LUISS Guido Carli

LIBERA UNIVERSITÀ INTERNAZIONALE DEGLI STUDI SOCIALI

POLITICAL SCIENCE DEPARTMENT

Master's Degree in International Relations

Course of International Comparative Politics

THE ITALIAN CHOICE FOR THE EUROPEAN MONETARY UNION

Supervisor:

Professor Leonardo Morlino

Co-Supervisor:

Professor Marcello Messori

Candidate:

Emanuela Vulpetti

623012

ACADEMIC YEAR 2014/2015

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INTRODUCTION

This thesis aims to study what have been the political choices that Italian representatives have done in the European Monetary Union frame since 1992. Before getting into the description of the structure of the dissertation, the main research questions that led this investigation will be presented. The purpose is to highlight the reasons according to which this topic has been chosen, and why it is considered relevant and innovative.

Why Italy?

Italy is one of the most interesting case studies among the European economic and political systems, European Union, and European Monetary Union. Italy is both a founding country of EC/EU and a promoter of the European Monetary Union. Nevertheless, it is among the countries that had major problems in abiding by the Treaty of Maastricht criteria, or in being included in the Euro entrance.

Italian stakeholders have always been involved in the European monetary integration debate, but until the very expiration dates of Maastricht deadlines, no serious economic provisions were carried into effects.

Because of its pivotal role, diplomatic and political, economic and on its resources, Italy has always succeeded in speaking loud when it came to negotiations. Hence, which concretely have Italian stances been? What has the specific role and weight of Italy in European Monetary Union been? Has it changed since 1992? Has the Italian economic policies management been rearranged? Have the Italian economic institutional setting undergone any transformation? What about the Italian government organization and its reliability at the European level?

In the effort of providing an answer to these questions, the discussion led in the following pages aims to analyse the European Monetary Union process from the Italian institutional and economic point of view. Therefore, the logic of analysis will mostly be ascendant: from Italy's stances to European Monetary Union enhancement. The innovative attempt of the present analysis lies exactly in the empirical analytical approach to the topic.

To investigate the Italian choices for the European Monetary Union three realms have been considered to be crucial in order to provide a panoramic on the issue. They are, namely, the political economy sector, the financial and budgetary management one, and finally the political and parties stances. Being the concerned time-period so vast, it is quite evident that a detailed analysis of the concerned issues since 1992 would have been misleading and uneconomical. Indeed, with the aim to be as clear as possible the research, sketching the political, economic, and historical frame, will then focus on the major turnovers on the issue.

In order to achieve this explanatory purpose, the first chapter will give an overlook of this research's preferred method. Moreover, it will introduce some historical and political science concepts, in the effort to furnish the necessary tools to approach to the research and therefore to the core of the dissertation.

The second chapter is based on the Italian political economy preferences since Maastricht implementation. Therefore, it will provide an outlook on how Italy has managed its political economy issues in the frame of the European Monetary Union, and how it has dealt with supranational requirements.

The third chapter focuses on fiscal and financial matters, by providing an investigation on Italian budgetary management and its changes related to the unique European currency integration since 1992. As in the second chapter, the third one provides an empirical research mainly based on the study of official governmental economic reports.
The fourth chapter will give some hints on Italian political and parties' stances on the European Monetary Union and the European integration. Herein, particularly the focus will be on the main Italian stakeholders and governmental representatives since 1992. Obliquely, the transformation of Italian institutional setting will be delineated.
In the end, some conclusions will be drawn in order to summarize the research and to substantially contribute to the debate.
In the words of one of the main champions of the Italian participation in the European Monetary Union:

> *<< I intend to examine the causes of the banks and bank officials' critical attitude in some countries […].*
> *One of the causes of suspect towards bank officials has to be attributed to the expansion of financial intermediation, both among countries' regulations and within each one of them. The mistrust [towards bank officials] originates in the conviction that commercial banks nowadays own a too large share of monetary sovereignty. >>*[1]

Guido Carli

[1] Extract from *Bancaria* (1976). Cited in De Cecco M., Carlini R., *Alla radice della crisi*, *il manifesto*, 5 dicembre 2008.

