

AGENDA FOR ITALY, EUROPE AND THE UNITED STATES

Center for Strategic and International Studies (CSIS)

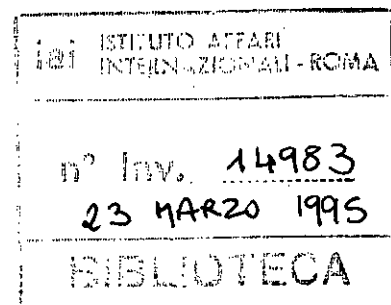
Istituto Affari Internazionali (IAI)

Johns Hopkins-Paul H. Nitze School of Advanced International Studies (SAIS)

Washington Foundation for European Studies (WFES)

Washington, 9-10/III/1996

- a. Programma
- b. List of participants
1. Italy's Constitutional Crisis / Sergio Romano (12 p.), pubbl. in *The International Spectator*, Vol. 31., No. 2 (April-June 1996), p. 5-15
2. Maastricht II : Can Italy Keep Up? / Pier Carlo Padoan (31, 3 p.), pubbl. con il tit.: "Can Italy Keep Up to Europe?", in *The International Spectator*, Vol. 31., No. 2 (April-June 1996), p. 17-35
3. Italy and the US: National Interests and Shared Values / Cesare Merlini (16 p.), pubbl. con il tit.: "European Security from the Italian Perspective", in *The International Spectator*, Vol. 31., No. 2 (April-June 1996), p. 61-73
4. Italian views on organizing the New Europe / Enrico Letta (16 p.)
5. Italy and the International Economy / Marcello de Cecco (29 p.), pubbl. in *The International Spectator*, Vol. 31., No. 2 (April-June 1996), p. 37-50
6. The Costs and Benefits of International Liberalisation and Deregulation: An Italian View / Riccardo Perissich (19 p.), pubbl. in *The International Spectator*, Vol. 31., No. 2 (April-June 1996), p. 51-59
7. Italy's American Connection: Past, Present, Future / John L. Harper (27 p.), pubbl. in *The International Spectator*, Vol. 31., No. 2 (April-June 1996), p. 75-88



Agenda for Italy, Europe and the United States

A Conference Organized by

CSIS

(Center for Strategic and International Studies)

IAI

(Istituto Affari Internazionali)

Johns Hopkins-SAIS

**(The Paul H. Nitze School
of Advanced International Studies)**

WFES

(Washington Foundation for European Studies)

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German Marshall Fund of the United States, with additional
support from the *Italian Trade Commission*, and the *Council
for the United States and Italy*.**

Italy, Europe and the United States

March 9-10, 1996

Saturday, March 9, 1996

Center for Strategic International Studies

Room B-1

1800 K Street, NW

Morning Session:

Italy's Institutional and Economic Transition

30-10, 45
9:00-10:30

"Italy's Constitutional Crisis"

Sergio Romano

Comments:

James Miller

10.45- 11.00

Giancarlo Malvestito

10:30-10:45

Coffee Break

11.00- 12.30

10:45-12:15

"Maastricht II: Can Italy Keep Up?"

Pier Carlo Padoan

Comments:

Douglas Forsyth

Stefano Zamagni

12:30-2:30

Luncheon Session

*"Italy: Domestic Change
and International Role"*

Giuliano Amato

Afternoon Session:

Italy, the U.S. and the Future of Europe

2:45-4:15

*"European Security as seen from the
Italian Angle"*

Cesare Merlini

Comments:

Edward Luttwak

Carlo Jean

4:15-4:30

Coffee Break

4:30-6:00

*"Italian Views on Organizing
the new Europe"*

Comments:

Enrico Letta
John van Oudenaren
Marta Dassù
Lucio Caracciolo

8:00-10:30

Dinner given by the Italian Trade Commission

The Madison Hotel
Mount Vernon Room
15th & M Street, NW

"Reflections on the Future of U.S. Foreign Policy"

Paul Wolfowitz

Sunday March 10, 1996

Johns Hopkins University
School of Advanced International Studies
Nitze Building, Herter Room,
1740 Massachusetts Avenue, N.W.

Morning Session:

Italy and the World Economy

9:00-10:30

*"Italy's Role in the International
Economy"*

Comments:

Marcello de Cecco
John Davis
Fabrizio Onida

10:30-10:45

Coffee Break

10:45-12:15

*"Costs and Benefits of International
Liberalization and Deregulation:
an Italian Perspective"*

Comments:

Riccardo Perissich
Wolfgang Reinicke
Giuliano Amato

12:15-2:15

Luncheon Session

"The Future of U.S.-Italian Relations"

Comments:

John Harper
Stefano Silvestri
Alice Kelikian

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American participants in the March conference

Samuel Barnes, Georgetown University

Avis Bohlen, Department of State

Stanton Burnett, CSIS

David P. Calleo, Director, European Studies, SAIS

Paul Cook, European Studies, SAIS

Johnathan Davidson, The European Union

John Davis, University of Connecticut

Randall Henning, American University

John Holmes, World Peace Foundation

Alice Kelikian, Brandeis University

Charles Loveridge, CSIS

Edward Luttwak, CSIS

James Miller, The Foreign Service Institute

Kendall Myers, The Foreign Service Institute

John Newhouse, The Brookings Institution

John van Oudenaren, Rand Corporation

Wolfgang Reinicke, The Brookings Institution

Eugene Santoro, United States Information Agency

Stephen Szabo, Associate Dean for Academic Affairs, SAIS

Joan Barth Urban, The Catholic University

Peter Weitz, German Marshall Fund of the US

Paul Wolfowitz, Dean, Saiss

Douglas Wertman, United States Information Agency

Marten van Heuven, Rand Corporation

Italian participants in the United States

Ennio Caretto, Corriere della Sera

Massimo Mamberti, ICE

Antonio Puri Purini, Ambasciata d'Italia a Washington

American-Based Participants

M. Alessi

- ✓ 1. Prof. Samuel Barnes, Georgetown University
2. Mr. Gene E. Bigler, United States Information Agency
- ✓ 3. Dr. Stanton Burnett, CSIS
- ✓ 4. Prof. David P. Calleo, SAIS
5. Mr. Ennio Caretto, Corriere della Sera
6. General Fabrizio Castagnetti, Embassy of Italy
- ✓ 7. Mr. Paul Cook, SAIS
- ✓ 8. Mr. Jonathan Davidson, The European Union
- ✓ 9. Prof. John Davis, University of Connecticut
10. Dr. Desmond Dinan, Center for E. U. Studies-George Mason University
- ✓ 11. Mr. Reginald Dale, International Herald Tribune
- ✓ 12. Ambassador Luigi Einaudi, Department of State
- ✓ 13. Prof. Douglas Forsyth, Massachusetts Institute of Technology
14. Ambassador Arthur A. Hartman, APCO Associates
- ✓ 15. Mr. Marten van Heuven, Rand Corporation
- ✓ 16. Mr. John Holmes, World Peace Foundation
17. Prof. Frederick L. Holborn, SAIS
- ✓ 18. Prof. Alice Kelikian, Brandeis University
19. Mr. David Lieshman, CSIS
20. Mr. Charles Loveridge, CSIS
21. Ambassador Stephen Low, Association of Diplomatic Studies
- ✓ 22. Prof. Linda Lubrano, American University
23. Mr. Giuseppe Lugato, RAI Corporation
24. Dr. Edward Luttwak, CSIS

- ✓ 25. Mr. Massimo Mamberti, *The Italian Trade Commission*
- 26. Mr. Luigi Mayer, *ANSA*
- ✓ 27. Dr. James Miller, *The Foreign Service Institute*
- 28. Dr. Kendall Myers, *The Foreign Service Institute*
- ✓ 29. Dr. John Newhouse, *The Brookings Institute*
- ✓ 30. Dr. John van Oudenaren, *Rand Corporation*
- 31. Dr. Franco Passacantando, *The World Bank*
- ✓ 32. Mr. Mario Carlo Pletero, *Il Sole 24 Ore*
- ✓ 33. Minister Antonio Puri Purini, *Embassy of Italy*
- 34. Mr. William Regan
- 35. Dr. Wolfgang Reinecke, *The Brookings Institution*
- 36. Dr. Margherita Repetto, *Italian Cultural Institute*
- 37. Mr. Stefano Ronca, *Embassy of Italy*
- ✓ 38. Dr. Massimo Russo, *IMF*
- 39. Ms. Anna Maria Salleo, *Embassy of Italy*
- 40. Ambassador Ferdinando Salleo, *Embassy of Italy*
- ✓ 41. Mr. Eugene Santoro, *United States Information Agency*
- ✓ 42. Prof. Simon Serfaty, *CSIS*
- 43. Mr. Daniel Serwer, *Department of State*
- ✓ 44. Dr. Stephen Szabo, *SAIS*
- ✓ 45. Prof. Joan Barth Urban, *The Catholic University*
- 46. Mr. Enzo Viscusi, *ENI Representative for the Americas*
- ✓ 47. Mr. Peter Weitz, *German Marshall Fund of the U.S.*
- 48. Ambassador Paul Wolfowitz, *SAIS*
- 49. Dr. Douglas Wertman, *United States Information Agency*

Delegation from Italy

1. *Prof. Giuliano Amato, Chairman of the National Anti-Trust Authority, Former Prime Minister*
2. *Dr. Marta Dassù, Director, CESPI*
3. *Mr. Lucio Caracciolo, Editor, Limes*
4. *Prof. Marcello De Cecco, Professor of Economics, University of Rome*
5. *General Carlo Jean, President, Centro Alti Studi Difesa*
6. *Dr. Enrico Letta, Secretary General, Arel*
7. *Prof. John Harper, Associate Professor, Johns Hopkins Bologna Center*
8. *Onorevole Giancarlo Malvestito, Member of the Chamber of Deputies*
9. *Dr. Cesare Merlini, President, IAI*
10. *Prof. Fabrizio Onida, Chairman & CEO, ICE*
11. *Prof. Pier Carlo Padoan, Professor of Economics, University of Rome*
12. *Dr. Riccardo Perissich Member of the Board, Pirelli. Vice Chairman of Assolombarda*
13. *Ambassador Sergio Romano, Columnist for La Stampa, Former Ambassador to NATO and Moscow*
14. *Dr. Stefano Silvestri, Undersecretary of State, Ministry of Defense; Vice President, IAI*
15. *Prof. Stefano Zamagni, Professor of Economics, University of Bologna*

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Draft

Italy's constitutional crisis

by

Sergio Romano

The wrong turn of Italian politics occurred in 1994. The crossroad was in December 1993, after the success of the left-wing coalitions in some important municipal elections. The Democratic Party of the Left (the former Communist Party) felt that the time had come to go the polls and asked the President of the Republic to dissolve Parliament. Scalfaro complied and the election date was set for the following March. Great manoeuvres immediately began for the creation of large electoral coalitions. The most important events of the period were the candidacy of Silvio Berlusconi and the two separate alliances which he formed with the Northern League and Alleanza Nazionale (a new label of the Movimento Sociale Italiano) to fight the progressive alliance which was being built on the left under the leadership of the Democratic Party of the Left.

Although divided on most issues the major competitors had a common persuasion: that new elections would create a new majority and that this would solve the problems of the country. In other words they demanded or accepted the elections because they felt the

crisis was political and could be met with the classical therapy of early elections. This was the moment when the country took the wrong turn. Italian politicians did not understand, or preferred not to admit, that the crisis had affected all the powers of the State and that Italy had been living for many years with a dated constitution, deformed and distorted by the political parties, corporate interests and the constitutional powers themselves. Could one really hope that a new majority would solve the problems of a country when all constitutional powers neglect their original functions and intrude in each other's jurisdiction? Was it reasonable to think that new elections, contested with a bad electoral and ambiguous electoral law, would be enough to straighten Italy's constitutional mess?

The muddle, to begin with, is in the relationship between Parliament and the Executive. Italian postwar democracy was born "parliamentarian", but Italy's Parliament, unlike what happened during the same period in other countries, kept absorbing new prerogatives and acquired, by mimicry, some features of the American Congress. The trend goes back to the seventies when the Communist Party decided that the best way to strengthen its own role would be to strengthen Parliament and did so through the reform of some crucial parliamentary by-laws. Parliament as an institution was quick to seize the opportunity and proceeded to extend its prerogatives. The result, twenty years later, is before our eyes. The Chambers can submerge a budgetary law under a landslide of emendments, employ most of their time to pass laws

which in any other countries would go under the name of decrees, regulations of executive orders. They act as a superboard of directors of the radio and television state corporation, they have a right to approve the individual contracts of the ministry of Defence. They have special commissions - on mafia, intelligence, terrorism - which have semiexecutive and semijudicial powers. Paradoxically the decline of the political parties has made Parliament more "greedy" and readier to do anything which may attract the radar of public opinion. The commissions have become stages where members play a noisy parody of parliamentary democracy. Let me give a recent example. When a football fan was killed in the proximity of Genoa's stadion before a match, the competent commission of the Chamber of deputies summoned the representatives of the major sport institutions and opened a hasty debate. It did so only to cater to the emotions of public opinion and gain some minutes of prime Tv time.

Parliament's intrusiveness has forced the government to make a growing use of legislative decrees, i.e. of a provision which is immediately valid but loses its validity if the Chambers do not ratify it within sixty days. Thanks to the hypertrophy of parliamentary powers Italy has become a country of provisional laws which produce transient and uncertain effects, of taxes which can be exacted today and may have to be returned tomorrow if Parliament refuses to turn the decre into law..

Another serious distortion has taken place in the field of justice, particularly in the role of the "procuratore della

Repubblica". It is useless to remind an American audience that the public prosecutor is not a judge: he is the lawyer of the State or, better yet, of the executive power. In continental Europe he traditionally belongs to the judiciary, but in other countries he is simply an attorney and may be elected by the people. To make sure that he would be docile and understanding some political regimes have placed him under the authority of the Minister of Justice. In Italy, after fascism, the Constituent Assembly set out to protect him from the interference of the executive and thought that it could achieve the purpose by stating that criminal actions are "compulsory" (art. 112 of the Charter). Obviously this does not mean that criminal actions have become an obligation which the "procuratore" cannot forego. No prosecutor could pursue with equal commitment and zeal all the crimes committed in his jurisdiction. He is forced to make choices and place them in order of priority. "Compulsory criminal action" means, *en clair*, that discretionary power has been removed from the minister and conferred upon the procuratore.

Here, however, a problem arises. When the choice is in the hands of the government, it inevitably coincides with its policy and comes, sooner or later, under the scrutiny the voters. When the choice belongs to the procuratore it is fair to inquire as to the criteria with which he will exercise his discretionary power. In Italy the problem has been magnified by the three periods during which prosecutors were confronted with a great national threat: terrorism in the seventies, mafia in the eighties, corruption in

the nineties. The weakness and in some cases the complicity of the political establishment have conferred upon the procuratori a national role, a leading function and extraordinary visibility. Many have specialized in one of the crucial areas in which the interests of the state were at stake, have made politically relevant choices, have acquired a political connotation. Thanks to the fight against terrorism, mafia and corruption, the prosecutor has ceased to be the lawyer of the executive and has become the lawyer of the people or, better yet, a tribunos plebis, a tribune of the plebeians. Naturally all discretionary power should be exercised on the basis of a mandate. After Tangentopoli the mandate of the procuratori comes from the media, from public opinion, from demonstrations in front of the courts. To wonder why the procuratori speak on television, give interviews or leak to the press the news which may give their work greater visibility, is naive. They inevitably do what may strengthen, and widen the mandate which they need to pursue what they consider and their mission.

The first conclusion to be drawn is that we should not define all this by the word "justice". Justice belongs to the judges, not to the attorneys, whether public or private. The second conclusion is that we might as well get used to the idea that the phenomenon is going to last. Although the Italian version of it has assumed extraordinary dimensions, it belongs to the evolutions of western democracies and is tied to the widespread dissatisfaction of citizens for their representatives. We go to the polls because we are all convinced that representative democracy is the least bad of

all possible regimes, but we feel little respect and confidence for the people we are electing. From this general lack of confidence for politicians comes a tendency to set great hopes in anybody - magistrate or technocrat - who will promise justice and good government "without politics"; as if solutions could be "technical", neutral, dictated exclusively by common sense. It is an illusion which the newcomer will inevitably betray as soon as he will be recruited in the ranks of the political class. These illusions however are the daily fare of the most important western democracies.

If the prosecutor is not a judge and the phenomenon is bound to last, we should define the mandate on the basis of which the procuratori may use their discretionary power. Americans have done it long ago making the job of the district attorney, in some cases, an elected one and by placing it squarely among the itineraries which may be followed to enter politics. It is the case of Rudolph Giuliani and many other American politicians. In Italy as well the job has become the springboard into Parliament for people such Giuseppe Ayala, Giuseppe Di Lello, Tiziana Parenti, Luigi Saraceni, Claudio Vitalone, Luciano Violante and tomorrow, presumably, Antonio Di Pietro. But we need greater transparency. If public prosecution is a road into politics, somebody will necessarily wonder as to the criteria which have inspired the prosecutor before he decided to become a politician. The only possible answer is that all ambitions are legitimate as long as they are openly declared and do not hide behind the rhetoric of the common good and civic duties. I do not

know whether the best way to achieve clarity is to imitate the United States and to transform the "procuratori della Repubblica" in so many district attorneys, elected by the people. But I do not think that a country can indefinitely accept a state of judicial emergency or allow State officials, chosen through public exams, to have a right of supervision and veto on the policy of the government. And I think that the problem can only be solved within the framework of a far reaching constitutional reform of the judiciary.

I could go on recalling other distortions of Italian constitutional practice. Trade Unions have become the "plenipotentaries" of Italian society. They have a right to negotiate with the government any reform which may have social repercussions and are doing in fact what should be done, according to the constitution, by the National Council for Economy and Labour (art. 99 of the Charter). The High Council of the Judiciary has become a parliament, in the style of the assemblies which represented social and professional orders in Europe during the Ancien Régime. The Constitutional Court has become, for many of its members, an intermediate stage in the "cursus honorum" of a public man, a passage beyond which there may be other openings in public life. One may say about the judges of the Court what I have already said about the procuratori: if they come from politics and go back to politics, many will undoubtedly wonder, not without reason, with which spirit and criteria they have exercised their functions while at the court. Finally the president of the Republic, particularly

in recent months, has assumed responsibilities which do not fit the letter and the spirit of the constitution. From the Amato government of 1992 to the Dini government of last January Scalfaro has made choices which have personally engaged him and have evident political consequences. The "technical" government formed by Lamberto Dini was in fact, from the start, the government of the president; and it is difficult to conceive how a cabinet may be responsible to a man who is "not responsible of any action accomplished in the exercise of his functions" (art. 90 of the Charter).

Each of these tears and rents demand mending. But it is absurd to think than any error or malfunction of the Italian constitution could be isolated from the others and treated separately. We must strengthen the Executive, liberate it from the tyranny of political parties and parliamentary assemblies, decide which president - the head of the state or the Prime minister - should be elected by the people. A stronger Executives calls for a reexamination of regional powers. It is impossible to ignore the call for federalism advanced by the League and to allow the present Regions to spend irresponsibly money which is exacted and distributed by the central state. But you cannot envisage some kind of federalism without granting to one of the Chambers the representation of the regions and without redesigning the functions of Parliament. The distinction between the two Chambers (one federal, the other national) must entail a different competence, so that the laws may stop shuttling back and forth between the two Assemblies. That is

not all. We must use the reform to correct an anomaly which has had a growing importance in the pathological growth of public debt. Italy is the only great parliamentary democracy in which the executive is not responsible for the financial policy of the country, in which the budget can be deformed and submerged by a landslide of emendments, in which the parliamentary debate on the the state's budget is a market where each party, each faction, each parliamentarian tries to cash his "ious" and letters of credit. The worse crime of the First Republic is the creation of an irresponsible regime, a system in which laws have no parents. When a decision is invariably negotiated and watered down, who is to take the blame for the consequences?

In a new republic new laws will be necessary on the concentration of economic interests and the media, on conflicts of interests, on the status and the independence of public television. By his decision to enter politics Silvio Berlusconi has magnified some fundamental problems of a modern democracy. It is not admissible for a company to own roughly half of the television networks of the country and it is not admissible, for a politician with responsibilities in the Executive, to own one, or worse yet, three television networks. We need a new law to dismantle the duopoly between Rai and Berlusconi's Fininvest. We need a law on "ethics and politics" to define the obligations of a politician when he enters parliament or becomes a member of the Executive. And we need rules to keep the political parties and the Executive out of public television. None of these laws is necessarily

constitutional. But the importance of these problems in the life of the country demands that they be dealt with within the framework of a radical reform of the political system.

Much of this has been debated in the course of 1994 and 1995. But after the wrong turn of January all constitutional issues - the reform of the electoral law, federalism, the judiciary, conflict of interests - have been discussed in political forums where political parties fought to overcome each other and have been necessarily polluted by their contingent fears or ambitions. As a result the great problems of the state have quickly disappeared from the national stage as soon as political parties felt that they could derive no immediate advantage from their solution. As a result all political parties have frequently reversed their positions as soon as a solution appeared, under the circumstances, useful for their enemies. Having fallen to the lowest level of political life the constitutional issues have become mere trading items or pretexts for rhetorical statements. Instead of coming closer the solution of the crisis we have constantly moved away from it.

I am personally convinced that the country needs a Constituent Assembly to be elected with a law based on proportional representation which should be able to work next to the ordinary Parliament for reform of a part of the Italian constitution. But even now, after the Mancuso affair, the ultimate ambition of political parties is to survive the next electoral challenge. This does not mean that Italy is at a standstill. Like a house without foundations the political system is sliding down the hill and

becomes less and less inhabitable. There may be political elections in the near future and they may hopefully break the stalemate of 1995. But it remains to be seen whether they will set in motion the process of constitutional reforms.

A few words, to conclude, on Italy's position in Europe. Italy's political crisis has coincided with the signature of the Maastricht treaty and the creation a European Monetary Union. Was it a mere coincidence? I think the treaty had the extraordinary effect of bringing to the surface all the sins of the Italian political system. The criteria for membership, which the Italian government has lightheadedly accepted in February 1992, have made clear for all informed Italians that the country could not be admitted. What is not universally clear however is that membership does not only depend on the elimination of our colossal public debt and the speedy reduction of the budgetary deficit. To be a member of Europe Italy must adopt a political system which allows a stable government, clear and long lasting political strategies, reasonably quick decisions. A system based on endless, and costly, negotiations, designed to bring on board the largest possible number of political partners and accomplices, is not compatible with the political pace and administrative efficiency of the European Union. The moment therefore is crucial. On Italy's constitutional choice depends Italy's ability to stay in Europe. The stake at play is not only political reform, but the country's status and cultural outlook. If the reform fails Italy may be forced to sever its links with Europe and fall back, as before

unification, into the Mediterranean. It is difficult to imagine that the more advanced regions of northern Italy will accept what will inevitably result in a loss of prosperity and status. There, much more than in the League's muddled political programme, lies the danger of national division.

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MAASTRICHT II. CAN ITALY KEEP UP?

Pier Carlo Padoan, University of Rome, "La Sapienza"

february 1996

1. Introduction

The process of European integration is at a turning point. Recent discussions about the future of monetary union seem to suggest that progress towards further deepening of the European Union may be in question and that more than one model of Europe may develop in the future. It is against this background that an answer to the question this paper asks should be sought. To keep up with the next phase of European integration, Italy -as all the other members of the EU, both current and future- is asked to undertake relevant adjustment policies producing heavy costs in the short run in exchange for expected future benefits. While costs are clear benefits are perceived as distant in the future and often unclear.

The state of uncertainty Europe is currently going through reflects deep rooted problems. The strategy Europe has chosen to follow at the end of the past decade, captured in the "one market one money" formula, has -so far at least- failed to deliver its promises, and this failure has disclosed two old weaknesses, a macroeconomic and a competitive weakness, and produced a new one, an enlargement/cohesion weakness.

This paper considers these three weaknesses and discusses Italy's position within each of them, to single out costs and benefits of her participation to the process of european integration. It then describes the evolution of the italian political economy after the crisis of the Ems in september 1992 and the adjustment process Italy's governments have implemented to face the deep financial crises that had erupted. It finally looks at the current situation and considers the possibility that a "winning coalition" be established in the italian political economy to proceed further in the convergence towards Europe. It suggests that such a coalition is the one that has made it possible to undertake the severe adjustment following the crisis of 1992. It also argues that, in order for adjustment policies be

successful, in Italy and elsewhere, Europe must define her priorities and offer clear opportunities of growth and welfare to her citizens.

2. One market, one money? New promises, old weaknesses

In the second half of the past decade Europe's future was resting on one clear project, itself based on two pillars: the Single Market and monetary unification. The slogan of the European Community -one market, one money- (CEC 1990) well accounted for the basic economic rationale of the project. The completion of the integrated market, through higher competition and the exploitation of the economies of scale of a very large market, would provide higher growth and employment, along with lower inflation, while a single currency would further increase the benefits of integration through the elimination of exchange risks and monetary transaction costs. Conversely, market flexibility and factor mobility would provide the underlying conditions for the successful implementation of a continent-wide currency area. While the elimination of remaining barriers should have been completed by January 1, 1993, the gradual, yet relatively rapid, evolution of the European Monetary System should have led to a full monetary union by the end of the century.

