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**THE BALANCED BUDGET IN THE ITALIAN CONSTITUTION: THE EVOLUTION OF  
ARTICLE 81 AND THE SUSTAINABILITY OF PUBLIC FINANCES**

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### Abstract

This paper examines the constitutional principle of budgetary balance in the Italian legal system, focusing on the evolution of Article 81 of the Constitution and its implications for the sustainability of public finances. The original constitutional framework, as adopted in 1948, is analysed as a model centred on procedural budgetary constraints and parliamentary responsibility, which allowed for a broad margin of political discretion in fiscal policy and did not constitutionalise budget balance as a binding objective.

Against this background, the paper reconstructs the progressive transformation of the constitutional discipline of public finance, culminating in the 2012 constitutional reform that introduced the balanced budget principle into Article 81. Particular attention is devoted to the interaction between domestic constitutional law and European fiscal governance, highlighting how supranational constraints have influenced national constitutional choices and reshaped the relationship between democratic decision-making and fiscal discipline.

The analysis adopts a legal-institutional perspective informed by public finance theory, examining the effects of constitutional budgetary rules on fiscal sustainability, public expenditure, and the allocation of budgetary responsibilities. The paper also considers the role of constitutional adjudication in mediating the tension between fiscal constraints and the protection of fundamental rights. Overall, the study aims to contribute to the debate on constitutional budgeting by assessing the impact of the balanced budget principle on the structure and functioning of public finance in Italy.

**JEL classification:** H61, H62, H63, H11, K30

**Keywords:** Balanced budget; Article 81 of the Italian Constitution; Public finance; Fiscal sustainability; Constitutional budgeting; European fiscal governance

## 1. INTRODUCTION

The principle of budgetary balance has come to occupy a central role in contemporary debates on public finance and constitutional law. Its incorporation into the set of constitutional norms governing public financial activity reflects a profound transformation in the relationship between political decision-making, fiscal sustainability, and legal constraints. In the Italian legal system, this transformation has unfolded gradually, culminating in the constitutional reform of 2012, which amended Article 81 of the Constitution and explicitly introduced the balanced budget principle (Bartolucci, 2022; Capanaro, 2012; Dickmann, 2012; Di Grazia, 2012; Nardini, 2012; Zanette, 2014).

From a public finance and public choice perspective, the constitutionalisation of budgetary balance may be interpreted as a response to structural incentive problems inherent in democratic fiscal policy. A substantial body of economic literature highlights the tendency of political systems to generate deficit bias, driven by short-term electoral horizons, fragmented decision-making, and the common-pool nature of public resources. This pattern is commonly framed as a deficit bias arising from political incentives and intertemporal trade-offs in democratic budgeting (Alesina & Perotti, 1995; Persson & Svensson, 1989). In the absence of credible commitment mechanisms, governments may rationally favour expansionary fiscal choices that yield immediate political benefits while deferring adjustment costs to future periods. Within this framework, constitutional fiscal rules can be understood as institutional devices aimed at constraining discretionary behaviour, addressing time inconsistency, and enhancing the credibility of fiscal policy over the long term. Constitutional fiscal constraints can be interpreted as commitment devices addressing problems of time inconsistency in economic policy

(Kydland & Prescott, 1977).

From an analytical standpoint, this paper treats constitutional budgetary rules not as purely normative prescriptions, but as institutional commitment devices embedded in a broader political and economic system.

The original constitutional framework, as adopted in 1948, did not provide for budgetary balance as a binding constitutional objective. The Constituent Assembly deliberately chose not to constitutionalise an obligation to balance revenues and expenditures, opting instead for a system grounded in procedural guarantees and parliamentary responsibility. In its original wording, Article 81 required that any law involving new or increased expenditure indicate the corresponding financial coverage, thereby ensuring transparency and accountability in public financial decisions without imposing substantive limits on deficit financing (Bognetti, 2008; Buscema, 1956; Caianello, 2000; Perez, 1983).

This constitutional design was closely linked to the historical and economic context in which the Italian Constitution was drafted. In the aftermath of the Second World War, public finance was conceived primarily as an instrument of economic reconstruction, social development, and redistribution. This approach was consistent with the broader post-war European economic context, in which public finance played a central role in reconstruction, industrial development, and macroeconomic stabilisation (Aldcroft, 1994). The Constitution reflected this approach by granting a wide margin of political discretion in fiscal policy, while relying on parliamentary oversight and political accountability as the primary safeguards against financial imbalance (Bognetti, 2008; Perez, 1983).