FIRST CHAPTER

A methodological, institutional, and historical outlook

<< To have mastered "theory" and "method" is to have become a conscious thinker, a man at work and aware of the assumptions and implications of whatever he is about. To be mastered by "method" or "theory" is simply to be kept from working. >>

C. Wright Mills

1.1
Methodological and comparative politics tools

1.1.1
A methodological frame

To investigate institutional and political roots of a government is an accomplishment that requires a great amount of research and a precise method. Intuitively, the research on the field of inquiry is useful in order

to get as much information as possible on the subject. In addition, a precise method is also necessary in order to have a punctual schema through which it can be sorted out an accurate analysis on the issue. What is less intuitive, then, is what method will be preferred in this research among the multiplicity of the ones that a researcher can select when he or she has to start a study. The importance of this first chapter lays exactly in the effort towards the individuation of the correct analytical method, which will then permit to draw some results from the examination of the sources and documents on the topic.
Therefore, it is appropriate to start this research by explaining some comparative politics and methodological notions that will be pivotal throughout this entire dissertation.

To achieve this explanatory purpose, the first chapter represents an effort in order to build a theoretical construction that will allow the reader to better understand both the nature of the research and the data that are going to be analysed. From the second chapter on the focus will be on factual observations, with the aim to provide an investigation on the motivations that led Italy to join European Monetary Union. To this end, the research will verge on the examination of papers and documents proving the internal Italian proposals. The inquiry has as objective to show how and why it was decided to align Italian economic policies to EMU. As the second part of this work represents an undertaking on the attempt to frame the political and historical circumstances that influenced the participation of Italy in the EMU, the first chapter is meant as its natural premise. Consequently, this chapter represents an effort to give a methodological frame to the following dissertation, a necessary premise to the whole research.

To provide the methodological frame means to align the pieces of the puzzle, to draw the external borders within which the completed final image will be composed. Out of the above-mentioned metaphor, to study the methodological frame means to clarify what the necessary departing premises are. As a matter of fact, these premises are merely methodological, given the importance of this research and the potential innovation it entails. Fixing and shaping this frame is exactly the purpose of the first chapter.

Therefore, this introductive chapter will be divided into three minor sections, in order to achieve a clearer vision on the topic debated in this context. After providing some suggestions about the referential research method, namely the content analysis, the second paragraph will be focused on some important notions from political science, which then will be linked practically to Italy by briefly examining the history of our country in the European Community, European Union, and its related institutions.

Before giving other conceptual hints, it is convenient to start by clarifying what the methodological premises of this work are. As outlined above, it has been chosen a precise methodological approach, as it is considered the most useful one concerning the kind of research this work implies. As mentioned above, this approach is the content analysis. It allows to focus on a step-by-step observation of the decision-making process in the EMU through the examination of preparation, organization, and reporting phases. Content analysis is the most appropriate methodological approach in order to observe the efforts made by Italian governors, diplomats, and delegates in tackling with the issue of joining and shaping the European Monetary Union[2].

The political strain that enabled the creation and stabilization of the European Monetary Union can be better understood through the help that this method gives for the interpretation of the whole process. Its usefulness lays in the fact that they allow the researcher to analyse the phases of bargaining, discussing, and decision-making in their completeness. This means that the present research will be conducted adopting a point of view that permits to observe the phenomena under analysis through the lenses of the decision makers and of the stakeholders who took part to the round tables on European Monetary Union.

Even if methodological observations are of crucial importance to the purpose of the present digression, it is important to clarify that the very concern of this work is not a dissertation on methodological theories and approaches, but it only represents the basement on which it is possible to build a reliable research. The necessity of this preliminary effort is pivotal for the theoretical stability and validity of the entire dissertation. Moreover, the issue of methodological research and identification is coherent with the necessity to have some guidelines in the analysis of the documents. In the following pages, the theories on the method will be explained by hints, which means that some suggestions and the main ideas of these theories will be given in line with their usefulness to the goal of this work. It is anyway necessary to wander away from the main topic and give some suggestions of the way of proceeding of content analysis and discourse analysis methods. This digression is necessary in order to clarify

[2] The reference to the European Monetary Union is in line with the intention to consider herein the whole set of political and economic provisions of the path of Euro States since the signature of Maastricht Treaty in 1992. Hence, there will be provided considerations not just on EMU (Economic Monetary Union) institution, but also on the other economic, financial, and political provisions adopted in the Maastricht agreement frame.

how the investigation on the processes and events that led Italy to support, and eventually influence the European Monetary Union will be developed.