As of now, the exchange rate agreements of the EMS have collapsed to a little more than formal wide-band agreement of a limited number of European currencies, while two large European countries, Italy and the United Kingdom, have left the exchange rate mechanism (Erm) in the aftermath of the September 1992 crisis, and only few European countries are currently meeting, or expected to fulfill in the near future, the Maastricht convergence requirements. In a word, the strategy of gradual convergence towards monetary union envisaged in the Maastricht Treaty has -so far- failed. As far as the single market is concerned the sign of its failure as a strategy towards improved welfare in Europe is summarized in one figure: 20 million people

unemployed.

It is tempting to blame both failures on the consequences of the fall of the Berlin Wall. It cannot be denied that German reunification has generated a dramatic shock on macroeconomic relations in Europe while the collapse of the CMEA agreements has -at least as dramatically- raised the issue of enlargement to Central and Eastern European countries and of its adjustment consequences. These events, however, cannot account for the two main economic weaknesses that Europe has been suffering from for quite a longer period -a macroeconomic weakness and a competitive weakness- that are at the roots of the failure of the "one market one money model".

3. Europe's macroeconomic weakness

The crisis of the EMS has highlighted Europe's macroeconomic weakness, i.e. her inability to generate a common expansionary policy, or rather her ability to engineer, at best, a continent-wide deflationary policy.

To understand this point let us look briefly at the way the EMS has worked, as the EMS represents the most ambitious program of macroeconomic coordination Europe has implemented after the breakdown of the Bretton Woods system.

The EMS was launched, in 1979, to establish an area of monetary stability in a period of high and rising inflation in the industrialized world. Looking back at the past fifteen years one cannot deny that inflation has considerably declined in Europe -see table 1-. The question is to what extent this result is to be attributed to the EMS (Gros and Thygesen 1992). Two not mutually exclusive interpretations can be advanced. The most widely accepted is the "credibility" interpretation (see e.g. Giavazzi and Giovannini 1989) which can be summarized as follows. Through the exchange rate constraint high inflation countries, such as France and Italy and later Spain and Portugal, have been able to import discipline from the core country -Germany- whose tight monetary policy provided a nominal anchor to the system.

Such an external constraint would have been much more credible than a domestic commitment to disinflation in the "undisciplined" countries and would have defeated the inflationary behaviour of both unions and firms without severe costs in terms of output and unemployment.

Another interpretation (see e.g. Egebo and Englander 1992, 1993) , offers a more traditional explanation which allows to better understand how the new macroeconomic discipline actually worked. The disinflationary process in Europe has been much more the consequence of the rise in unemployment -see table 2- following a period of prolonged recession, rather than the effect of the credibility of a new policy regime introduced by the EMS. In reviewing the abundant literature and through their own analysis Egebo and Englander find some evidence of the credibility effect of the new monetary regime in financial markets but very little or no evidence of such effects in labour markets.

While this issue deserves further scrutiny it points at one aspect of the macroeconomic weakness of Europe. There is a trade off between unemployment and inflation in the European economy which has been only partially improved by the EMS and which sets a limit to the possibility of pursuing expansionary policies. In addition, given the antiinflationary preferences of the core country, any attempt by a single member of the EMS to implement independent expansionary policy is inconsistent with the target of exchange rate stability. (Blanchard and Muet 1993)

The experience of the past ten years, on the other hand, indicates that the deflationary bias of the EMS has been mitigated by two distinct, and sometimes reinforcing, mechanisms. The first is external to the European economy and is quite obvious: the export opportunities provided by the combination of expansionary fiscal policies in the United States and the appreciation of the dollar in the first part of the previous decade; the second is related to the specific relations among European countries.

Table 3 reports the evolution of current balances as percentages of Gnp of the major European economies since the

inception of the EMS. Table 4 reports the lead in the US growth rate with respect to the continental economies. The figures highlight two facts : a) the expansionary effect of the US current deficit on european economies -whose current account improve- in the central part of the 80's ; b) the opposite signs of the current account in Germany (positive) on one side and the three other major european countries (negative) on the other.

This second feature is particularly evident in the period of increasing tightness of the EMS, since the beginning of 1987, and indicates that nominal exchange rate stability did allow diverging real behaviour, with inflationary countries witnessing real appreciation -see table 5-. Current account disequilibria were financed through capital flowing towards high inflation countries as financial markets were increasingly convinced of the commitment of the latter to fixed parities. This evidence is consistent with the idea -supported by empirical evidence (Egebo and Englander 1992)- that some credibility effect did work through financial markets. It also suggests, however, that such a change was made possible by a distribution of current disequilibria within Europe that considerably helped to ease the costs of disinflation. In other words Germany played the role of residual country in the EMS from a double perspectives: by providing a nominal anchor to monetary policies and by providing finance to the funding to trade disequilibria. Recent empirical analysis (CER 1995) also highlights the fact that european countries have shown an increasing convergence in their macroeconomic performance towards the german macroeconomic cycle and that this has contributed to the disinflation process although at a high cost in terms of unemployment.

The way in which German reunification was financed reverted, dramatically and very rapidly, this pattern of trade disequilibria, while adverse cyclical conditions in the US failed to provide external relief to the European recession. Quickly the markets began to realize that the fulfillment of the Maastricht convergence criteria would have raised the already high unemployment costs of monetary convergence to politically unbearable levels. The credibility of the EMS, and what is more

important, of the convergence approach to monetary union, was irreversibly shaken. (Eichengreen and Wyplosz 1993)

4. Europe's competitive weakness

The White Paper on Growth, Competitiveness and Employment, (CEC 1993) looks at the three components of unemployment in Europe: cyclical, structural, and technological. While the elimination of the first component requires that Europe's macroeconomic weakness be overcome, structural unemployment requires that labour market rigidities be eliminated. Technological unemployment hides the most problematic aspects. Europe needs to fill her technological gap vis a vis the United States and Asia to compete and grow in global markets even if this will lead to an increase of unemployment in the medium run.

The competitive position of Europe can be improved if the comparative advantages -both static and dynamic- of her national economies are fully exploited. Indeed the success of an integration process, such as the single market, can be measured against this perspective: the region as a whole will benefit if all its parts participate in full.

The evidence presented in table 6 suggests that there are relevant differences in the specialization patterns of the major European economies. The disappointing aspect of this process is that declining positions, in terms of shrinking market shares, are concentrated in sectors where the role of scale economies and the production of knowledge are more relevant for a competitive performance in global markets. If this tendency were to be consolidated two negative consequences would follow for the European economy as a whole: Europe would lose positions in faster growing sectors in world markets; the relatively more favourable performance of sectors (and countries) which have to import new knowledge from outside would be increasingly dependent on non European sourcing and perpetuate the technology gap vis-a-vis other regions.

Differences in national performances are clear and highlight

the decrease in market shares for France, Germany and the United Kingdom and increases for Italy and Spain. What is perhaps more interesting is sectoral behaviour. Substantial gains for all countries can be observed only in the food processing industries, notably a consequence of Europe's Common Agricultural Policy. Losses are concentrated in electronics, computers, chemicals (with the exception of France and Spain) and, with the exception of Italy and Spain (whose market shares increase), in machine tools, textiles, construction and transport equipment.

This evidence suggests that the poor performance of European trade in high technology sectors reflects a substantial weakening of national economies whose comparative advantages are -or have been- relatively stronger in those sectors, and that their relative decline has not been matched by strengthening comparative advantages in the same sectors in other countries.

5. Enlargement and Cohesion

A new model for Europe must be built in the perspective of further enlargement, towards Central and Eastern Europe in the first place. This adds a new dimension to the problem as enlargement requires adjustment of the economies of both old and new members of the EU. To understand the point let us take a quick look at the evidence below. Table 7 offers an impressionistic view of the specialization patterns in an enlarged Europe drawing on revealed comparative advantages. If we assume that a process of integration in Europe would deepen national specialization patterns in the direction of existing comparative advantages, the information summarized in table 7 offers a first indication of the mutual consistencies and/or inconsistencies implicit in such a process.

The first point to note is that the comparative advantages of the three largest western european economies, Germany, United Kingdom and France, are located in the sectors where the comparative disadvantages of Eastern European countries lie, and viceversa. From this point of view these two groups of countries are in a favourable position as far as the process of integration

is concerned. The comparative advantage that the former enjoy in the science based and specialized suppliers sectors suggest that they are in the position to produce and export the technology and equipment Eastern European countries need to upgrade their competitive position, while they would become importers of the goods for which Eastern Europe enjoys a comparative advantage. Also note that, while the entrance of Efta countries into EU can be considered only a limited source of adjustment pressures -if not for reasons of specialization at least for a question of market size (Norman 1991) these countries also present a specialization pattern which is complementary to that of Eastern European countries

Let us now turn to the conflicting part of the scenario, i.e. at those cases in which eastern and western countries reveal comparative advantages in the same sectors. France has a comparative advantage in agriculture while the UK has one in the energy sector. On the eastern side the Czeck and Slovak republics reveal a comparative advantage in the scale intensive sector.

Problems are possibly more severe if we turn to the position of Italy and of the southern members of the European Community, Greece, Portugal and Spain. Their comparative advantage lies in the traditional and agricultural sectors (with Spain acquiring one in the scale intensive sector), and also in the specialized suppliers in the case of Italy.

In order to accomplish full integration into the EU, markets will have to be liberalized for access of Eastern European trade in three crucial areas: agriculture, textiles and clothing, and steel, i.e. those sectors where protectionist resistance is the fiercest and where the action of the Community has been able, so far, to produce only a moderate amount of liberalization. The evidence suggests that only in few EU countries comparative advantages would not represent a source of conflict to a liberal policy viv-a-vis Eastern Europe. The crucial point, however, is not whether a specific country would gain or loose but rather that benefits and costs of enlargement are bound to be asymmetrical. Asymmetry increases the political costs of enlargement, especially in times of severe unemployment,

and highlights Europe's third weakness: the difficulty to expand her boundaries without severely affecting her internal cohesion. Coping with cohesion, in turn, requires that redistribution mechanisms be deeply modified both in terms of new resources and of new institutions to the benefits of peripheral countries and regions, mostly located in the south of the EU.

6. Italy's position in the European economy

In this paragraph we consider Italy's position in the three areas discussed above: macroeconomics, competitiveness, enlargement and cohesion issues.

Macroeconomics Participation in the exchange rate agreements of the EMS (Erm) has produced dramatic changes in Italy's political economy. Over the past decade Italy's macroeconomic policy has moved away from the accommodating stance of the 70's, which led to perverse inflation devaluation spirals, to follow a clear antiinflation priority driven by the exchange rate commitment. At first softheartedly the new course assumed increasingly tight contours as it adapted to the new "external constraint" provided by the European macroeconomic regime. What eventually produced a substantial turnaround, however, were dramatic changes in the domestic political and economic arena. A major breakthrough in the fight against inflation was the abandonment of the wage-indexation mechanism (scala mobile) which marked a political as well as economic defeat of the trade unions and of the left wing parties supporting them when the referendum they called against the abolishment of scala mobile was clearly rejected.

The social and political background to the new economic course was the consequence of the weakening of workers's political and trade organizations. The weak macroeconomic regime Europe was developing, however, did have some effect. The deep international recession of the early '80's had contributed to the weakening of labour militancy while the subsequent pick up of growth, supported by the peculiar contour of the american cycle -

see above- provide some relief to economic activity and hence to employment which, contrary to previous attitudes, was increasingly considered as a primary target and alternative to wage increases by trade unions.

More importantly, the reaction of industry to the new environment was explicitly forced upon them by the new monetary policy stance followed by the Bank of Italy. The discipline effect generated by the Erm was transmitted onto industry by a policy of gradual but firm real appreciation of the exchange rate (as the nominal exchange rate was allowed to depreciate less than the inflation differential). The message to entrepreneurs was clear: competitiveness could not be obtained any more through devaluation, rather it was to be sought through productivity gains and resistance to excessive real wage increases. Industrial relations had to adapt to the new macroeconomic regime in Europe not so much because of credibility but because of new relative power distributions (Chiorazzo, Ginebri, Padoan, Pittaluga 1994).

That, in brief, was the "success side" of the discipline story during Italy's participation to the Erm. However the very mechanism of monetary discipline produced undesired side effects on the behaviour of the sheltered sectors of the economy and, above all, of public finance. The Bank of Italy was well aware that no permanent success over inflation could be obtained as long as public debt and deficit were soaring. (See table 8). From this point of view the strategy not only failed but was, to some extent, undermined by the exchange rate discipline itself: as of 1987 the EMS became de facto a fixed exchange regime, making it impossible to lower interest rate levels for high inflation countries such as Italy, high interest payments, as a consequence built up on the government's debt service.

The other disturbing effect of the fixed exchange rate regime was the increasing weight of the sheltered sector in the economy (see Barca, Visco 1992) that, while not affected by the loss of competitiveness, became itself a source of inflationary pressures, contributing to the appreciation of the real exchange rate.

The most relevant change in the macroeconomic picture,

however, was the move to full capital liberalization which was completed by the summer of 1990 (ironically when German unification was beginning to work its effects through the European economy). This event was hailed as the demonstration that Italy was clearly on the way to fulfill her European obligations, and as such was indeed received by financial markets as capital inflows sustained the currency when the lira entered the narrow band of the Erm in early 1990.

At the beginning of the new decade Italy's macroeconomic profile apparently resembled that of the United States: relatively high real growth, a trade deficit sustained by capital inflows, high interest rates, an overvalued currency. This scenario, indeed the reflection of a highly imbalanced system, -an apparently healthy economy in a substantially weak european environment- was to become shocked by the wave of monetary turmoil which was soon to mount in international financial markets.

Competitiveness A similar story, of apparently good performance and underlying structural problems, can be told with respect to the position of italian industry in the process of European integration. As we have seen above Italy appears as one of the few "success stories" among EU members as far as international competitiveness is concerned. Indeed while such performance is the reflection of the "Italian miracle" it also highlights the fact that Italian industry has substantially failed to improve her competitive position in high value added and technology intensive sectors.

It is interesting to confront such performance with different exchange rate behaviours. Devaluatory exchange rate policies did not create substantial incentives to upgrade productivity through innovation in the 70's and such incentives did not emerge as a response to the real appreciation of the past decade.

It would be misleading to blame such a performance on exchange rate policies alone. The failure of italian industry to upgrade her innovation efforts with respect to other major

European economies is documented both by the amount of innovation efforts and their limited success in terms of patenting (see table 9) suggesting deeper structural problems. In any case evidence shows (Amendola Guerrieri, Padoan 1992) that, again contrary to the case of other major industrialized countries, Italian export specialization and performance are not linked to technological specialization.

The structural weakness of Italian industry is not just reflected in limited innovative activity. When the single market initiative was announced other countries reacted by speeding up their investment activities, in terms of mergers and acquisitions, joint ventures as well as plant relocations so as to increase the degree of concentration and achieve a minimum size necessary to compete in larger markets. Jacquemin A. (1992), Italian firms, largely because of their small size, have produced only limited efforts in such a direction (see table 10) suggesting that the much celebrated flexibility of Italian industry hides a substantial inability to produce the quality jump necessary to compete in the new European and global environment. It also indicates that adjustment margins available to the industrial sector oscillate between the possibility to gain productivity increases at firm level and the request of policies to accommodate a "favourable" macroeconomic environment.

Enlargement and cohesion We then come to the third aspect of Italy's position within the challenges faced by the European economy: the consequences of enlargement and the problems of cohesion. It is generally believed that, in spite of her structural weakness Italian industry will benefit from future enlargements both towards the East and the South. While there is some evidence that this may be the case (CEC, 1994,) aggregate data, for the Italian as well as for other member states, conceal the fact that these positive effects will probably worsen the regional consequences of the asymmetric distribution of costs and benefits of enlargement (Padoan 1994). This is a particularly severe problem for Italy as it highlights the dramatic features of the Mezzogiorno issue, which may be

summarized as follows: as Italy's unemployment rate remains high on a national average (above 10 per cent) the northern part of the country is now operating close to "full" employment while the rate of unemployment in the south is near 30 per cent, most of it being youth unemployment. This reflects the fact that most of the dynamic, export oriented part of industry is located in the North central regions of the country and, what is more important, this trend has been deepening over the recent past. The Mezzogiorno economy, on the contrary has, more than any other region in the EU, (CEC 1995) "specialized" in services and in activities concentrated in the sheltered sectors. This implies, paradoxically that the Mezzogiorno has benefited from the period of overvaluation of the lira and that the sectoral distribution consequences of the "strong currency policy" have also a clear regional dimension. The policy, and political, implications are obvious. Such a situation has produced a redistribution of resources from the North the South which, not surprisingly, has ignited separatist tendencies in Italian society.

Trends towards increasing globalization and capital mobility add a new strain to Mezzogiorno, given its structural inability to attract investment and given the increasing limitation of resource implied in financial adjustment.

7. The crisis of 1992

Ironically, the financial adjustment which participation to the Erm required and never delivered was brought about as a consequence of Italy's exit of the Erm in september 1992. The floating and devaluation of the lira marked much more than a currency crisis. It was a full fledged financial crisis which erupted as a consequence of tensions which had mounted in the entire economy: the appreciation of the lira had become increasingly unbearable for the exposed sector of industry, further interest rises would have been at best counterproductive given their consequences on already deteriorated public finances. When international markets realized that the degree of monetary

cooperation in Europe was eroding and that social consensus for Emu was rapidly fading speculative attacks targeted, first of all, the weak components of the monetary chain, and obviously the lira was one.

A plunging currency and soaring interest rates accelerated the political and social consensus for the most severe fiscal adjustment Italy had witnessed since the post war reconstruction. The Amato and then the Ciampi governments, in the eruption of the "tangentopoli" events, implemented measures which eventually faced the emergency and set the course for a slow but finally materializing adjustment in public finances.

In 1993 the Italian economy presented a text book picture. The devaluation of the lira had more than compensated the loss in competitiveness cumulated over five years of fixed nominal exchange rates. The drastic fiscal adjustment had compressed domestic demand producing, for the first time after the war, a decrease in real household consumption and severely hitting investment behaviour. Conditions were ideal for a rebound of growth through export led recovery, in spite of the weak international demand. The trade balance sharply improved in 1993 and 1994 (see table 3) and, to the surprise of most observers, - including monetary authorities- the huge nominal devaluation did not produce significant inflationary consequences. As it later became clear the initially virtuous price behaviour was the result of three factors (Chiorazzo et al 1994): the weakness of domestic demand, which had forced importing firms to resist to market share losses at the expense of severe profits cuts after the devaluation of the lira; the moderate wage behaviour which was the result of the July 1992 agreements between industry and trade unions, and which had cancelled any remaining indexation clause; a deep restructuring of the sheltered sectors which had just begun to develop at the beginning of the decade, especially within commercial distribution sectors and which had weakened the so called "structural component" of internal inflation (Barca and Visco 1992)

The latter two elements have structural characteristics and point to the few positive indications of the capacity of the

italian political economy to adjust to the new international environment. The negative, and dominating, aspects reflect the inability of a financial system -exposed to fully liberalized capital markets- to find a new equilibrium in a context where monetary policy is left without an anchor. This eventually produced a divergence between the "real" economy, on its costly way to adjustment, and the "financial" economy, where the burden of the huge public debt has put any policy action under the scrutiny of international financial markets.

How deep this divergence was -and still is- became clear when political uncertainty which followed the political elections in early 1994 rapidly led to the destruction of the limited, yet encouraging, results that the policy management of the previous government had obtained. Foreign investors which had generously granted credibility to the adjustment path, encouraged by an aggressive policy of placement of italian public paper in international markets, had reached the point of holding more than 15 per cent of italian public debt. In the summer of 1994, in the face of mounting political conflicts, foreign investors changed direction. Huge capital outflows rapidly materialized producing a deterioration of the overall balance of payments, in spite of exceptionally good trade performance, cutting the holdings of italian bonds by more than half, interest rates soared and the lira plunged again. Italy was still on the verge of a financial crisis.

The behaviour of the lira clearly illustrates the situation. Both private and official observers agreed, by mid 1994, that an equilibrium exchange rate of the currency was to be located below 1000 lire per D-mark as this reflected the course of fundamentals after the crisis of 1992. Yet financial markets were driving the currency towards, and beyond, 1200 lire per D-mark. Apparently the currency had two (or more) equilibria: one reflecting the behaviour of real fundamentals and the other reflecting the assessment of financial markets of the policy stance and perspectives. It was not obvious that the first -virtuous-equilibrium would eventually dominate the second one as this required not only that the adjustment of the real economy should

continue, but that it would not be eventually undermined by a precipitating political environment which would push the lira onto the second -higher- equilibrium. If the lira would eventually be locked in the latter the main pillar of the adjustment process in the real economy -the cooperative agreement between industry and trade unions to control price behaviour through the incomes policy set up in the July 1992 agreements- would be overthrown, opening the way to an inflation devaluation spiral in many ways similar to the one the country had witnessed in the second half of the seventies.

This, in short, is the picture we are very much facing now, where the crucial target is to match the adjustment in the real economy following the devaluation, with the adjustment in public finance. Before we ask whether this target can be met we must briefly look at what Europe is offering as a reward for such an effort

8. A new model for Europe?

As I have argued elsewhere (Padoan 1995) the demand for support that domestic political economies direct on their national governments decreases when the international regime is strong, i.e. when it can and will provide stable and sustained growth and hence resources that can be redistributed within the national economies. On the contrary, when the international regime is weak, in that it cannot offer the above, demands from international institutions to adjust and "converge" will be resisted more severely within the national economies and stronger demands for support and resources will be put on national governments.

This conjecture puts the perspectives of adjustment to "Maastricht" in Europe under a contradictory light. While the EU is requesting increasing efforts to meet the Maastricht criteria, Europe's weaknesses make it increasingly less desirable for national political economies to proceed in the adjustments. A new European regime, to be strong and credible, requires that

the three weaknesses be eliminated. i.e. that Europe be in a position: of engineering an autonomous, growth oriented, macroeconomic policy, of filling her competitiveness gap, of sustaining the enlargement process.

The three weaknesses rise and fall together. A single currency would help Europe to overcome her macroeconomic weakness as it would allow to engineer autonomous region-wide macroeconomic policies and or to insulate (partially) European interest rates from the rest of the world. Benefits of a single currency would increase with the degree of economic integration (Eichengreen 1994).

This, in turn, would be strengthened by a more favourable performance in high growth and high technology sectors. The elimination of rigidities in labour markets would greatly improve the inflation-growth trade off. Perspectives of stable and high growth would eliminate or dramatically diminish resistances to enlargement.

A new European regime requires a virtuous circle that exploits the self reinforcing mechanisms between the three components. The problem with such a perspective is that the transition to new model may be as difficult and disappointing as the old one and eventually the consensus to the new project would vanish, turning the circle from virtuous to vicious. Let us summarize the major difficulties.

As the EMS experience has shown the risks associated with a convergence process to the final stage of monetary union may be very large, not only because of the high costs in terms of foregone output and growth, but also because of the fact that the degree of cooperation among national monetary authorities falls dramatically when a crisis erupts. This implies - as Papadia and Saccomanni have suggested (1994) - that before any final jump towards monetary union is attempted the appropriate institution building process must be completed, i.e. the elements of a common payment system and of a European Central Bank must already be in place. Only when such a process is completed the political decision to monetary union can be taken. In the meantime the political consensus and tension must be maintained and

reinforced.

As far as the issue of competitiveness is concerned -as the White Book on Competitiveness, Growth and Employment has stressed- this target requires an intensive effort to provide Europe with an appropriate infrastructural network to maximize the diffusion of innovation , a strong effort in the investment in human capital as well as the elimination of the strong rigidities and barriers which are present in european labour markets.

A problem remains open. As it has been recently reiterated (Krugman and Venables 1993) a region with low transport costs and high opportunities for the exploitation of scale economies - which closely resembles the model of Europe portrayed in the White Paper- might lead to increasing regional disparities as fast growing industries will concentrate in those, few, locations where "forward" (via large availability of resources such as human capital) and "backward" linkages (via proximity to product markets) are present . In other words the advantages of greater competitiveness and growth and their benefits in terms of new employment risk to be concentrated only in a few regions and thus increasing the asymmetries within the Union. Success in competitiveness as a basis for a new model for Europe will then require an appropriate diffusion of its benefits especially once monetary union will have eliminated the exchange rate as an adjustment instrument.

Similar problems could emerge as enlargement towards eastern and central european countries progresses. As we have seen above the structure of comparative advantages in an enlarged Europe is bound to redistribute unevenly the benefits of integration with the major net benefits (costs) concentrated in the northern (southern) part of the Union.

In sum, the search of a new model for Europe is bound to create new tensions within and among european nations. If specific interest are not resisted a possible outcome is that a new Europe is either bound to become less open and more aggressive vis-a-vis the rest of the world and/or increase disparities between "rich" and "poor" regions within the Union.

which would rapidly translate into political obstacles to change as the level of social cohesion would fail to reach a minimum level .

9. Can Italy make it?

We are now in the position to try to answer the question this paper asks, which we would like to reformulate as follows. Assuming that Europe keeps up with her promises, i.e. that a new model will be robust enough to overcome the three weaknesses, will a "winning coalition" emerge in Italy to complete the adjustment process now under way so as to bring the economy towards the virtuous equilibrium point?

