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I. POLITICAL AND ECONOMIC ASPECTS

by Silvia Nenci

1 Public Opinion and the Euro

According to the "Eurobarometer" survey (Eurobarometer No 54), conducted in November and December 2000 among more than 16,000 citizens of the European Union, 55% (-3% in comparison with spring 2000) of Europeans support the single currency, whilst 37% do not. The Member States in which support is strongest are Italy (79%), Luxembourg (75%), Belgium (72%), Greece (70%), Ireland (69%), Spain (68%) and the Netherlands (64%). The majority of public opinion is against the Euro in Sweden (26%), the United Kingdom (21%), Denmark (41%) and Finland (45%). Looking at Italy, results show that 79% of citizens are in favour of the Euro (-2% in comparison with previous six months), 17% are against it (+ 3%) and the remaining 4% are indifferent.

Concerning public opinion towards the Union's institutions and bodies (Eurobarometer survey No 53), the European Central Bank is one of the three most widely trusted Community institutions and bodies (53% of preferences)**,** along with the European Parliament (67%) and the European Commission (58%).

The survey reveals that at least 8 in 10 Italian people claim to have received information about the single currency, a significant improvement since autumn 1999 (+7). Television, newspapers and magazines and financial institutions are the principal vehicles for information about the Euro.

The annual ISTAT (the National Statistics Institute) survey on Italian knowledge and opinion regarding the introduction of Euro, carried out among 7,000 citizens, shows that 90% of the Italians interviewed know that beginning in 2002 there will be a single currency in the European Union. The demographic analysis shows some significant differences: women seem to be less informed than men (86% versus 92%) and people over 65 years old seem less informed than young people (77% versus 95%). The survey also highlights that the level of knowledge on the Euro tends to increase with higher levels of education and income.

Although the Italians support of the Euro is strong, strangely enough they know little about it.

A public opinion poll conducted in autumn by Eurisko on behalf of the Treasury Minister, among 600 people from seventeen to seventy-four years of age, shows that almost all of the Italians know of single currency (98%). But the poll also indicates that only 10% of those interviewed know that the double currency period has been shortened, from six to two months and 1/3 of the people interviewed know the exact value of Euro in relation to the lira (Dalla lira all'euro, 2000).

The Eurisko opinion poll also indicates there is still considerable ignorance about the countries involved in the third stage of EMU. Only 1% of the people interviewed know exactly what countries other than Italy adopt the single currency, and at least 1 in 2 Italian people cite the four larger countries – Italy, France, Germany and Spain. The opinion poll's answers also denounced a significant drop in Italian consent of the Euro. It is the second shrinkage recorded after 1997, when a restrictive fiscal policy was implemented to meet Maastricht criteria.

As regards the perception of the Euro, Italian citizens consider the common single currency a “weak” currency. Only 50% of people interviewed are optimistic about the benefits linked to the introduction of the Euro.
France, Germany and Italy are among the countries most committed to the European Union although they do not always agree on the pace of integration, according to an opinion poll issued on the eve of a key EU summit. The poll, carried out by the IPSOS institute for France's European Affairs Minister, shows that most of those questioned believe European institutions should have more political clout in order for its citizens to feel they belong to the EU.
IPSOS conducted the poll in autumn 2000 in France, Germany, Britain, Spain and Italy, with 1,000 people questioned in each country. "Today 34 percent of Europeans questioned believe that they will consider themselves European citizens the day a head of state is elected by all Europeans," IPSOS said. (AFP ENGLISH, 6th December 2000).
That feeling was most prevalent in France, Germany and Italy, where 34 percent of those questioned shared that view, compared to 24 percent in Britain and 22 percent in Spain.
The poll, however, showed that Europeans remain attached to national sovereignty, especially in Britain (67%), Germany (56%) and France (53%).
A troubling view is expressed in a Nielsen opinion poll conducted in autumn 2000 on behalf of the Indicod - Istituto di studio per i beni di consumo – carried out among 5,000 citizens over eighteen years old. 73% of the Italians interviewed believed that the Euro will cause confusion and problems to consumers.
The annual opinion poll by the Louis-Harris Institute, carried out on behalf of some important European dailies, shows a not so positive situation. Only 41% (53% in the previous opinion poll) of the people interviewed in 7 European countries (France, Spain, Germany, Italy, Netherlands Greece and Luxembourg) are happy about the introduction of the Euro in place of the national currency. Looking at the individual country analysis, only 29% of the German people will willingly renounce the mark. Netherlands and Luxembourg are the most optimistic (61% and 72% respectively) while Britain is the least (20%). The Louis-Harris opinion poll shows an unusual result for the Italian case: only 48% of the Italian people would be happy about the introduction of the common single currency.

1.1 Articles in the Press

During 2000, public debate focused on the weakness of the Euro vis-à-vis the US dollar and its reasons.
This debate can be synthesised in a few articles taken from two important Italian dailies. Corriere della Sera, the Milan newspaper, observed that there are no truly valid explanations for the weakness of the Euro. “The European economy is picking up and ought to be pushing up the Euro with it, while the dollar ought to have suffered from trade deficit figures. However, this was not the case" the daily affirmed. In April, regarding the explanation of the continuing fall of the Euro, the Milan daily quoted three different opinions: the lack of true political unity on the Old Continent; the monetary control exercised by the European Central Bank; the various fiscal policies. Corriere della Sera argued that “the best answer to why the Euro cannot keep up with the dollar is that "Europe is not America", reporting the opinion expressed in the fifth report from the Einaudi Center written by economist Mario Deaglio (Corriere della

Sera, April 20th 2000). There were many contingent factors (the Italian premier's resignation, a fall in investor confidence in Germany, the roller-coaster rush on the US bourses) whose mix proved to be particularly heavy for the Euro during the first months of the year because they were exacerbating an underlying weakness.

