economic shocks rather than reacting belatedly, the French can leave chart a credible path beyond the impasse of the past four decades.

## 2. 2011-2012: Hollande's campaign and debuts.

François Hollande's political formation<sup>8</sup> was grounded not in doctrinaire socialism, but in Jacques Delors's pragmatic social democracy. As a young technocrat – an ENA graduate and junior aide to President Mitterrand – he absorbed Delors's conviction that market efficiency and social protection could coexist. That balance underpinned the 1983 *tournant de la rigueur*, when France embraced fiscal discipline within a European framework without abandoning its welfare state. Decades later, Hollande would recall this model of reformist governance as he sought to modernise the French economy.

When Dominique Strauss-Kahn's campaign collapsed in 2011, Hollande stepped into the vacuum with a moderate, pro-European platform that

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8 A. Cole (2011), 'The French Socialist Party and its radical ambiguity', *French Politics, Culture & Society*, 29(3), 29–48.

mirrored DSK's economic realism. Yet he immediately confronted three formidable constraints: Nicolas Sarkozy's aggressive re-election bid forced Hollande to cast himself as the candidate of clear departure and renewal; Jean-Luc Mélenchon's insurgent populism rallied the radical left around uncompromising anti-establishment rhetoric, threatening to undercut the Socialist base; and, within his own party, Hollande faced ideological inertia: years as First Secretary had failed to produce a German-style Bad Godesberg moment. Factional balances persisted, and no genuine doctrinal renewal ever took place.

By the time he reached the Élysée, Hollande was tasked with marrying supply-side reforms to left-wing expectations; however, he lacked a coherent intellectual framework to guide that synthesis. His presidency was shaped by pragmatic compromises but hamstrung by a party unprepared for structural renewal. The result was a credibility gap: reforms half-owned in public discourse, ideological muddle behind the scenes, and eroded trust among voters. In the end, Hollande's ambivalent legacy reflects both the promise of social-liberal reform and the peril of failing to reconcile it with a party's foundational ideals.

In late 2011 and early 2012, François Hollande set out to carve a path between two very different rivals. He cast himself as the calm, responsible foil to Nicolas Sarkozy's combative style, highlighting themes of unity, social justice, and economic fairness without resorting to ad hominem attacks. By critiquing Sarkozy's crisis management and rightward drift while maintaining a composed, presidential demeanour, Hollande reassured centrists and undecided voters that he embodied stability. At the same time, Jean-Luc Mélenchon's surge – fuelled by anti-austerity fervour among civil servants and younger electorates – forced Hollande to sharpen his left credentials. He wove more assertive economic-justice rhetoric into his platform, denouncing financial excesses and pledging concrete reforms to reclaim progressives and shore up the Socialist base.

The defining moment of this dual-track strategy came in January 2012 at Le Bourget, when Hollande declared 'My enemy is the finance world', and proposed a 75% tax on incomes above € 1 million. In that single

phrase, on the one hand he fused class-struggle language with institutional poise, reasserting the Socialist Party's historic commitment to redistribution and market regulation; on the other hand, he still appeared more pragmatic than Mélenchon's revolutionary rhetoric and more responsible than Sarkozy's neoliberal bent. The Bourget speech crystallised his bid to unite a fragmented left: decisively left-wing enough to energise disillusioned voters, yet measured enough to win over moderates.

After his inauguration in May 2012, Hollande moved swiftly to honour his anti-austerity pledges within tight fiscal constraints. He renegotiated the European fiscal compact, scoring a € 120 billion package<sup>9</sup> aimed at growth rather than pure deficit cuts, even though the treaty's binding rules remained intact. Domestically, he introduced the emblematic 75% top tax (later modified by the Constitutional Council), he partially reversed pension reforms by allowing certain workers to retire at 60 years old, he froze fuel prices, and he postponed planned VAT hikes to ease pressure on low- and middle-income households. These measures underlined his commitment to social justice even as they tread a fine line between stimulus and consolidation.

Financial markets responded cautiously but positively: France's sovereign-bond spread

After his inauguration in May 2012, Hollande moved swiftly to honour his anti-austerity pledges within tight fiscal constraints.