That attention should be focused on the formation of a winning coalition should be clear from the discussion of the crisis of 1992 developed above. The positive results obtained by Italy in the immediate aftermath of the crisis of the lira were made possible by a virtuous interaction between industry, trade unions, the government, and monetary authorities which, exploiting the relative weakening of the sheltered sectors, were able to set up an agreement to protect the economy from the inflationary consequences of the devaluation and set the base for the recovery . The dramatic financial picture, in addition, gained (or forced) the consensus for heavy fiscal adjustment.

The point we face now is whether such a coalition can lengthen and strengthen her life beyond the emergency and work through the long process towards a new phase of european integration.

Recent research (Garrett and Way 1995) has made it clear that success against inflation, which is a basic prerequisite for financial stability given its effects on interest rate behaviour, requires not only central bank independence, as much of the literature has reiterated over the past decade, but appropriate labor market institutions so as to make an antiinflation commitment on the part of monetary authorities effective and

credible. In particular macroeconomic benefits, in terms of lower inflation and higher growth, delivered by central bank independence are an increasing function of labor's capacity for collective action. The latter, in turn, should be understood, not only in terms of having "strong" trade unions, but also of reaching a stable agreements between trade unions and employers organizations (Hall 1995)

A European central bank would by definition be independent (from pressures of national fiscal policies). Once such an institution were to be in place an agreement between trade unions and employers organization, such as the one struck in july 1992 would provide the "core" of a winning coalition, i.e a necessary condition for Italy to proceed in her adjustment process towards Europe.

It would be necessary but not sufficient, however. Lacking deeper adjustment the winning coalition would eventually collapse under the pressure of the structural imbalances which still remain to be tackled: mass, especially youth, unemployment, the Mezzogiorno, the adjustment of the sheltered sector, on which the burden of providing the majority of job opportunities will in any case rest. These structural imbalances would soon lead industry to resort to devaluation as a response to deeper unsolved issues.

At the end of 1995 it became clear that Italy's financial position had dramatically improved. For the first time after several years the debt to GDP ratio had started to decline (see table 8) and the primary surplus, amounting to more than 3 per cent of GDP, was five times larger than the EU average. However this had, at the beginning of 1996, produced only modest cuts in the level of interest rates and hence on debt service. Such a situation has opened up a debate on the opportunity to implement a yet stronger fiscal squeeze (ranging around 70.000 billion lire) to "convince the markets" of the willingness of the country to complete the adjustment.

The key political issue then becomes whether a government can be set up, resting on winning coalition robust enough to implement such an adjustment. For such a strategy to be

successful two conditions must be met: a) the groups supporting the coalition must have a long time horizon, i.e; an horizon where the future benefits of today's stabilization can be clearly transformed in higher growth and employment; b) that Europe present herself in a more benign picture. One example in this respect would be the definition, at the Inter Governmental Conference opening in Turin, of transition rules for those countries not joining the first group of EU member states in the single currency that are effectively conducive to a cooperative management of such a phase. In the definition of such rules the main lessons from the 1992 crisis of the Ems should be kept in mind: that a severe cooperation deficit emerged among the participants to the Erm; that the Ems has proved not be recession-proof, i.e that the markets have judged very negatively the unemployment costs associated with the deflationary consequences of the fixed exchange rate regime in Europe.

It must be clear, however, that while fiscal adjustment may not be completed in time to catch the first train to Euro it must be pursued all the same if Italy does not wish to drift away in the rapidly changing european environment.

To achieve irreversible committment to monetary stability, but, more importantly, to regain flexibility in fiscal policy, a totally new role for the state in the economy must be defined, so as to improve competitiveness through authentic structural adjustment. That is to say financial adjustment not only will have to tackle the size and the dynamics of debt but also the composition and quality of state expenditure and taxation. A "light government" does not necessarily imply that the state should give up some forms of allocative role. This is demanding not only because of Maastricht but, more importantly, because the features of global competition.

While some important goals have been achieved, such as the reform of the pension system, and others are under way, such as the string of privatizations, the state must define new policy guidelines in crucial areas such as the formation of human capital, the provision of adequate infrastructure, the support of research and development. In a word the italian state must

contribute to provide Italy with the basic elements of what is now known as a "national system of innovation", (Nelson 1993) i.e. that system of institutional and infrastructural networks that generate the forms of cooperation and interaction between the market and the state without which employment and growth opportunities will decline, and any support for adjustment for "Europe" will inevitably fade. This strategy would be in line with the one Europe as a whole should pursue, along the lines recalled in para. 8.

The political debate going on in Italy clearly shows that the potential for an anti-Maastricht coalition to materialize, and even become dominant, is there. It is not difficult to imagine which groups and political parties could line up behind the flag: public employees threatened by the perspective of additional substantial cuts in public expenditure; unemployed (especially in the Mezzogiorno) threatened by the perspective of losing unemployment benefits; a (large?) part of the small enterprises (both managers and workers) afraid to give up the opportunity of resorting to devaluation once structural constraints depress the export profit cycle. Some, possibly several, italians belonging to these groups are today still part of the winning coalition supporting the Maastricht perspective. This state of affairs, however, might turn out to be extremely unstable in the near future.

To conclude. Italy can keep up to Maastricht II because the underlying political economy has all the energy and resources that are necessary for the task. One condition for this to happen, however, is that Maastricht is not perceived as the only thing Europe can offer in the imagination of the Italian voter, i.e. budget cuts and higher vulnerability, out of which only a few and privileged can take advantage from. Not surprisingly, the latter are highly vocal among those who actively work against the adjustment. To obtain this, as we have argued above, Europe too should adjust to Maastricht.

Tables

Table 1. Consumer price inflation. Major EU countries

	Italy	Germany	France	UK
1980	21.2	5.5	13.5	18
1981	19.5	6.3	13.3	11.9
1982	16.5	5.3	12	8.6
1983	14.7	3.3	9.5	4.6
1984	10.8	2.4	7.6	5
1985	9.2	2.1	5.8	6.1
1986	5.8	-0.1	2.6	3.4
1987	4.7	0.2	3.3	4.2
1988	5.1	1.3	2.7	4.8
1989	6.3	2.8	3.5	7.9
1990	6.5	2.7	3.5	9.5
1991	6.3	3.5	3.2	5.8
1992	5.2	4	2.4	3.7
1993	4.5	4.1	2.1	1.6
1994	4	3	1.7	2.5

Source CEC

Table 2 Unemployment rate. European Union

1980	6
1981	7.7
1982	9
1983	9.9
1984	10.6
1985	10.8
1986	10.7
1987	10.3
1988	9.8
1989	8.9
1990	8.3
1991	8.8
1992	9.4
1993	10.7
1994	11.3

Source CEC

Table 3 Current account as percentage of Gdp. Major EU countries

	Italy	Germany	France	UK	USA
1970	0.71	0.71	0.05	1.54	
1971	1.34	0.44	0.33	1.89	
1972	1.46	0.46	0.15	0.30	
1973	-1.52	1.46	0.58	-1.34	
1974	-4.27	2.78	-1.44	-3.80	
1975	-0.27	1.03	0.78	-1.44	
1976	-1.34	0.83	-0.96	-0.62	
1977	1.01	0.78	-0.11	0.04	
1978	2.07	1.39	1.45	0.67	
1979	1.47	-0.71	0.89	-0.23	
1980	-2.29	-1.71	-0.63	1.23	
1981	-2.34	-0.52	-0.81	2.65	
1982	-1.73	0.78	-2.22	1.67	
1983	0.23	0.81	-0.91	1.16	
1984	-0.70	1.60	-0.23	0.45	
1985	-0.94	2.65	-0.06	0.63	
1986	0.34	4.46	0.25	-0.22	
1987	-0.29	4.14	-0.56	-1.14	
1988	-0.76	4.24	-0.50	-3.49	
1989	-1.36	4.86	-0.48	-4.34	
1990	-1.55	3.12	-0.82	-3.50	
1991	-2.05	-1.22	-0.51	-1.48	
1992	-2.28	-1.22	0.29	-1.59	
1993	1.16	-1.13	0.74	-1.75	
1994	1.34	-1.23	0.74	-0.25	

Table 4 Gdp growth rates. US and major EU countries

	Italy	USA	France	UK	Germany
1971	1.8	2.9	4.8	2.0	3.1
1972	2.8	5.1	4.4	3.5	4.2
1973	6.9	5.2	5.4	7.4	4.6
1974	5.2	-0.6	3.1	-1.7	0.2
1975	-2.5	-0.8	-0.3	-0.7	-1.2
1976	6.5	4.9	4.2	2.8	5.3
1977	3.4	4.5	3.2	2.4	2.8
1978	3.6	4.8	3.3	3.5	3.1
1979	5.8	2.5	3.2	2.8	4.2
1980	4.1	-0.5	1.6	-2.2	0.9
1981	0.6	1.8	1.2	-1.3	0.1
1982	0.2	-2.2	2.5	1.7	-0.9
1983	1.0	3.9	0.7	3.7	1.7
1984	2.7	6.2	1.3	2.3	2.7
1985	2.6	3.2	1.9	3.8	2.0
1986	2.9	2.9	2.5	4.3	2.4
1987	3.1	3.1	2.3	4.8	1.6
1988	4.1	3.9	4.5	5.0	3.8
1989	2.9	2.5	4.3	2.2	3.6
1990	2.1	1.2	2.5	0.4	5.7
1991	1.2	-0.6	0.8	-2.0	5.0
1992	0.7	2.3	1.3	-0.5	1.7
1993	-1.2	3.1	-1.5	2.3	-1.6
1994	2.2	4.1	2.8	3.8	2.4

Source CEC

Table 5 Real Effective Exchange Rates. Major Industrialized Countries (1987=100)

	1988	1989	1990	1991	1992	1993
United States	94.1	99.7	98.0	95.8	94.6	96.9
Canada	107.4	110.5	107.1	106.6	99.8	96.1
Japan	107.1	99.6	89.0	96.2	99.4	115.5
Belgium	97.7	99.2	102.1	98.9	99.9	97.8
France	99.0	97.3	100.7	98.2	100.0	101.4
Germany	98.5	96.6	100.3	99.7	103.4	105.0
United Kingdom	108.0	104.9	107.2	112.3	111.1	104.2
Netherlands	98.0	97.6	99.0	96.6	96.8	96.4
Italy	97.2	99.6	103.6	104.1	101.8	88.2
Ireland	97.3	95.8	97.1	93.4	96.6	94.4
Denmark	99.0	97.9	103.1	100.4	100.8	101.1
Austria	97.3	94.8	98.0	96.4	96.6	97.1
Spain	103.2	108.0	112.4	111.6	109.6	96.6
Source: Bank of Italy						

Table 6. Percentage change in market shares on world exports.
Five european countries. (1970-90)

	Total	Food Pr.	Chemic.	Electr.	Machin t.	Comput.
Fr	-0.85	2.10	0.65	-0.97	-1.41	-2.27
Ge	-1.20	2.96	-1.82	-4.31	-4.15	-7.73
It	0.22	1.16	-0.58	-0.99	-4.15	-1.52
Uk	-1.47	0.71	-0.73	-2.44	-2.24	-1.44
Sp	0.54	0.22	0.74	0.46	0.26	0.11
	Metals	Transp.	Mining	Textil.	Constr.	Others
Fr	-0.44	-1.10	-0.43	-2.11	-1.14	-1.61
Ge	-1.15	1.38	-0.38	-1.15	-2.57	-0.36
It	1.55	-0.71	-3.14	1.88	2.63	0.92
Uk	-1.14	-2.45	-0.09	-2.97	-2.85	-2.43
Sp	1.14	1.37	1.42	0.39	1.70	-0.11

Source (Guerrieri, Manzocchi, Padoan 1993)

Table 7. Revealed comparative advantages. European countries.

	SB	SI	SS	T	Ag	RI	E
Germ.	-	+	+	-	-	-	-
UK	+	-	+	-	-	-	+
Fran.	+	+	+	-	+	-	-
It	-	-	+	+	+	-	-
Sp	-	-(+)	-	+	+	-	-
Efta	-	+	+	-	-	-	-
Ptg, Gr	-	-	-	+	+	-	-
Cksl	-	+	-	+	-	+	-
Hung	-	-	-	+	+	+	-
Pol	-	-	-	+	+	+	+

Source. Authors' calculations and adapted from Guerrieri (1992) and Padoan and Pericoli (1993)

SB= science based; SI= scale intensive; SS= specialized suppliers
T= traditional; Ag= agriculture; RI= resource intensive; E= energy

Table 8 Italy. Government budgetary position (as percentage of GDP)

General government net borrowing					
1990	1991	1992	1993	1994	1995(*)
-10.9	-10.2	-9.5	-9.6	-9.0	-7.4
General government gross debt					
97.9	101.3	108.4	119.4	125.4	124.9

(*) forecast

Source: Commission of the European Communities

Table 9. (a) Patents registred in the US per million of US\$ private R&D expenditure; (b) private R&D expenditure as a percentege of GDP

	(a)	(b)
France	6.27	1.57
Germany	7.62	2.33
Italy	5.40	0.97

Source CNR (1992)

Table 10 Mergers and acquisitions by country

	Total	B	DK	D	GR	E	F	IR	I	L	NL	P	UK
1986/87	303	3	1	69	-	20	63	2	35	1	19	-	90
1987/88	383	11	2	51	-	27	122	6	40	-	16	2	106
1988/89	492	18	2	90	-	65	112	8	49	4	23	10	111
1989/90	622	21	16	124	3	74	101	3	73	3	28	8	168
1990/91	455	9	14	111	8	35	115	2	51	-	21	7	82

Source. Commission of the European Communities.

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EUROPEAN SECURITY AS SEEN FROM THE ITALIAN ANGLE

The New Outlook of European Security

While the trend toward globalization of the economy has not been affected by the end of the Cold War - if anything, it has been accelerated - international security, European security above all, has been profoundly affected. Before, it was to a large extent global. Now, it is divided both conceptually and in geopolitical terms.

Conceptually, we can distinguish three orders of security problems:

1. Local conflicts: Fragmentation of European security is particularly visible because of the number of actual and potential conflicts that are of a mixed nature, being both ethnic and national, civil and military.
2. The residual military threat, Russian in the first instance: Russia has inherited -with the deliberate encouragement of the West - the entire nuclear capability and most of the conventional military capability of the Soviet Union. Both are declining because of either the treaties in force or the rotting military-industrial complex, but they remain formidable by European standards.
3. Continuing or emerging "global" threats: There is a global dimension to the threat to security which has survived the end of the Cold War, indeed, it is being complemented by new challenges as a consequence of the globalization of the economy. Some of the continuing problems we can point out are: 1) the proliferation of weapons of mass destruction, and 2) terrorism. Some of the emerging problems are: 3) organized crime, 4) migration, 5) threats to the environment, and 6) the vulnerability of information and telecommunications systems. All six affect European security.

We will come back to the above three types of threats. Let us now turn to the geopolitical changes. At the beginning of this century a number of European powers were the main actors performing on the international scene. By 1945 they had lost this dominant role to the US and the USSR, which became the super-powers. Europe remained the central theater of East-West confrontation, indeed, its main stake. Despite the terminal crisis of the British and French empires, the Western European states have not declined further during the Cold War; in fact, they have recovered substantially, in economic terms above all. This is because of: 1) the uncharacteristic - by historical European standards - line of conduct adopted by the US: leadership and multilateralism instead of imperialism and unilateralism; and 2) the process of European integration.

Has the collapse of the Soviet empire generated an opportunity for a political recovery of Europe via a comeback of the nation-states that were at the core of Europe's past centrality? Or can the demise of the "central theater" position represent a further step in the decline of the Old Continent unless the process of integration is confirmed and expanded? Those who answer the first question affirmatively tend to underline the new freedom of movement the European states may now enjoy. Both transatlantic relations and European integration, they think, must be reviewed and adapted to the new situation, where bilateralism and multi-bilateralism may serve national interests better than suffocating institutions, where neither the US is willing to lead any longer nor are the European states inclined to yield more bits of their sovereignty.

Those who answer "yes" to the second question tend to stress that growing international interdependence and the complex security outlook noted above require adaptation but not discontinuity in the array of multilateral arrangements and institutions the West has been developing. Such arrangements and institutions may even serve as a model elsewhere. A return to the centrality of the nation-state would be a *fuite en arrière*.

The author concurs with the latter school of thought and suggests the following two considerations, which cannot be developed in any detail here but are mentioned because they are salient to the theme of this paper.

a) The nation-state is neither returning nor disappearing. It is simply losing its

past nature as the sole subject of authority and object of loyalty of the citizens. Increasingly, the "res publica" is being distributed at different levels (more than two = a federal state). In Europe we can discern three, even four, such levels: the region (*Land*), the nation, the Union (and appendices) and, in embryo, the supra-European level. In particular, the nation-state finds it increasingly difficult to justify its monopoly of the use of force. This has relevant implications for who is doing what in organizing the future of European security.

b) While Europe has been declining during this century, Asia is emerging at its end. Besides the traditional reference to the growth of practically all economic indicators (GNPs, trade, investment, financial flows, etc.), the highest military expenditures, the nuclear proliferation hot spots, indeed, the major examples of balance of power problems, are all located nowadays in what I would call the "geopolitical" Asia, which stretches somewhat further West with respect to the standard geographical definition to include some of Eastern Europe and North Africa. This is not to say that any Euro-Asian continental confrontation is to be expected: Asia is not even the modest and partial political subject that Europe is; nor has the "clash of civilizations" model been adopted. What seems relevant here is that in this picture of global economic interdependence and fragmented international security several Asian actors are decisive players and that the Europeans cannot confine themselves to the regional dimension of security.

This having been said, let us go back to the three sets of challenges facing European security.

Local Conflicts

The authoritarian Communist system was able to control or suffocate ethnic tensions after having created or exacerbated a number of them. So far only a few, above all those in the former Yugoslavia, have turned into open conflict. But many others are at the stage of potential conflict. Most come from important ethnic minorities, for example: the approximately two million Hungarians in Transylvania (Rumania); the other Hungarians living in the southern part of Slovakia (600,000, more than 10% of the population); the minorities of Moravians, Silesians and Sudeten Germans in the Czech Republic; the approximately 350,000 Hungarians who live in

the Serb-dominated province of Vojvodina; the Albanian population, indeed, the large majority in the other province of Kosovo; the Rumanian ethnic minority in Moldova; the Russians in Estonia (30% of the population) and in Latvia (more than 30% of the population); and others.

The problems arising from these ethnic minorities, often different one from the other, are such as to generate tensions between and within nations or, conversely, to be exploited by national rivalries. As such, they represent a major threat to European security as they can initiate a series of conflicts that may spread and generate masses of refugees, although, in general, they are not a direct threat to the physical security of any of the Western European states.

Prevention is the name of the game, i.e., preventing conflicts from: a) arising; b) turning (very) violent; c) spreading or generating dominos. Ex-Yugoslavia is an example of the failure of Western action as far as a) and b) are concerned, but not as far as c) is concerned. Fire prevention has not worked, fire confinement has. To extinguish the fire the action of the US has been decisive, to the dismay of the Europeans.

The outcome of the peace process now being attempted in Bosnia will have an impact on other preventive efforts, one way or the other. If the divergences between external powers remain contained within acceptable limits, if the conflict is definitely prevented from spreading, if the aggressors are kept from reaping benefits that are commensurate with the human and economic costs they have incurred, and if the reconstruction process is credibly started, the effect is bound to be positive.

In addition, the West has a number of instruments at hand to prevent the outburst of new conflicts now at the latent stage, such as skillful diplomacy and economic incentives characterized by strong conditionality. Moreover, there is the prospect of eventual integration in various forms (sometimes a double-edged instrument, as excessive expectations can later generate frustration in the minorities).

Actual or potential conflicts in North Africa (leaving aside the attempts to stop the peace process by Palestinian and Israeli extremists) are partly different in nature. Possibly the most important differentiating factor, in our eyes, is the cultural rejection of Western values by the Islamic fundamentalists. Local religious and social conflicts have been affected and the problem of migration from the South is perceived

differently from that from the East because of religious differences.

Crises in North Africa can only remotely generate a direct threat to Italy, Khaddafi's two missiles fired on Lampedusa notwithstanding. But important national interests such as energy supply are at stake. Preventive international diplomacy is active in two directions: a) to try to include North Africa in the broader Middle East peace process (the Casablanca-Amman approach) and b) to help build some sort of a cooperative area between Europe and North Africa and the Middle East (the Barcelona approach). Either approach makes sense but neither seems to be able to master the economic resources that appear to be necessary to make such preventive action decisive.

The Residual (Russian) Military Threat and the Case for "Some" Deterrence

When "local conflicts" occur in Russia or affect Russia directly insofar as they concern important Russian ethnic groups, they are bound to be treated somewhat differently by the West, as has been the case with Chechnya. Although no longer a super power, Russia remains a great power. In a way, Russia might be more of a threat not being a super power anymore, because it is more unpredictable. We ourselves find it difficult to define the threat. Were Russia to become an efficient state, we would be concerned with a resurgent military-industrial complex, a huge nuclear arsenal and memories of past Russian conquests. If, on the other hand, the Federation were to fall apart, with factions and provinces fighting each other to the end, the concern would be different, but it would still be a concern, a very serious one.

The "Russian threat" to the West, mostly potential at this stage, is implicitly the main, though not the only, reason for maintaining both conventional defense (including some 100,000 US troops in Europe) and nuclear deterrence capability, even if at a reduced scale. This justification applies in particular to the existence of the British and French deterrents, the latter having received new emphasis with the massive resumption of nuclear testing by President Chirac. More openly than the British, the French say that what appears to be a reduced American commitment to the defense of Europe is one more reason to keep their nuclear arsenal efficient.

The broader subject of the future purpose of nuclear weapons will not be dealt with here, except to mention that the idea of a "counter-proliferation" that might go as

far as contemplating the use, or threat of use, of nuclear weapons against a proliferator has attracted some attention in Italy because of the proliferation risks in the Mediterranean.

To come back to Russia, the real "risk" (to use the more polite word adopted by NATO) is not so much a direct one for the West as it is for countries that find themselves in a gray area that stretches from the Baltic to the Balkans. Should a "security guarantee" be extended to these countries? What kind of guarantee? By whom? Where do we draw the line? These are the usual question marks in the debate on the future of NATO and on the identity of European security, as we will see later in this paper. What is clear is that the stronger the guarantee, the closer the indirect threat comes to being a direct one.

It is particularly relevant for Italy that the "Russian threat", including the indirect one, has disappeared from the Mediterranean more radically than it has from Eastern Europe. The scenario of some sort of alliance between a nationalist Russia and Islamic fundamentalism in order to destabilize Turkey and regain influence in the broader Middle Eastern area is, however, quite plausible.

Global Threats

The six kinds of global threats the author felt could be put in the same basket (proliferation, terrorism, crime, migration, pollution and "informatics wars") cannot, again, be discussed here in any detail. It may, however, be useful to underline that they have the following in common:

- 1) that military instruments - the usual instruments to deal with security threats, at least as *extrema ratio* - have limited, if any, prospects of playing a relevant role (with the possible, already mentioned, exception of counter-proliferation);

- 2) that internal security instruments are likely to be more useful - indeed, these threats are as pervasive as they are global and make the distinction between foreign and domestic issues almost invisible;

- 3) that the private sphere is significantly affected, both at the level of the individual and at the level of enterprises; and

- 4) that the tools that make international economic competition possible and foster cooperation must be adapted to deal with these threats sooner, not later.

These problems concern all countries, even if they become particularly acute for some in certain moments, as was terrorism for France recently. But Italy is particularly vulnerable to these "global" threats both because of its geopolitical position close to: a) proliferation hot spots, b) migration sources, c) international terrorism headquarters, d) drug markets and e) polluting oil routes, and because of its internal weaknesses, such as insufficiently effective police and justice systems facing a pervasive, though weakened Mafia, and its long and permeable coasts. Moreover, the Italian economy and spirit of enterprise are active internationally, often through small- and medium-size businesses.

It is not surprising, then, that Italy has been encouraging the G-7 to focus their attention on the problem of controlling international flows of "dirty money".

Collective Security, Common Security, National Security

The different kinds of threats discussed above affect security at three levels: a) at the level of the nation;

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b) at the level of those groups of nations that have come to share perceptions and instruments to protect their security; and

c) at the level of the broader, possibly global, dimension, where nations or groups of nations share an interest to prevent, to control, or to stop crises, conflicts and wars.

There is sometimes confusion among these levels.

National security has been the traditional purpose of foreign policy. It presumes that there is a national security identity which is determined by the size, economic strength, and power projection capability (or propensity) of a country, and by the geostrategic context in which it is placed. The change that is taking place in the role of the nation-state, mentioned above, affects the national security identity, particularly in Europe.

While it was engaged in East-West confrontation, the Atlantic Alliance generated the perception and the reality of a common security. For most European states, Italy in the first instance, national security became almost entirely identified with common security, French rhetoric on national independence notwithstanding. With the end of Cold War, the Alliance remarkably survived but the identity has been shaken. With

the failure of the EDC in 1954, the attempt to build a common defense among six European countries also failed. It was not revived until the Maastricht Treaty, which contains provisions for a common (foreign and) security policy, and also, in the longer term, for a common defense. To a large extent, the CFSP has remained on paper; one exception to this is non-proliferation policies.