In its editorial of 26 October, La Stampa, the Turin daily, observed that the markets were letting the Euro slide because the European economy was not as strong as the American economy which was not slowing down at the pace pundits had expected. The Turin daily went on to write that the European Central Bank was more concerned over the economic recovery than inflation, which was the Fed's greatest enemy, and thus was keeping European interest rates well below those in America. This did nothing to convince people to sell dollars and buy Euro.

Another reason for the Euro's plight was the difference between European and US interest rates. Corriere della Sera quoted the opinion of those who blamed the ECB for not doing anything to defend its currency. It also reported the attack against the ECB which accused it of being non-existent on the markets and indirectly responsible for the strengthening of speculators.

Regarding the ECB decision to increase interest rates by a quarter point in September, the daily published a flanking editorial co-written by Franco Modigliani, Nobel Prize winning economist, and Giorgio La Malfa, Secretary of the Republican Party, slamming the central bankers for raising rates. They wrote:

"*The ECB announced that which more or less everyone expected: a quarter percentage point hike of the discount rate which is now 4.5%. The decision saddens, but does not surprise, us: we find it to be a serious error at a moment in which the Europe of the Euro has just started a modest economic recovery and unemployment has begun to show signs of falling; if it is effective, the rate hike will determine a new period of slow growth*."

In the same daily, economist Paolo Savona agreed with a proposal floated by renowned American economist Fred Bergsten to allow the G7 nations to make a joint, concerted effort to boost the Euro, saying "calm" measures like raising the key lending rate by a hair would not halt the Euro's overall "slide" (Corriere della Sera 2nd September 2000).

As a possible reason for the weak defence of the Euro by ECB, La Stampa cited the lack of any statement in support of a stronger Euro from the Group of Seven summit, and the fact that many European exporters and politicians wanted a weak Euro to help exports and reinforce the recovery (La Stampa, 20th April 2000).

2 Financial Institutions

2.1 The Weakness of the Euro

The weakness of the Euro in relation to the US dollar, which characterised the year 2000, did not particularly worry financial institutions.

Wim Duisenberg, the European Central Bank Governor, has often explained that the increases in interest rates have been instituted to contrast the risk of inflation and not to support the Euro, as the European fundamentals showed a positive trend.

During a parliamentary debate in March, Luigi Spaventa, President of the Commissione Nazionale per le Società e la Borsa -Consob- expressed the same view. According to Spaventa, the Euro-dollar exchange rate was not a real threat to the monetary stability of the Euro area, because it was in line with the historical trend of Euro's synthetic index.

Economist Paolo Savona held the international monetary disorder, and not the European fundamentals, responsible for the Euro-dollar exchange rate (Radiocor, 14th January, 2000).

Italian Treasury Minister Vincenzo Visco did not show concerns about Euro either. Speaking after a European policy meeting in May, Visco played down the inflation outlook for the Euro zone, affirming that the fall in the Euro-dollar exchange rate was not consistent with fundamentals. He went on to say that policy-makers must make clear Euro zone economic strategies and reaffirm their commitments to fiscal consolidation instead of relaxing their budgets following the launch of the Euro. He stated that monetary policy decisions have become more delicate with such a strong depreciation of the currency and it must be managed carefully to avoid future problems. (Bridgenews Global Markets, May 8th 2000).

The Italian Finance Minister also agreed with the above view. Speaking after an Ecofin meeting in Brussels of European economy and finance ministers in July, Ottaviano Del Turco said he was optimistic about the Euro's potential appreciation (Bridgenews Global Markets, July 17th, 2000).

On the subject of the single currency's state of health, the European Central Bank executive board member Tommaso Padoa-Schioppa restated the line dear to the ECB:

"It is the market that has got it wrong. I think the market trend will change before the factors at the root of the current trend (such as the growth differential between the EU and the United States, structural problems, and the lack of political union) have been reversed."

Rates in Euroland, the ECB council member added, were still low, and interest rate's increases were dictated by the need to ward off the threat of inflation, because monetary policy's "new deal" had one primary duty: to prevent inflation, and not to keep pace with it. In any case, "there is a threat to price stability", but, as it was due to oil prices and exchange trends, "it is decidedly more reversible than the threat held out by large pay raises". The state of the 11s economy was good (indeed, "exceptionally positive", better than it had ever been in the last 15 to 20 years) and could thus afford the current level of rates, which Padoa-Schioppa described as "fairly low". The Central Bank had thus paved the way for economic performance. Indeed, it was up to the monetary authority to prolong growth and to the governments to raise it, via their structural and budgetary policies. The European economy, Padoa-Schioppa concluded, could afford to exceed the rate of 3 to 3.5 per cent forecast for 2000 and 2001, but only if it succeeded in launching the requisite structural reforms. (Il Sole-24 Ore 14th Jun 2000).

According to him, the Euro zone --especially Italy--should move ahead by taking steps to make structural changes in order to enhance competitiveness. He said that the Euro, like all important global currencies such as the dollar and the yen, will also see upswings and downswings in its value in the future but he affirmed that the European single currency will recover value and consolidate its position against the dollar even before European political union takes place (Bridgenews Global Markets, December 21st, 2000).

2.2 ECB Policy Measures

Concerning ECB policy measures, financial operators expressed varying opinions.