<sup>9</sup> For a precise account of Hollande's discussions with Angela Merkel and other European leaders, see A. Tooze (2018), *Crashed: How a Decade of Financial Crises Changed the World* (London/New York: Allen Lane/Viking).

over German Bunds narrowed from around 160 basis points in January to roughly 50 by July 2012, reflecting renewed investor confidence. Yet the economy's fundamentals remained fragile: unemployment climbed steadily from 9.5% in the first quarter to over 10% by year's end, intensifying welfare state costs and eroding fiscal revenues. In the tension between fiscal responsibility and social justice, Hollande's early antiliberal measures offered symbolic victories but ultimately struggled to resolve the deeper economic strains they sought to address.

### 3. Liberalism to the rescue.

As early as July 2012, Prime Minister Jean-Marc Ayrault, alongside key advisers to President Hollande such as Jean-Pierre Jouyet and Pierre Moscovici, emphasised the urgency of addressing France's core economic challenges: sluggish growth, accelerating deindustrialisation, a widening trade deficit, and persistently high unemployment.<sup>10</sup> The cost-competitiveness of French firms had markedly deteriorated compared to Germany, largely due to elevated labour costs driven by heavy employer social contributions. Recent policy choices had only exacerbated this burden: immediate corrective action was essential – but politically fraught.

The government turned to a well-worn but effective political move: commissioning an expert report. On 11 July 2012, Ayrault tasked Louis Gallois – a respected industrial leader with ties to the Socialist Party – with producing an in-depth assessment of France's competitiveness. The resulting Gallois Report, published on 5 November 2012, called for a 'competitiveness shock': a large-scale reduction in employer social charges, offset by increased revenue from either VAT or the CSG (general social contribution tax), with the goal of revitalising investment, exports, and job creation<sup>11</sup>.

Ironically, the essence of this recommendation closely mirrored Nicolas

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10 For a very precise account of the discussions in July 2012, see F. Bazin (2017), *Rien ne s'est passé comme prévu. Les cinq années qui ont fait Macron* (Paris: Robert Laffont).

11 L. Gallois (2012), *Pacte pour la compétitivité PCI V10-BAT*

Sarkozy's *social VAT* policy, which the Hollande administration had just repealed in July.

Rather than directly cutting charges or increasing the VAT rate, the Hollande government opted for a more indirect and politically less confrontational path. The 'Tax Credit for Competitiveness and Employment' was created through the Amending Finance Law for 2012, adopted in December. 'CICE', as it was soon called, was a tax credit applied to salaries below 2.5 times the minimum wage (SMIC), amounting to 4% of total payroll in 2013, and rising to 6% from 2014 onward. It was designed to improve the competitiveness of businesses by reducing labour costs, without strict legal conditions, but with the expectation of increased investment, hiring, and innovation. This measure represented a discreet liberal shift in Hollande's economic policy. It was welcomed by employers' associations but criticised by the left, particularly by the Socialist Party's left wing and unions such as the CGT.

In a typical Hollandian way, another labour policy was decided, with subsidised contracts and publicly supported employment, particularly for young people with few qualifications (*emplois d'avenir*, youth jobs). These schemes were typical of French statist interventionism: they bypassed structural reforms in favour of direct State involvement. Mainstream economists such as Philippe Aghion, Gilbert Cette, and Elie Cohen<sup>12</sup>

In a typical Hollandian way, another labour policy was decided, with subsidised contracts and publicly supported employment, particularly for young people with few qualifications (*emplois d'avenir*, youth jobs).

<sup>12</sup> P. Aghion, G. Cette and E. Cohen (2014), *Changer de modèle* (Paris: Odile Jacob).

criticised them for failing to address the rigidity of the labour market or incentivise private sector hiring, pointing instead to a continuation of policies that had yielded only modest results in the past. They also pointed out that Hollande's policy shift was presented as a temporary measure, which lessened its incentive effect on employers given the fiscal uncertainty that could prevent them from recruiting.

Another criticism was raised against these early policies: the target of CICE was low-paid jobs, which would have an effect on the unemployment rate, but not so much in reinforcing France's industry and innovation sectors, both capital intensive and with higher wages. The risk was to create hundreds of thousands of low-paid jobs in labour-intensive industries such as restaurant chains or mass retail, with no positive effect on the real drivers of economic growth and trade balance.

These early decisions reflected a deeper philosophical divide within the Socialist Party and the French political culture more broadly. Hollande's posture was initially cautious toward liberal reforms and sceptical about globalisation and market mechanisms. While these positions resonated with the left-wing electorate and union movements, they also revealed the limits of operating within the constraints of European integration, high public debt, and slow economic growth.