Shortly, content analysis will be briefly theoretically explained. The aim of this short digression is to provide the reader with some suggestions on how the research has been handled with. The introductive part is propaedeutic to the whole analysis. Indeed, from the second chapter on, discourse analysis will be practically used as instruments in the second part of the work. References to this methodological tool are made in the perspective of its practical utility and application in the subsequent part of this research.

Accordingly, in this second paragraph some suggestions will be put forward for what concerns qualitative content analysis.

1.1.2
Some hints on Content Analysis

As previously explained, it is important to insert the observations that will be deducted by the research on the documents in a methodological framework, in order to extensively understand how the entering of Italy in the EMU has occurred. Before analysing European Monetary Union as collective effort of member States to act in synergy, however, it is necessary to step back. The purpose of this first chapter is to give some methodological suggestions; hence this paragraph will be dedicated to some technical but useful definitions of what form and method are. To this end, the following analysis will be developed using all the official documents and the historical data that concern the matter. The problem of assembling them together and reading them coherently to the purpose of the aim of the research will be solved through the support of the research method that will be now explained. Data will be analysed by giving them a lecture slant as coherent as possible with the chosen method.

Qualitative content analysis proves to be a core support as it provides a method to observe and sort practical empirical conclusions from the observation of documents.

What have the motivations that drove Italy to submit to Maastricht Treaty been? What pushed Italy to all the successive agreements on fiscal and economic coordination among Euro countries? How have these motivations turned into preferences when at the bargain phases?

The effort of trying to conduct an innovative research and providing an interpretation on is consistent with the whole discussion on method. As regards the slant of content analysis that will be given throughout this work, a specification has to be made. This dissertation will follow a type of content analysis that is the inductive one, i.e. contents of the texts will be analysed formerly from a specific point of view, and then general considerations will be produced[3].

Content analysis is a methodological approach that reveals its usefulness when there is the requirement to observe how the message has been proposed to the audience. The main objective of this kind of analysis is the one of describing, in a systematic and objective way, quantifying phenomena. The aim of this method is to observe whether there has been any sort of change when Italian stakeholders made a point or a requirement in a given situation. Content analysis procedure can be explained as:

[3] Induction in the modern sense is defined as an “extended inference but only probable” .

> << The inclusion or exclusion of content [which] is done according to consistently applied criteria of selection; this requirement eliminates analysis in which only material supporting the investigator’s hypotheses are examined >>[4].

This kind of analysis displays all its importance when there is the need to develop an understanding of the meaning of communication and to identify critical processes. Therefore, it can be described as in coherence with meanings, intentions, consequences, and context. Hence, its self-explaining importance and the necessity to be taken into account in examining the documents that will be analysed in this work.

The qualitative content analysis method is the method by which qualitative data are organised inductively. By organizing data, it is meant the development of the sequences of the typical processes that characterize a research. With regards to the content analysis, this process foresees three steps: open coding, creating categories, and the final abstraction phase. The open coding stage is the phase by which the researcher is occupied with collecting all the materials on the case that he or she is studying. After having achieved a gathering of all the useful data, there comes the problem of creating categories.

Creating categories is both an empirical and conceptual challenge, as categories have to be both empirically and conceptually grounded. A successful content analysis expects the researcher to be able to analyse and simplify the data and form categories. Created categories have to reflect the subject of study in reliable manner. Obviously, the aim of the

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[4] Holsti O. (1968) in *Qualitative Research Methods for the Social Sciences,* B. L. Berg 2000

research is to reach trustworthiness, and this means that the study has to be reliable. In order to prove that, a link between the results and the data has to be shown, in addition to the fact that there is the need to prove conclusions, to come up with a demonstration. Demonstration is needed because it assures the internal validity of content analysis.

O. Holsti offers a general definition of content analysis, characterizing it as << any technique for making inferences by objectively and systematically identifying specified characteristics of messages >>. From Holsti's definition it can be easily deducted that this kind of analysis allows inferences towards trends and patterns in documents. Additionally, it can show also great advantages in building empirical basis when monitoring the shifts in governmental statements, diplomatic positions, or public opinion. Content analysis allows the researcher to find and describe the focus of the group, individual, institutional or social attention. Assumptions will be made starting from the observation of words usage and disposition. Indeed, what makes this technique particularly effective and useful is its reliance on coding and categorizing of data. Categories in this research have been established *a priori*, because of the fact that the aim of this research is to investigate certain aspects of European Monetary Union. Namely, these investigating areas are: the economic realm, the financial aspects of the Monetary Union, and the political ones. Finally, other kinds of implications will be taken into consideration. It is the case of all the electorate and people reactions, constitutional constraints, external pressures, and other international implications.