For several decades, the constitutional discipline of public finance remained

substantially unchanged. Budgetary balance was not regarded as a constitutional principle, but rather as a policy objective to be pursued through ordinary legislation and political choice. Public debt and deficit dynamics were addressed within the sphere of economic policy, without being subject to direct constitutional constraints. In this respect, the Italian constitutional system privileged flexibility and discretion over rigid fiscal rules.

This equilibrium began to be questioned in the context of increasing public debt and, more decisively, during the European sovereign debt crisis. The growing importance attributed to fiscal sustainability, both at the domestic and at the European level, prompted a reassessment of the role of constitutional law in governing public finance. In particular, the development of European fiscal governance and the strengthening of supranational budgetary constraints progressively reduced the scope of national discretion in fiscal matters (Bartolucci, 2022; Craig, 2012; Cisotta, 2022; Nardini, 2012; Tosato, 2013; Zanette, 2014).

The constitutional reform of 2012 must be understood against this background. By introducing the balanced budget principle into Article 81, the reform marked a turning point in the Italian constitutional framework. Fiscal sustainability was elevated from a policy objective to a constitutional requirement, thereby transforming the legal nature of budgetary rules and their relationship with democratic decision-making. The balanced budget principle was no longer merely aspirational, but rather a binding norm intended to guide legislative and budgetary choices (Ainis, 2013; Capanaro, 2012; Dickmann, 2012; Di Grazia, 2012; Salvemini, 2003; Zagrebelsky, 1992).

The reform also redefined the relationship between national constitutional autonomy and European fiscal constraints. By aligning domestic

constitutional law with the requirements of European fiscal governance, Italy sought to internalise supranational obligations within its constitutional order. This alignment was intended to strengthen the credibility of fiscal commitments and to ensure compliance with European rules through domestic constitutional mechanisms (Craig, 2012; Cisotta, 2022; Tosato, 2013).

Moreover, the constitutionalisation of budgetary balance raised complex legal and institutional questions. The introduction of a binding fiscal rule into the Constitution affected the traditional balance between political discretion and legal constraint, as well as the relationship between fiscal discipline and the protection of fundamental rights. The new constitutional framework thus required a redefinition of the roles of Parliament, the Government, and the Constitutional Court in the field of public finance.

The aim of this paper is to examine the evolution of Article 81 of the Italian Constitution in light of these developments. It reconstructs the original constitutional approach to public finance, analyses the factors that led to the 2012 reform, and assesses the implications of the balanced budget principle for the sustainability of public finances and for the functioning of the constitutional system. Particular attention is devoted to the interaction between domestic constitutional law and European fiscal governance, as well as to the role of constitutional adjudication in mediating the tensions arising from the constitutionalisation of fiscal constraints (Ainis, 2013; Craig, 2012; Cisotta, 2022; Salvemini, 2003; Tosato, 2013; Zagrebelsky, 1992).

The rest of the paper is organised as follows. Section 2 reconstructs the original constitutional framework of Article 81 and the procedural model of public finance adopted in 1948. Section 3 examines the evolution of constitutional interpretation prior to the financial crisis. Section 4 analyses

the impact of the global financial and sovereign debt crisis and the transformation of European fiscal governance. Section 5 focuses on the 2012 constitutional reform and the new wording of Article 81. Section 6 discusses the interaction between fiscal constraints and the protection of fundamental rights in constitutional adjudication. Section 7 assesses the implications of the balanced budget principle for fiscal sustainability and fiscal capacity. Section 8 concludes.

## 2. THE ORIGINAL CONSTITUTIONAL FRAMEWORK OF ARTICLE 81 AND PUBLIC FINANCE

In its original formulation, Article 81 of the Italian Constitution regulated public finance through a set of procedural rules designed to ensure parliamentary control over budgetary decisions. The provision was articulated into four paragraphs, each addressing a specific aspect of the budgetary process, without establishing substantive limits on public deficit or public debt (Bognetti, 2008; Perez, 1983).

The first paragraph entrusted Parliament with the approval of the annual budget and the final accounts, thereby affirming the principle of parliamentary centrality in financial matters. This provision reflected the prominent role attributed to representative institutions in the allocation of public resources and in the oversight of government expenditure. Budgetary decisions were thus conceived as a core expression of democratic choice, to be exercised through parliamentary debate and formal approval (Bognetti, 2008; Perez, 1983).

The second paragraph introduced the requirement that any law involving new or increased expenditure indicate the corresponding financial coverage.



This rule was intended to ensure transparency and responsibility in legislative decision-making, preventing the adoption of expenditure measures detached from an assessment of their financial implications. Crucially, the requirement of financial coverage did not preclude recourse to borrowing, nor did it impose an obligation to balance revenues and expenditures within the same fiscal year (Buscema, 1956; Caianello, 2000).