In retrospect, many of Hollande's early antiliberal measures were either reversed, diluted, or overshadowed by the realities of governance. The initial tone was unambiguously redistributive and interventionist, rooted in a vision of the State as a bulwark against the market. It was, in essence, the last major expression of a traditional French left-wing economic program before the ideological realignments that followed. However, the initial measures were never disavowed. Symmetrically, the realignments were never fully acknowledged – which was not enough to prevent a major political crisis.

#### 4. Pacts, shocks, and the subtle labelling of liberal policies: 2013-2016.

The 2012 shift had been introduced as a *pact*: not a liberal strategy, but a

transactional policy meant at forcing promises of job creations by the enterprises – a competitiveness against recruitments deal. The same logic applied to the Responsibility Pact in 2013.

The core of the Responsibility Pact was a pledge to cut € 40 billion in charges and taxes for companies over several years. In return, businesses were expected to create jobs and contribute to reducing France's unemployment. To finance this measure, the government committed to reducing public spending by € 50 billion, sparking criticism from both the political left and public sector unions. Many on the left accused Hollande of betraying socialist principles and adopting a supply-side agenda that echoed liberal economic orthodoxy. The pact deepened ideological divisions within the Socialist Party, with a group of *frondeurs* (rebels) in Parliament openly opposing the government's course.

While business associations welcomed the pact, implementation faced several challenges. The inner nature of the pact, aimed at presenting the policy in a politically acceptable manner, was not adapted to economic decision-making within *compagnies*. They were reluctant to make binding job commitments without clearer economic signals, and the expected employment gains proved modest. Politically, the Responsibility Pact contributed to the erosion of Hollande's support within his own camp, paving the way for the emergence of Emmanuel Macron as a reformist alternative within the government.

In retrospect, many of Hollande's early antiliberal measures were either reversed, diluted, or overshadowed by the realities of governance.

If the CICE represented the economic opening to liberalism, the 2016 labour law – *loi Travail*, aka *loi El Khomri* – was the political climax of Hollande’s closet liberalism. Officially intended to modernise labour relations and increase labour market flexibility, the reform sparked months of nationwide protests, strikes, and a profound fracture within the left.<sup>13</sup>

At the heart of the reform stood the decentralisation of labour negotiations from national branch agreements to company-level agreements. This included flexibility in working hours, rest periods, and overtime pay. The law weakened the hierarchical structure of labour norms that had historically protected workers through strong sectoral agreements. It also simplified procedures for economic layoffs, making it easier for companies to reduce staff during downturns. While the legal 35-hour workweek remained, companies could now negotiate overtime more flexibly,<sup>14</sup> quietly undermining a key legacy of Lionel Jospin’s Socialist government without openly dismantling it or disavowing it.

The policy rationale reflected a classical supply-side diagnosis: rigid labour laws were stifling job creation, especially for the youth. Hollande’s government argued that giving firms greater flexibility would unlock hiring potential and reduce the chronic unemployment that had plagued France for decades. Yet this technocratic justification did not convince the left and was seen as a political betrayal: the Socialist government was undermining the institutions – unions, collective bargaining frameworks, labour protections – that had been pillars of the left’s social model.

Again, the policy was presented not as market-oriented policy, but as a social tool to reduce unemployment. The Hollande administration insisted the law was not a liberalisation but a *modernisation*.

Similarly, Hollande framed the shift not as austerity, but as *responsible management*, attempting to maintain the image of a president faithful to

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13 P. Marière (2024), 'French Social Democracy in Turmoil', *The Political Quarterly*, 95, 645–652.

14 T. Nikolka and P. Poutvaara (2019), *Labour Market Reforms and Collective Bargaining in France*, ifo DICE Report, ifo Institut – Leibniz-Institut für Wirtschaftsforschung an der Universität München, München, 16(4), 44-49.

social justice while implementing technocratic cost-cutting. This rhetorical manoeuvre allowed Hollande to avoid direct confrontation with his base, but it also diluted his political identity. However, the manoeuvre backfired leading to deepened mistrust. In 2015 the *Loi Travail* passed through Article 49.3 of the Constitution, bypassing parliamentary debate, further eroding democratic legitimacy.