Content analysis is suitable to this research also thanks to its adaptability to different domains of research. Because of its research procedure path, content analysis can basically be applied to examine any piece of writing.

This flexibility characteristic provides a great lead to the purposes of the present research. Indeed, the practicality of referring to content analysis herein is demonstrated as each of the following chapters will focus on a different sector of a country's policies and capacity of intervention. Nevertheless, there are also some negative aspects to be aware of when using content analysis. In facts, as Weber points out:

> << Not all issues are equally difficult to rise. In contemporary America it may well be easier for political parties to address economic issues such as trade and deficits than the history and current plight of Native American living precariously on reservations >>[5].

It means that considerations are more or less easily drawn according to the type of documentation or source that one is provided with. In the case of the present research, the gleaned observations

To end with some conclusions on the methodological observations, it could be useful to introduce some observations about the suitability of the content analysis in this research. As content analysis does not proceed in a linear fashion, it seems more complicate with regards to other types of methodological procedures[6] because it is less standardized and formulaic. In literature it has been always argued that content analysis was an overly simple method. Despite of this assumption, more recent researches in this field have had more importantly highlighted the effectiveness of content analysis. Indeed, the most relevant feature of content analysis is the reliability of its categories. As reporting the study and presenting its results can also be challenging, the effort that has to be pursued in doing

[5] Weber M. (1990, p. 73) in *An Overview of Content Analysis*. Practical Assessment, Research, and Evaluation S. Stemler (2001).
[6] As for example the Discourse Analysis.

the content analysis is not to compress too much the materials, in order to maintain their narrative integrity during the analysis phase.

The eventual problem of content analysis lies in the possible excessive length of the research questions. Indeed, the disadvantage of content analysis is related to the extensiveness or ambiguity of the research questions. Moreover, excessive interpretation on the part of the researcher poses a threat to successful content analysis. However, bearing in mind this eventual obstacle to the clearness of the research, the current analysis will be extremely well-suited with the analysis of the economic phenomena that pertain to the type of policies that Italy had to undergo in order to participate to the EMU, and especially why it decided to adhere to the Maastricht Treaty.

1.2
Outlook of national representations in Europe

1.2.1
What kind of Italian representation in the European Union?

As this first chapter aims to focus on the method of the research, it is useful to suggest some research questions with the intent to clarify the proceeding of the study and sharpen the purpose and the line of the work. Who had and has the power to negotiate in the EMU frame? Who decided to join the Monetary Union? What was the aim of the negotiators who first decided that Italy had to join the single currency of the European Union?

Then, other more specific questions arise from the following statement:

> << A key hindrance to a State political and economic development is the tendency of many political leaders to make opportunistic decisions that entail long run costs to society that far outweigh short-run benefits>>[7].

Is this statement true for what concerns the participation of Italy in the Economic Monetary Union (EMU)? Has this decision revealed itself to be short-sighted? Why have Italian leaders chosen to sign in Maastricht in 1992? Should the Italian government reconsider its participation in the EMU?

Besides, the very aim of this analysis is to understand what pushed the Italian political parties and leaders to adhere to EMU. Have there been some structural constraints of economic or monetary nature? What was the causal chain that linked domestic economic, fiscal and political characteristics to governments' preferences?

> << When exercising the powers and carrying out the tasks and duties conferred upon them by this Treaty and the Statute of the ESCB, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any government of a Member State or from any other body.

[7] In *New Tools and New Tests in Comparative Political Economy – The Database of Political Institutions*, T. Beck, G. Clarke, A. Groff, P. Keefer, P. Walsh, The World Bank Development Research Group Regulation and Competition Policy, February 2000.