The economic and political leaders gathered in Cernobbio at the meeting held on the Italian economy, made many considerations in relation to the ECB's decision of 31 August to increase the Euro's interest rates. Some of them claimed the interest rate hike

by the ECB of the day before was too weak, whilst others believed it to be just right. Still others bemoaned the increase entirely. Alessandro Profumo, chairman of the Unicredit savings group, believed the hike was not sufficient. Economist and ex-Industry Minister Paolo Savona agreed with him, stating that "small movements" were not enough, and that Europe needed stronger measures and a monetary policy which more closely resembled that of the US. But the chief of the banking association Abi, Maurizio Sella, said the rate hike was accurate, calling it "equilibrated" and saying that the decision balanced the two elements of protecting the interest of the economy and the need to contain inflation. (Ansa, September 1st, 2000).
Franco Modigliani, Nobel Prize winner in Economics, held the European Central Bank Governor responsible for the Euro collapse in relation to the US dollar. According to him, ECB economic policy was too concerned with inflation targets than with the economic development of Europe.
According to Confindustria, the main Italian confederation of enterprises, increases in the price of oil, the Euro’s weakness and economic recovery drove ECB to increase interest rates but this measure will have serious effects in Italy, which is characterised by a high public debt and an economic growth slower than that of its partners in Europe. Confindustria suggested the adoption of reforms specifically aimed to boost the Italian competitiveness in foreign markets. There is no need to adjust wages to face the risk of imported inflation. This measure will result in a further increase in inflation and interest rates that could threaten economic growth and employment. (16th March 2000).
The Italian Central Bank Governor Antonio Fazio highlighted the risk of a new inflation burst due to both current and structural factors. He believed in immediate action to avoid the use of restrictive monetary policies in the future, claiming that “Preventing is better than curing” (La Repubblica, 5th June 2000)

3 Institutional and Procedural Matters

The issue of the weakness of the Euro vis-à-vis foreign currencies was one of the main issues debated last year by Italian political, social and economic institutions.
In April, Giuliano Amato, the then Italian Treasury Minister, after a meeting between zone finance ministers and the European Central Bank President, said that the Euro level did not reflect the strong growth in the zone’s economy. Amato's statement was similar to those of almost all zone finance ministers, as was his statement that the Euro had acquired stability despite the volatility of the financial markets. Looking at the Italian economy and the oil-fuelled inflation worries, Amato seemed optimistic about the reduction of inflation in the second half of the year (Bridgenews Global Markets, 7th April 2000). In September, at the prestigious Ambrosetti conference held in Cernobbio, Amato, as Italian Prime Minister, confirmed his trust in the Euro. Responding to the plunge of the Euro to an all-time low against the U.S. dollar, Amato blamed the strength of the U.S. economy, saying that the Euro's weakness was not a problem. He said the Euro would "certainly" appreciate. (La Repubblica, 2nd September 2000).
Romano Prodi, the former Italian Prime Minister and European Commission President expressed a similar view, stating that he has never been worried about the weakness of Euro in relation to the Japanese yen and the U.S. dollar. In the first months of the year, Prodi professed to be optimistic about the recovery of Euro because the fundamentals of the European economy were sound. He said that the mistrust of the Euro was short-lived and that later in the year when concrete preparations were under way for the currency's

"physical introduction" people would become aware of its benefits. (AP Online, May 1st, 2000).
Italian President Carlo Azeglio Ciampi shared this positive opinion about the Euro and EMU. He said that the European single currency was a driving force for the integration progress. “In two years, 290 million citizens of the eleven states will use the same money, the same banknotes. We will all feel more European" Ciampi affirmed (BBC International Reports, January 1st, 2000).
About the weakness of the Euro, Ciampi said that it was "unrealistic" to see the three major currencies--the EUR, USD and JPY--all stabilise; therefore, he was not worried about the slump in the value of the European single currency since its launch in 1999. He stressed that European nations should promote structural reform to boost industrial competitiveness, and said if the growth in the Euro zone is sustained, the Euro will inevitably move on an upward trend (Bridgenews Global Markets, November 23rd, 2000). Ciampi added that in his opinion there would be no postponement of the single currency's coming into force, after a two-month period of coexistence alongside the various national currencies (Il Sole 24 Ore, October 19th, 2000).
Italian Foreign Minister Lamberto Dini was of the same opinion. Dini, in an interview with daily La Repubblica (September 1st, 2000), said that he was confident in the outlook for the Euro because the fundamentals were solid and the gap between European growth and U.S. growth was diminishing. He added that he would have no concerns for the future especially if governments across Europe took structural measures, such as labour flexibility, financial market rules, privatisations and the liberalisation of certain markets, to lessen the rigidities of their national economies. Dini also said inflation was in check and the only danger derived from the impact of global crude prices and the dollar on domestic prices. In September, he expressed a positive opinion about the united intervention of leading central banks to support the faltering single European currency. (Ansa, 25th September 2000)
Silvio Berlusconi, head of the center-right Forza Italia party, and Giulio Tremonti, Senator of the same party, did not agree with the above views. Berlusconi described the Euro as a "disaster," which reflected the economic and political policies adopted by left-wing governments across Europe. "In the old Europe, only Great Britain, Spain and Ireland are on the same footing as the U.S. I hope also Italy (will be soon)," said Berlusconi to journalists on the sidelines of a conference on E.U. enlargement in October. *(*Bridgenews Global Markets, 27th October 2000). Speaking at the Cernobbio conference, Tremonti said Europe was governed by the “Adams Family”, likening the central bank to a dysfunctional family depicted on a popular television show. He called the ECB decision to raise the interest rate "insignificant". Tremonti added Europe needed more economic liberty, fewer taxes and rules, and more enthusiasm.
Concerning policy measures of the ECB, Confindustria affirmed that monetary policy measures are useless palliatives that could restrain economic recovery. The industrial association believed structural reforms could assure a strong economic growth without risk of inflation and boost competitiveness. (Press bulletin, 27th April, 2000).
Marco Tronchetti Provera, Pirelli’s Managing Director, was not particularly worried about the weakness of the Euro if in the next two years the European Union will be able to establish an integrated political, financial and industrial framework. (La Repubblica, 4th May 2000).
Giovanni Agnelli, Honorary President of Fiat, said he was confident about the approaching of the Euro with the US dollar, but a slightly worried about a overly rapid

realignment. According to Agnelli, the weakness of the Euro is due primarily to a different trend between the US and EU economies.(La Repubblica, 2nd September 2000).