The deterrence-cum-détente system that was developed over the decades within the Cold War generated some sort of a collective security. Today many tend to idealize it, forgetting all the tensions and conflicts and wars we experienced during those years. It is true that the scale of crises was far smaller than the scale of military capabilities (even if only conventional capabilities) available. That system of collective security has now collapsed.

The design to substitute it with a "new world order" that developed in the wake of the Gulf War - an order guaranteed by the US, with the participation of those countries willing to do so, with some sort of support from Russia and with the legitimization of the UN - lasted the time the French call "*l'espace d'un matin*".

While the prospect of being the "world cop" was turning into a nightmare in the US, the previous line that the Americans had been in Europe only to defend the Europeans (and in the Pacific to defend the Japanese) against the Soviet threat started to backfire when such threat no longer existed and generated the opposite line that "now" national (vital?) interests had to be given priority (as if they had been neglected "before"). National security interests had to be defined and the implicit message to friends and foes (if any were left) was that not only collective, but also common, security interests would be subordinated to such definition.

The near disaster in Somalia started a process of divorce with the UN, which has subsequently been made more and more acrimonious by the political developments in the US and by the poor handling of Bosnia by the UN. The hands-off line adopted by the Clinton administration during the first phase of the Balkan crisis denoted an increasingly tense relationship with Europe. While the Yugoslav federation was falling apart, the Europeans, having started on the wrong foot thanks to German (and Vatican) pressure (the hasty and premature recognition of the republics), hardly patched up differences, but their common negotiators never had the authority to perform effectively. The US, via NATO, was called in. Clinton found that, contrary to

previous estimates, inaction may have cost him more than action. The Dayton agreement, with the back-up of NATO, has shown that if collective security instruments fail, common security instruments play a supplemental role, hopefully a more successful one. For Italy this has been a welcome development, not only for its intrinsic value, but also because the so-called "contact group", in which it was not a fully accepted member, has turned out to be a façade of the American leadership and because significant Italian troops have been called in for implementation.

Chirac's strong stand on Bosnia contributed to the change in the US perceptions of the crisis, but it did not come alone. In the worst moment possible - the 50th anniversary of Hiroshima - the French president announced the resumption of nuclear testing in the Pacific. This may be seen as yet another example of the new priority given to national security interests on this side of the Atlantic as well. In the same way, the scale of the international uproar, for which French authorities were apparently unprepared, may also be seen as a sign that such priority is not without its costs. To contain such costs Chirac had, in fact, to take two steps, which we cannot say were planned in advance. One step moved in the direction of collective security, with Chirac announcing that France would drop its previous reservations about the CTBT; the other step moved in the direction of common (European) security, with the acknowledgment that France was willing to open a dialogue with its EU partners on possible partial and selective "Europeanization" of its nuclear deterrent.

The fact is that the emphasis on the national dimension of security, which is seen as inevitable and legitimate in the post-Cold War environment, is bound to generate pressure towards renationalization of security policies by states that have been partners in common security. At the same time, all seem to agree that such renationalization would be negative, indeed, disastrous. The trend, in other words, is apparently ineluctable and undesirable.

The Institutions Relevant to European Security

If we accept the above distinction between common security and collective security, the international institutions concerned with European security can be categorized accordingly. Broadly speaking, the UN and the OSCE are concerned with collective security and NATO and the UE/WEU with common security. In practice, NATO has

acquired a pivotal role in the European security architecture that stretches into the field of collective security because of two developments. First, NATO proposed to former Warsaw Pact members to enter a cooperative framework such as NACC in order to reinforce European collective security provisions with respect to those provided for in the then CSCE and to make NATO its central institution. A further step in this direction was the proposal of a Partnership for Peace. PfP was actually launched in order to dispel the negative reaction generated by the suggestion to expand NATO membership that came after NACC, under the pressure of some German leaders who want to move the West's security border eastward, and of the Central Eastern Europeans, who feel they are being left in a security vacuum. The latter claim in particular had some resonance in the US and enlargement has now become a commitment of the Alliance, though how many countries are involved and when it will take place have been deliberately left undefined.

The prospect of broadening the West's area of common security was bound to affect Russian perceptions about its own national security. Despite the effort of PfP to introduce stronger collective security provisions, the trend in Moscow seems to be towards less cooperativeness. It may be argued that NATO enlargement has not yet made a new member but has already created a drop-out, Kozyrev. The Russian presidential election campaign is likely to see the anti-NATO rhetoric mount.

The second development that puts NATO at the center of European security is its growing role in Bosnia. The substitution of a collective security organization, the UN, which had failed to the point of being humiliated, by a common security organization was an unprecedented piece of evidence for public opinion at large. The American commitment in Bosnia does have a time limit that US officials say must be taken very seriously. After the equation of NATO enlargement versus Russian resentment, the second variable in the future of European security will be assuring implementation of the Dayton agreement by whoever will be willing to take over if and when the Americans leave.

The third variable concerns the degree to which EU members will be able to achieve some consistency and credibility in their common security organizations. The issue will be central to the IGC as far as the institutional set up is concerned, but it will not be limited to the IGC. As has already been mentioned, consultations are

scheduled to take place on the new horizons of European security, probably at the initiative of France. Chirac's decision to formalize and extend French participation in NATO's military structure contributed to solving the problem of consistency between a European security identity and a European pillar in NATO.

The Italian views on the three variables mentioned above will be discussed in the next chapter. It will only be noted here *en passant* that reconciling European integration and Atlantic integration in the field of defense has long been an Italian policy that has occasionally put Rome at odds with Paris. Is Italy now going to be in the uncomfortable shoes of the faithful son while the fattest calf is slaughtered for the banquet in honor of the prodigal son?

Before closing this chapter, we should mention the role of OSCE as an instrument of collective security. Past experiences in Hungary and the Baltic countries suggest that, though weak, this institution should not be neglected for purposes of preventive diplomacy, confidence building and the definition of accepted standards of behavior.

The Italian Debate on Security

In the above rather confused and confusing picture of European security a few aspects of particular interest to Italy have been hinted at here and there. As we now turn to the Italian debate on these matters, it is appropriate to note first of all that such debate is very limited.

The 1979 Italian decision to have some 120 Cruise missiles or Intermediate Nuclear Forces (INFs) deployed on Italian soil (a decision of major significance for NATO, as it fulfilled Germany's condition that it not be the only continental country to host them) was rather innovative with respect to previous ones. Indeed, by that time there were already some 1,000-1,500 nuclear warheads stationed on NATO ground, air or sea bases located throughout the country. But the corresponding deployments had been smuggled through the decision-making process as "technical" implementations deriving from membership in the alliance. Paradoxically, both the government and the opposition converged in considering the Atlantic Alliance as embodying Italy's choice of the West - thus to be endorsed or refused *in toto* - and did not pay much attention to allied strategic and military measures. In short, until 1979,

Italy's role in NATO had been useful but passive.

The deployment of Cruise missiles was, instead, accompanied by an unprecedented degree of analysis of the impact of tactical nuclear weapons on deterrence and arms control. If the parliamentary vote was not fundamentally different with respect to the past, all observers noted that new attention was being paid to security matters - something for which Italians certainly have no particular inclination. No wonder then that since 1979 Italy has played a more active Italian role in NATO and elsewhere. For instance, when in 1987 Spain asked for the removal of the NATO F-16s deployed at Torrejon, near Madrid, Italy was quick to make Aviano in the Veneto region available in its place.

Italian military contingents of various kinds and sizes have been part of UN humanitarian and peacekeeping operations in the Red Sea, Lebanon, Southeast Asia, Angola, and, subsequently, in Mozambique, Somalia and the Balkans. Air force and naval groups were engaged against Iraq in 1990-91 and, although they played a marginal role in the conflict, the two pilots who were captured, mistreated and shown on TV by the Iraqis attracted worldwide attention to Italian participation in the Gulf War. When the conflict in the former Yugoslavia became more acute, Italy's offer to the UN to provide ground troops (1992) was turned down. Its contribution continued through logistic, maritime and air support and became central when NATO air strikes began. Despite these commitments, the Italian government has not been made a member of the "contact group" and this has been a source of frustration and recrimination in the country.

However, the political and institutional crisis in Italy, to which other sessions of this conference are devoted, has again diverted public attention from foreign policy issues and turned it towards domestic developments, hectic and inconclusive though they are. In the particularly restricted circle of those who pay attention to international security (not necessarily a sign of generalized and helpless parochialism, since good Italian scholars and practitioners in international economics are not lacking), we may identify a few trends, although not always clearly defined and consistent. Let us first consider the one that seems more innovative with respect to the past and is in line, broadly speaking, with what was termed above the "national interests rhetoric".

This line of thought says that Italy has been a passive, at times submissive,

member of European and Atlantic institutions, that this might have been justified by a serious external threat which no longer exists, that now national interests, including security interests, have to be looked at on their own merits and that foreign policy behavior must conform to the defense of those interests rather than being delegated to others, common institutions included.

Priority attention is given to the fragmentation of security, thus to the first basket discussed above: local conflicts. For these local conflicts, a proximity criterion must be taken into account, because of the end of ideological bloc-to-bloc confrontation in bringing about a return of geopolitics. Some proponents of this school of thought tend to be very critical of Maastricht, which is seen as ignoring the changes brought about by the end of the Cold War. Reservations about Maastricht, however, tend to focus more on the EMU side of the treaty, and now receive new momentum since other important European countries find it hard to conform to treaty requirements.

To an extent this trend of thought has acted as a kind of cultural liberation force. The sense of nation has never been strong in a country that as a nation-state is relatively young. The vaccination provided by the disastrous period of Fascist nationalism has done the rest, so that references to *patria*, to national independence, pride and interests have been scarce in Italian political discourse. The Italian constitution explicitly allows for some relinquishment of sovereignty, which has made some steps in the European integration process easier.

But, besides this cultural liberation there has been little innovation. One does not act on national interests by talking about them. Identification of a new set of national interests and goals has not occurred, particularly in the field of security. And the first test case for asserting national interests did not work well. As this school of thought had a certain influence in the center-right coalition that won the elections in March 1994, it was partly identified with the government that grew out of it. Also under pressure from Alleanza Nazionale, which in its previous neo-Fascist incarnation had been supporting nationalist claims on Italy's northeastern borders, Italy subordinated the opening of EU negotiations with Slovenia for an association agreement to the solution of a bilateral issue. This first in Italian post-war foreign policy was reversed by the following government.

Just as the *Bourgeois Gentilhomme* was creating prose without knowing it,

hasn't Italian foreign policy been serving national interests during the past four decades? Possibly the country never enjoyed as much security at as low a cost as during the Cold War. This perception explains the existence of a different school of thought, one that is often tinged with nostalgia. As Sgt. Snorkel in a Beetle Bailey strip says, "I sorta miss old Communist Europe", so do a number of Italians, among the military first and foremost, because of a concern that NATO may lose its status as the number one instrument of common (and national) security as a consequence of a reduced US military commitment and of the enlargement to former Warsaw Pact members. Enlargement is seen with wariness for two other reasons as well. First, it antagonizes Russia, feeding adversely into the political debate in that country; second, priority is once more given to countries such as Poland and the Czech Republic rather than to those in the southern part of Eastern Europe, which are closer to areas of potential crisis in the Balkans and in the Mediterranean. The official position has been one of support for NATO enlargement, but in a process that must be open, well prepared and such as not to create new demarcations in Europe.

This school of thought tends to subordinate WEU to NATO. But others think that the disappointing outcome of the EU/WEU action in the Bosnian crisis should stimulate reinforcement of CFSP, rather than nipping it in the bud. They feel that a reduced American commitment to European security is a fact, that NATO enlargement will happen and that a security and defense identity must be built within the Union, into which WEU should be merged according to a procedure that the coming IGC should define. This course of action, they argue, is likely to be welcome in the US, since it shows that the Europeans are serious when they say they will contribute substantially to security.

The Italian government is an advocate of the need to give CFSP high profile leadership in the form of a secretary general. This position should not be separated from the other Union institutions, indeed, it should have a vocation to merge into one system together with the other "legs" of the treaty to be reformed. This would also respond to the need for consistency between economic and military means. But the latter view is questioned in some circles, particularly among diplomats, who feel that Italy should not shut itself out of some mediating role between the federalist Germans and the French, namely Jacques Chirac, who favors the intergovernmental approach

to CFSP, particularly as far as security and defense are concerned. Any *rapprochement* with the uncompromising British positions seems unlikely at this stage, despite the past successful joint Anglo-Italian initiative to develop political cooperation with the Eastern European countries in advance of their eventual membership.

The decision not to join (or, if you wish, the non-decision to join) the Franco-German Eurocorps went unnoticed by public opinion some years ago. It was felt that these ad hoc bilateral initiatives were bound to weaken WEU, while Italy was committed to strengthening it. This choice, ill-advised according to the author, was partly compensated for last year by the establishment of two new joint military forces (EuroForce and Euro-Mar-Force), together with the French and the Spaniards (who have meanwhile joined the Eurocorps), to prepare for eventual action in the Mediterranean. Moreover, a joint German-Italian unit is about to become active within the framework of WEU. All the same, there were no Italian troops marching in Paris on July 14th from the *Arc de Triomphe* together with the other symbolic contingents of the Eurocorps, including a German one.

Frustration is very high among the military because of the continuing restrictions and cuts to the defense budget and the repeated postponement by Parliament of a bill that would define the purpose, and the guidelines for reform, of the national armed forces, the so-called *nuovo modello di difesa*.

It is interesting to note, however, that the developments in the former Yugoslavia have been accompanied by a decline in the pacifist attitudes that have traditionally been important in the Italian debate on international security. Pacifism, for instance, prevented the government from participating with ground troops in the Gulf War. The change has taken place both among Catholics (with the help of the Pope's new positions on peace-making) and among the left, since only Rifondazione Comunista keeps opposing Italian participation in the NATO operations in Bosnia. How deep-rooted such change is will have to be checked in the coming months against possible adverse contingencies during such operations.

Mediterranean security, particularly insofar as the cultural, political and terrorist activities of the Islamic fundamentalist movements are concerned, attracts Italian public attention, though not to the degree one might expect. Some sympathize with the French position of support for tough action by the Algerian government to crack down

on terrorist activities. Since this attitude seem to prevail on the center-right of the political spectrum, the statement of then Foreign Minister Martino of Forza Italia, openly questioning the legitimacy of that government (this was before, of course, the last presidential elections) came as a surprise. Others favor the opening of a dialogue with the Islamic forces which, though fundamentalist, reject terrorism. Of particular relevance was the agreement among a number of Algerian political groups, including the Islamic one, brokered by the Comunità di S. Egidio, which had also been active in fostering a successful political compromise in Mozambique. This time, however, the draft agreement was turned down by the Algerian government.

The Italian government has taken an intermediate position similar to the American one. It aims at maintaining good relations with the established authorities in order to protect Italian investments in North Africa, but also at keeping the lines of communication with those societies and cultures open, and not neglecting the corollary of reducing the physical risks to Italian personnel working in these countries.

Of particular cost to Italy is participation in the international embargo against Libya, where there is a substantial Italian population and economic interests. The increasing differentiation of the national energy supply originating abroad that has taken place over the last decade or two has reduced sensitivity about North African developments.

To return to the evasive and narrow debate on security, we can conclude that Italians, entirely absorbed by political infighting, mostly on domestic issues, still find it hard to grasp what their contribute to European security might be. While the national interests rhetoric has enjoyed some popularity among the cultural élite, the renationalization of security policy does not find open advocates. There is near unanimous support for continuing shared security policies both in the Atlantic and the European frameworks, with some giving more importance to the former, others to the latter. The inclination to see these institutions and the major countries leading them as a substitute for a national role still exists.

The main problem remains that of avoiding either renationalization or delegation, and of building, instead, a capability to contribute to common and collective security, to continue the trend that was initiated in the late '70s in today's changed world scene.

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Introduction

The aim of this paper is to deepen the relations between the Italian debate on the European issues and the developments linked to the goal of the single currency and to the present enlargement process.

The relevance of this linkage has strongly influenced recent Italian internal politics, even if Europe has not received the attention that need the delicate issues we want here examine. But it is also a fact that an European evolution over the completion of the EMU third phase, without Italy, or with Italy in an official secondary position, substituted by others members, will create new balances in Europe that have to be carefully evaluated in Italy, in Europe and in the United States.

To approach these topics, is necessary to take a look, from one hand, at some specific aspects of the italian political and istitutional life evolution, and, on the other hand, at the consequences that big political international changes produced in the graduated evolution from the European Community to the European Union, foreseen with the signature of Maastricht Treaty.

1) Italy and the European Union: the takeoff of the debate about the currency, the presidency semester, the disinterest in the topics concerning the IGC.

In the last months, Europe has become one of the main issues in the Italian political debate. In particular there are two points on wich attention has been focused by the politicians and, at the same time, by the press and the public opinion.

On the one hand, the approach of the Italian turn to the EU Council presidency, now in course, together with the contemporary unusual political situation of the nation, made Europe one of the issues which have strongly influenced home politics.

The main protagonists in the foreign and comunitarian politics of the European countries have already taken an interest in the Italian semester. Because of the particular rule of rotation of the presidency, which has to follow the alphabetical order, between the signature of the Maastricht Treaty and the date of the

beginning of the IGC, fixed in 1996 by the Treaty (1), a singular succession has occurred, so that it is possible to notice a break in two parts of the last four years and a half.

The first part has been characterised by the presidency of "small" or "euroskeptic" countries, that is to say Portugal, Great Britain, Denmark, Belgium and Greece. In the second two-year period, on the contrary, the presidency was held by the four "great", traditionally favourable to a higher degree of the integration, Germany, France, Spain and Italy.

The approaching of the second two-year period had increased the expectations for the last four presidencies before the beginning of the IGC, so that an initiative for coordination among them has been taken, in order to prepare the gestation, in those two years, of that European Political Union, which could have taken shape with the 1996 IGC, to allow full development of the third phase of EMU.

This strategy was particularly favoured by the German Government and by the political parties linked to it, which thought that it was necessary to link the development of the second Maastricht pillar, on the Foreign Common Security Policy, and the European institutions reform, strictly with the procedure stated in the article 109 of the Treaty, to complete the third phase of EMU.

In anticipation of this hard program, and due to the fact that the Italian presidency was to lead the first part of the Conference, the attention about the semester has grown. In particular there was a real possibility for Italy to negotiate and to manage to approve a first draft of the Treaty, whose procedure would have been completed later. The aim was to leave an indelible mark on the path towards the new European Union, taking as example what happened with the Maastricht Treaty, whose structure had been traced by the Luxemburg Presidency, which preceded the Dutch one.

Some concurrent elements contributed to lower the ambitions of the project of the four presidencies, which, consequently, could not prepare the Conference "in crescendo", as the final text of the Westendorp Report shows.

This result was mainly provoked by reasons of home politics, reasons which have conditioned all the four presidencies of the "great" countries: the elections for the Parliament in Germany, the

presidential elections in France, the crisis of the Gonzales Government in Spain and the Italian government crisis culminated in the dissolution of Parliament.

But in addition to these elements, the political troubles which concerned some current and important issues of the European policy in these years, in particular referred to the problem of EMU completion, also must be stated.

The issue of the single currency was the second aspect which brought Europe to the heart of the Italian political debate. In particular, about the perspectives decided in Maastricht in view of the EMU third phase, the discussion started suddenly, after having been reserved to experts for a long time, on the political elections on 27-28 March 1994, and with the discontinuity in the European monetary policy operated by the Berlusconi Government and by the Minister for Foreign Affairs, Antonio Martino.

The consequences of the choices which will be made in the European context, with the engagement of the home budget policies, provoked a harsh debate in Italy about these themes, in the last two years, particularly about the financial measures, a necessity required to fulfill the convergence criteria, and about the criticism produced by the social conflicts in France and in other European countries, consequent to the commitment to Maastricht.

It is difficult to define the terms of this discussion and the groups which are debating; is a mixture of elements mainly linked with the communitarian policy and of choices which regards exclusively home affairs.

The demonstration of this mixture is also the result of the swinging attention to the semester and to the currency issues given by the major part of Italian politicians, linked to the changing conveniences about the putting European matters in home choices or not.

Nevertheless, the electoral campaign for the elections of the new Parliament, next 21 April, will be necessarily a moment of truth, because, beginning from the next budget law, all the most important decisions about the budget will be linked to the political choices that the two coalitions and the parties will have operated about the "if" and the "how" of the return of Italy in those economic

criteria which Maastricht declared necessary in order to join the single currency.

If the terms of this debate, although three years later than other members, have come to interest the public opinion and the vital parts of the country, we cannot say the same for the development of the "other" integration, the European Political union, whose climax should be the IGC. Around these issues, the debate in Italy has been left only to experts and to small parts of the political world and of the press; Maastricht has definitively become the synonym of the single currency.

And on this simplification, the issue that, as happened in France, is likely to monopolize the attention in Italy too, can be resumed in the call "We won't die for Maastricht", which is one of the slogans which will resume the position of the centre-right coalition led by Silvio Berlusconi for Forza Italia and Gianfranco Fini for Alleanza Nazionale.

Particularly, the center right coalition, coherently with the line chosen at the time of the Berlusconi government by the Foreign Minister Martino, questions the path taken by the Central Bank Presidents and by Prime Ministers in Maastricht, based on the forced convergence over criteria which the Italian center-right coalition has always questioned, doubting of their adequacy in expressing the real economic power of a country.

On the other hand, the centre-left alliance led by Romano Prodi and its main parties, the Democratic Party of the Left and the Popular Party have in the strongest commitment to return as soon as possible in the convergence criteria, one of the priorities in the electoral program of government.

But if this simplification, imposed by the approaching elections, could suggest a clarity of perspectives however admirable, the links of this political ideas with the Italian institutional economic and social world, make the whole thing much more complex.

In fact, keeping on focusing our attention on the specific but decisive issue of "if" and "how" return in the criteria, the opinion of who, with the aim of being accepted in 1998, in the first group of the single currency, proposes for 1996 a big budget correction, like

the one made in Belgium last year, is backed particularly by the Bank of Italy and by Confindustria.

The possible delays which have been foreseen by them are only those linked to the already severe margins of flexibility as stated in the text of the Maastricht Treaty and whose application has been recently backed in Europe, authoritatively, by Valery Giscard d'Estaing.

In particular, the newspaper "Sole 24 Ore" has supported the opinion of the "return to 1998" as a year of reference and not as an year in which to take decisions based on the data of the previous year (2). So that Italy could have twenty four months, instead of twelve, to lighten the burden of the public expenses reduction and of the fiscal measures which will be necessary.

In all of these positions, the common thing is the commitment to make every possible effort not to obstacle, at the EU level the first project of EMU and to allow Italy to participate immediately in it.

The various sections of the Italian trade-unions are instead oriented towards divergent opinions, and just those sectors are expressing authoritative opinions against any correction of the public finances at the extent stated by the top of Bank of Italy. So that is difficult to foresee the future events, considering that the trade unions are favourable to the center left coalition.

In this context, the line taken by the Dini Government seemed to be characterised by a certain degree of autonomy from the opinions previously described, because the Prime Minister has often looked with favour on a limited postponement, at a comunitary level, of the general beginning of the third EMU phase and has often expressed favourable opinions towards some Italian budget cuts, but wich should not weaken the force of the Italian economy, that represents one of the elements which should, according to these thesis, be crucial to obtain, with the reduction of the interest rate, a decreasing of the National Debt.

It is easy, examing all the various positions, to foresee that there will be some degree of uncertainty about the future choices which will be taken. Two reflections, not secondary, must to be made, in order to complete and to explain the whole problem.

The first one comes to the widespread view based more on reason rather than feeling that, at last, the path and the timing as stated in the Article 109 of the Maastricht Treaty will be modified by the Fifteen, because of the problems and of the growing objections which are being raised from all over Europe. Emphatically, all the opinions, coming from Germany, France and from Bruxelles, favourable to changes or postponements, are being reported and amplified, and without hiding any satisfaction, there are some who are saying that, after all, according to the last reports, today not even Germany would fulfill the Maastricht criteria.

But there is a second reflection which must be added, a reflection based on the economic indicators, and which should represent the guideline on which should be based every discussion about the future of Italy in Europe and about the future of European Union itself.

That is to say the statement that Maastricht has already brought positive effects to Italy. Since the project of EMU has been created, the course of the financial national policy has undoubtedly changed and the cut policy has already shown its beneficial effect, if we consider that the last Government Economic Financial Program Document has shown that the aim of the 3% in the ratio of PIL to Deficit, could be reached not later than 1998.

A structural link between political decisions and budget compatibility has been created, which might start a positive cycle. And this is already an actual step forward for a country like Italy, which had tried to resolve the political and social conflicts of the pre-Maastricht period simply increasing the National Debt. The most important thing is to consider the criteria of the Treaty for what they really are; not like magic which could generate the single currency, but like indices which, as a thermometer, can measure the normality and the abnormality of the state of the country's economic and financial situation.

It would be already a good step forward if this vision of the problem could take the place of the other one more widespread, of the "slikpnot" arbitrarily created by the Eurobureocrats and by the German bankers. The latter vision reveals quite often an alibi for who refuses to face all the consequences of the choices necessary to put the country in order.

2) The future of European architecture. The enlargement, the role of the IGC and the prevalence of the debate on the Single Currency

In december 1991 in Maastricht, when the twelve members of the European Community, after a "marathon" of negotiations, concluded the Treaty about the European Union, one of the crucial elements for the conclusion of the compromise was the predisposition of mechanisms, whose use could verify and complete the realization of the many innovations introduced.