The third and fourth paragraphs of Article 81 governed the timing of budget approval and the use of provisional budgetary arrangements. These provisions sought to ensure continuity in public administration while preserving parliamentary oversight during transitional periods. Taken together, the original text of Article 81 established a procedural framework aimed at disciplining the budgetary process without constraining the substance of fiscal policy choices (Bognetti, 2008; Brancasi, 2010; Cassese, 2021; Perez, 1983).

This constitutional architecture reflected a deliberate decision by the Constituent Assembly. During the drafting process, proposals to constitutionalise budgetary balance or to introduce explicit limits on public borrowing were discussed and ultimately rejected. The prevailing view was that rigid fiscal constraints would unduly restrict the State's capacity to pursue economic and social objectives, particularly in a context characterised by post-war reconstruction and structural economic challenges.

As a result, the Constitution privileged flexibility and political discretion in fiscal matters. Public finance was conceived as an instrument of economic policy, capable of supporting development, employment, and social welfare. The absence of substantive constitutional constraints enabled governments to adapt fiscal policy to changing economic conditions, including through the use of deficit financing when considered necessary. The procedural nature of the

original budgetary framework was further reinforced by subsequent reforms of public accounting, which strengthened formal controls without introducing substantive fiscal constraints (Bergonzini, 2011).

From an economic standpoint, the broad margin of fiscal discretion embedded in the original constitutional framework may also be associated with structural weaknesses in budgetary discipline. Discretionary fiscal governance, particularly in fragmented political systems, tends to exacerbate common-pool problems, as multiple actors internalise the benefits of public spending while externalising its long-term costs. In this sense, the absence of binding constitutional constraints contributed to an institutional environment in which persistent deficits and debt accumulation emerged as predictable outcomes of political incentives rather than as the result of isolated policy failures.

For an extended period, this framework was not regarded as problematic. Public debt dynamics were addressed within the domain of economic policy rather than constitutional law, and budgetary imbalances were understood as the outcome of political choices subject to democratic accountability. The Constitution did not impose a specific model of fiscal sustainability, leaving such determinations to ordinary legislation and economic governance (Bartolucci, 2022; Nardini, 2012; Zanette, 2014).

Constitutional doctrine and jurisprudence reinforced this understanding. The requirement of financial coverage was consistently interpreted as a procedural obligation rather than as a substantive limit on public expenditure. The Constitutional Court emphasised that the rule was intended to ensure coherence and transparency in budgetary decisions, without establishing a constitutional obligation of budgetary balance (Buscema, 1956; Caianello, 2000).

In this respect, the original constitutional framework of Article 81 embodied a model of public finance grounded in parliamentary responsibility and political discretion. Fiscal discipline was ensured through institutional procedures and democratic control rather than through rigid legal constraints. This model would later be challenged by changes in the economic environment and by the progressive development of European fiscal governance (Bognetti, 2008; Craig, 2012; Cisotta, 2022; Perez, 1983; Tosato, 2013).

### 3. CONSTITUTIONAL INTERPRETATION OF ARTICLE 81 AND THE EVOLUTION OF PUBLIC FINANCE BEFORE THE CRISIS

The constitutional framework established by the original wording of Article 81 was progressively shaped and clarified through constitutional interpretation, most notably by the jurisprudence of the Constitutional Court. Over time, the Court played a significant role in defining the scope and meaning of the constitutional rules governing public finance, while consistently maintaining a clear distinction between procedural requirements and substantive fiscal constraints (Rivosecchi, 2016).

In its early case law, the Constitutional Court emphasised that Article 81 did not impose an obligation of budgetary balance, nor did it establish limits on the overall level of public expenditure or public debt. The requirement of financial coverage was interpreted as a condition of rationality and coherence in legislative decision-making, intended to prevent the adoption of expenditure measures without due consideration of their financial implications. This interpretation confirmed the procedural nature of the constitutional discipline of public finance (Buscema, 1956; Caianello, 2000).

The Court repeatedly affirmed that the obligation to indicate financial coverage did not require the immediate availability of financial resources, nor did it prohibit recourse to borrowing. Coverage could be ensured through a variety of instruments, including future revenues and debt issuance, provided that the legislature adopted a coherent and reasonable financial framework. In this way, constitutional interpretation preserved a broad margin of discretion for political decision-makers in the management of public finances (Buscema, 1956; Caianello, 2000; Rivosecchi, 2016).

This jurisprudential approach was closely connected to the broader constitutional context. The Italian Constitution recognises and protects a wide range of social rights, the effective implementation of which often entails significant public expenditure. The Constitutional Court consistently rejected interpretations of Article 81 that would subordinate the protection of fundamental rights to rigid financial constraints. Budgetary considerations were regarded as relevant, but not decisive, in assessing the constitutionality of legislative measures affecting social rights (D'Amico, 2018; Pezzini, 2001; Perfetti, 2013).