Public response was fierce. The *Nuit Debout* (*Standing all night*) movement, which occupied public squares across France, articulated not just opposition to the reform, but to the broader sense of dispossession felt under *neoliberal globalisation*. For many on the left, the *Loi Travail* marked the final rupture between Hollande and the left. His approval ratings plummeted, but Emmanuel Macron, Minister of Economy at the time and an architect of these reforms, would soon break away to found a centrist movement explicitly embracing liberalism.

Indeed, the only economic law under Hollande that was openly liberal was, one year before the *Loi Travail*, the 2015 Macron Law. Often described as a *catch-all* bill, the text aimed to broadly *liberate* economic activity by introducing more competition, particularly in regulated sectors. Among its measures, the expansion of opportunities for shops to open on Sundays and at night, the liberalisation of long-distance bus transport through the elimination of the SNCF monopoly, and a reform of the regulation of certain professions (notaries, bailiffs, and auctioneers) to increase

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At the heart of the reform stood the decentralisation of labour negotiations from national branch agreements to company-level agreements.

the number of professionals in those fields.

The political paradox of François Hollande's presidency lies in the fact that he gained nothing from refusing to embrace the liberal turn his policies ultimately took. In attempting to preserve unity within the Socialist Party and avoid alienating his left-wing base, Hollande adopted a cautious and ambiguous stance. He implemented significant pro-business reforms – such as the CICE tax credit, the Responsibility Pact, and later the Macron Law – yet consistently refrained from presenting them as part of a coherent liberal strategy. As a result, he failed to convince either side: the left accused him of betrayal, while the centre and right saw him as lacking conviction. This hesitation left him politically isolated and ideologically unanchored. Had he assumed and explained his choices more clearly, he might have redefined social democracy in France and built a new reformist coalition – just as Macron did in 2017. Instead, his reluctance to own his economic shift only deepened the fragmentation of the French left and undermined his credibility with the broader electorate.

The 2012 competitiveness pact, the 2013 responsibility pact, the 2015 Macron law and the 2016 El Khomri law alleviated the tax burden on companies and relaxed labour market regulation, both on working time and the conditions for firing employees:<sup>15</sup> together, these measures reflect an unspoken but coherent liberal policy orientation. The employment gains were modest and slow to materialise, which undermined public confidence in the strategy. Nonetheless, contrary to early pessimist assessment from economists opposing the reform,<sup>16</sup> these combined policies resulted in two million jobs being created between 2016 and 2022.

A key moment was the transformation of CICE into a permanent reduction in employers' social contributions under Emmanuel Macron's

15 For a quantitative assessment: F. Murtin and J.-M. Robin (2018), 'Labor market reforms and unemployment dynamics', *Labour Economics*, 50, 3-19.

16 For instance, the Keynesianist stronghold of OFCE. See M. Plane (2012), 'Evaluation de l'impact économique du crédit d'impôt pour la compétitivité et l'emploi (CICE)', *Revue de l'OFCE*, 126, 141.

government, in 2019. This shift aimed to simplify the mechanism and make the benefits more immediate and predictable for businesses. Instead of receiving a tax credit the following year, employers would now benefit directly from a reduction in payroll taxes (particularly on low and medium wages), effectively turning a delayed fiscal incentive into a structural and upfront cost cut. This reform preserved the original economic intent of the CICE – improving competitiveness and encouraging employment – while enhancing clarity and reducing administrative complexity.

Although the continuity is obvious in this case and Hollande's supply-side policies laid the groundwork for France's later recovery under Emmanuel Macron, neither Holland himself nor the Socialist Party took pride of their victory on unemployment. Hollande himself received little credit, and the ambiguous communication around his economic agenda contributed significantly to his political decline and eventual decision not to seek re-election in 2017.

## 5. Hollande, or the paradox of a reluctant liberal.

'Everything that Macron does was initiated by Hollande', said in 2017 Henri Sterdyniak, an economist at the French Observatory of Economic Conjunctures (OFCE), in Sciences Po. 'President Macron is completing the work he began: that of Macron as advisor to Hollande and then as Macron as Minister of the

President  
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Economy'.<sup>17</sup>

However, this liberal policy was never a liberal agenda. It was never – and is still not – endorsed as such by the Socialist Party or Hollande himself (in power or his numerous assessments of his presidency afterwards). It was consistently framed as either temporary, social in nature, or as a strong-handed policy aimed at negotiating with businesses. Contradictions with previous Socialist Party policies and continuity with Macron's policies were, and remain, denied.