One of the reasons which provoked perplexity and apprehension in the sectors and in the capital more disposed to a federal solution, was the different method used to regulate the different parts of the Treaty.

For each of the main Titles, infact, had been a different synthesis of elements of supranationality - with a more important role of the European institutions which do not depend on the national governments and with the prevailing of the majority rule - and intergovernmental method - with voting procedures which tend to the unanimity vote and power given to the Commission, which is the more supranational European organ.

This has been the result of compromises between different ideas, ideas which expressed integration theories so different that they almost seemed incompatible, at least in some specific and delicate sectors.

Elements with a higher degree of supranationality regulated the part about the Economic and Monetary Union, while the other two "pillars" were more charaterized by an intergovernmental method.

It is natural that the result came to be characterized by a general complexity in the terms and, in particular, in the institutional structure. It is easy to interpret this aspect as one of the causes which have provoked the weakening of the European feeling in the citizens of the members, so that, in some cases, the possibility of a future integration has become less and less attractive, as shown by the difficulties of the long and troubled course of the national ratification of the Treaty.

The Maastricht protagonists soon realized the consequences which would have come later on, since the way they had regulated this issue in the Treaty.

That is why, in the text was stated the introduction of instruments for a permanent check of the first steps of the Treaty implementation. Particularly, with the article N of the Final Provisions of the Treaty, it has been decided the convocation of an Intergovernmental Conference in order to review and to improve the parts of the Treaty, whose running had required a verify. Literally, the issues which should be the object of this review are the use of the codecision power of the European Parliament, the FSCP and the sectors of energy, tourism and civil defence.

But the article N, which convenes the Conference, adds, with the words "according to the aims stated in the articles A and B of the Common Dispositions", a strong impulse to discretionary power in widening the field of intervention of the Conference, given that, for example, one of the key-aims reported is the principle of subsidiarity. Moreover the twelve decided to solve the question of the rearrangement of the comunitary legislation, setting this delicate task, as written in one of the Statements enclosed to the Treaty, to the future Conference.

The other aspect which suggested the convocation of a sort of "Maastricht 2", as the IGC was later called, regards the moment in which Maastricht I took place.

The complex events which brought to the making of the Economic and Monetary Union, began in the second half of the eighties, after the approval of the European Single Act and took off in an international background which has completely changed in few years. The fall of the socialist regimes, the vanishing of the Warsaw Pact and of Comecon brought automatically and suddenly new economic and political responsibilities to the European Community.

Bruxelles became centre of attraction, not only for the States of the Central-eastern Europe, but also for all those States that, in the cold war years, had to, or wanted to keep positions of neutrality, and that, after the geopolitical revolutionary changes, wanted a strong tie with the Community.

In parallel with elaboration of the Treaty about the Union, both these potential ties were reinforced, and during the three-year-period '90-'92, the Association Treaties between Bruxelles and the Central-eastern European countries and, at the same time, the creation of the European Single Space which linked the seven States of EFTA (Austria, Finland, Iceland, Lichtenstein, Norway, Sweden and Switzerland) to the European Market, was founded.

Both these facts were processes in progress to which, both the Association Treaties and the European Single Space were stages, important of course, but however introductory to future further developments.

During the Maastricht debate, these further developments were foreseen, and the convocation of a new Intergovernmental Conference, to be held in 1996, considered these facts, whose influence grew, when, in 1993, the negotiations began since four States of EFTA (Finland, Austria, Sweden and Norway) wanted to join the European Union.

Indeed the adherence of the three new States (the referendum in Norway was unsuccessful) obliged the twelve, in the Bruxelles European Council in Decembrer 1993 (3) and in the Ioannina Informal Council in March 1994, to set a new task to the 1996 Intergovernative Conference, that's to say to reform the European Institution in the light of the enlargement.

All these developments have given great importance to the IGC agenda. It will have the task to reform the EU institutional set-up in the light of the last enlargement, and in anticipation of the next, it will have to take decisions on the development of the integration in the field of Foreign Affairs and Defence, and will have to rearrange the Community legislation.

But the sensation of a substantial marginality characterizes, in spite of the dramatic facts caused by the european impotence in the war of the former yugoslavian republic, the debate about the integration of the Foreign Affairs and the Defence policy of the States, compared to the EMU issue.

Althought it is not in the IGC agenda, the issue of the single currency represents the theme which could influence the future of the european building. On the contrary, the absence of this theme in the agenda, because of the heated discussion about the time

limits and about the merits of the convergence criteria, could erase the importance of the meeting that will take place in Turin, next 29 march. This could spoil the strategy of the political rebalancing, a strategy contained in the Scheauble-Lames papers and backed soon after Maastricht by the German Government and by Bundesbank which were disposed to keep on walking towards the EMU, but only after the institutional development of the instruments necessary to an integrated administration of the economic and monetary policy, and of the Foreign Affairs and Defence policy.

3) The guidelines drawn up by the Italian Government and the political debate about the next Italian choices in Europe

The facts above mentioned about the coordination of the four presidencies and about the preliminary work for the IGC, have happened in a period during which the Italian government with its procedures, has worked out an overall view about the issues of the Conference.

This view, expressed by the present Government and approved by the Parliament (4), is the result of a process which has involved the previous governments, and which has developed the ideas elaborated, during these years, by the Farnesina, undoubtedly the centre of the elaboration and of the implementation of the Italian foreign policies.

The course in question, after Maastricht, had no substantial interruptions, even if with some partial changes during the Berlusconi Government, since the disagreement about the European issues, in that phase, referred to the future of the single currency, instead of the issues which have been enclosed in the IGC approved agenda.

The view which nowadays seems to have been completely developed, and that will be the official position of Italy at the opening of the Turin Conference, can be examined in three parts, each linked with the three key-points of the agenda: the institutional revision, the pillars of FSCP and of internal security, and finally the rearrangement of the law sources.

As far as the institutional revision is regarded, the line that will be backed, can easily be defined "delorsian". Infact, the aims are, above all the extension of the majority rule wherever it is possible, with the introduction of a different weight of the votes according to the populations of the states. So could be introduced a "double majority" of states and of the population. In the second place, there is the attempt to reinforce the role of European Parliament, changing the law procedure of the co-decision ex art. 189 B, par. 8. And finally, there is the commitment of the Italian presidency to defend the role and the authority of the Commission, even if its composition and its appointment system should be changed in order to make this organ, in expectation of new States, more efficient and more supranational.

As regards the two "pillars" which Maastricht introduced, without a complete comunitarization of them, the italian opinion is more gradual than the more proeuropean ideas emerged in comunitary circles.

As for the pillar of the FSCP, the position of the Italian government has been, for a long time, in favour of the creation of a General Secretariat which, with the centralization in what has been nicknamed, in the "comunitary jargon" as "Mister FSCP", should be the only organ authorized to operate and to be representative, a condition for effectiveness in the EU political-military relations. A further condition to reach these aims is, according to the Italian Government, the arrangement of a future fusion of the functions of the FSCP General Secretary and of the WEU General Secretary, and the result would be the operative hand, in cooperation with the structures of the Atlantic Alliance, in order to implement the political decision taken by the institutions of the Union.

The Italian Government emphasizes a second important aspect of an hoped development of the second pillar, represented by the previous achievement of the member States consent to the principles and to the contents of outer representatives of the Community. A kind of FSCP Agenda, as is stated in the documents of Farnesina, approved by the Council and by European Parliament, which sets permanently the task of being responsible for certain issues and areas of international politics, applying criteria accepted by all the member States. According to the italian position, this

could be a way to satisfy the demand of many, to maintain formally the intergovernmental system, although, actually, it is a way to overcome the obstacle of the unanimity rule.

Using the comparison above mentioned, in this case, the ideas of the Italian Government are different from the proposals, which Jacques Delors has recently reintroduced in favour of a "comunitarization" of the second pillar, with the assignement to a Commissioner, of what would become a real Ministry of Foreign Affairs and of Common Security.

As regards the part with a more precise juridical characterization, the position of the Italian Government consists of three parts. The commitment for a correct interpretation of the principle of subsidiarity has been emphasized, in order to avoid a misrepresentation which, after Maastricht, could have derived from the assignement of residual tasks to the European institutions. Secondly, agreeing with the opinion expressed by the European Parliament on the 17 May 1995 Session, opinion in favour of an "unity in the flexibility", there is an obvious reference to the need to keep together the institutional unity and the respect of the "acquis communautaire", with the increase of the procedures of differentiated integrations, which is the only applicable scheme in view of new enlargements of the Union. Finally is underlined the necessity of a general simplifying, with a "reductio ad unum" of the treaties.

But, except for these official meetings, there have been, in all, few circumstances and contributions out of the political-institutional frame, and this shows a scarce interest for the future of single currency and for the efforts the taxpayers will have to make to get through it.

On the contrary, we would like to highlight that it would be better for Italy if attention were focused on the political aspects of the integration, working to restore the balance between the economic-commercial sectors and the ones regarding the political integration. For Italy, it is not a question of diverting the attention of the other members from those economic indices which show the economic state of a nation which is not in the conditions to be accepted in the single currency yet.

The problem regards the different views of the European prospects. The idea that so important a stage, like the introduction of the single currency, could be reached with a mere technical decision, and without a general political direction, seem unrealistic. Moreover, that is the same thing stated by Bundesbank, on the day after the signing of the Maastricht Treaty. So the prospects for the construction of institutions for the common direction of the economic policies and of the foreign affairs, seem to be a necessary condition so that the whole construction, based on the internal market and on the single currency, can exist.

Just when the height of integration has been reached, the framework seems to be at stake, unless it is not developed in a balanced way. And the success of the European construction, together with its balanced development, is in Italy's interest.

Moreover there is another important fact, which is actually influencing the progress of the European integration, that is to say the admission of new members. It is defined, by the Conclusions of Madrid European Council on 15 and 16 December 1995 as "a political necessity and an historic opportunity for Europe".

Although it is possible to foreshadow those stages of the political evolution which will be conditioned by economic-social factors now difficult to anticipate, the issue of the "enlargement" seems to be crucial for the future of the European construction.

There are two blocs of nations that, after some years, seem to have all the necessary requirements to be admitted. They are, at East, the Czech Republic, Poland and Hungary, and at South, Malta and Cyprus. Immediately behind there seem to be Slovakia, Rumania, Bulgaria and Slovenija. Finally a third group is that of the Baltics States, already linked with forms of regional integration, to the countries of the Northern Council, three of which are today members of the Union.

There is awareness of the serious implications which the entry of these countries could cause, on the European integration, consequences on the institutional framework and on the economic and monetary aspects. Would the original ideas of United Europe survive in a context of twenty seven countries, so different among them? The IGC has this historic task, and that is why it cannot limit

itself to making small institutional changes, just because the extension is "a political necessity and an historic opportunity".

The position which is prevailing in Italy seems to be favourably oriented towards this perspective, given the close links between Italy, and its economy, and the Eastern and Central Europe countries, and Malta as well. On the other hand, there is a consideration which is spreading more and more, that a chaotic development of those countries could be, for Italy and Europe, much more detrimental in comparison to the problems which could come, if those countries joined the Union. And today there is still the time and the awareness necessary (but not forever) to prepare, from the institutional and the economic point of view, the Union for so deep a change.

That is why the IGC must achieve tangible results on institutional reforms, so as to find a better balance between effectiveness and representativeness, and on security policies. From this point of view, it is necessary that the EU members, which are at the same time NATO members, give the Eastern countries clear answers and solutions complementary to the ones given by the EU institutions. And other big issues which are not in the IGC agenda are to be underlined, because, in this enlargement perspective, important sectors should be reformed, for example the common agricultural policies which, according to the surveys of the European Commission, would be damaged by an unprepared entry of Eastern-Central Europe countries.

All that has a particular importance for Italy, and the issue of Europe, not only is a traditional guideline of the Italian foreign policy, but also, it represents a necessary perspective for Italy, which, without it, would risk losing that prominent position which several geopolitical conditions had given to it, during the years of the East-West confrontation.

All the debate which has been conducted about the necessity, for Italy, to define and to pursue its national aims, as a guiding principle for new foreign policies, is sensible if it is part of reinforcement of those multilateral perspectives, which are vital for a country like Italy, in which the bilateral views has always given some, hardly solvable, historical and cultural problems.

In conclusion, the aim of the European political Union seems to be a national priority for Italy, whose leading role in europeism must be kept and improved. That is why it could be in the interest of, and a priority for Italy, an high-level role in the preparations and in the course of the Intergovernmental Conference, a potentially good opportunity for the rebalancement and for the relaunching of the European project.

4) Conclusions

The reflection upon the forms and the procedures to elaborate the next stages of the European building depends on the connection between the evolution of the European policies and the developments of the Italian home policies.

This issue seems, moreover, to present new problems, because of the dynamics of enlargement and of deepening which have characterized the European integration during these years. The high number of member countries and the different view they express about the most important issues for Europe, draws our attention on the decision-making process inside the European Council and inside the Councils of the next Intergovernmental Conference.

In this sense we can evaluate one of the IGC main issues that is FSCP, and the differences which, for historical and political reasons, characterize the views of many member states in evaluating the possibility of creating a single European foreign policy and, above all, a single policy of defense.

And the conflict between those community countries which have joined WEU and the others EU members which have not, and which are maintaining neutralist positions, is the perfect example of the difficulty, which is first of all procedural of decision making, affecting the Fifteen when they have to take quite important decisions.

This kind of tendency, linked to the more heterogeneity that the recent and the future enlargements put in the European decision-making process is one of the aspects which suggest to

underline as a decisive choice in the IGC agenda the topics on the European institutional reform.

The Union has to prepare itself to continue its strengthening without fearing the unavoidable enlargement processes. To reach this goal is perhaps advisable to take a look at a deep reorganization of the balances between the single member state and the Bruxelles institutions. It is necessary, in this way, the increasing of the intermediate regional institutional level, which is the only possibility to make possible the coexistence of the principle of the representativity of each member in the common institutions with the capability of the entire Union to decide and to move forward. The possibility to have regional sub-European frame (Visegrad, Benelux, Mediterraneans, Baltics, Nordics...) could give the possibility to look trustfully at the new enlargements.

Another final evaluation push in this direction, that is the consideration of an objective transition that we are living in the European balance from the big French-German axis of the past, to the always more clear German centrality of the future. This kind of evolution is regarding not only the economic side of the integration process, as happened also in the past, but is now concerning diffusely all the political aspects of the European frame. The need to have a balanced Union is, for the future of the EMU project, linked also to the capability of the Fifteen to build new European institutions, without working in the IGC just for introducing little useless arrangements.

Notes

- 1) Article N, 2 of the Maastricht Treaty.
- 2) The new issue about the year of reference and the year of decision is introduced by the Council of Finance Ministers which took place in Valencia in September 1995.
- 3) Declaration n. 4 of the Conclusions of the European Council of Bruxelles, 10-11 December 1993.
- 4) The debate of the political forces about these issues, took place in two sessions, in which the two branches of the Parliament have discussed the Conference, the first to prepare the Messina meeting on the 2 June 1995, held by the Reflection Group, and the second in December, shortly before the beginning of the presidency semester.

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BIBLIOTECA

ITALY AND THE INTERNATIONAL ECONOMY

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1. Post-war reconstruction and adaptation to the "Western" economic space

The economic rebirth of Italy in the post-war period was driven by the international political situation, but also by the Italian productive structure, particularly as far as manufacturing industry was concerned. It is necessary to recall that Italian industrial capacity, which had been remarkably beefed up in the five years before Italy entered the war, emerged practically unscathed at the end of it. Bombing and other war destruction concentrated on infrastructures, and those were rebuilt very rapidly. By 1946 railways had been brought back to pre-war efficiency. By siding with the Allies in Sept. 1943, Italy was given access to industrial raw materials, and as soon as the North was freed from Nazi-Fascist occupation, Italian industry, which was mostly located there, could return to peacetime production. The following ten years were thus spent in rationalising production out of a capacity which did not require much adding to.

Industrial rationalisation was induced by the need to concentrate efforts on the penetration of Western European and North American markets, following the precise guidelines indicated by US foreign policy which,

through the Marshall Plan and the generalised devaluation imposed on European currencies in 1949, had generated a powerful push to economic integration of the Western world, meant to unify and reconcile former enemies and to create an economic area impenetrable to the "Eastern wind".

The productive structure of Italian industry was thus adapted to available markets. This meant abandoning all hopes Italian industrialists had nurtured of replacing German industry in exports of durable consumer and especially investment goods to Central and Eastern Europe, whose markets were closed by the division of Europe into blocs. Those who produced those goods had to choose between supplying the small Italian domestic market and closing down. The Atlantic choice also meant for Italian industry the need to specialise in productive sectors which would allow it to penetrate technologically advanced markets where extremely strong domestic producers existed for most sophisticated industrial products.

As a result, in the Fifties, Italian industry specialised in "mature" sectors and progressively receded from the "advanced" sectors where it had made remarkable strides under the blanket protection of fascist "autarky".

There were exceptions. The steel industry became self sufficient in flat products by constructing a huge brand-new continuous-casting plant in Genova, with US financial help and US industrial patents and machinery. A whole new oil-refining capacity was installed, again with US financial and

technological help, which used the flow of middle-eastern oil, and from that a petrochemical industry emerged. In both cases, however, the exceptions were negotiated with, and approved by, the OEEC.

The rest of Italian industry showed a remarkable ability to adapt to its new role. The "rationalisation" of the 1950s is still awaiting an historian who will thoroughly study it. Some of its features are already clear, however. It was, like the rationalisations which would occur in the 1960s and 1980s, the phase which followed a typically Italian investment spurt. After an initial capacity-widening period, which lasts three or four years, a much longer period follows when, almost without the application of new capital, and with the net subtraction of labour, output and productivity keep increasing at rates which put Italian industry at the top of the world league. In all cases, productivity was increased by changing organisational methods and by putting pressure on workers.

In all cases, the rationalisation period presents problems for Italian economic policy-makers. They have to deal with a structural labour surplus while industry keeps getting rid of workers. Industrial restructuring, moreover, does not allow domestic demand to reach satisfactory levels. A structural surplus in the balance of payments appears, induced by emigrants' remittances and tourist income. That surplus is only reduced on the occasion of short investment booms in 1960-62, 1969-70, 1979-81, which are followed by pressure on the labour market, wage contracts favourable to

workers, capital flight on the expectation that the lira will be devalued, restrictive monetary policy to stem it.

Those short investment booms can be precisely linked to international economic booms. Thus the international market comes to completely dominate Italian economic policy. As a result, after short investment booms, and after expectation-confirming devaluations coupled with deflation, or just deflation, the depressed conditions of domestic demand allow industrial managers to introduce rationalisation, according to a script first written in 1926, and repeated in the 1950s. Labour costs are accordingly reduced within limits which allow industry to successfully compete on international markets and to realise profit margins satisfactory to Italian industrialists. Depressed domestic demand reduces imports and capital which flew abroad expecting devaluation returns home to reap its profits. The Italian balance of payments returns once again to giant surpluses; and the international press can once again speak of an "Italian miracle".

2. Consequences of being a founding member of the EEC

Italy's participation in the international economy according to rules fixed in the 1940s and again in the 1950s, induced first of all an obligation to choose export markets and products acceptable in the reduced playing ground of the "West" and subsequently an obligation to compete on equal terms with much more advanced countries in the EEC, accepting a volume of trade maximised

by hugely improved transportation and communication (just remember the new European motorway network built in the 1960s). And renouncing all traditional trade barriers.

To make things even more complicated, the Common Agricultural Policy of the EEC was introduced, which worked according to rules which fostered self sufficiency at EEC level in those products, like wheat and meat, which Italy produced at higher costs than its northern partners, and traditionally imported from the transatlantic producers. As fast industrialisation occurred in Italy, a very large number of agricultural workers migrated to town, much higher than the number that could be absorbed by exporting industries. An agricultural import surplus was thus inevitable, which would have benefitted from the ability to purchase commodities from the cheapest producers. Being part of the EEC's CAP meant, on the contrary, an obligation to purchase in the most expensive markets without being able to sell advanced industrial goods to agricultural suppliers like Argentina and Brasil.

Thus the double "choice" Italy made in the late forties and in the fifties had serious consequences for the country. First of all, because of the concentration of Italian industry in the North, the boost which being a founding member of the EEC gave Italian industry was rapidly throttled by fast-growing wages, as exhausted labour supply in the North could not be supplemented by sufficient southern immigration, (Germany was successfully

competing for the same workers, as it could offer much higher wages) and by the trade deficit which arose as demand overstepped supply, as workers left the countryside and output did not match the increased demand.

Secondly, and perhaps even more importantly, Italian industry became increasingly specialised in mature sectors, and progressively lost all its advanced technology sectors. This occurred while Japan and Germany were able to reconquer much of the place they had lost in advanced technology because of the war and defeat. It must not be forgotten that, in order to reacquire a presence in world trade immediately after their defeat, Germany and Japan had been pushed towards exporting to the " West" consumer durables which they had not been used to exporting before the war. The incentive to do so was the ridiculous exchange rates with the Dollar which had been imposed on Yen and Mark.

But there was also the prohibition, contained in the respective Peace Treaties, to engage in advanced research and production related to the military sector (including the aircraft industry).

And, above all, there existed the chance, unknown in the thirties, to export to the United States, where consumer durables produced in Germany and Japan enjoyed a much better cost-price relationship than advanced technology products, where US industry was still the undisputed leader.

With return to detente between the US and the USSR, the EEC subset became the area of greatest absorption for German industrial products, while the

Soviet market was re-opened. Thus German industry, which still possessed the excellence levels reached before and during the war, could again specialise in the congenial production of investment goods, while mature sectors were kept going through the massive inflow of gastarbeiter from Southern Europe. Germany thus moved back from its occasional dependence on the US market to its traditional markets.

In the case of Japan, as the Chinese market was not yet available, the US market (traditionally the largest outlet for Japanese industry) was used to the full. Japanese industry could therefore move to higher technological levels because of continuing consumer durable exports to the US, which provided the needed foreign exchange, but especially because the country was allowed to pursue self sufficiency in technology-intensive products in a context of total protection and dirigisme. The long Vietnam war, which massively involved the US in the ten years beginning in the mid-sixties, meant for Japanese industry an enormous injection of effective demand, as it brought death and destruction, but also billions of dollars, to the countries of South East Asia. In the Vietnam War Japan was the staging post, and that also meant that Japanese industry was directly involved in repairs and re-supply for the US war machine.

Thus for Germany, detente meant a permission to go back to its old industrial haunts. While, for Japan, the Vietnam War meant receiving the decisive

American help which allowed it to move, in complete defiance of the principles of free trade, to a higher stage of industrial and technical development.

AT the beginning of the 1960s also Italy tried to move to a higher stage of industrial development, to enlarge its industrial matrix to include technically advanced sectors. The attempt was made selectively, trying to enter sectors like petrochemicals, nuclear engineering, electronics. But the foreseeable reaction of international competition led Italian industry to backtrack as fast as possible, leaving a lot of dead and wounded on the ground. The fierce and prolonged credit squeeze of 1963-64 killed the most innovative and therefore riskier, investment projects in the bud.

When the usual foreign constraint was hit by the Italian economy, about 1963, the Lira could have been devalued, as the French Franc had been. But those were exactly the years when the US economic authorities were most worried about dollar weakness, and any tilting of the precarious Bretton Woods system balance made them extremely nervous. In 1964 they seriously threatened the newly elected British Labour government, which wanted to devalue Sterling, with a cut-off of nuclear supplies. The Italian political leadership, wary of openly challenging the US, renounced devaluation and fell back on subsidising existing industrial sectors, creating

jobs in the state welfare and education sectors and promoting rationalisation of existing industrial capacity, on the same lines of the 1950s.

Throughout the sixties, the consequences of the EEC's CAP were being felt in the Italian countryside, inducing a continuous flight of workers from the land. But industrial rationalisation did not allow them to be absorbed by industry, and the giant migration to the North ended up in a complete ethnic change in the Northern labour force. Ageing Northern workers were eased out and replaced by young Southern workers, (who are in turn being pensioned off at the present time). It was this new and much more rebellious labor force which, having been submitted to faster and faster assembly lines, and stationary wages, finally exploded in the famous strikes and industrial unrest of the "autunno caldo" of 1969 and following years.

3. Consequences of the "autunno caldo" and of the oil crises: the emergence of small scale industry

Most of the former agricultural labour force was, however, absorbed by the tertiary sector, especially by government -financed welfare activities, like education and health, which were enormously increased in the same period. Starting in the mid-sixties, Italian public debt, which had been practically extinguished by early post-war devaluation, began to pile up again, as public sector deficits were not financed exclusively out of increased taxation. Taxation, and especially social security charges, kept all the same increasing

in those years at a very brisk pace. Taxes fell mostly on dependent workers, as the pay as you earn system was introduced. Social security charges fell mostly on employers, and convinced them to be even more sparing in their additions to their workforces. As a result of high social security charges and of continuous industrial unrest Italian employers became addicted to the pursuit of the ideal of the "workerless factory". Massive automation was introduced on production lines, and outsourcing became a rule, where it had previously been an exception. All this happened while a very large potential supply of workers still existed, especially in the South. It took Italian large scale industry a very long time to decide to move some of its plants South. They eventually did, but not before they had created in the traditional industrial regions and in those adjoining them a very large network of subcontractors, and had pushed automation to incredible limits in their central assembly lines. These decisions had momentous consequences. They gave rise to a very large industrial automation producing sector and induced the modernization and growth of the Italian machine tool industry. They also induced the birth of a "second industrial revolution" based mainly in the center of Italy and on small industrial producers, who started out as subcontractors for the big firms, but later began to diversify.