At the Cernobbio conference, Paolo Fresco, Fiat Chairman said that the Central Bank always has to balance two different needs: one is defending the currency's value and the other is avoiding introducing growth-reducing measures. He did not think rate hikes would slow economic growth. Meanwhile the head of the Confcommercio retail association, Sergio Bille, expressed concerns that the interest rate hikes would be particularly hard on Italy, especially since the country has yet to realise all its badly-needed economic reforms. He said that slow-moving reforms made rate hikes cause "extra disadvantages" for Italy.

"*We have yet to complete the latest reform cycle and this renders us more exposed to external factors which could influence our policies*," he said. "*Rate hikes do not help consumption, and thereby the recovery of the internal market, and this could harm economic recovery,"* he added (World News Connection, 1st September 2000).

With regards to the ECB decision to raise the interest rate, Enrico Letta, Minister of Industry, expressed some concerns about the possibility of negative consequences on the economic recovery.

Trade unions were also critical of the interest rate measure. According to both the Confederazione Italiana Sindacati Lavoratori and the Confederazione Generale Italiana del Lavoro, the ECB intervention represented a risk for economic growth. CGIL expressed a particularly severe opinion of the ECB monetary policy.

The banking association Abi was of a different opinion. The Association fully agreed with ECB policy without showing concerns about the economic trend. (Il Sole 24 Ore, 6th October 2000).

In February 2000, The European Union economic and finance ministers meeting approved the Italian stability program for 2000-2003 which detailed the country's plan to reach public finance targets agreed to in the Euro zone's Stability and Growth Pact.

The EcoFin Council noted "with satisfaction" that Italy held the 1999 budget deficit at 2% of GDP in spite of a slowdown in the national economy. The Council also gave the green light to the Rome government policy aimed at recovery and promoting the growth and equitable distribution of income. After affirming that Italy can expect to hold the current budget deficit at below 3% of GDP with a safety margin, the Council said that by 2003 Italy should be able to comply with the "requirements of the Stability Pact". The ministers insisted, however, that Italy will have to continue to work on the public debt, and bring it down to below 100% of GDP by the same date. (ANSA, 28th February 2000)

The EcoFin Council also said the Italian government should show greater determination in tackling medium-term structural problems raised for public finances by pension spending and spending linked to the ageing population. After applauding Rome government efforts to build supplementary pension funds as a step in the right direction, the ministers stated that this, on its own, would not be enough.

"A timely re-examination of the pension system parameters would allow the forecast increase in the ratio between pension spending and gross domestic product to be contained," said the statement.

The Council went on to recommend continuing "*the privatisation programme with vigour and increasing the impact of structural reforms in the labour market, products* *and public administration, which is essential for heightening competitiveness and efficiency and revitalising the Italian economy."*

The then Italian Prime Minister D'Alema expressed general satisfaction.

"Our objective, that of latching on to general economic recovery in Europe, has been reached", he affirmed.

4 Trends towards Spillover

By centralizing governance of the currency in the system of European central banks, the Euro has projected the integration process beyond the point of no return. The Union will be ready to handle the further greater and more incisive responsibilities for which it is already gearing up: consolidating common foreign policy, setting up a common military force, implementing the area of freedom security, and justice once and for all, and adopting the fundamental law of the European Union.

4.1 The debate on EU reforms

The European Union Summit in December resulted in various reforms of EU institutions, to be promoted with the enter into force of the Nice Treaty or after the enlargement: re-weighting of votes among member states, a quick move toward more majority voting, enhanced co-operation as well as changes to the size of the Commission and the powers given to its President. Furthermore, leaders agreed on a new Article 7 that could act as a warning system and lead to imposing sanctions against member states for not respecting the EU's fundamental rights of liberty, democracy and human rights.

At the EU summit in Nice, Italy was praised for its intermediate role, *ad adiuvandum* the French Presidency, and its supranational position. Furthermore, the Summit consented to Italy and Germany's position on "reinforced co-operation".

On that occasion, Italy declared its two main objectives in reforming the EU structure: to reduce the intergovernmental haggling involved in EU decision-making, and to make institutions more accountable to public opinion in member nations.

Regarding the first objective, Prime Minister Amato, during a parliamentary debate in December, noted that although the summit had seen too much defence of national interests, unanimous approval was no longer required in the most ``sensitive areas'' of policy-making. The final agreement ensured that no single country would be able to team up with another to block EU decisions, he stressed. Amato admitted that there was no progress in the integration of tax policies, due mainly to British opposition, and said this was ``not encouraging." Similarly, on the question of a common defence policy, Britain resisted, but Amato said he believed that this was only a temporary hold-up and that sooner or later this goal would be reached (Bbc International Reports , 14th December 2000)

Italian Prime Minister stressed the need to promote structural reforms to support the European economy. These reforms have to take into consideration the competitiveness, technology, and education (Parliamentary debate, 2nd February 2000). He also underlined the importance of involving the United Kingdom in the process of strengthening EU institutions.

"*I simply cannot envisage any core of Europe existing without the UK. If there is to be a new heart of Europe, Britain must be in it. Otherwise, it will be a weak heart*" said Amato.

His determination that the UK should form part of any European core was also part of a broader vision that such a core cannot be exclusive. According to Amato, the EU definitely needs to discuss creating a core of some kind so as to become more than just an economic space, especially after the arrival of new countries from Eastern Europe. The Prime Minister affirmed that the essence of Europe is the integration through co-operation and diversity, of major and minor countries with common interests. On defence policy, immigration and law and order, he believed there is scope for enhanced co-operation involving countries that can opt to join the core if they wish. Mr Amato also believed Europe should create a common European political culture by means of a bill of rights. (Financial Times, 6th July 2000).