The Community institutions and bodies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks in the performance of their tasks. >> [Maastricht Treaty, article 107]

Article 107 of Maastricht Treaty explains the role that member States can play in the Economic and Monetary Union. The leading principle that results from the reading of this article is the one of respecting the supranationality of European institutions and not to interfere with their work. Then what space, and if any, how much of it is left to States?
In the ascendant process of policy-making participation in the EU, i.e. the process that takes account of the Italian elaboration of European policies and its voice incidence on policies preferences, Italian parliamentarians blamed an exclusion and a loss of autonomy on resources and policies. Particularly, in 2002 44% centre-right parliamentarians stressed that economic standards established by Europe were not tacking enough account of the Italian economic peculiarity. However, centre-left parliamentarians revealed a different and less radical position. In fact, the Italian attitude towards Europe changed in times with the alternations of different colour governments.

For what concerns the perception of the loss of voice in European decision-making, however, it diminished throughout time. Parliamentarians, who in 1996 felt excluded by supranational policy-making, afterwards expressed themselves as less concerned about the potential loss of executive sovereignty over the legislative [Cotta, Iserina, Verzichelli 2005].

Regarding EMU policies, between 2000 and 2002 the backing for Euro increased among Italian political élite. During the fourteenth legislation it can be observed a widespread belief that Economic and Monetary Union can prove to be effective and could entail more competition on the international market, especially concerning the competition with the USA and Japan economies. On this issue, even if broadly positive, it can still be observed a division between centre-left and centre-right coalitions. The former see Europe and Euro as an overall positive solution for Italian economy, while the latter are more focused on the negative impact of Euro for Italy. A broader conclusion can be drawn from these observations.

Despite of the political considerations of European policies and parties' vision on the Euro, the Italian attitude towards Europe has increased positively throughout time. Even if divisions on the European policy-making are still an issue lively debated, Italian political élite agree on the "domestic use" of Europe. That is to say, parliamentarians of both alliances appeal to Europe as external tie when particular and necessary policies have to be implemented [Cotta, Iserina, Verzichelli 2005].

However, this process is actually twofold. Even if on the electoral side the theme of demanding Europe is often proposed and claimed, on the other side there are some Europe internal mechanisms that require an active ascendant role of Italy. Modalities through which Italian political élite participated in some of the critical phases of the process of European integration were obviously conditioned by the characteristics of decisional contexts and of the interdependencies that occurred between supranational and national arenas. To the critical phases of Italian politics it corresponds, in the communitarian headquarter those decisions that Peterson [1995] defines as "history making decisions". In facts, even if quite stringent on the modalities of interfering with the European institutions, there can still be individualized some ways by which States influenced the European Monetary Union.

The process of monetary integration can be understood as a process of continuous bargain among concerned States. One of the theories that can help in order to interpret the modalities by which States in the European Union relate to one another is *intergovernmentalism*.
As it concerns this work, the chosen analytical framework is the one of liberal intergovernmentalism. The choice of this kind of reading is done according to the purpose of the research and the nature of it. Indeed, the aim is to maintain Italy at the centre of the inquiry. Hence, as A. Moravcsik points out,

> << The existence of significant cross-national variance in state policy preferences and diplomatic strategies invites further research into the domestic roots of European integration >>[8].

Given the focus and the proposal of this work, it is useful to consider the State in its centrality. According to the present approach, States are supposed to have the role of main stakeholders in the construction of EMU. However, some theories of European regional cooperation tend to concentrate too much on the outcome of negotiations and on the role of supranational institutions[9]. As the major concern herein is investigating on the motivations that led Italy to join the Economic and Monetary Union,

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[8] Moravcsik A., *Negotiating the Single European Act: national interests and conventional statecraft in the European Community* in International Organizations 45, 1, Winter 1991.
[9] As Moravcsik A. points out at page 25 in *Negotiating the Single European Act: national interests and conventional statecraft in the European Community* with references to E. Haas' work *The Uniting of Europe* (2005).

the problem to focus on is domestic interests formation. That is to say that the whole process of States' bargaining is left behind. In order to explore the motivations that pushed Italian representatives to sign the Maastricht Treaty in 1992, it is important to retain the accent on the country centrality.

Therefore, and in line with Moravcsik's point of view, it is backed the assumption that domestic institutions do matter. Assuming that Italian policy-makers upheld the EMU project for some valuable reasons, then it is crucial to focus on the State as the main actor in the Union. Therefore, the very basic model of the contemporary society and the referential model of the modern European Union is the one of the societal pluralism, particularly economic pluralism. Economic factors, particularly for what concerns the distribution of commercial and productive interests, work their way up toward the national leaders, who in turn can carry these preferences into international negotiations. This idea recalls the Olsonian problem that, briefly explained, examines the collective action. The theory argues that individuals in any group attempting collective action will have incentives to act as free riders on the efforts of others if the group is working to provide public goods. Individuals will not "free ride" in groups that provide benefits only to active participants.