As a result, the relationship between public finance and constitutional rights was characterised by a balancing approach. Fiscal sustainability was acknowledged as an important objective, but it did not automatically prevail over other constitutional values. The Court's case law thus reflected an understanding of public finance as an instrument serving broader constitutional purposes, rather than as an autonomous constitutional end in itself.

Throughout the decades preceding the sovereign debt crisis, this interpretive framework remained substantially stable. Despite the progressive growth of public debt and the persistence of budgetary imbalances, the constitutional

discipline of public finance was not fundamentally reconsidered. The absence of a constitutional obligation of budgetary balance allowed fiscal policy to retain a high degree of flexibility and responsiveness to economic conditions, while issues of debt sustainability continued to be addressed primarily within the sphere of political decision-making.

This jurisprudential balancing implicitly reflects underlying economic trade-offs between fiscal flexibility and fiscal credibility. By preserving a wide margin of discretion in the allocation of public resources, constitutional interpretation allowed governments to respond to social needs and economic fluctuations, but at the cost of weaker commitment to long-term fiscal sustainability. From this perspective, constitutional adjudication operated within a framework that prioritised policy space over credibility, accepting higher exposure to deficit bias as the price of preserving flexibility in public finance.

However, this equilibrium increasingly came under strain as economic conditions evolved and as European integration deepened. The gradual development of European fiscal rules and the strengthening of supranational budgetary constraints progressively reduced the scope of national discretion. Although these developments initially operated through ordinary legislation and political coordination, they anticipated a more profound transformation of the constitutional framework governing public finance.

In this respect, the evolution of constitutional interpretation of Article 81 prior to the crisis laid the groundwork for subsequent constitutional reform. By preserving a flexible and discretionary model of public finance, constitutional jurisprudence remained faithful to the original constitutional design. Moreover, this model would later be reassessed in light of new economic and institutional pressures, ultimately leading to the

constitutionalisation of fiscal constraints (Capanaro, 2012; Dickmann, 2012; Di Grazia, 2012; Rivosecchi, 2016).

#### 4. THE FINANCIAL AND SOVEREIGN DEBT CRISIS AND THE TRANSFORMATION OF FISCAL GOVERNANCE

The global financial crisis and the subsequent sovereign debt crisis profoundly reshaped the institutional framework governing public finance in Europe and in Italy. These events exposed structural vulnerabilities in national fiscal systems operating within an increasingly integrated economic and monetary environment and brought issues of fiscal sustainability to the centre of political and legal debate. In this context, the relationship between public finance, constitutional law, and European integration underwent a significant transformation (Bartolucci, 2022; Nardini, 2012; Zanette, 2014).

At the European level, the crisis revealed the limits of the existing architecture of Economic and Monetary Union, which combined a centralised monetary policy with largely decentralised fiscal responsibilities. Concerns regarding public debt sustainability and the risk of financial contagion among Member States prompted a rapid strengthening of European fiscal governance. New instruments and mechanisms were introduced with the objective of reinforcing budgetary discipline and ensuring closer compliance with fiscal rules. (Craig, 2012; Cisotta, 2022; Tosato, 2013). The euro crisis has profoundly reshaped the constitutional landscape of the European Union, blurring traditional boundaries between economic governance and constitutional authority (Chalmers, 2013).

Early analyses highlighted how the emerging governance of the euro area was already producing significant spillovers on domestic constitutional

arrangements (Bilancia, 2012). The Stability and Growth Pact was revised and complemented by a series of legislative measures aimed at enhancing surveillance, coordination, and enforcement. These reforms placed increased emphasis on balanced budgets, debt reduction, and medium-term fiscal objectives. Moreover, intergovernmental agreements further consolidated Member States' commitments to fiscal discipline, including through the promotion of balanced budget rules within national legal systems.

This evolution had far-reaching implications for domestic constitutional orders. European fiscal rules increasingly constrained national budgetary choices, significantly narrowing the margin of discretion traditionally enjoyed by national parliaments. Fiscal policy became subject to intensified monitoring and coordination at the supranational level, thereby altering the balance between national sovereignty and European integration in the field of public finance. These developments can be read in light of the broader tension between effective economic governance and democratic legitimacy in multilevel systems of decision-making (Scharpf, 1999).