There can be no further delay in reforming European Union institutions, said Italian Foreign Minister Lamberto Dini. Dini reviewed Italy's position in the reform debate between the 15 member states. He said that the creation of a Union with at least 27 members was not in the too distant future. He said that while Rome favours proposals to make the Union more federalist, it opposed a number of other proposals and, in particular, that of the development of a ``Franco-German axis," a sort of reinforced co-operation outside the guidelines of treaties. Dini also spoke about the European single currency and observed that ``a strong Euro needs a strong economy and strong policies." He meant that there should be greater co-ordination between national economic polices in support of a monetary union because `` it is wrong to believe that solitude reinforces the European Central Bank and thus ensures its freedom to perform." (Ansa, 2nd October 2000).

With regards to the debate on EU reforms, Italian President Carlo Azeglio Ciampi said he sees the EU's proposed charter of fundamental rights as "the first part of a constitution, to be complemented with a second part devoted to defining the various institutions". Ciampi said the charter represented the EU's development from a primarily economic project to a common area of rights with values and rules that define the notion of European citizenship.

According to some analysts, Italian institutions showed varying opinions and positions about the debate on EU reforms (Pasquino, 2000; Rossi, 2001). President Ciampi, however, denied that there were any divisions on this topic. Ciampi stated that Italy's desire to continue to be an active element of the EU was supported by "a genuine popular sentiment", adding that this sentiment had been seen on several occasions in the Italian parliament, "*with a broad agreement of voting on fundamental issues in EU policy*". (BBC International Reports, 4th October 2000).

The Europeans' desire for reform will devise solutions allowing federal institutions, such as the European Central Bank, for instance, to work in conjunction with others set up on intergovernmental lines. The deadlines facing us call for intense co-operation among all the institutions.

“The demanding work performed by the European Parliament, the Council and the Commission has to interact with the member states' initiatives in the interests of the Union” Ciampi said. (La Stampa, 28th November 2000).

European Commission President Prodi affirmed the need to strengthen common policies. According to him, the lack of a common economic policy was the main cause of the Euro’s weakness. In addition, he expressed concerns about the lack of a political partner for the ECB as a strong central bank is useless without a strong executive power. (Stern, 12th September 2000).

Speaking at a conference on A Federal State and a Constitution for a New Europe in November, Padoa-Schioppa said that while the lack of political union was not the primary cause for the Euro's current weakness, there was no doubt that greater political union would benefit the single currency. Looking back at the creation of the European single market, economic and monetary union and the Euro, the Italian banker observed that Europe already had a de facto constitution through the series of agreements beginning with the Treaty of Rome. Nevertheless, he concluded, it would be best if Europe adopted a real constitution even if did faced two basic obstacles: the fact that "Europeans do not realise that the European Union is not complete and they do not realise how much has actually already been achieved". (ANSA, 13th November 2000)

Padoa-Schioppa is in favour of the idea, often aired, of coming to concert economic policy decisions by the 11 Euro zone countries.

“There is a lot to be done to enhance the strength of the European forum for economic policy consensus seeking and decision making," he said.

Nor, Padoa-Schioppa added, would the ECB be any the weaker for consensus seeking, as the two fields of action are quite distinct:

"There is room for a strengthening of the central government of the economy, and I believe it is in the ECB’s interests that that room be taken up," the central banker said

4.2 Fiscal policy and Tax Harmonisation

During a parliamentary debate, Minister of Treasury Vincenzo Visco warned against the risk of adopting incorrect fiscal policy measures that reduced economic growth in the past and underlined the need to check public expenses. He affirmed that the Euro has produced impressive gains for Europe and for Italy, but that investors have sent the currency’s value plunging because of the inability of the EU members to make cohesive decisions (Parliamentary debate, 27th July 2000). During a meeting of EU finance ministers held in September in Versailles, Mr. Visco said the crux of the problem was Britain, which is not a member of the common currency but which is able to block progress on key matters such as the harmonisation of taxes within the Euro zone. Mr. Visco said the Euro had been a dramatic success in Italy because it had imposed constraints and limits that politicians could not be trusted to impose. In Italy, he added, the problem is often that "our politicians, trade unions and entrepreneurs are unable to understand what is going on, they don't care about the economy." Having economic policies dictated by the European Central Bank in Frankfurt, Mr. Visco said, *"is a nice constraint because it means you cannot spend too much or embark on extravagant programs."*

He said that the view of the European Commission, which he shares, is that ‘‘*you are not allowed to cut taxes if you do not cut spending.*" He added that the introduction of cyclical rather than structural measures in several countries was another source of confusion for financial markets.

"When you talk about tax reform, in my opinion, you should talk about structural reform," he said. He added that Italy has *"completely changed the fiscal rules, and now our taxation system is one of the most modern in the world. But no one realises that because we did not reduce tax*es."

Mr. Visco said primary public spending in Italy is now among the lowest in the EU, on the same level as Britain. He said this would give him ample leeway for tax cuts were it not for inherited economic problems. Mr. Visco said he had not been surprised by Italy's progress from economic rake to fiscal virtue.

“Our problem”, he added, *"is our political system, and you should start worrying if the present majority changes*." (International Herald Tribune, 11th September 2000).
The Finances Minister Del Turco expressed a different opinion. He said that the Italian government will be forced to develop a "clear and visible" tax reduction and fiscal reform plan.
Bank of Italy Governor Antonio Fazio strongly urged the House and Senate budget committees to quickly implement the reforms outlined in the government's economic and financial planning document, the DPEF, and to consider adopting a bigger tax cut. Fazio said the 2001-2004 financial blueprint was heading in the "right direction", but stressed that realising essential reforms, such as tax cuts, and lowering public spending were imperative. (ANSA 18th July 2000) In occasion of the General Meeting of Italian Central Bank, the Governor affirmed that Euro depreciation fostered European industrial competitiveness only in the short term. Fazio stressed the need for both tax and social treatment harmonisation to facilitate labour movement across Europe. Italy obtained monetary stability in 1994 thanks to the adoption of a deflationary monetary policy, the narrowing of the gap between public expense and income, and the adoption of the single currency.
“Nowadays structural factors emerge such as the industrial fragmentation and weak capacity of product innovation” said Fazio.
According to him, the positive international economic trend offers the opportunity to implement legislative, social and tax reforms. Italy needs to link the budget deficit reduction with an increase in public investments. (Banca d’Italia, 2000).
During the parliamentary debate on March 14th, Consob President Luigi Spaventa also underlined that harmonisation efforts in EU were still not sufficient.