Italy thus started to be characterised by small scale industry, while before, like all latecomers in industrialisation, its industrial structure had centered around very large producers and very large plants. The decentralisation of

production which has since the early seventies been the defining feature of Italian industry has had the beneficial consequences of boosting the mechanical industry and extending industry to the center and near-south regions of the country. Had this happened while large scale industry remained strong, we would have followed in the footsteps of Germany and Japan.

On the contrary, large scale industry started in the middle of the sixties a long decline to which there seems to be no end in sight.

That decline, however, began to appear clearly only after a last remarkable investment boom was effected in the years 1969-73 in the steel, petrochemical, and automobile industries. Thanks to it total fixed investment rose, in those years, almost as much as it had in the course of the boom years 1959-63. In that case, however, investment growth had induced a later export boom. While the later investment boom was also meant to boost exports rather than to reduce imports, it proved unable to keep its promise in the following decade. Investment incentives, which directed those investments to the South, were thus to prove ill-spent. But any incentive scheme directed to maximise fixed investment in a backward area will fail if it is managed by an elite of entrepreneurs, managers and bureaucrats who share the same national goals. After the labour unrest of 1969 and later years, on the contrary, Italian private entrepreneurs seemed to be engaged in a holding operation at home which permitted the fast export of capital abroad, at all costs, and without any clear industrial strategy. Thus for the

whole of the seventies, Italian industry progressively abandoned most advanced sectors, wasting the billions of dollars which had previously been invested there. Almost no exports from those sectors ever materialised.

At the end of the seventies, the "new look" of the Italian industrial structure, which was to remain in the following fifteen years, was already in place. Its main feature was the prevalence of traditional sectors in production and exports, and a tendency to reduce the scale of plant and the number of workers employed in each plant.

The new state of affairs was also helped to come about by the traumas which afflicted the international economy at the same time, in particular by the two oil crises.

Having to pay for much more expensive oil imports, developed countries reverted to massive state intervention in economic and industrial affairs, in order to maximise exports. Those measures had previously been left to industrial late comers, including Italy. When leading industrial nations started again to play the game, the inadequacy of Italian industrial policy was starkly revealed. And, as starkly, the lack of a convincing strategy by Italian large scale enterprise was also revealed, as well as the backwardness of the Italian financial system, which was in no way able to offer itself as active intermediary of oil-funds, and was relegated to the role of final borrower of those funds, like any other underdeveloped country's financial system.

In the new unstable conditions of the world monetary system, the fact that the Italian export structure had become extremely dispersed, acted as a powerful negative factor. As firms had to take foreign exchange positions to protect their future export proceeds, the fact that many thousand industrial exporters had come about in Italy meant an active recourse to leads and lags, under and overinvoicing, and an impossibility, on the part of monetary authorities, to act without the protection of stiff capital controls.

As the capital account began to weigh on the trade account in every country, the pulverization of economic actors in Italy meant that no agreement between great players could be reached by industry, government and monetary authorities to design a credible exchange rate policy. The punitive capital controls which were imposed because of that impossibility meant that the Italian financial system was further removed from the international scene, and became practically unable to play the international markets with skill. At the same time, the diffusion of industry meant that the tax collection system became unable to look after so many independent producers, while it had become used to relying on the "pay as you earn" system.

Thus, at the beginning of the 1980s, while many thousands of new exporters had appeared on the Italian scene, many thousands of tax-dodgers and capital exporters had also been created. The economy maintained its ability to earn foreign currency, but the state lost a large part of its capacity to collect taxes. The relative eclipse of Italian large firms reinforced these trends. The

sectors where huge sums had been invested showed no ability to export, while exports were increasingly earned by the small firms which tended to pay very few taxes and dodge social security legislation.

As a result, the gap between public receipts and payments started widening alarmingly, and it was filled to an increasing extent by new issues of public debt, whose service costs soared after the US Fed inaugurated its high interest policy to curb US inflation and to attract capital to the United States.

Twin deficits appeared in Italy at the same time as they appeared in the US. Public accounts fell prey to the inescapable logic of compound interest, while all the industrial sectors where large investment had been sunk and large scale industry prevailed ceased to be net foreign exchange earners : large trade deficits appeared in the chemical, steel, and automobile sectors, while the traditional deficits in the energy and agricultural sectors kept growing. This in spite of a continuous devaluation of the Lira, which brought it to lose 100% against the French Franc and over 200% against DMark, Schilling, Florin, and Swiss Franc.

4. Adjusting to the second oil shock, Dollar oscillations and high interest rates: the EMS

It therefore appears rather clearly that the new conditions prevailing in the international economy in the 1970s brought about a harsher competitive

climate where Italy could somehow balance its international accounts by continuous and drastic depreciation of its currency and by replacing large scale with small scale producers as its net exporters. The country changed its specialisation from large scale to specialty and traditional products, and in so doing it lost a good part of its ability to collect sufficient taxes and tax avoidance became a sort of hidden subsidy to Italian exporters. In order to close the trade deficit, the conditions of the the public accounts deficit became worse.

This was the situation prevailing when Italy became a founding member of the European Monetary System, in 1979. By accepting to deflate the economy through an avoidance of competitive devaluations against its EMS partners, while unpegging interest rates on public bonds, which had been hitherto supported by the Central Bank , and by maintaining the same rate of net public expenditure, the country was able at one and the same time to bolster public expenditure, especially by inflating the numbers of public employees, to deflate industry by restrictive monetary policy, which induced a new bout of extensive industrial rationalisation, to overvalue the exchange rate with respect to the EMS partners. As public accounts worsened, italian industry turned inwards because of unfavourable exchange rates, and attempted also a flight to quality, producing and exporting greater unit value products. The attempt proved successful exactly in those sectors where Italy had found its new international specialisation, while it failed miserably in the technology

and scale intensive sectors. Those were the years when Torino went into an industrial decline from which it has not yet emerged, and Milano became the fashion capital of Europe, as its technology intensive industries declined or closed down.

The new specialisation pattern managed to create a few large scale producers and exporters, who base themselves on extensive outsourcing and keep only strategic functions in the core factories. They expanded by relying on the longish period when the Dollar was overvalued, in the first half of the 1980s, and used the US market as a strategic provider of bulk demand for their products. By fully exploiting the new system of flexible and lean production, these firms managed to establish themselves as world leaders in their fields, creating trade names which command instant recognition everywhere, a feat which Italian car, electronics or chemical manufacturers never managed to achieve. They valiantly survived the years of Lira overvaluation, while more long-established producers entered a grave crisis from which they have partly emerged only by the massive Lira devaluation of the early 1990s.

As an agreement to ban beggar thy neighbour policies from the EEC, the EMS was quite successful. It managed to freeze market shares where they were in the late 1970s, and to stop the bleeding of German and French traditional sectors, which was proving extremely disruptive in terms of loss of jobs in critical regions. This meant that countries like Italy and Spain could not push their specialization patterns to the extent they might have, while being

unable to invade technology-intensive sectors where the established French and German producers prevailed. It also meant that accumulation by large scale producers like chemicals, steel, automobiles, tyres, virtually stopped in Italy. They survived by strenuous and extensive rationalisation of existing capacity, drastically cutting jobs, but could not devote enough resources to investment, and fell to the bottom of the world top league. They also took to increasingly use their cash flows as financial intermediaries, borrowing short to lend long and practising increasingly sophisticated forms of financial arbitrage. There were years, in the late 1980s, when profits from financial activities replaced industrial profits in the balance sheets of large Italian firms.

5. German reunification, the end of the Soviet Union, and the EM crisis: navigation without compass

When the new boom, fired by the re-unification of Germany, hit Europe at the end of the 1980s, Italian large scale producers were thus caught by surprise, and did not have the right products and the quantities available to sell at home and abroad. Trade deficits thus swelled but were hidden by the inflow of hot money which was induced by the so called "convergence game" which international investors began to play when they expected that, after the passage of the Maastricht Treaty, monetary unification would occur in Europe and would imply the lowering of interest rates to German levels even

in high-yielding countries like Italy and Spain. In the last three years of the EMS the Lira was increasingly overvalued, as a result of capital inflows, and industry began to suffer a serious squeeze of profits. Large debts started being incurred with banks, also on the assumption that interest rates were going to fall, and a very large foreign debt piled up, as firms borrowed hard currencies and re-lent the proceeds in Lire on the assumption that prevailing exchange rates were going to stick, and uncovered interest arbitrage was thus riskless.

The international financial crisis of September, 1992 thus came truly unexpectedly for most Italians, including the majority of small firms. Evidence is the huge private foreign debt that had been accumulated in the last two years before the crisis of the EMS. In the summer months of 1992 several clever people read the results of the Danish referendum correctly and exported large amounts of currency, hastily repaying foreign currency debt. But the large majority of the Italian operators were caught by surprise. The deflationary impact of foreign debt fell on the Italian public with full force after the massive devaluation of the Autumn, when the Lira and Sterling left the EMS.

This is not the place to comment on the events leading to the demise of the EMS. It is however useful to note that the German central bank's reneging on the Basle Nyborg Agreement and refusing to unconditionally support the Lira has done permanent damage to Italian-German relations. It will be

decades before the atmosphere of trust which had come about in the 1980s and which was destroyed in a few days in Sept. 1992, is recreated. German political and economic authorities appeared to be too domestically motivated, and incapable of decisive European leadership. Italy has been unwillingly pushed towards a foreign economic policy "à tous azimuts" for which it is thoroughly unprepared, and the potential danger a Gaullist Italy can represent seems to have been discounted by both France and Germany, although an inkling of it ominously appeared in the seven months of the Berlusconi Government.

Most of what I wrote above is an almost literal translation of a paper I wrote in Italian and published in 1980. It is striking to re-read it today and see how little the terms of the problem have changed after fifteen years. The intervening period of almost fixed European exchange rates was not foreseen in 1980. The EMS appeared as a crawling peg system, and France and Italy had not relinquished capital controls.

After the rude awakening of September, 1992 Europeans have oscillated between periods of hope in complete monetary union and bouts of thorough scepticism about it. It seems, however, that the Italian situation vis-a-vis the international economy is still what appeared to have been defined by the end of the 1970s. Large scale industry has had a respite because of the drastic devaluation of the Lira, but the lack of investment in key sectors in

the previous decade meant that devaluation was more important to redress the balance sheets of large Italian companies than to allow them to make dents in established international market shares. Since 1992, in fact, deep domestic demand deflation, brought about by restrictive monetary policy and tough fiscal policy, the latter a shocking novelty to most Italians, has managed to shift resources towards exports and to drastically reduce imports. A 30% devaluation has not been, as a result, followed by inflation to anything as the extent most people expected. But even that has happened before, and the economic policy which Italian authorities have adopted follows rather closely the so-called IMF recipe, of domestic deflation, devaluation and export-led growth.

After the lean export years preceding devaluation, the export bonanza which has followed devaluation seems exceptional to Italian firms and Italian public opinion. But a close analysis of trade performance before and after devaluation reveals details that are extremely worrying for the future of Italian industry and for Italy's place in the world economy. To this I now turn.

As it will be remembered, the victims of the Sept.1992 international financial crisis were four main currencies, the Lira, Sterling, the Peseta and the Swedish Kronor. The Escudo and the Dracma also fell heavily on the exchanges. It is therefore rather interesting to see how these depreciated

currencies have affected the trade of their respective countries, and to compare the trade performance of these countries with that of the countries whose currencies were pushed up as a result of the same currency crisis and further turmoil.

A study by the Commissioners for Economic Affairs and Internal Market of the European Union, which examined the possibility that art.104 of the Treaty of Rome might have been violated as depreciating countries engaged in competitive devaluations, seems to have concluded, according to press reports (the official report has not yet appeared) that devaluation were totally involuntary and imposed by markets on the authorities of the depreciating currencies, and as a result that they cannot be in any way considered as competitive.

It is, however, still to be ascertained what sorts of benefits accrued to the devaluing countries, and what costs they had to bear because of currency depreciation.

What happened to intra-European trade between 1987 and 1992, that is to say, in the period when intra-EU exchange rates were almost fixed, is of special interest to us. With Fabrizio Perri, I have done a study of this, which is due to be published in the next months. I can advance its main findings here, and refer interested people to the paper. We found that, in the absence of currency movements, and in the presence of a large event like German reunification, there seemed to appear in Europe a trade bloc whose center is

united Germany, around which there is a periphery formed by Southern European countries, the UK and Italy. The three Visegrad countries H CZ and PL seem to have become part of the core, with countries like Austria and Switzerland, which in the years considered by the analysis were not part of the EU either. A detailed analysis of bilateral trade led us to conclude that France has become part of the core, while Italy and the UK are definitely not part of it. A special mention must be made of the remarkable rise in trade in automobiles, which occurred between 1987 and 1992 and which seems to be responsible for a considerable part of the trade integration that has occurred in Europe in those years.

Having ascertained that the years of currency stability coincided at least with, or even contributed to bring about , the sort of division of Europe into a Germano-centric core and a periphery, where half of Eastern Europe seems to have become part of the core and Southern Europe plus the UK has become the periphery, it does not seem strange that the 1992 crisis fissured the EU exactly along those lines. Those who devalued against Germany were the countries who could afford to do so, not having too close trade relations with that country. The others stuck with Germany.

This probably supports the strong conclusion that the EU is not an optimum currency area, and that two currency areas can live side by side in Europe, without bringing about a decline in trade integration, but only a faster rate of further trade integration in the core. We are, however, not sure that the

North East regions of Italy should not be included in the core, as their trade since 1992 seems to have grown especially with Germany, and they seem to trade more in part and components than in finished products with that country, i.e. to have been fully integrated into the German production system, as is increasingly the case of countries like Hungary and the Czech Republic, Slovenia and Croatia, Austria and Switzerland, and even the regions of Poland which have a border with Germany.

Currency depreciation seems to have meant very little in this process, which has carried on in devaluing countries like the Polish regions, Hungary and the Italian North East as well as in countries which have kept their currencies tied to the Dmark. Currency depreciation, however, has in the case of Italy been extremely important in widening profit margins for the exporting sectors, which had narrowed very considerably in the years of currency stability. And bigger profits have also meant that Italian banks have been able to look at their assets with greater tranquillity, after having gone almost to the brink because of the high loan-delinquency ratios brought about by overvaluation followed by severe domestic demand slump.

A look at post-devaluation trade shares in Europe reveals that very little has changed, in spite of massive fall in the values of depreciating currencies. Demand levels seem to have had a much bigger impact on trade than relative prices expressed in domestic currencies. In the case of Italy, the customary huge trade surplus has appeared, as in previous devaluations, but it was

brought about as much by severe domestic demand contraction, which drastically reduced imports, as by export growth which has occurred, but does not seem to have brought the Italian export share back to the level it had attained before devaluation. Export growth thus replaces domestic demand, but Italian firms do not seem able to exploit economies of scale to the full because of the slump in domestic demand. The "similarity index" of Italian trade with French and German trade does not seem to have been affected by devaluation. The profound dissimilarity that has come about since the war and persisted through the decades and even increased in the last twenty years has resisted three successive devaluations. If anything, the years of currency stability seemed to have slightly reduced the dissimilarity of Italian exports compared to French and German ones. But devaluation has certainly reaffirmed it.

The regionalisation of trade which seems to be occurring in the core of Europe, involving even some Italian regions like the North-Eastern ones, has caused a further phenomenon to come about after the massive depreciation of the Lira which occurred since 1992. A dual exchange rate system seems to have come about for the Lira. The large and erratic capital flows drive the official rate at which currency is exchanged to effect financial transactions and to obtain currency for individual tourist expenditure. Commercial transactions involving visible trade seem, on the contrary, to be struck at exchange rates that are agreed between the contracting parties, with German

importers, for instance requesting Italian exporters to value the Lira much higher than its official rate , and thus quote much lower prices. In other words German importers want to share some of the gains Italian exporters are getting from the Lira devaluation, which is considered artificial and not reflecting actual costs. Of course, deals are struck according to the relative bargaining powers of the two parts involved. Thus a very peculiar dual exchange market has emerged, with the financial and tourist lira rate determined on the market and the commercial lira rate determined by private bargaining. A very peculiar situation indeed, and one which is asymmetric with normal dual exchange market cases. This experience proves, if anything, how the free market may not be able to bring acceptable equilibrium solutions, when visible trade occurs in imperfectly competitive markets, as seems to be the case in all except bulk commodity trade cases.

The very large trade surplus Italy is at present, as in previous cases, experiencing, is allowing the country to get rid of its large foreign debt, which had , by 1992, reached the alarming level of 11% of GDP. We are now back to 5% and the authorities expect to see the country back in credit by 1997.

The availability of a large trade surplus has pushed back the traditional Italian external constraint, but it is almost certain that a return to full capacity utilization in all sectors of the economy, and not just the exporting ones, might send the country back towards its traditional constraint. Fuller

capacity utilization, including a higher level of employment, is also required because of the difficulty of generating a primary public surplus large enough to service the internal public debt, if foreign markets appear in the near future less eager to absorb Italian exports. This, as was abundantly proved by many studies, depends on the rate of growth of demand in each absorbing country. Since the cyclical phase we are moving towards is probably one of falling demand, home demand must be reflatd in Italy to keep production at levels which will allow a favourable cost situation because of full plant utilization. This might be a virtuous move, as higher home demand might also generate higher tax receipts.

In spite of the lull that has come about because of the drastic Lira depreciation, the structural situation of Italian large scale industry does not seem to be very favourable. The old large scale industries show no signs of an improved future, as competition in Europe and in the world grows apace and innovation and technology do not appear to be produced in Italy at anything like the rate required to keep large scale industry going at a pace sufficient to survive in a context of global competition.

As we said above, in spite of a large and still growing literature which glorifies the development of small scale firms in the Center and North-East of Italy as an original phenomenon, destined to grow horizontally, small firms which have enjoyed success seem to have gone the way they always went.

They have, in other words, grown into bigger firms, even if they seem to prefer keeping the organizational structure which has been compared to a solar system, with a core represented by the defining functions of the firm, like design, administration, finance, and the most complex production processes, performed in-house, and a large out-sourcing, providing a good part of total production. When this particular organizational structure is accounted for, there seem to have appeared in Italy a very considerable number of medium sized firms, about four thousand in all, with approximately one thousand workers employed, directly and especially indirectly, by each of them. How to foster the transformation of as many as possible of these firms into large groups like Benetton, Del Vecchio, and their like, should be the main task which the Italian economic authorities ought to set themselves in the near future.

Should they leave them to their own devices, as they seem to have done in the last twenty years, and just devalue the currency every ten years and maintain a virtual fiscal holiday to keep them from moving somewhere else? This means, however, that, for instance, the Italian Stock Exchange renounces all hopes of seeing the most successful among Italian firms quoted in Milano. In the recent past, in fact, most of these firms have preferred to get quoted on the NYSE, issuing ADRs, apparently with very satisfactory results.

Another consequence of leaving things as they are is that the most successful firms also use the Italian banking system just for their domestic payments, and get advice and high value added services from foreign merchant and

investment banks. Again, if we have to extrapolate recent trends, this seems to become the norm, rather than the exception.

In other words, if nothing is done, Italy will find itself with a service sector catering only for the most backward part of its economy. Then, if present trends are extrapolated, also the design function will migrate, or foreign designers will be employed by Italian firms. Most top fashion designers working in Milan are now foreign born and bred, and both top designers at Fiat are foreign citizens. Thus Italian professional schools seem also to be destined to cater for the lesser parts of Italian industry. And the same will happen to lawyers. A category of service providers which does not seem to fear replacement by foreigners are the ubiquitous "commercialisti" who perform the most delicate advisory functions for Italian firms and know their most intimate secrets. But it seems rather an exception to a rule that sees Italy lose progressively the most interesting service functions to core countries of the developed world and retain only the main manufacturing and organizational functions of industrial productions, while outsourcing will stay within the country only if there are progressive devaluations not eaten up by price rises.

Full employment equilibrium for the Italian economy seems, under these conditions, problematical, to say the least. Things seem to have gone in a way to render permanence in the core of Europe almost impossible, unless we

want to sacrifice the country's remaining chances of growing at a decent rate for a sufficient number of years in the future. On the other hand, if devaluations occur every ten years or so, there seems to be enough collective loss of memory to make them capable of bringing about a powerful income redistribution which will guarantee a level of accumulation sufficient to bring about a decent level of employment. And, if we have to judge by the last devaluations, the Italian share of world, or even European, exports does not seem to be affected by devaluation, which means that Italy's main competitors have no reason to fear from Italian devaluations, which seem to have become an almost exclusively domestic matter.

It is not impossible to foresee that the country look after its service sector and reform it in a way which will render it better able to compete with foreign equivalents. This is more likely to happen in the most developed part of the country.

The biggest problem, as usual, is whether foreseeable developments will push the South even further away from the Center-North of the country, or whether the growth process will extend progressively to Southern regions. Here, I am afraid, we have noticed that each devaluation has made the exporting regions more remote with respect to the non-exporting ones, even if some migration still takes place between North and South. This is the most worrisome conclusion of our analysis of Italy's place in the world economy.

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THE COSTS AND BENEFITS OF INTERNATIONAL LIBERALISATION
AND DEREGULATION: AN ITALIAN PERSPECTIVE
(by Riccardo Perissich)

Overview

I would like to start by stressing how strong the link is between **trade liberalisation and deregulation**, two terms which have in recent years been at the forefront of the economic debate and literature in all major industrial countries.

The lowering of trade barriers and the opening up of markets are arguably the two most striking developments to have spread throughout western economies and western societies in the last fifty years.

Massive expansion of world trade, along with unprecedented growth in foreign investment, has changed the face of relations between countries and has given rise to that process of integration of national economies which has, in turn, led to far more ambitious undertakings, such as the European Union.

Bretton Woods (1944) and Havana (1947) may thus be seen as important milestones in contemporary western history. In both cases it was the United States which played the main role. Nevertheless, all the countries involved benefited, however difficult it may be to quantify the advantages that they gained.

As I mentioned earlier, the liberalisation of international trade has given rise to a series of successive phenomena which have had significant impact on economic growth:

- the **deregulation** in many countries of those activities, especially services, previously considered the exclusive domain of the public sector, which private operators are able to deliver at lower prices and with higher quality;
- the **break-up of monopolies**, again mainly managed by public sector organisations and based on markets defined in terms of national (or regional) territory. The eighties saw a gradual withdrawal of the state from the direct management of many manufacturing and service industries, and widespread privatisation in Europe and other continents;
- the **globalisation of markets**, which has forced companies to seek out those locations which can provide them the highest efficiency gains and the lowest possible unit costs. Having to compete with countries where labour costs are low, such as the nations of South East Asia, has forced Western European and Us companies, especially manufacturing concerns, to move production facilities out to such countries. In some cases they have also transferred non-manufacturing functions, such as accounting;
- the **delocalisation of operations**, as a result of globalisation, has brought about its own set of consequences. It is often perceived as a threat to

employment, and is thus a development which Europe and North America have found hard to live with. However it represents an opportunity both for developing countries and for those advanced industrial systems which are forced to speed up processes of rationalisation and technological change. Lastly, it has proved to be of great benefit to consumers all over the world, making available to them higher quality goods at lower prices.

Liberalisation, privatisation, deregulation, globalisation and delocalisation are all terms which in different historical periods have meant the same: the freedom of the entrepreneur to seek out optimum manufacturing conditions, wherever they might be in the world, and the freedom of the consumer to choose, from among different products, those which represent the best value for money.

It is practically impossible to assess these developments simply in cost/benefit terms. There are so many factors which cannot be quantified and so many variables to take into account.

What is indisputable, as the last fifty years have shown, is that nothing has equalled international trade as a driving force for economic and social advancement. It is enough to look at the annual rate of growth of international trade, 6% in volume terms, against 4% for production.

Italy has played a small but meaningful role at all stages of the process. Today Italy is an important, if occasionally somewhat recalcitrant, player in the process of domestic deregulation and privatisation. Italy's economic recovery after World War II is linked to the development of the manufacturing sector, which managed to find ever greater openings for its products on international markets. The decision then taken by the Italian Government to open Italy up to international trade was both decisive and enlightened.

The changes brought by liberalisation on the country's industrial and social system were considerable, especially as far as manufacturing industries were concerned. They were the main driving force in the push towards international markets; exports of manufactured goods grew consistently, by an average 6-7% per year, and in some periods reached much higher peaks. In the early days of liberalisation, Italian industry's main points of strength were the low cost (but well developed skills) of its work-force and the strong entrepreneurial spirit of its companies.

There can be no doubt that these changes brought with them considerable costs, in terms of the decline of some industrial sectors. However, these and other disadvantages could be remedied in a relatively short time, while the benefits were no less than enormous.

In the fifties Italy could boast very few internationally-oriented companies of its own and foreign-owned manufacturing facilities were rare. As

the country opened up, it started to attract the attention of large and medium-sized international concerns; Italy was geographically well-positioned, production costs were low and the country had all the necessary basic skills for manufacturing and service-sector activities.