The crisis-driven expansion of fiscal conditionality has had differentiated effects across national constitutional orders, reshaping domestic budgetary autonomy within a broader European framework (Baraggia, 2017). In Italy, these developments coincided with a period of acute financial pressure. Rising yields on sovereign debt and heightened market scrutiny underscored the perceived fragility of public finances and intensified calls for structural and institutional reforms. Fiscal sustainability emerged as a central concern not only of economic policy but also of constitutional design. In this climate, constitutional reform was presented as a means of strengthening the credibility of fiscal commitments and restoring confidence among financial markets (Capanaro, 2012; Dickmann, 2012; Di Grazia, 2012).

In economic terms, the crisis revealed a fundamental credibility problem rather than a purely fiscal imbalance. Rising sovereign spreads reflected not only concerns over debt levels, but also doubts regarding governments' capacity to commit credibly to future fiscal adjustment. In this context, the strengthening of fiscal rules and the promotion of constitutional constraints can be interpreted as signalling devices, designed to influence expectations and reduce borrowing costs by increasing the political and legal costs of fiscal deviation.

The decision to amend Article 81 of the Constitution must be understood against this background. The reform did not constitute a merely technical adjustment of budgetary rules, but rather a response to a broader transformation in the governance of public finance. By constitutionalising the principle of budgetary balance, Italy sought to align its domestic constitutional framework with European fiscal requirements and to internalise supranational constraints within its constitutional order.

This process raised fundamental questions regarding the role of constitutional law in periods of economic crisis. The recourse to constitutional amendment as a tool of fiscal governance reflected a shift toward legal mechanisms as instruments for ensuring economic stability. Moreover, it generated debate over the appropriate balance between legal constraint and political discretion, particularly in light of the social and economic consequences associated with fiscal consolidation measures.

The financial and sovereign debt crisis thus acted as a catalyst for the transformation of fiscal governance in Italy. It accelerated the convergence between domestic constitutional law and European fiscal rules and paved the way for the 2012 constitutional reform. The introduction of the balanced budget principle into the Constitution marked the culmination of this process



and signalled the opening of a new phase in the constitutional regulation of public finance (Ainis, 2013; Capanaro, 2012; Dickmann, 2012; Di Grazia, 2012; Salvemini, 2003; Zagrebelsky, 1992).

Recent proposals for reforming EU fiscal rules reflect an attempt to reconcile sustainability, flexibility, and investment needs within the post-crisis governance framework (Assalve & Giachin Ricca, 2025). The incorporation of budgetary balance into constitutional law must also be read within the broader transformation of European economic governance (Cavaliere, 2014).

## 5. THE CONSTITUTIONAL REFORM OF 2012 AND THE NEW ARTICLE 81

The constitutional reform adopted in 2012 introduced a profound transformation in the Italian system of public finance by revising Article 81 of the Constitution and explicitly incorporating the principle of budgetary balance. Through this reform, fiscal sustainability was elevated from a policy objective pursued through ordinary legislation to a binding constitutional requirement, fundamentally reshaping the legal framework governing budgetary decision-making (Bartolucci, 2022; Capanaro, 2012; Dickmann, 2012; Di Grazia, 2012; Nardini, 2012; Zanette, 2014).

The revised wording of Article 81 provides that the State shall ensure the balance between revenues and expenditures, taking into account the economic cycle. This formulation reflects the influence of European fiscal governance, particularly the concept of structural balance, and introduces a more nuanced understanding of budgetary equilibrium than a simple annual balancing requirement. Moreover, the Constitution permits recourse to borrowing only in exceptional circumstances, such as severe economic downturns or extraordinary events, and subject to explicit parliamentary

authorization (Bognetti, 2008; Craig, 2012; Cisotta, 2022; Perez, 1983; Tosato, 2013).

The reform also reinforced the procedural framework surrounding budgetary decisions. Enhanced parliamentary majorities are required in order to authorise deviations from budgetary balance, thereby increasing the political cost associated with deficit financing. This mechanism is intended to strengthen fiscal discipline by subjecting exceptional borrowing to heightened democratic scrutiny. In this respect, the reform combines substantive fiscal constraints with procedural safeguards, giving rise to a hybrid model of constitutional regulation of public finance (Bognetti, 2008; Brancasi, 2010; Cassese, 2021; Perez, 1983).

From a public choice perspective, the revised Article 81 alters the incentive structure of fiscal policymaking by increasing the political cost associated with deficit financing. By constitutionalising budgetary balance and subjecting deviations to enhanced procedural requirements, the reform seeks to mitigate deficit bias and reduce opportunistic fiscal behaviour. Moreover, these constraints inevitably affect fiscal space, particularly with regard to public investment, which tends to involve deferred benefits and is therefore more vulnerable under strict budgetary rules (Ainis, 2013; Salvemini, 2003; Zagrebelsky, 1992).