4.3 The competitiveness

During the parliamentary debate on 11th July, President of Industrial Association Antonio D’Amato said Italy had lost competitiveness and he stressed the importance of adopting structural reforms to foster economic growth and facilitate the liberalisation process.
The Confindustria report, in co-operation with Ernst & Young, (Confindustria, Ernst & Young 2000) affirmed that the Euro’s weakness was related neither to economic nor institutional structural factors. The lack of the adoption by the EU of specific policies to face structural problems, specifically, social and labour measures and to strengthen its institutions was evident. The Report criticised the European competition policy as well. This policy allowed for the removal of protections and fostered the liberalisation process but interfered with the ability of pursuing an effective regional policy. Expansive monetary policies have to be adopted along with structural reforms. According to Confindustria it is necessary to focus more on microeconomic issues than on macroeconomic ones. The large European Market, believed to be as competitive as the US market and characterised by scale economies, has only partially been realised. The final aim is not the whole harmonisation but an extensive adoption of the “mutual recognition” criteria. The Confindustria Report suggested adopting a new Maastricht method characterised by deadlines, ranking, parameters and targets such as tax and social expenses reduction, labour liberalisation and single market completion.
Bank of Italy Governor Fazio issued a strong warning that Italy was increasingly losing competitiveness against its main partners and urgently needed wide-ranging reforms to improve productivity, growth, and job creation. During the annual address to the Bank's

general assembly, he said the country could achieve a growth of 2.7% provided exports increased significantly after the dismal performance of recent years. Fazio's prescription to revitalise the Italian economy was a familiar one, consisting of innovation, flexibility, more investment, lower taxes and tighter public spending. He repeated that current spending growth should be contained and lowered as a percentage of GDP, while reductions in the tax burden should gradually be amplified in the medium term. The continued reduction of the deficit should go hand in hand with higher public investment. (Bridgenews Global MarketS, 31st May 2000)
A favourable view of Italy emerged from the International Monetary Fund's visit to Italy in March. The IMF's team was positive about the prospects for Italian economic growth, although it did urge the government to speed up its reforms, starting with pensions, unemployment, public deficit and fiscal reform. (La Stampa, 27th March 2000).

4.4 Pension Reform

Concerning the issue of social policy, Wim Duisenberg has often affirmed that ageing populations threaten the balancing of public accounts. For this reason, he suggested clear efforts to reform national social systems.
Italian union and government officials say pensions in Italy are safe in the future, though the new system may have to be phased in faster than current law permits. Italian Labour Minister and trade unions, in particular, did not appreciate Duisemberg’s reproach.
CGIL leader Sergio Cofferati denied being concerned with the matter.
"We reformed the pension treatment in 1995 and we revised it in 1997. Now we are getting the first results" said Cofferati.
Cesare Salvi, Labour Minister, expressed a more caustic opinion.
“*It is the same old story!”* said Salvi “*but we will go on*”.
During a parliamentary debate in April 2000, Salvi confirmed that ECB’s reproach did not concern Italy.
Trade union and government authorities defended the government's pension reform schedule in response to renewed criticism from the Organization for Economic Cooperation and Development (OECD). The OECD report presented in June gave optimistic figures for economic growth but reprimanded Italy's slowness in tackling its pension system, underscoring that the projected spending trend suggested the need for further reform. But Treasury Minister Visco defended the government's reform schedule, saying that *"we are perfectly on time - the (pension reform) review will begin in January 2001"*. (BBC International Reports 7th June 2000).

4.5 The Labour Market

Regarding the employment issue, the ECB annual report urged EU member countries to make structural reforms in order to assure more labour flexibility and increase employment. According to Massimo D’Alema, the Former Prime Minister, wages differential has been already introduced in Italy while economist Luigi Paganetto affirmed that wages differential is a short-term measure, unable to both solve employment problems and create development conditions.
The Bank of Italy disagreed with them. According to its representatives, further efforts could be made to improve the relationship between wages and productivity.
Cipolletta, former Confindustria General Director, and Bolzoni, Confapi (Confederazione Italiana della Piccola e Media Industria) President were also in favour

of a further wages differential. Cipolletta asserted that the wages tool is crucial in boosting economic recovery and Bolzoni suggested the introduction of new forms of labour contracts. (Il Sole 24 Ore, 13th April 2000).

Nobel prize-winning economist Franco Modigliani said that mass unemployment existed within the European Union because European central bankers desired it. He stated that high levels of joblessness were due to the European Central Bank's tight monetary policy. (Morning Star, 5th April 2000)

In a series of recommendations approved in September for Italy and the other EU member states, the European Commission said Italy had made some progress in 1999 but noted that the structural problems of its labour market had yet to be tackled.

Setting priorities for government action, the Commission said it was indispensable "*to continue the implementation of pension reforms and other systems of benefits in order to stem the outflow from the labour market."* It also said Italy must "*keep up its efforts to reduce the tax burden on nonqualified work"*.

In its recommendations, the European Commission called on Italy to "*take effective action to prevent long-term unemployment*", to "*adopt and implement a coherent strategy for continuous training, complete with national targets", to "improve the employment opportunities of women*" and to bring the national employment information system up to speed. It had positive comments for the adoption of tax breaks for new jobs and more flexible contracts. But it noted that a string of indicators showed Italy was still lagging behind most of the EU and had to close the gap. (6th September 2000)

Padoa-Schioppa declared that, in Italy, unions represented a formidable obstacle to achieving flexibility, which was the secret of America's economic success.