Hollande never fully articulated or defended his policy shift in ideological terms, leaving him vulnerable to criticism from all sides. The left viewed the reforms as a betrayal of core values, while the right doubted their consistency and scope.

In August 2017, a few months after leaving office, Hollande was seen at the Angoulême Francophone Film Festival and could not resist a political comment on his successor: 'We shouldn't make the labour market more flexible than we already have, at the risk of creating disruptions', he said.<sup>18</sup> In his 2018 memoir *Les Leçons du pouvoir*,<sup>19</sup> he took a similar stance, simply stating that 'these efforts' (the supply-side policy) were necessary, without further comment on their ideological underlying.

François Hollande's presidency is a textbook case of the dilemmas faced by centre-left leaders in the post-2008 era, but he is also a perfect representative of a long tradition of ambiguities towards liberalism within the French left. Trapped between ideological commitments and economic constraints, he opted for policies that aligned more closely with liberal orthodoxy than with socialist tradition. Yet his reluctance to own these choices created a vacuum of political meaning. By masking liberal reforms behind technocratic language and refusing to acknowledge the ideological shift, Hollande alienated both his left-wing

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<sup>17</sup> Quoted by Guillaume Poingt. G. Poingt (2017), 'Ces mesures de Hollande qui ont déjà flexibilisé le marché du travail', *Le Figaro*, 23 August.

<sup>18</sup> Ibid.

<sup>19</sup> F. Hollande (2018), *Les Leçons du pouvoir* (Paris: Stock).

base and centrist voters.

The alleviation of corporate fiscal burdens and the labour reform of 2016 were successful, but their political context and rhetorical framing made them toxic. They were introduced by a president elected on an anti-liberal platform, executed without ideological transparency, and justified without public engagement.

In this light, closet liberalism was not simply a strategic disguise – it was a fatal political miscalculation, hollowing out the Socialist Party and contributing to the polarisation of French politics. Hollande's failure was not merely one of policy, but of coherence: he governed as a liberal without ever saying so.

Hollande's failure was not merely one of policy, but of coherence: he governed as a liberal without ever saying so.

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# CONCLUSION

# Conclusion

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## Renata Gravina

The experience of Italy, Spain, Germany, and France shows that liberal reform need not spring from pure ideological conversion but often from pragmatic necessity – and that it can be repackaged to fit very different political cultures. Italy’s coalition and technocratic leaders unlocked markets with the Bersani Decree, Jobs Act, and selective privatisations only under EU and crisis pressure; Spain’s PSOE deepened its welfare-state even as it cut power levies, repealed the sun tax, tightened property rights, and liberalised immigration to stabilise prices and spur growth; Germany’s Schröder SPD–Green coalition drew on ordoliberal traditions to push through Hartz labour reforms with union compensations, and later modernised health insurance without full marketisation; and France’s Socialist and Gaullist governments quietly rolled out CICE, the Responsibility Pact, El Khomri labour flexibility, and Macron’s deregulations under a *modernisation* banner while publicly denouncing liberalism.

These cases teach us that liberalism thrives when crises force pragmatic shifts, when reforms are embedded in narratives of solidarity or technical necessity, and when stakeholders receive clear compensations. More importantly, they reveal liberalism’s twofold

promise – and peril: its flexibility makes it a potent engine of growth, innovation, and resilience, but if reforms stray too far from citizens' sense of security, public trust erodes, and populist backlashes follow.

For the future, European policymakers must transcend episodic liberal turns and forge a lasting *liberal social contract*: one that openly celebrates competition and choice, buttresses them with strong safety nets, and weaves in pre-negotiated compensations to protect those most exposed to change. Drawing on the insights of Einaudi and Alesina in Italy, Huerta de Soto in Spain, Say and Piketty in France, and Eucken and Erhard in Germany, tomorrow's leaders can blend fiscal prudence with strategic investment, individual initiative with collective responsibility, and market logic with social justice. In doing so, liberal democracy will not merely weather the next storm—but emerge more inclusive, dynamic and hopeful than ever.

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The experience of Italy, Spain, Germany, and France shows that liberal reform need not spring from pure ideological conversion but often from pragmatic necessity.

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ISBN: 978-2-39067-095-7

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This publication was co-financed by the  
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