From a constitutional perspective, the introduction of the balanced budget principle represents a significant reconfiguration of the relationship between political discretion and legal constraint. Whereas the original version of Article 81 left a wide margin for fiscal policy choices, the revised provision establishes a constitutional benchmark that must be respected by both the legislature and the executive. Budgetary decisions are therefore no longer assessed solely in political terms, but also in light of their conformity with

constitutional requirements (Bartolucci, 2022; D'Amico, 2018; Nardini, 2012; Pezzini, 2001; Perfetti, 2013; Zanette, 2014).

The reform has important implications for the allocation of powers among constitutional actors. Parliament retains its central role in approving the budget and authorising borrowing, but its discretion is now exercised within a more constrained constitutional framework. The Government, in turn, is required to design and implement fiscal policy in compliance with constitutional limits, while independent institutions assume an increasingly significant role in monitoring fiscal developments and ensuring transparency (Capanaro, 2012; Dickmann, 2012; Di Grazia, 2012). Budgetary decision-making increasingly relies on macroeconomic indicators that mediate between technical assessment and constitutional choice (Caruso & Morvillo, 2020).

The constitutionalisation of budgetary balance also affects the relationship between public finance and the protection of fundamental rights. By introducing a binding fiscal constraint, the reform raises questions concerning the extent to which financial considerations may legitimately limit the implementation of constitutionally protected social rights. The new constitutional framework thus requires a careful and ongoing balancing between fiscal sustainability and the effective protection of rights. The constitutional debate on budgetary balance has long questioned the compatibility of such a principle with the original structure of the Italian Constitution (Bognetti, 2011).

In this context, constitutional adjudication assumes renewed importance. The Constitutional Court is called upon to interpret and apply the new Article 81, mediating the tension between fiscal constraints and other constitutional principles. The manner in which the Court carries out this balancing function

will play a crucial role in shaping the practical effects of the constitutional reform over time (Bartolucci, 2022; Nardini, 2012; Rivosecchi, 2016; Zanette, 2014).

## 6. FISCAL CONSTRAINTS, FUNDAMENTAL RIGHTS, AND CONSTITUTIONAL ADJUDICATION

The introduction of the balanced budget principle into Article 81 has significantly affected the relationship between public finance and the protection of fundamental rights within the Italian constitutional system. By constitutionalising fiscal sustainability, the 2012 reform altered the legal context in which public expenditure decisions are assessed, giving rise to complex questions concerning the interaction between financial constraints and constitutional guarantees (Ainis, 2013; Bartolucci, 2022; Nardini, 2012; Salvemini, 2003; Zagrebelsky, 1992; Zanette, 2014).

Traditionally, Italian constitutional jurisprudence had emphasised that budgetary considerations could not, in themselves, justify the compression of fundamental rights. While financial constraints were recognised as relevant factual elements, they were not regarded as autonomous constitutional values capable of overriding rights protected by the Constitution. The elevation of fiscal balance to the status of a constitutional principle therefore challenged this interpretive framework and required a reassessment of established doctrines. Constitutional case law has progressively clarified the scope of the new Article 81, particularly with regard to the sources and limits of budgetary obligations (Bergonzini, 2015).

In the post-reform period, the Constitutional Court has been called upon to reconcile the balanced budget requirement with the effective protection of

social rights, including the rights to health, education, and social assistance. The Court has generally adopted an interpretive approach aimed at avoiding rigid hierarchies among constitutional principles. Rather than treating fiscal sustainability as an absolute constraint, it has emphasised the need for a reasonable and proportionate balancing between financial requirements and the protection of constitutionally guaranteed rights (Bartolucci, 2022; D'Amico, 2018; Nardini, 2012; Perfetti, 2013; Pezzini, 2001; Zanette, 2014).

This jurisprudential orientation reflects an effort to preserve the core content of fundamental rights within a more constrained fiscal environment. The Court has acknowledged that public resources are finite and that budgetary choices inevitably entail trade-offs. Moreover, it has consistently reaffirmed that financial constraints cannot lead to the erosion of the essential content of fundamental rights. In this sense, fiscal sustainability operates as a contextual parameter in constitutional adjudication, rather than as a principle that automatically prevails over competing constitutional values.

The balanced budget principle has also influenced the standard of constitutional review applied to legislative measures involving public expenditure. Increased attention is devoted to the coherence, proportionality, and reasonableness of financial choices, as well as to the adequacy of the legislative justification provided. Compliance with the requirements of financial coverage and budgetary balance now forms part of the constitutional parameters against which legislation is assessed (Ainis, 2013; Buscema, 1956; Caianello, 2000; Salvemini, 2003; Zagrebelsky, 1992).