"*Union activity is increasingly limited to older people, those who are higher up on the professional ladder. This results in a conservative unionism, which penalises the interests of the young,"* he said. (La Repubblica, 21st February 2000)

II. LEGAL FRAMEWORK

by Marina Mancini

1 Changes in the Legal Framework

1.1 Law of Treaties

In 2000, Italy, on behalf of the European Community, negotiated two important agreements with San Marino and Vatican City. These agreements establish the use of the euro by San Marino and Vatican City as a consequence of the adoption of the single currency by Italy. The Italian lira is used as official currency not only in Italy, but also in San Marino and Vatican City. Thus, the substitution of the Italian lira with the euro in Italy was intended to be followed by the substitution of the Italian lira with the single currency in San Marino and Vatican City.

In Declaration no. 6, attached to the Final Act of the Treaty on European Union, the European Community committed itself to facilitating the re-negotiation of the agreements between Italy and San Marino and between Italy and Vatican City on monetary relations, which seemed necessary as a consequence of the introduction of the euro. Monetary relations between Italy and San Marino and between Italy and Vatican City were regulated, respectively, by the agreement of 21 December 1991[1] and by the agreement of 3 December 1991[2]. Both the agreements reproduced the text of previous agreements, concluded in 1939 and renewed every ten years[3].

With Decision no. 1999/97 of 31 December 1998[4] and with Decision no. 1999/98 of the same day[5], the Council entrusted Italy with the negotiation of the agreements, respectively, with San Marino and with Vatican City and established that the Commission and, within its competences, the European Central Bank joined the negotiations. These decisions were based on Article 111 (ex Article 109) par. 3 of the Treaty on European Community. According to such article, the Council is competent to decide the arrangements for the negotiation and for the conclusion of the agreements concerning monetary or foreign exchange regime matters, which need to be stipulated between the Community and one or more States or international organisations. Although it is not expressly stated, it is believed that the Council may also delegate the negotiation and the conclusion of such agreements to the member States[6].

The agreement between Italy and San Marino and the agreement between Italy and Vatican City are very similar. According to them, San Marino and Vatican City have the right to use the euro as official currency from 1 January 1999 and grant legal tender status to euro banknotes and coins from 1 January 2002. Consequently, they are obliged to apply the Community rules on euro banknotes and coins. Moreover, they are obliged to follow the same calendar fixed by Italy for the introduction of euro banknotes and coins and for the withdrawal of lira banknotes and coins (Article 1).

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[1] Implemented in Italy by Law no. 118 of 14 February 1994, which was published in the Italian Official Journal no. 43 of 22 February 1994, Supplement.

[2] Implemented in Italy by Law no. 119 of 14 February 1994, which was published in the Italian Official Journal no. 43 of 22 February 1994, Supplement.

[3] With regard to this, see Cafaro, Susanna (1999), "I primi accordi della Comunità in materia di politica monetaria e di cambio", in *Il Diritto dell'Unione Europea*, pp. 243-268, p. 259, note 47.

[4] Published in the Official Journal of the European Communities no. L 30 of 4 February 1999.

[5] Published in the Official Journal of the European Communities no. L 30 of 4 February 1999.

[6] With regard to this, see Cafaro, Susanna (1999), "I primi accordi della Comunità in materia di politica monetaria e di cambio", cit., p. 250 s.

San Marino and Vatican City may issue euro banknotes and coins for a maximum nominal value, respectively, of 1,944,000 euros and of 670,000 euros per year as from 1 January 2002 (Article 3). However, the issue of 210,000 euros in addition to the maximum nominal value is allowed to Vatican City in the year in which the Pope is substituted, the Jubilee takes place or the Ecumenical Council is opened (Article 7).
The total volume of euro banknotes and coins allowed to Italy, to be approved by the European Central Bank, must be calculated by adding the annual nominal value of euro banknotes and coins issued by San Marino and by Vatican City to the volume of euro banknotes and coins issued by Italy. Every year, before 1 September, San Marino and Vatican City must inform Italy about the nominal value of euro banknotes and coins, which they intend to issue in the next year (Article 4). Euro banknotes and coins of San Marino and of Vatican City must be minted exclusively by the Italian competent institution (Zecca) (Article 6).
San Marino and Vatican City may issue euro banknotes and coins from 1 January 2002. On the other hand, they may issue lira banknotes and coins until 31 December 2001. Lira banknotes and coins issued by San Marino and Vatican City have the same legal tender status of those issued by Italy. The total volume of lira banknotes and coins allowed to Italy, to be approved by the European Central Bank, must be calculated by adding the annual nominal value of lira banknotes and coins issued by San Marino and by Vatican City to the volume of lira banknotes and coins issued by Italy (Article 7 of the agreement between Italy and San Marino, Article 8 of the agreement between Italy and Vatican City).
San Marino and Vatican City commit themselves to co-operating closely with the European Community in the fight against counterfeiting of euro banknotes and coins (Artcle 8 of the agreement between Italy and San Marino, Article 9 of the agreement between Italy and Vatican City).
Financial institutions located in San Marino and Vatican City may have access to payment systems within the euro area, on the conditions specifically fixed by the Bank of Italy with the agreement of the European Central Bank (Article 9 of the agreement between Italy and San Marino, Article 10 of the agreement between Italy and Vatican City).
Finally, the agreement between Italy and San Marino of 21 October 1991 and the agreement between Italy and Vatican City of 3 December 1991 are abrogated (Article 10 of the agreement between Italy and San Marino, Article 11 of the Agreement between Italy and Vatican City). However, the expiration of these agreements was near. They were concluded for ten years and began to be applied immediately after the signature, by virtue of a protocol which provided their provisional application before the exchange of ratifications. Thus, they would have expired in 2001.
The agreements between Italy and San Marino and between Italy and Vatican City let San Marino and Vatican City participate in the European Monetary Union. Various member States strongly opposed these agreements. In particular, France, traditionally a laical State, did not want banknotes and coins issued by Vatican City to be legal tender on its territory. Moreover, it feared the mentioned agreements might represent precedents and give rise to claims by the Principality of Monaco, whose banknotes and coins were not legal tender on the French territory[7].