At present stake, it is necessary to clarify what organizational approach considered here is. Indeed, and in line with many academic authorities, this work assumes that intergovernmental institutionalism is the best choice in order to explain the construction of the whole building of the European Community and then, European Union. Intergovernmental institutionalism is the approach chosen to study the process that led to Economic and Monetary Union, on the belief that the primary source of integration lies in the interests of the states and the relative power each of them brings to the bargaining table. According to Moravcsik, intergovernmentalism persists in being the most exhaustive theory in order to coherently and comprehensively explains European integration in its whole formation.

Moreover, intergovernmental institutionalism can explain the success of 1992 initiative, namely the realization and completion of the Maastricht Treaty. There are three principles at the core of this study applied to the Monetary Union process, which are: the very notion of intergovernmentalism, the lowest-common-denominator bargaining, and the issue of State's sovereignty. An in-depth examination of these three variables is necessary in order to better shape the frame of the topic.
Intergovernmentalism can be considered one of the inspiring paths towards European Union construction since its inception. Formerly, the creation of the European Community was based on interstate bargains by which each government saw the EC through the lens of its own national policy preferences. This leads to the second point, the principle of the lowest-common-denominator bargaining.

The European Union, and also the former European Community, has always been formed by a structural uneven distribution of power given by the different economic and political weight of its members. Therefore, larger and more powerful States exercise a *de facto* veto over fundamental changes in the core elements of the EC/EU and all the concerning policies and institutions. The difference among the interests of States together with the need to find a compromise to shape the Union, lead to the necessity of bargaining. As long as there is the interest to remain part of the group, the States will continue to negotiate and will make an effort in order to align their policies to the requirements of the group. Obviously, the powerful ones will have more voice in the decision-making, at the expense of the "weaker" ones. This sort of mechanism is generated by the threat of exclusion, that is better explained using Moravicsik's words: << Once an international institution has been created, exclusion can be expensive both because the non-member forfeits input into further decision-making and because it forgoes whatever benefits result. If two major states can isolate the third and credibly threaten it with exclusion and if such exclusion undermines the substantive interests of the excluded state, the coercive threat may bring about an agreement at a level of integration above the lowest common denominator >>[10].

The third characteristic of intergovernmentalism that can be applied to the EC/EU concerns the issue of sovereignty, which has always been and still is the major matter of member States. Collective decision-making in traditionally exclusive fields has been the most difficult stage for European countries. One of the most significant transfers of sovereignty has been the one regarding the control of monetary policies, which meant an important demonstration of seriousness in the willingness of MS[11] to implement and reinforce the European Union. However, the sacrifice of national control over monetary sovereignty did not entail a complete loss of it, but instead a reshaping of its connotations in the brand new context of monetary common decision-making. The States of European Community that signed Maastricht treaty basically agreed that the last word be left to central institutions, but the process that brings to that last word is practically still lead by the member States.

[10] Moravcsik A. in *Negotiationg the Single European Act: national interests and conventional statecraft in the European Community* International Organizations 45, 1, Winter 1991.
[11] Abbreviation that stands for Member States, with references to the Member States of European Community and European Union.

As far as questions of political economy are concerned, it is therefore interesting to analyse the political decision-making structures, and also the policy preferences or ideological learning of decision makers. Testing the influence of a single specific actor in a bargaining process is an effort that could lead further in gaining understanding of the whole institution. Given these premises, it is undeniable that responsibilities and decisions taken to construct the EMU have to be found in the instances and needs of every single state and its stakeholders. Then, domestic politics are the key argument in the analysis of the shaping of EMU.

Italy has played a relevant role in the building of EMU and the originality of this work consists precisely in succeeding to find out how it did so. By referring to the Italian case, the very central question in this study of comparative politics will then be: what domestic actors take the lead in promoting and opposing economic liberalization? Are they state actors or societal actors? How do they perceive their interests? How do they get to influence one another? How do they relate to the European and world economy?