Moreover, the Constitutional Court has demonstrated awareness of the risks associated with an overly rigid application of fiscal constraints. Excessive reliance on budgetary balance as a constitutional benchmark could undermine the flexibility necessary to address social needs and respond to

economic fluctuations. Accordingly, the Court's case law reveals a cautious and incremental approach, seeking to adapt constitutional interpretation to the new fiscal framework without abandoning the foundational principles of the constitutional order (Rivosecchi, 2016). The justiciability of the balanced budget rule has raised complex interpretive issues within constitutional adjudication (Succio, 2015).

The interaction between fiscal constraints and constitutional adjudication thus exemplifies the broader challenges posed by the constitutionalisation of public finance. Legal rules designed to ensure fiscal sustainability inevitably intersect with substantive constitutional commitments, requiring continuous interpretive adjustment. In this context, the role of the Constitutional Court is central in shaping the practical operation of the balanced budget principle and in determining how fiscal discipline and rights protection coexist within the constitutional system (Ainis, 2013; Bartolucci, 2022; Nardini, 2012; Salvemini, 2003; Zagrebelsky, 1992; Zanette, 2014).

## 7. THE BALANCED BUDGET PRINCIPLE AND THE SUSTAINABILITY OF PUBLIC FINANCES

The constitutionalisation of the balanced budget principle has significant implications for the sustainability of public finances. By transforming fiscal balance into a constitutional requirement, the reform of Article 81 seeks to promote long-term fiscal discipline and to mitigate the structural tendencies toward deficit accumulation that have characterised public finance in many democratic systems.

From this perspective, the balanced budget principle functions as a commitment mechanism intended to influence the behaviour of political

actors over time. By constraining discretionary fiscal choices, constitutional fiscal rules aim to reduce opportunistic policymaking driven by short-term political incentives and to enhance the credibility of fiscal policy and discipline in public finance (Kopits & Symansky, 1998).

In this sense, the reform reflects an institutional response to problems of time inconsistency and deficit bias in public budgeting. Technical assessments have highlighted the need to recalibrate EU fiscal rules in order to enhance their effectiveness and credibility (Francová et al., 2021). The effectiveness of fiscal rules depends on their design, enforcement mechanisms, and interaction with political incentives (Wyplosz, 2012).

Moreover, the relationship between constitutional fiscal constraints and fiscal sustainability is neither automatic nor unambiguous. While the balanced budget principle may contribute to containing deficits and stabilising public debt dynamics, its effectiveness depends on the broader institutional and economic context in which it operates. Factors such as economic growth, cyclical conditions, and the design of implementing legislation play a crucial role in determining actual fiscal outcomes. Fiscal sustainability should therefore be understood not merely as compliance with numerical budgetary targets, but as the preservation of adequate fiscal capacity. From a policy-oriented perspective, fiscal capacity refers to the ability of the State to stabilise the economic cycle, finance productive public investment, and respond effectively to adverse shocks. An excessively rigid interpretation of the balanced budget principle risks undermining this capacity, thereby weakening long-term sustainability rather than reinforcing it.

In this perspective, it is useful to distinguish analytically between short-term stabilisation capacity and long-term investment capacity. While fiscal rules may support sustainability by containing deficit bias, overly rigid constraints

risk compressing public investment and weakening the State's ability to foster growth-enhancing expenditure. Fiscal capacity, therefore, should be understood as a dynamic concept, encompassing both the credibility of fiscal commitments and the ability to sustain productive public spending over time.

Recent economic literature has emphasised the need to redesign fiscal rules in order to better accommodate public investment and macroeconomic stabilisation (Blanchard et al., 2021). Recent reforms of the Stability and Growth Pact reflect a fragile compromise between fiscal discipline and economic flexibility (Fasone, 2024). From a policy perspective, the recovery phase has reopened the debate on the appropriate balance between fiscal discipline and economic support within the EU framework (Buti & Carnot, 2021).

Moreover, fiscal sustainability cannot be reduced solely to compliance with formal budgetary rules. The quality and composition of public expenditure, as well as the capacity of fiscal policy to support economic growth and social cohesion, are equally relevant. In this respect, an excessively rigid interpretation of the balanced budget principle could undermine long-term sustainability by limiting public investment and weakening the productive base of the economy.

The Italian constitutional framework seeks to address these concerns by allowing for limited flexibility within the balanced budget requirement. The reference to the economic cycle and the possibility of recourse to borrowing in exceptional circumstances reflect an awareness of the need to reconcile fiscal discipline with macroeconomic stabilisation. However, the practical effectiveness of these flexibility mechanisms depends on their interpretation and application by political and institutional actors. The application of fiscal rules has increasingly relied on discretionary assessments of flexibility,



particularly in the implementation of the Stability and Growth Pact (Domenicali, 2020).