[7] With regard to this, see Cafaro, Susanna (1999), "I primi accordi della Comunità in materia di politica monetaria e di cambio", cit., p. 263 s.

1.2 National Law

Article 155 of Law no. 388 of 23 December 2000, on the State budget for 2001[8], contains provisions on the substitution of the lira with the euro. In particular, it provides that lira banknotes and coins will continue to be legal tender until 28 February 2002. As is known, euro banknotes and coins will become legal tender on 1 January 2002. Thus, from 1 January 2002 to 28 February 2002, the lira and the euro will have both legal tender status on the Italian territory.

The document on the last phase of the transition to the euro, issued by the Euro Committee, specifies the measures to be taken before 1 January 2002, in the period 1 January 2002 to 28 February 2002, and after 28 February 2002 for the substitution of the Italian currency with the single currency.

In order to facilitate the use of the euro in the retail trade from the first days of 2002, euro banknotes and coins will be furnished to the traders before 1 January 2002. The competent provincial offices will distribute euro coins to the banks and the post-offices from 1 September 2001. The local branches of the Bank of Italy will distribute euro banknotes to the banks and the post-offices from 15 November 2001. The banks and the post-offices will furnish euro coins and, in the last days of 2001, euro banknotes to the traders. The traders will be obliged to retain the euros until 1 January 2002. Only from that date, the use of the euros will be allowed.

From 1 January 2002, the banks will change banknotes and coins in lira for those in euros, without expenses. They will change lira for euros to their customers to a maximum of 1,000,000 lira per day and without limits, if requested in advance; while they will change lira for euros to people who are not their customers to a maximum of 500,000 lira per day.

Lira coins and banknotes, withdrawn from circulation, will be lodged in the competent provincial offices and in the local branches of the Bank of Italy, respectively, and afterwards will be destroyed. In order to reduce the volume of lira coins to withdraw from circulation, the micro fifty-lira pieces and the micro one hundred-lira pieces have lost legal tender status since October 2000.

After 28 February 2002, the banks will continue to change lira for euros, without expenses, until a date not yet fixed. The local branches of the Bank of Italy will change lira for euros, without expenses, until 1 March 2012.

2 National Law from the EC Perspective

Article 15 of Regulation (EC) no. 974/98 of 3 May 1998 states that the national banknotes and coins will continue to be legal tender for a maximum of six months after the transitional period. It adds that this lapse may be curtailed by national rules.

According to a widespread opinion, the curtailment is necessary in order to reduce the risks of confusion, which the co-existence of the national banknotes and coins and of the euro banknotes and coins could arouse in the people, and to meet the requests of the traders, who should bear high costs because of such co-existence.

The Council followed this opinion. With Decision of 8 November 1999, it established that national banknotes and coins must continue to be legal tender from a minimum of four weeks to a maximum of two months after the end of the transitional period.

[8] Published in the Italian Official Journal no. 302 of 29 December 2000.

Article 155 of Law no. 388 of 23 December 2000 is fully in conformity with Article 15 of Regulation no. 974/98 of 3 May 1998 and the Decision of 8 November 1999, as it provides that lira banknotes and coins will continue to be legal tender for two months after the end of the transitional period.

3 The Application of the Law

With regard to the application of the legislative acts concerning the introduction of the euro, only the following case can be reported. On 20 February 1999, the local police station of Ovada issued a fine against Mr. Giuseppino Repetto. He appealed to the Prefect of the Province of Alessandria against the fine. With order of 28 June 1999, the Prefect took stance for Mr. Repetto, because the copy of the fine released to him did not mention the amount due in euros.

The legitimacy of the order is very doubtful. The document on the last phase of the transition to the euro, issued by the Euro Committee, points out that from 1 January 1999 pecuniary sanctions can be paid in lira or in euros. To this end, it is not necessary to mention the amount due in euros. The mention of the amount due in lira, with the specific warning that it can be paid also in euros, is sufficient.

4 Institutional Aspects

4.1 Relationship between the Bank of Italy and the Italian Government

By now, the Bank of Italy is totally independent from the Italian Government. In the past years, it was made consistent with the model of an independent national central bank, as outlined by the Treaty on European Community. To this end, Law no. 82 of 7 February 1992[9], Legislative Decree no. 385 of 1 September 1993[10] and Law no. 483 of 26 November 1993[11] were enacted.

More recently, the Statute of the Bank of Italy was modified by Decree of the President of the Republic of 24 April 1998[12]. This decree was issued in conformity with Article 10 of Legislative Decree no. 43 of 10 March 1998[13].

4.2 Relationship between the Bank of Italy and the European Central Bank

By now, the Bank of Italy is an integral part of the European System of Central Banks. It acts according to the directions and the instructions of the European Central Bank. Among them, the following guidelines need to be mentioned: the guideline of 3 November 1998 on the implementation of Article 52 of the Statute of the European System of Central Banks and of the European Central Bank; the guideline of 22 December 1998 on the common rules and minimum standards to protect the confidentiality of the individual statistical information, collected by the European Central Bank assisted by the national central banks; and the guideline of 22 April 1999 on the authorisation to issue national banknotes during the transitional period.

[9] Published in the Italian Official Journal no. 37 of 14 February 1992.

[10] Published in the Italian Official Journal no. 230 of 30 September 1993, Supplement.

[11] Published in the Italian Official Journal no. 282 of 1 December 1993

[12] Published in the Italian Official Journal no. 99 of 30 April 1998.

[13] Published in the Italian Official Journal no. 61 of 14 March 1998. With regard to this decree, see *Italian Report*, in *Euro Spectator: Implementing the Euro 1999*, EUI Working Paper Law No. 2000/7, p. 64 et seq.

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