Among the European States that took a leading role in the construction of the Common Market Area, Italy has had undoubtedly a leading role, too often given for granted or forgotten by the Europeans themselves.
Obviously, the Italian effort and contribution to the EMU and the whole process of integration, has to be considered in the light of a collective plan to build the supranational institutions. The convergence of the national interests made possible the construction of the European Union, but it has not been automatic and it was born by reaching a common ground through interstate bargains, and constraints on further reform. This kind of explanation is helpful to the extent that it is theoretically coherent in that it

stresses the autonomy and the influence of national leaders vis-à-vis international institutions as well as the importance of power resources in determining the outcomes of intergovernmental bargains.

The evolution of the European Union has to be seen as the path of an effort in concert. In this light, intergovernmental institutionalism builds on the belief that states are the principal actors in the international system. The States involved in some supranational institution-building influence that international regime. However, at the same time they succeed in shaping interstate politics by providing a common framework that reduces the uncertainty and the transaction costs.
We can therefore affirm that interstate bargains reflect national interests and relative power.

> << Power in its most general sense of "the transformative capacity of human action", the capacity to intervene in a series of events so as to alter their course, depends upon "resources or facilities which are differentially available to social actors"; and power in the relational sense of "the capability to secure outcomes where the realization of these outcomes depends upon the agency of others" is also differentially available to different social actors >> [Fairclough 2003].

As Fairclough points out, the greater effort in shaping and identifying the influence of discourse is to put it in relation with the environment it acts, as to say with the social actors, the social context, and the whole set of variables which intervene in the discourse and which, then, the same discourse contributes to modify. Clearly, the independent variable in this process is power, meant as “the transformative capacity of human action” interpreted in its broader sense, by which it has to be meant the capacity of policy makers, stakeholders, politicians, and intellectuals who intervened and intervene in the debate to actually influence and practically change the course of events.

They made history and took Italy and the entire Economic and Monetary Union to its current state. Hence, a markedly important question to answer is: why has Italy decided to join EMU? What were Italian economic, fiscal, and political conditions at that time? How and to what extent did these aspects influence the decision to bind Italian policies in these fields to European monetary rules?

The analysis of Italian choices and their perspectives will be developed in the second, third and fourth chapters. Now, it is important to keep the focus on the influence of the actions of Italy and Italian stakeholders in the European Union both from an actual and policy-making perspective and historical one. As the construction of the EMU has been and still is a collective process and decision, it gets across that it is barely impossible to identify specifically any overtly Italian mark. Actually, if it had existed any sort of clear differentiation in the contribution of every single country in the building of the EMU, this work would have been at least merely rhetoric, if not practically useless. Therefore there have been, and still there are, Italian institutional representatives who act collectively in the European process, and there have been and still there are also particular stakeholders who advance Italian interests in the European arena.

1.2.2

Defining preferences

The focus of this whole dissertation is on Italian *preferences*. Indeed, once again upholding and relating to Moravcsik's book, it is useful to point out some references to the notion of preference and its application. First of all, it is of crucial importance not to confuse the concept of preference with some other terms usually employed to define the goals of a government. Effectively, there are often references to national *strategies*, *tactics*, and *policies*, but preferences, unlikely all these recalled terms, are essentially exogenous to a specific international political environment. National preferences, to better convey the definition by Moravcsik's words, are:

> << […] An ordered and weighted set of values placed on future substantive outcomes, often termed as "states of the world", that might result from international political interaction. Preferences reflect the objectives of those domestic groups that influence the state apparatus; they are assumed to be stable within each position advanced on each issue by each country in each negotiation, but not necessarily across negotiations, issues, or countries >>.

Therefore, the focus is on the explanations of the preferences of Italian government which are seen not in a zero-sum or positive-sum optic, but merely as they have been generated. Pressures from economic interest groups generally imposed tighter constraints on policies, more than did other concerns, as ideological ones or the vision of politicians, or public opinion.

The basic assumption is that the Italian State is not unitary in its internal aspect, and that it has not always acted coherently with its previous positions, or with its internal policies and problems. It seems quite obvious that national preferences are shaped in different steps through contention among different political and interest groups. The point at stake is that when it comes to face other governments, or when it is the bargaining moment, national governments have to present themselves as unitary with a well-structured hierarchy of priorities, if they wish to prove accountability and political coherence *vis-à-vis* to the other European governments.