This led to a large-scale flow of investment from abroad which, along with domestic driven growth, contributed to the expansion of Italy's manufacturing base. In the front line there were large US manufacturing groups, such as IBM, Texas Instruments and 3M, to quote just a few, but there were also German and French groups which found in Italy fertile ground for local operations.

The late fifties, however, also saw the beginnings of a more gradual, more modest, deliberate move towards internationalisation by Italian industry. Italian groups started to set up manufacturing and sales operations abroad; revenues generated outside Italy grew and exports accounted for an ever-greater percentage of business.

As far as industry was concerned, there was strong growth both in production and employment, along with significant diversification away from low-technology sectors and towards medium and medium-high technology sectors.

Outside the industrial sector, agriculture suffered from a rapid reduction in work-force. Besides this, conservative Italian legislation prevented agricultural

concerns from implementing much-needed modernisation measures quickly enough.

Worse still, government bodies and state institutions proved unable to answer industry's continuing call for infrastructures and services that could keep pace with economic growth.

Italy's decision to open up to international trade took a major step forward when the country joined, as a founding member, the European Common Market in 1957.

The dismantling of customs barriers and the creation of the Common External Tariff had a greater impact on Italy's economic and social life than any other event of the post-war period. Different sectors were at first affected in different ways. Manufacturing industry was already largely accustomed to competing in foreign markets, and the impact was significant but not traumatic. Agriculture was hit hard and this led to the need to create special price-support and revenue-support mechanisms. The service sector was not affected at all, as it was still mainly the domain of public-sector organisations and of companies which operated exclusively in local markets.

Italy's pro-Europe choice allowed the country to play a full role in making decisions which have since proved crucial for economic growth. Following the example set by Europe, other regional economic groupings have gradually taken form in different parts of the world: NAFTA in North America, Mercosur in Latin America, ASEAN in South East Asia and APEC, which includes many

countries around the Pacific Rim, from the USA to Australia.

The creation of these regional organisations automatically means that no country can afford to remain on the outside, unless it has continental dimensions, as is the case of China, India and, perhaps, the USA. The USA have in any case felt the need to formalise the boundaries of their own primary sphere of influence by the setting up of NAFTA.

The same may be said of the negotiations taking place within the World Trade Organisation on the subjects of telecommunications, liberalisation of investments, financial services and competition. They are based more on the confrontation of large groupings than on individual nations. This is particularly true of Europe, where no single country has such a dominant position that it can afford to ignore the strength of the whole.

Italy has so far benefited from taking an active part in the liberalisation of markets. Nevertheless, much remains to be done before Italy can fully enjoy the benefits of this distant and far-sighted decision.

Above all, Italy needs to take whatever steps are necessary to take part in **European Monetary Union**. This means persisting with those policies which aim at reducing the public deficit and containing public debt.

This also requires going ahead on schedule with the **deregulation measures** and setting up in good time the

necessary regulating Authorities and, above all, making them work.

At the same time the **privatisation process** has to be completed; so far it has only partly touched key sectors such as banks, power, telecommunications and transport.

Lastly, it is time that Italy took action **to review and reform the many government and state institutions** which are unable to meet the needs of the more advanced sectors of the country.

Speaking as a representative of the most truly multinational Italian corporation, which embarked on its own process of internationalisation no less than a century ago, I can state that, while these issues are important for the country as a whole, **they are of absolutely vital importance for Italian industry.** The uncompetitive structures and systems which the country provides are a dead weight, a burden on the backs of companies competing for major contracts or setting up manufacturing or marketing joint ventures in remote countries; **to succeed in these ventures companies need access to in-depth economic, legal and political data and more efficient financial and organisational support.**

Whoever competes day by day on the world's markets needs the backing of a system which works on the basis of rules which are at least similar to those operating in other countries. If this is not the case, we take a "surcharge" on unit costs which makes it very difficult

for us to operate in markets where competition is ever tougher.

We need to work on this "surcharge". It is made up of higher than average interests rates; inefficient transport systems, the slowness of government agencies; inadequate export financing and/or inadequate assistance and support in foreign markets; public research networks which are unable to provide companies with the support they need; perennial political uncertainty.

To compete in international markets, industry needs to be able to excel in a number of areas. Put simply, they are the following: overall strength of the national economy; availability of capable skilled human resources; scientific and technological expertise; suitable management resources; a modern infrastructure; efficient financial markets and high-quality services; government policies which encourage and promote competitiveness; a high degree of internalisation.

This discrepancy between private dynamism and public inefficiency can be overstated. Although still inadequate, some modernisation of Italian state structures has indeed taken place. On the other hand, it would be wrong to describe Italian private industry only as an homogeneous group of dynamic entrepreneurs fully married to free-market principles. The history of Italian capitalism has its fair share of protectionism and monopolistic culture as well as of complicity with the political system.

When, in the fifties, a minority of enlightened politicians, who were acting in exceptional political circumstances, decided the first measures of trade liberalisation, and later to join the European Community, they were confronted with a position of Italian industry that was, to say the least, lukewarm, if not negative. The same happened in 1979, when the country decided to join the European Monetary System.

Industry's position was motivated by a pessimistic assessment of its own structural weakness as well as by a high degree of scepticism about the capacity of politicians to adapt the country's public structures. By the mid-eighties this attitude had changed. First, the biggest, and most powerful, part of Italian industry realised that the instinctive pessimism about its capacity to adapt had been, as I explained earlier, exaggerated and that, in reality, it had done rather well in an open world. Furthermore, it realised that the country's integration with Europe had reached a point of non-return and that an acceleration of European integration was the only option available to force an acceleration of political changes within the country. Thus industry became an enthusiastic supporter of the single market program and, later, of the Maastricht Treaty. This evolution is not limited to European integration. From the Kennedy Round to the Tokyo Round, the attitude of Italian industry was rather defensive, more preoccupied with the prospect of increased imports than with the new opportunities

resulting from the dismantlement of barriers in other countries. The position changed radically with the Uruguay Round in which Italy played a very active role to seek the maximum of trade liberalisation in all areas.

Today, the Italian private sector does perceive itself as more "European" than the rest of the country, and this, to some extent, explains why it is so attached to European integration. The constraints coming from supranational or multinational organisations to which the country belongs, particularly the European ones, have proved to be the most powerful instrument to force the state to modernise. Indeed, it can be argued that key changes in Italian society that have happened in the last 15 years, from the abolition of wage indexation, to the pressures to reduce public spending, to gradual liberalisation and privatisation of state monopolies, even "mani pulite", would not have happened without the impact of membership of the European Monetary System, of the completion of the European single market, as well as of the globalisation of the world's economy.

To complete this analysis of Italy's position within an integrated Europe and a global economy, three additional issues have to be examined: that of European Monetary Union, that of the future of the global economy and that of the reform of the welfare state.

Like the majority of European industry, Italian industrialists warmly support the objective of Monetary Union. It is the logical complement to the single market, adding stability and predictability to transnational trade and investments. Furthermore, fiscal disciplines that are necessary to meet the criteria are a useful instrument to oblige Governments to reduce spending, in a situation where there is hardly any room of manoeuvre for increase in taxation (already too heavy in comparison with our main competitors): in Mrs. Thatcher's words, to roll back the frontiers of the state. Within this context, Italy's position is special in two ways. First, the country had a long tradition of engaging in periodical vicious circle of devaluation followed by wage inflation. During the EMS experience, both industry and Trade Unions came to appreciate the positive impact of a stable currency. This position, only temporarily changed in the early nineties, when a significant overvaluation of the lira induced by higher-than-average inflation in the protected sector of the economy, put increasing strain on the competitiveness of those industries operating in the sectors exposed to international competition. Industry, therefore, welcomed the 1992 devaluation. However, the emerging political instability also led to a devaluation well beyond what was required by the fundamentals of the economy. Industry then felt that the temporary competitive advantages of an undervalued lira were outstripped by the threat of a new inflation spiral and

by the prospect of being left out of Europe. At the same time, industry was also engaged in a restructuring process focused on regaining competitiveness through productivity gains.

The fiscal discipline necessary to meet the Maastricht criteria is also paradoxically supported, at least in principle, by the Trade Unions. The massive public deficit of the Italian state is not only due, like in other European countries, primarily by a welfare state that has run out of control, but also by widespread corruption and by a distorted fiscal system. As a result, a case perhaps unique in the Western world, increased public spending is often perceived as going against solidarity and fiscal discipline is perceived as a step towards more fairness.

This consensus is however fragile because while potential savings coming from the rationalisation and moralisation of taxation and public spending can be massive, they can only be achieved gradually and on the basis of a political stability that is still lacking. In the short to medium term, the Maastricht criteria can only be met, like in other European countries, through a radical reform of the welfare state.

The Maastricht debate is also focused, as in the rest of Europe, on the deflationary dangers, particularly acute in a period of slow growth, resulting from the efforts necessary to meet the convergence criteria.

The fact is that the Italian government, like all others, has made the fatal mistake of letting public opinion believe that the economic disciplines that are necessary to meet the Maastricht criteria are the result of an external diktat from Brussels. In fact, they are measures that should have been taken in all cases, independently of Maastricht. This is particularly true for Italy, where decades of fiscal irresponsibility and accumulated public debt have created a situation in which the drain of private resources by the state is probably the single most important factor that prevents the country from growing and modernising itself.

Recent events in France and Italy (now also in Germany) have highlighted the close link between the Maastricht induced control of public deficits and the structural reforms, particularly that of the welfare state. Exclusive focus on this latter aspect is a political as well as a conceptual mistake. The inability of Europe to create jobs even in periods of growth is certainly linked with the inefficiencies and rigidities of the labour market and of the welfare state, namely in relation to the less skilled workforce and the lower end of the wage structure. However, Europe's declining competitiveness and unemployment problems are also due, probably in an equal degree, to corporatism, excessive state intervention and existing monopolies. All these factors contribute to Europe's inability to stimulate new activities to meet emerging needs in the domestic as well as international markets; they therefore

depress potential growth and make existing industries even less competitive. It is important to mention this point because to concentrate the debate exclusively on the labour market and welfare state reinforces a defensive attitude by the Trade Unions who are led to believe that they are the only scapegoat for distortions and imbalances of a much wider and deeper nature. Having said this, there is no doubt that the welfare state is one of the key issues to tackle if Europe has to enter the 21st century without being threatened with an irreversible decline. In this, Italy's position, indeed Italy's debate, is not different from that of other European continental countries.

In some sectors of society, strong is temptation to follow what is generally described, often with a degree of oversimplification, as "the Anglo-Saxon way". People tend to describe the issue of the welfare state in terms that implicitly lead to its dismantlement. However, unlike (may be?) the United States, this line of thinking is more prominent in the intellectual debate than in society itself. I am convinced that the overwhelming majority of voters as well as politicians, wants gradual reforms rather than dismantlement. The culture of consensus and of social cohesion has probably become a permanent feature of European society. While we admire the job-creating performance of the United States, and are abandoning our traditional contempt for "hamburger's jobs", the display of extreme poverty and extreme affluence,

accompanied by high crime, violence, social and racial conflict that is associated with American cities, is something the Europeans instinctively reject. While the dream of a competitive society is strong, fear of a barbarian one is even stronger; Europeans seem to believe that the savings that could be made in dismantling the welfare state may be outstripped by the costs (not only in terms of increased police forces) that would emerge from the break up of social consensus. The threat of a barbarian society, so present in the minds of those who lived through the experience of the first half of the 20th century, is still strong enough for people to be attached to the achievements of the second half.

This explains why many people react with anguish when they see the emergence, in our cities, of exactly the type of barbarism that we thought to be an exclusive privilege of the United States. While this produces some radicalisation of attitudes, on balance it seems to be a factor that supports reforms rather than revolution. Europe is therefore likely to experience, in the next few years, a multitude of social experiments, all rooted in specific national cultures, but all sharing the same objective of reconciling competitiveness with solidarity. During the cold war, the defenders of free markets scored a very important point when they argued that human beings are complicated and don't conform to abstract models. New right-wing radicals seem to make the same mistake. People are not only "homo economicus". They have

passions, fears, prejudices. When they think they are unfairly deprived and see all roads blocked, they react violently, however irrational this could be. The social market economy was not only a reaction to communism; it was the natural development of a capitalist society. Its short comings do not justify swinging the pendulum back to a 19th century "laissez faire". As Europeans learned only too well from that very 19th century now described as a golden age, when conflicts emerging in a market economy are not solved through broad consensus, they tend to be solved at the expense of foreigners, through additional nationalism, protectionism and state intervention.

That leads me to the third and final point: the attitude of Italians and Europeans, society to the world order. In the last decades, the debate between the United States and Europe has been characterised by continuous mutual accusations of protectionism. Facts give a different picture. In reality, both systems, the United States and the European Union, are relatively open economies that still include strong islands of protectionism. The difference, in so far as it exists, is not in the attitude towards international trade. It is rather in the degree of liberalisation and competition existing in the respective domestic markets. In this respect, there is no doubt that the United States are several steps ahead in comparison with Europe. This makes them easier to penetrate by those that are prepared to fight the American market playing the very tough American rules, but it also

makes the American economy more dynamic and more competitive on world markets.

In the last few decades Europeans have come to live with, and appreciate, an international trading system that is open but also structured and institutionalised. Their own experience with the development of the European Community has helped them to learn, in many cases to invent, new rules of co-operation among countries of different cultures and traditions. Their natural instinct is to transpose their experience to the world scene. For this effort to succeed, particularly with the World Trade Organisation, Europeans will have to accelerate the process of domestic integration and liberalisation. They will also have to accept that the complicated web of regionalism and preferential agreements that they have created around the EU will have to be simplified and made compatible with a world order.

The United States face a different challenge: to accept that the functioning of a world system requires that also the biggest economic power of the planet, despite the strength of its domestic market, and the unique privilege of controlling the dominant currency, has to bow to international disciplines and accept the implicit limitations of sovereignty. The acknowledgement of this need, within Congress and American society in general, still seems to be low.

There seems to be a strange physical law that dominates relations across the Atlantic. While bad ideas cross the water with the speed of light, good ideas travel in a thirty feet sailing boat and often reach the other side slowly and shaken by adverse winds. That is why Europeans tend to be so dismayed by the perceived wave of protectionism that is rising in the United States. If successful, it would readily find many enthusiastic followers also on this side.

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Italy's American Connection: Past, Present, Future

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Introduction

This paper will describe Italy's postwar relationship with America from an historical point of view, and then try to assess the prospects for the relationship in light of the end of the cold war. The U.S.-Italian connection ought first to be seen in relation to Italian foreign policy before 1945. At the risk of over-simplification, one can say that Italian foreign policy since unification has been marked by three constants or tendencies: the search for security and independence through a connection with the dominant Mediterranean power (let us call this "realism"); the impulse to fare da sé in pursuit of national interests narrowly defined or of an autonomous mission (let us call this "particularism"); the desire to play a part in a political project larger than itself (let us call this "universalism"). Realism, particularism, and universalism are rooted in the country's fragmented political culture and geographic dualism.¹ During the fortunate periods of Italian history these tendencies have been compatible, even complementary, with each other; at other times, most notably during the 1930s, they have come into irreconcilable conflict.

Italy's foreign minister in the 1870s, Emilio Visconti Venosta, rejected permanent alliances in favor of a flexible non-

alignment that allowed Italy to shift its weight in favor of the bigger powers. Sentiment inclined him toward France, while a basic realism led him to cultivate good relations with Great Britain, the leading Mediterranean power. He wrote, "I do not see where nor when the interests of Italy are not in accord with the interests of England."² At the same time, memories of Rome and Venice inspired designs for an Italian empire. Italy's alliance with Germany and Austria-Hungary followed the French seizure of Tunis and the passage of power to the Historic Left. Anticipating Mussolini, the Left saw alliance with Germany as a way of allowing Italy to pursue its expansionist aims. The Sicilian Francesco Crispi despised the Francophilism of the Northern Moderates and saw African empire as a remedy for poverty and unrest. Crispi's fall after the battle of Adowa in 1896, led to a more prudent foreign policy, with Visconti Venosta back in office after twenty years.

Again at the risk of over-simplification, one could say that Italian foreign policy between 1896 and 1940 reflected the conflict between Visconti Venosta's prudence and Crispi's dream of power. The shifting pendulum of Fascist foreign policy reflected the conflict between the realism of Contarini and Grandi (and Mussolini himself who got U.S. financial support in the 1920s) and the the Mediterranean-African ambitions of the later years.³ The abandonment of the former course led to the catastrophe of 1940-45.

The desire to participate in the prevailing system of

European state cooperation is a third constant. To Visconti Venosta, "Europe" meant the post-1815 concert. This notion competed with the more radical ideas of Mazzini and Cattaneo.⁴ After 1918 the liberal economist Luigi Einaudi and the car manufacturer Giovanni Agnelli combined the message of Cavour and the Moderates, free trade and Europe's cultural unity, with Cattaneo's federalism.⁵ The failure of Mussolini's extreme version of particularism placed the idea of European unity on the agenda once again. Not surprisingly Italy's collapse also marked a return to realism, and it was only fitting that Carlo Sforza, (foreign minister, 1947-1951), had begun his career as secretary to Emilio Visconti Venosta.⁶ Italy's connection with the new dominant power in the Mediterranean represents, in other words, the revival of an earlier tradition--even if, under the profoundly changed circumstances of the postwar period, the "special relationship" with the United States acquired a centrality which makes it difficult to compare to the "traditional friendship" with Great Britain.

The Italian-American Relationship after 1945

The disgrace of the military and the discrediting of nationalist ideology, the emergence of a party-dominated political system with a weak executive, the preoccupation with material improvement after years of hardship: these factors contributed to a postwar "process of introversion" with regard to

foreign affairs, and to a sense of dependency on the United States.⁷ The 1943 Armistice, followed by the Peace Treaty of 1947, reduced Italy to the status of a fourth rate military power, while the presence of a large and well-organized Communist Party overshadowed internal political life.⁸ The "process of introversion" no doubt received further impetus from the disappearance of forceful personalities like De Gasperi, Sforza, and Einaudi (one could add Mattei) accustomed to thinking of their country as a great power. Finally, the new American connection offered a kind of low-cost vacation from the cares of national sovereignty. Under these circumstances, Italy's foreign policy behavior eventually acquired a degree of passivity that De Gasperi's generation no doubt would have deplored.

What, specifically, did the United States provide Italy, and what did it receive in return? During the occupation and the early postwar years, the U.S. provided the emergency aid, loans, and credits that helped Italy to maintain minimum levels of civilian consumption (of bread and coal), to reconstruct shattered infrastructure, revive exports (beginning with textiles), modernize heavy industry (steel, cars, electricity, oil refining), and to stabilize the lira (though in defiance of American advice).⁹ The U.S. promise to withhold Marshall Plan aid in the case of a Popular Front victory was no doubt an important factor in the victory of the center-right forces in 1948. The Americans revived the Italian armed forces and assumed formal responsibility for protecting Italy from outside attack after

1949.

America's protective mantle must, of course, be understood in a broader sense. Pietro Quaroni (Italian ambassador at Paris) told Sforza in 1948 that the alternative to American protection was to become "another Egypt." Italy must accept (at least pay lip service to) the controversial Marshall Plan bilateral agreement and other American "bestialità," "not for general reasons of principle but exclusively for our interests. The Americans and only the Americans can protect us."¹⁰ Quaroni was not talking about the Russians, but Italy's Western European "friends." After all Roosevelt had forced British to swallow the liberalization of occupation regime (during the 1944 presidential campaign) and Truman had forced the French to withdraw from the Val d'Aosta in 1945. Secretary of State Byrnes alone had risen to shake De Gasperi's hand at the Paris peace conference in 1946. Thanks to State Department sponsorship Italy became a charter member of the North Atlantic Alliance in 1949 (to be sure with a strong push from France, acting in its own interest). The Americans, in other words, helped to guarantee Italy's presenza and diplomatic status. Being present and treated--at least in a formal sense--as an equal in international councils was important for the self-esteem and internal prestige of the elite of a defeated, humiliated country seeking rehabilitation, just as it had been to the elite of a weak and marginal "great power" after 1861. In the early 1960s, the Italian political class (with the possible exception of Pacciardi, and a few others) looked with

approval as the Americans moved to block the emergence of a Franco-German pillar that might have devalued NATO and marginalized Italy's position in Europe. In the 1980s, the Italian Government looked to the U.S. for support to gain entry to the so-called Group of Five.

To this should be added the various subsidiary benefits of the Pax Americana that Italy, along with all Western countries to varying degrees, has enjoyed: the incalculable fiscal savings over the years from not having seriously to prepare for one's own defense, access to Middle East oil and to the American market, the benefits in general of an open world trading system fostered--and in the final analysis guaranteed--by the U.S. From the standpoint of the moderate political forces, it can be argued, Italy has enjoyed these benefits for a pittance: first, exclusion of the Communists from power--coinciding, except for brief moments, with the interests of the same moderate forces--and second, access to Italian territory--a kind of limited sovereignty which never became an issue of principle for the center-right, as it did in France. It did not become such an issue for at least two reasons: the Catholic, anti-nationalist outlook of the Christian Democrats, and Italy's military weakness and exposed position compared to that of France. The French could assume that NATO would help to defend them after U.S. forces and bases had been removed. Italy--like Germany--could not make that assumption. The price of American protection might be said to include outside meddling in Italian politics, but this was

usually solicited by the local forces and--unless the dietrologists manage to prove otherwise--had marginal effects. It would be a mistake to minimize the effects of the extended freezing of the political system--or lack of alternanza. But part of the responsibility for this lies with the PCI, which, many former communists would admit, should have tried to follow the example of the SPD long before it did. Part also lies with the electoral system, freely chosen in 1947-48.

All told, it might be asked, when has a country ever paid so little for so much?¹¹ In order to measure the full benefit of the postwar system, however, it has to be pointed out that friendship with the dominant Mediterranean power did not force Italy to sacrifice its other historic impulses. Italy, in this sense, has been able to have its cake and eat it. The center-right forces were eager to participate in the new process of European integration--partly in order to transform Italy's problems (under-development and over-population) into common European problems.¹² The Americans encouraged a European project including Italy, while exerting the pressure and providing the guarantees that allowed Franco-German reconciliation to proceed. At the same time, Italy has always been wary of a "Europe" that would stand as an alternative to the U.S. umbrella and thus encourage the Americans to go home. De Gasperi was initially cool toward the European Defense Community, just as his protégé Andreotti was suspicious of a "European defense identity" that might create tension between Atlantic and European ties. The virtue of the

postwar system is, precisely, that Italy has not had to choose.¹³

Since World War II the "particularist" urge has not been a strong one for obvious reasons, but it did find expression in left-wing Catholicism, and later in Craxian Socialism. La Pira saw Italy as a special partner of the Islamic peoples seeking to free themselves from French and British colonialism. As head of ENI, Mattei conducted his own foreign policy including support for Moroccan independence and the Algerian FLN. As long as he did not intend to lead Italy out of the Western camp--something he could not and did not want to do--Mattei found that the postwar situation afforded an Italian with a sense of initiative considerable space to roam.¹⁴ What was true of Mattei's exploits in the 1950s was true of Fiat's dealings with the USSR in the 1960s and of Andreotti's scappatelle with the Arabs in the 1980s. (Andreotti, of course, should never be confused with quasi-neutralists like La Pira or Moro, since he came from the pro-American right of the DC.)

All this suggests that Italy, despite its poverty (it had no market to offer) and lack of military power (many considered it a liability in case of war), held strong cards in its dealings with the U.S. Italy's strategic importance to Washington lay in its location along the lines of communication to the Middle East, and as a glacis or forward defensive position against land attack from Eastern Europe. Thus Italy became "the home" of The U.S. Sixth Fleet and of a host of American and NATO air and naval bases. At least in the early postwar period, the apparent

vulnerability of this priceless piece of territory to neutralism or Communism became the Italian Government's main asset in dealing with the U.S. (When the Prince of Monaco offered to take a few Communist workers off his hands, De Gasperi is said to have replied, "Thank-you, but I need every Communist I can get."¹⁵) Though Italy's politicians have frequently exasperated and worried the U.S., few people looking at the last 45 years would question Italy's basic loyalty and usefulness as an ally. As suggested above, Italy also added a certain leverage to U.S. diplomacy in intra-European politics: Italy has tended to oppose exclusive arrangements based on French-German cooperation hitherto opposed by the U.S. To a marginal degree at least Italy has counterbalanced German economic influence in Eastern Europe in recent years. To put it somewhat unflatteringly, Italy has been an available pawn when the U.S. has decided to play divide and rule.