The sustainability of public finances thus emerges as the result of a complex interaction between constitutional rules, economic conditions, and policy choices. The balanced budget principle provides a normative framework aimed at guiding fiscal behaviour, but it cannot substitute for coherent and responsible economic governance. Its contribution to fiscal sustainability ultimately depends on how it is integrated into the broader system of public finance management.

In this sense, the constitutionalisation of fiscal discipline should be understood as one component of a multifaceted approach to fiscal sustainability. Legal constraints may enhance credibility and discipline, but they must be complemented by sound economic policies, effective institutions, and a balanced consideration of competing constitutional values.

## 8. CONCLUDING REMARKS

The evolution of Article 81 of the Italian Constitution offers a revealing perspective on the constitutionalisation of fiscal discipline and its implications for public finance governance. The gradual transition from a framework centred on political discretion and procedural safeguards to one characterised by binding fiscal constraints reflects a broader transformation in the relationship between democratic decision-making, economic governance, and constitutional law (Ainis, 2013; Bartolucci, 2022; Nardini, 2012; Salvemini, 2003; Zagrebelsky, 1992; Zanette, 2014).

The original constitutional model adopted in 1948 deliberately refrained from imposing substantive limits on fiscal policy. Public finance was conceived as

an instrument for economic reconstruction, social development, and redistribution, entrusted to political institutions and subject primarily to parliamentary responsibility and democratic accountability. For several decades, this approach allowed for significant flexibility in fiscal choices, while relying on procedural mechanisms and constitutional interpretation to ensure coherence and transparency in budgetary decision-making (Bognetti, 2008; Perez, 1983; Rivosecchi, 2016).

This equilibrium was progressively challenged by structural changes in the economic environment and by the deepening of European integration. The development of European fiscal governance and the increasing emphasis on fiscal sustainability narrowed the scope of national discretion and introduced new constraints on domestic budgetary policies. The financial and sovereign debt crisis acted as a catalyst in this process, accelerating the shift toward stronger and more formalised fiscal rules (Bartolucci, 2022; Craig, 2012; Cisotta, 2022; Nardini, 2012; Tosato, 2013; Zanette, 2014).

The constitutional reform of 2012 marked a decisive turning point in this evolution. By incorporating the balanced budget principle into Article 81, fiscal sustainability was elevated to the rank of a constitutional requirement, reshaping the legal framework of public finance. This reform redefined the boundaries between political discretion and legal constraint, transforming budgetary balance into a normative benchmark capable of guiding and limiting legislative and governmental action. (Bartolucci, 2022; Capanaro, 2012; Dickmann, 2012; Di Grazia, 2012; Nardini, 2012; Zanette, 2014).

Moreover, the constitutionalisation of fiscal discipline has generated complex legal and institutional challenges. The balanced budget principle interacts with other constitutional values, particularly the protection of fundamental rights, and requires continuous interpretation and balancing. Constitutional

adjudication has therefore assumed a central role in mediating the tensions between fiscal constraints and substantive constitutional commitments, ensuring that budgetary discipline does not undermine the essential content of rights (Ainis, 2013; Salvemini, 2003; Zagrebelsky, 1992). The principle of sustainability increasingly operates as a constitutional horizon guiding long-term public decision-making (Groppi, 2016).

Overall, the Italian experience highlights both the potential benefits and the inherent limits of constitutional fiscal rules. While legal constraints may enhance fiscal discipline and policy credibility, they cannot, on their own, guarantee the sustainability of public finances. Fiscal sustainability ultimately depends on a broader set of factors, including economic growth, the quality of public expenditure, and the effectiveness of institutional governance. From an economic-institutional viewpoint, the balanced budget principle should be regarded as a governance instrument rather than as an end in itself. Its effectiveness depends less on its formal constitutional status than on the broader institutional design within which it operates, including the degree of flexibility, the treatment of public investment, and the interaction with supranational fiscal frameworks. The central challenge is therefore not the choice between rules and discretion, but the design of institutions capable of reconciling fiscal discipline with policy effectiveness and fiscal capacity (Ainis, 2013; Bartolucci, 2022; Craig, 2012; Cisotta, 2022; Nardini, 2012; Rivosecchi, 2016; Salvemini, 2003; Tosato, 2013; Zagrebelsky, 1992; Zanette, 2014).

In this light, the balanced budget principle should be understood as one component of a comprehensive approach to public finance governance. Its effectiveness depends on its integration within a coherent institutional framework capable of reconciling fiscal discipline with democratic

accountability, economic stability, and social protection. The long-term significance of the reform of Article 81 will thus be determined by how these competing objectives continue to be balanced within the evolving constitutional and economic context.

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