The postwar Italian-American relationship has been, this discussion suggests, fundamentally a marriage of convenience for both sides. But that is not all that it has been. The attachment of the two countries to each other cannot be understood solely in terms of calculations of national interests by two elites. Popular sentiment, the sense of belonging to a common civilization, and blood ties bind certain states together. For U.S. public opinion, Italy has never been a stationary aircraft carrier but the center of Roman Catholicism, the sanctuary (if that's the right word) of 40 percent of the West's artistic

patrimony, and the ancestral home of millions of Americans. For Italian public opinion (including much of the left), America has never been simply the latest imperial power on the block. Feelings of friendship, gratitude, and admiration for the U.S. are widespread among older Italians. For better or worse the influence of U.S. popular culture--music, sports, film, television, fashion--is pervasive (a subject which merits a paper in itself) among youth. Italians of all ages vicariously follow the lives of Italian-Americans from Cuomo to Louise Ciccone. The Italian political, academic, and business elites have developed strong personal ties with the United States, stronger in many cases than with France, Germany, or the U.K.¹⁶

Italy's Options after the Cold War

A study of U.S.-Italian relations published ten years ago concluded:

A commanding plurality of Italian voters have consistently endorsed the bargain struck by their political leaders that cedes a degree of national sovereignty and dignity for American leadership and physical protection. Yet the value and reliability of the American connection becomes problematical as U.S. behavior grows more erratic and self-centered and U.S. and European interests diverge. The response of the reigning political class to the consequent erosion of their internal position will no doubt provide a

rich field of study for future observers of the Italian scene.¹⁷

Those words reflected my assumption (and I confess my hope) that Italy's chickens would sooner or later come home to roost. The pro-American elite would face a crisis, and Italy's postwar vacation from having to take care of its own security would be cut short. In 1996 we can see that the crisis has occurred--though not exactly in the way that I had anticipated. We also see that Italy has had, and will have, to take more responsibility for itself--though that development now looks less dramatic and less inevitable to me than it once did.

This is not the place to try to explain Tangentopoli and the break-up of the DC and the PSI. Suffice it to say that those developments were partly the result of the end of the cold war and the collapse of communism, including the transformation of the PCI into the PDS. Under the new circumstances, the anti-communist parties lost legitimacy and became vulnerable to magistrates investigating corrupt practices that had flourished thanks to the lack of political alternation during the cold war. During the East-West confrontation the magistrates would not have enjoyed the same degree of public support. Undoubtedly they would have been denounced by the politicians (and depistati by the secret services) in the name of the security of the state.

Not surprisingly, from Italian discussion of the post-cold war world and its implications has emerged a range of positions corresponding roughly to the historical tendencies outlined

above. One group of commentators has argued that "Italian security is ever more an exclusively Italian problem." This is basically the message of Carlo Maria Santoro's 1991 study, of many military officers, and of the editors of LiMes, the "journal of geopolitics" launched in 1993. According to LiMes's first editorial, Atlanticism and Europeanism have "anesthetized Italian geopolitical thought" and sense of nationhood and national interest. Italy has an "important and specific role to play" in the new context and must accept its new responsibility.¹⁸ Another group stresses the supreme importance of Italy's European identity and commitment and condemns the "deviant orientations" of unilateralism, protectionism, belief in an Italian specificity, and neo-neutralism. One writer argues that membership in Europe alone can guarantee "international legitimacy" and status to Italy now that the end of the East-West confrontation has led to a radical reduction in the strategic value of its territory.¹⁹ With the end of the USSR and the PCI, in other words, Italy no longer matters to the U.S. There are those, finally, who see the American connection as anything but obsolete. It is argued, for example, that the rise of German or Franco-German power and the shift of the EU's center of gravity to the north and east will accentuate Italy's marginality and vulnerability in European decision-making and thus its dependency on U.S. friendship and protection. To this can be added growing cultural Americanization, leading one analyst to take pro-Atlantic realism to its logical extreme: the next century may

witness Italy's "pure and simple annexation by the United States."²⁰ (Or maybe just the old Kingdom of Naples with the rest of Italy remaining in the EU!)

It should be emphasized that no important sector of opinion--including the new parties, AN, Forza Italia, and the PDS--sees "renationalization" of foreign policy, Europe, and the American connection as stark alternatives to each other. Practically everyone recognizes that Italy's fundamental interest is in maintaining the status quo, or at least a situation in which expensive, mutually-exclusive choices do not have to be made. The question is in what direction circumstances will force Italy to move, and where the country's limited energies and resources should go. Let us assess the various positions in turn.

The call for a more active defense of Italian national interests and contribution to the "public good" of security began in the late seventies and early eighties, and can be traced to several factors: a) the sensation of an emerging "southern" threat to Italian security in the context of the apparent decline of U.S. influence in the Middle East (the fall of the Shah, the oil shock of 1979) b) unilateral and reckless U.S. behavior that put Italian interests at risk (e.g., the bombing raids on Libya, the attempt to "extradite" Abu Abbas from Italian territory at gunpoint) c) the "neo-Crispian" inclinations of Bettino Craxi, who sought a more autonomous Italian role in the Middle Eastern peace process, and saw that foreign policy could be used to reinforce his domestic position. During the early eighties Italy

formally guaranteed the neutrality of Malta, while the Italian army participated in two delicate missions in Lebanon--(the first of a number of such operations including Somalia, Mozambique, and Bosnia). During the same period, the air force received its first strike aircraft, the navy acquired a small carrier, and the defense ministry elaborated the "new defense model," including the idea of a rapid intervention force.²¹

While there is no turning back the clock to the period of passivity before 1980, there are limits to any attempt to adopt a more assertive defense and foreign policy. As 1980s experience illustrates, first of all, the political and institutional premises do not now exist. If "[T]he ingredients, which constitute energy in the executive, are first unity, secondly duration, thirdly an adequate provision for its support, fourthly competent powers"--then the Italian first republic is a perfect anti-model.²² Craxi could have told Berlusconi that there was no "steering wheel" at Palazzo Chigi. (It was recently learned that a prime minister cannot even fire a rebellious minister.) Since Craxi's coalition was a product of the proportional representation system, moreover, a small party (the PRI) was able to bring it down after the Abu Abbas incident and force it to change its Libyan policy. Craxi's resignation in March 1987 was followed by a fifty-six day government crisis after which anticipated elections led to months of political infighting. (A scenario for 1996?) The attention of Italy's leaders was fixed on internal questions even before the present period of total

introversion that began in 1992.

Strengthening the executive and reforming the electoral system would allow Italian leaders pursue a more continuous and focused foreign policy--and to avoid embarrassments like the present one. Even so, however, "renationalization" would still face another basic obstacle. Italy lacks military power to project on its own, to contribute to international initiatives, or even to defend itself. If military power is a question of tradition, public attitudes, and resources, conditions are unlikely to change very much. Savoy, Venice, and Genoa had respectable military or naval traditions, but the same cannot be said of united Italy. Fascism did not help. Postwar Catholic and left-wing political culture have been strongly pacifist. The pacifist argument that there never was a good war or a bad peace is at least understandable in light of Italian experience. Italian territory figured in the major wars of the last five centuries and few of those wars produced happy results for the people living there. Only an Italian general could say of his men (specifically the all-volunteer unit now in Bosnia): "The Italians, as is commonly believed, may not have a great fighting spirit, but they certainly have a great humanitarian spirit . . ."²³ Humanitarian spirit will be useful in Bosnia, but even it costs money to deploy, and Italian military spending is more likely to be reduced than to be increased. Italy will never develop its own nuclear deterrent.²⁴ It cannot at the moment defend its own air space (if the public knows this, it is not

overly concerned).²⁵ As long as it is possible to do so, Italy will be inclined to remain dependent on its allies to defend it--renting its God-given asset, its territory, to them in order to do so--as it has done since the war.

The question arises, which allies? In theory a WEU (with its own nuclear umbrella, anti-missile defense, satellite capability, etc.) could perform NATO's functions. This seems unlikely to develop except under conditions of necessity (such as an American withdrawal) which do not now exist, conditions which if they do emerge will not necessarily produce greater cohesion in Europe. Italy's attitude seems likely to remain ambivalent in any event. It is worth recalling that a realist like Andreotti had limited use for a more autonomous European defense because he feared that Italy's role would be marginal with respect to military powers like Germany and France and that by interfering with NATO or raising unrealistic expectations about European capabilities, such schemes would lead to isolationism in the U.S.²⁶ This conservative position reflected memories of the American threat to leave Europe during the agony of the EDC in 1953-54, but also the nightmare of realism since the days of Visconti Venosta: that Italy would be isolated from its chief ally, or forced to choose between the traditional friendship with Mediterranean naval power and its continental links. During the post-Gulf war-pre-Maastricht phase of the controversy the Andreotti government positioned itself with the pro-Atlanticist British, rather than with the Germans and the French. The Italian government had few

problems in accepting the Rome declaration of 1991--which Washington insisted that the Europeans sign before the Maastricht Treaty--according to which NATO remains the locus of discussion and decision-making in the area of security.²⁷

Andreotti is now ancient history. The Amato and Ciampi governments took a more pro-European position on the issue. (In particular with Andreatta as foreign minister.) In theory, a strong pro-European defense consensus could emerge. The successful adoption of European Monetary Union, with Italy included in the core group, could generate a new wave of Euro-optimism and positive spillover for a common defense and foreign policy. But how probable is such a development? If the current EMU schedule and criteria are maintained, Italy seems unlikely to be included in the core group. Italian public support for EMU is still remarkably high (68%, compared to 58% in France, 34% in Germany, 32% in the U.K.)²⁸ But this could change once the Italian public begins to make--as Fini, Martino, Larizza, etc. are helping them to make--the connection between EMU and personal pain. Italy's failure to join the core group can only accentuate a feeling of vulnerability and resentment, vis-à-vis France and Germany, and of dependency on the U.S. The importance of the recent diplomatic spat between France and Italy should not be exaggerated but it reflects an underlying tension.²⁹ If on the other hand--as now seems more likely--the schedule and criteria are relaxed by general agreement, EMU risks indefinite postponement or collapse, with obvious political and

psychological consequences for the EU and its prospective CSFP. It hardly needs to be pointed out that a nationalistic Germany, free of EU restraints, would cause most of Europe to look more to the U.S.

The impression persists that for both diplomatic and military reasons, Italy will have to rely--and will even prefer to rely--on the U.S. as the basic guarantor of its security--as long as the U.S. is there to be relied on. The "bottom line" question (that awful expression seems rather appropriate in this case) would thus seem to be will the U.S. be "there"?

Whither the U.S.?

The Bush administration paid lip service to a European defense identity, while in fact discouraging either a European "caucus" within NATO or purely European structures, and expressing its determination that the U.S. would remain "a European power" (meaning number one). The Europeans were warned to be careful lest preparing for the day when the Americans would be gone did not actually prompt them to pull out. The Clinton administration at first sent the opposite message, that greater European autonomy and initiative was a good thing and that the Americans could not be expected to stay in Europe unless the Europeans did more for themselves. Given its domestic preoccupations and its Wilsonian preference for other parts of the world, the Clinton administration gave only sporadic and

condescending attention to the "Old World."

For reasons which are familiar (e.g., domestic pressure on Clinton to do something about Bosnia, Europe's inability to impose a solution), the situation has now changed, and the basic approaches of Bush and Clinton do not look so different. Clinton, like Bush, seems determined to maintain U.S. leadership in Europe--given the apparent lack of an alternative--and to try to preserve the viability of NATO by expanding it to the east. The possibility of new tensions with Russia--in part provoked by NATO expansion--seems greater now than it did when Clinton came to power, and such a development would obviously accentuate Europe's feeling of dependency on the U.S. That Europe will decay economically, thus shifting U.S. attention to the Far East in some epochal way, is only a recurrent fantasy inspired by the old lines, "Westward the course of empire takes its sway" ³⁰ The chances are good that Europe will remain a vital market and locus of investment for the United States. The American elites, at least influential sectors thereof, will continue to see a U.S. interest in maintaining a balance of power in Europe--as they have since the Napoleonic wars.

How likely is it that political and budgetary pressures will force a U.S. geopolitical retreat? The answer is less than seemed the case several years ago. Real U.S. defense spending has declined by 35 percent since 1985 and is a mere 4 percent of GNP (the lowest in 70 years). Nonetheless the U.S. currently spends three times the amount spent by Russia (the world's number two

budget) and alone accounts for 37 percent of global military expenditures. The Republican Congress and the White House have agreed that not only will the U.S. defense budget not be touched in the on-going struggle to balance the budget, it will actually increase for the rest of the decade. Clinton's defense program (including 1.5 million active personnel, 19 ground divisions, 12 carrier groups, 20 air wings, 184 bombers, backed by 3,500 strategic nuclear weapons) reflects the usual domestic political pressures, but also the determination to continue to play a military role in Europe, East Asia, and the Middle East.³¹ Though Clinton's social Darwinism has more of a human face than Gingrich's, both major parties seem strongly committed to promoting the interests of American business in a world of cutthroat competition, while at the same time maintaining America's military power.

How important is Italy, then, to the U.S. after the cold war? With the withdrawal (temporary?) of Russia from Eastern Europe and the Mediterranean, Italy has certainly lost some of its strategic value to the U.S., but it remains far from unimportant. Italian air and naval bases have served as staging areas for operations in the Balkans. With or without the cold war, the U.S. is more deeply entrenched in the Middle East than ever, and staying there is facilitated by Italian bases and logistical support. In a West versus Islam "clash of civilizations" scenario (however farfetched) in which hostile forces take over key parts of the the Middle East, or in which

"pivotal states" (the latest jargon) collapse, Italy's importance would only increase. Italy will continue to be a useful ally in North Atlantic councils, generally supporting U.S. positions or seeking compromises satisfactory to the U.S. Even if NATO were to break up and/or U.S. troops to leave Europe, the U.S., would want to keep a presence in the Mediterranean, and would require bases. U.S. warships operated there under Thomas Jefferson, when political entanglement with Europe was tabù.

Conclusion

It has been said that history is full of surprises, and that when they happen, the people most surprised are usually the historians.³² Historians, in other words, are bad prophets. As the foregoing analysis suggests, they are probably more inclined to see the elements of continuity in a given situation, than the elements of change. So let me hedge my bets.

It is clear that Italy cannot muddle through indefinitely while avoiding basic institutional reform. It may be that the country is now entering its third extended period of "national solidarity" since the war, out of which healthy constitutional changes will emerge.³³ (By the way what political scientist or journalist predicted Berlusconi's transformation into Forlani the fireman?) But the prospects are very much in doubt as of this writing. It may be that things will have to get still worse before they can get better, with the risks that this entails. As

Machiavelli said, since a situation must become dangerous before the collectivity will agree to do something about it, "it is an easy thing that the republic be ruined before it can be perfectly reordered."³⁴ What are the implications for the U.S.? A strong Italian government, emerging from clear-cut institutional reforms is clearly in the American interest. Such a government might demand closer Italian supervision over U.S. activities on Italian soil, something that Washington could accept with good grace. A populist, neo-Crispian government coming to power amidst public anger over political paralysis, unemployment, taxes, and emigration could conceivably provoke a controversy (à la Papandreu) over U.S. base rights, or even flout realism and order the Americans to go home.

Meanwhile, a populist-isolationist government in the U.S., supported by the growing number of losers from "globalization," might decide to turn its back on Europe. Cheap fusion energy might some day render America's interest in the Middle East obsolete. If control of the Mediterranean is once again up for grabs, Italy will obviously have no choice but to rely more on its European allies and itself. An aggressive, unilateralist U.S. policy in the Mediterranean and Middle East (recall the early 1980s) could alienate Italian opinion and eventually produce the same result. If an unforeseen war in Asia led to the establishment of the U.S. as a major military power on the European continent in the early 1950s, an expensive campaign in Asia in the future (the defense of Taiwan against China?) might

oblige a U.S. withdrawal from Europe.

Certainly, it seems improbable that the U.S. will lose its position as premier world power except as the result of a costly war or wars. Until that day comes (as history indicates it will), practically any Italian government under practically any institutional set-up, will want to have close relations with the U.S. The cultural and sentimental ties mentioned above, while not decisive in themselves, will tend to magnify the sense of common national interests as they have in the past. Egidio Ortona asked, "What two peoples genuinely feel more affection for each other?"³⁵ Ortona was not exactly an objective observer and he probably attended too many Waldorf-Astoria friendship banquets for his own good. But he had a point. Simpatia does carry some weight in relations among states.

(February 5, 1996)

Notes

1. For a somewhat different interpretation of Italy's "historical constants," see Carlo M. Santoro, La politica estera di una media potenza: l'Italia dall'Unità ad oggi (Bologna: Il Mulino, 1991). Santoro (53-54) speaks of Italy as both a peninsular appendage of the European continent and an "island" in the middle of the Mediterranean, from which arise conflicting notions of the country's interests and vocation. See also his "La politica estera," in Paul Ginsborg, ed., Stato dell'Italia (Milano: Il Saggiatore, 1994), where he also speaks (634) of Italy's "structural duplicity" (strutturale doppiezza) and tendency to divide its energies between continental and European commitments.

2. See Brunello Vigezzi, "L'Italia dopo l'Unità: liberalismo e politica estera," in S. Romano and R. J. B. Bosworth, eds. La politica estera italiana (1860-1985) (Bologna: Il Mulino, 1991), 244. On Visconti Venosta, see also Federico Chabod's marvelous portrait in Storia della politica estera italiana, 1870-1896, vol. I, Le premesse (Bari, 1951), pp. 563-599.

3. On the U.S. and Italy under Fascism, see Gian Giacomo Migone, Stati Uniti e il Facismo (Milan: Feltrinelli, 1980); Sergio Romano, Lo scambio ineguale (Bari: Laterza, 1995), chap. one. According to De Felice, the Duce's own position in the thirties was ambivalent: he feared Germany and hesitated to flout the "traditional friendship," while recognizing that Britain's defeat was necessary to achieve his main objectives. See Mussolini l'alleato, 1940-1945 I. L'Italia in guerra, 1940-1943 (Torino: Einaudi, 1991), 172-74.

4. On Visconti see Chabod, 138-158; Vigezzi, "l'Italia dopo l'Unità," 252-54. Mazzini envisioned a confederation of republican and democratic nation states. The risorgimento was only a stepping stone toward a general continental awakening. Cattaneo shared this view, but took American and Swiss federalism as his models. He foresaw that the regime of national states emerging from the wreckage of Metternich's Holy Alliance would not make for a harmonious world. "We will have real peace," Cattaneo said, "when we have the United States of Europe." See Sergio Pistone, L'Italia e l'unità europea (Turin, 1982), 17-25.

5. See Luigi Einaudi, La guerra e l'unità europea (Milan, 1950); Giovanni Agnelli and Attilio Cabiati, Federazione europea o lega delle nazioni? (Turin, 1918).

6. At the 1906 Algeciras Conference. See Enrico Serra, "Carlo Sforza ed il ministero degli esteri." Affari Esteri no. 1, 1985, 73.

7. Sergio Romano, "Irrealité de la politique extérieure de l'Italie?" Politique Etrangère, no. 2, 1981, 436. See also,

Altiero Spinelli, "Problemi e prospettive della politica estera italiana," in M. Bonanni, ed., La politica estera della repubblica italiana, (Milan, 1967); Frederick Spotts and Theodore Wieser, Italy, a Difficult Democracy (Cambridge: Cambridge University Press, 1986), 263-82.

8. On the peace treaty, see Antonio Varsori, "Il trattato di pace italiano. Le iniziative politiche e diplomatiche dell'Italia," in Varsori, ed., La politica estera italiana nel secondo dopoguerra (1943-1957) (Milano: LED, 1993). Italy lost Trieste (partially recovered in 1954) and its overseas possessions including the Dodecanese, Libya, Eritrea, Somalia, as well as Albania and Ethiopia taken by Mussolini.

9. U.S. aid programs included wartime aid provided by the Allied Military Government, Amlire offset payments, the 1946 UNRRA program, 1945 and 1947 Export-Import Bank loans, the 1947 AUSA program, Interim Aid, the European Recovery Program, and the Offshore Procurement program of the 1950s.

10. Quaroni quoted in John L. Harper, America and the Reconstruction of Italy (Cambridge: Cambridge University Press, 1986), 160. Emphasis added.

11. Merlini poses just this question in his paper (11).

12. Quote Federico Romero on this point.

13. Once the U.S. decided to support the EDC (mid-1951), De Gasperi followed suit, while trying to envelope it in a federal political structure (the European Political Community) that had broader domestic appeal than a purely military entity in which the Italian role was bound to be unequal to those of France and Germany. See Antonio Varsori, "Italy between Atlantic Alliance and EDC, 1948-1955," in Ennio Di Nolfo, ed., Power in Europe? vol. 2 (Berlin: Walter de Gruyter, 1992), 298-99. See also Sergio Romano, Guida alla politica estera italiana (Milano: Rizzoli, 1993), 60-61, 75-76.

14. On Mattei and the Americans, see Egidio Ortona, Anni d'America, Vol. II, La diplomazia 1953-1962, (Bologna: Il Mulino, 1986), 275, 299; Nico Perrone, Il nemico italiano: politica e morte del presidente dell'ENI attraverso i documenti segreti (Milano: Leonardo, 1989).

15. Recounted to the author by Egidio Ortona.

16. Dini, Fazio, Martino, La Malfa, and Maccanico, among others, studied in U.S. universities. The Agnelli's (Gianni's maternal grandmother was American), the Benetton's and many other businessmen have sent their children to study in the U.S.

17. Harper, America and the Reconstruction of Italy, 167.
18. Angelo Panebianco, "Il paese disarmato," in Il Mulino, Sept.-Oct. 1993, 900. I refer to Santoro's La politica estera di una media potenza, first cited in note 1. See also "La responsabilità italiana" in LiMes, nos. 1-2, 1993, 7-8.
19. See Nino Andreatta (foreign minister, 1992-94), "Una politica estera per l'Italia," in Il Mulino, no. 5, (Sept.-Oct.) 1993, 881-891. See also Giuseppe Sacco, "Europeismo in salsa italiana," LiMes, no. 4, 1993, 135-48.
20. Virgilio Ilari, "Il bel paese a stelle e striscie," in LiMes, no. 4, 1993, 130-31. Ilari aptly compares the U.S. alliance with the pre-1935 Anglo-Italian relationship. For similar arguments, see comments by Ernesto Galli della Loggia, "Alla ricerca dell'interesse nazionale" (round table discussion), in LiMes, nos. 1-2, 1993, 25-26; John Holmes, "Can Italy Change Yet Remain Stable?" in Mediterranean Quarterly, vol. 4 no. 2, (Spring 1993), 56.
21. See IAI, Italia nella politica internazionale, 1983-84 (Rome, 1985), 94; Marco Cesa, Defining Security: The Case of Southern Europe and the Superpowers in the Mediterranean (Pisa, 1989), 185-92. On military activity, see Giuseppe Barravecchia, "Le operazioni di tutela della pace," in Ginsborg, ed., Stato dell'Italia, 639-41. On the December 1991 defense model and the new "interforce functions" of the Italian armed forces, see Virgilio Ilari, "La politica militare italiana," in IAI, Italia nella politica internazionale (Rome, 1993), 203-29.
22. Alexander Hamilton, "The Federalist No. 70," The Federalist Papers (New York: Bantam, 1982), 355.
23. "Gli Italiani, come comunemente si ritiene, non avranno un grande spirito combattente, ma di certo hanno un grande spirito umanitario . . ." Gen. Bruno Zoldan, Assistant Army Chief of Staff, quoted in La Repubblica, Jan. 23, 1996, 13.
24. If one needed any proof of that, look at the official Italian reaction to the French tests.
25. The air-defense Tornados leased from Britain would seem to be a stop-gap solution.
26. In 1988 Andreotti observed: "These longings for a separation -- even if inspired by historically valid and honest concerns about the future -- are dangerous. Forty years ago it would have seemed unbelievable that there could be the stable presence of hundreds of thousands of North American troops. Luckily it has happened and it is real." Andreotti interviewed by Piero Ostellino, Relazioni Internazionali, Jan. 1988, 32.

27. On the Anglo-Italian communiqué of October 16, 1991 (concerning the role of the WEU), see IAI, Italia nella politica internazionale (Rome: SIPI, 1993), 144-45.

28. Eurobarometer survey, the London Times, Jan. 29, 1996.

29. Prompted by parliament, the Dini Government voted in the UN with the minor members of the EU to condemn French nuclear tests (even though Italy had endorsed the French nuclear force in EU councils). In reply Chirac cancelled a visit to Italy in late 1995 and tried to downgrade the level of representation at the opening of the EU Intergovernmental conference to be held in Turin in March 1996. At the Madrid summit in December 1995, Dini refused to appear with Chirac (at a meeting with the Turkish prime minister) and made condescending comparisons between his own pension reform (much less drastic than Juppé's) and bungled French efforts. All this came on top of Dini's not very convincing dismissal of the effect of the devaluation of the lira on Franco-Italian trade relations.

30. From George Berkeley's 1726 poem "Verses on the Prospect of Planting Arts and Learning in America." Actually the idea of a western migration of power dates back to ancient Greece.

31. See Lawrence J. Korb, "Our Overstuffed Armed Forces," Foreign Affairs, Nov.-Dec., 1995.

32. Timothy Garton Ash, quoting an unnamed British historian, New York Review of Books, Feb. 1, 1996.

33. With the left as the political loser, as usual.

34. "Ma sia bene vero questo, che mai si ordineranno senza pericolo; perché gli assai uomini non si accordano mai ad una legge nuova che riguardi uno nuovo ordine nella città, se non è mostro loro, da una necessità, che bisogni farlo; e non potendo venire questa necessità senza pericolo, è facil cosa che quella repubblica rovini avanti che la si sia condotta a una perfezione d'ordine." Machiavelli, Libro primo, cap. 2, Discorsi sopra la prima Deca di Tito Livio (Milan: Bollati Boringhieri, 1993), 28.

35. To the author when he put forth the view that the relation was, appunto, simply one of convenience.

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