A tripartite scheme of national preferences formation can be singled out. Drawing it down by a rationalist structure, it is distinguishable a three-stages procedure in international negotiation. The first step has as protagonists the governments, which formulate a realistic set of national preferences. Once again, by the notion of preference the reference is made to the set of underlying national objectives independent of any particular international negotiation or direction. The second stage regards the development of strategies and bargains made by States, which undergo to the achievement of substantive agreements that realize those national preferences. The third and last step is the choice of whether or not to delegate and pool sovereignty in international institutions that synthetize and pursue the substantive agreement they made.

In this context it is therefore necessary to provide a simple change to this paradigm in order to provide the whole study with coherence. In particular, after the 1992 agreement the pooling and ceding of sovereignty, especially for what concerns some finally fulfilled domains, the third step will be considered as completed and left aside. The focus will be rather on the former two stages, national preferences formation and inter-state bargains, with a particular regard to the first one. In fact, Italian preferences formation will be studied and then discussed in the setting of inter-state bargains.

To conclude, it is possible to affirm that while the focal point will be especially Italian preferences, nevertheless they will be later seen in their effectiveness at the moment of inter-state bargains.

European integration can be more and more seen as an aggregation of different rational choices of national governments, each of them acting coherently with its internal necessities. Holding this perspective, it appears spontaneous to assume that the adjustments provided in the European context after the Maastricht Treaty have not been accomplished casually. Instead, they are an outcome of European States positive-sum deals, each of them reflecting issue-specific national interests.

Then, what have the Italian issue-specific national interests been in discussing European Monetary Union?

1.2.3
Policies choice in Italy

In order to achieve the purposes of the work, it is necessary herein to give a definition of the three faces of the political realm, namely, the difference between policy, politics, and polity. As there will be references to these concepts throughout the dissertation, they will be briefly explained. By the term politics it is meant the power to influence decisions taken by people; the focus in this case is power, analysed under its outcomes and limits. The second concept, namely the one of policy, is referred to the heterogeneous domain of public initiatives taken mainly by governmental actors. Finally, the concept of polity defines the identity and the boundaries of political community. It is a changeable and artificial political group made of a combination ideological, territorial, and identity aspects.

Moreover, it is useful to provide some hints on how these three variables interact, and what consequences their interrelation and application will have in the context of this discussion. In fact the first aim of this work is to analyse what motivations pushed by Italy's stakeholders in order to consider a gain for our country being part of the EMU. For this reason, the explanatory variable of this research will be the whole set of strategies, tactics, behaviours, and policies which contributed to the Italian debate on the chance to join the EMU. Obviously, considerations of this weight cannot be seen in all their impact if the background is not well defined. It has already been clarified by the title of the work that the background of the research, or to be more precise, the dependent variable, is the Economic and Monetary Union. Therefore, the evaluation of the policies proposed by Italy will be made through the lenses of the evaluation of their performance in a European overview. Policies proposed by Italy that influence EMU politics are introduced by the national political élite, who collocates itself in the more extended community defined as polity. It goes without saying that the other variable which will be at the centre of this research is the polity, that comprehends the whole set of stakeholders, spokespersons, politicians, presidents, rulers, ambassadors, and diplomats who sat down at the negotiating table and led the bargains.

Italy is probably the most dualist country in the European scenario. In fact, one of the greatest changes of position toward the monetary union can be dated to the 1970s. Particularly for what concerns Italian positions toward the European Monetary Union it is possible to distinguish two phases, each of them corresponding to a specific position on the struggle on the basis of the European economic union had to be formed. The former, termed the “economist” position, was characteristic of countries with strong currencies, low inflation, and persistent trade surpluses. This position was joined by Italy until 1970. It held that economic convergence should precede monetary integration and should be asymmetrical. After 1970, Italy held the “monetarist” position, which was in fact sustained by countries with weaker currencies, higher inflation, and persistent trade deficits. According to this view, monetary cooperation should precede economic convergence and, with the costs of exchange-rate stabilization born equally or primarily by strong-currency countries.

Hence more broadly, on the one side Italian monetary choices proved to be supportive of the European integration from its very beginning. On the other side, Italian attitude has often been criticized of bandwagoning. Assertions of the ones who argue an exploitation of the European call have to be understood in the light of a self-interested political project. Indeed at a certain point the European project started to be considered as an option that could help Italian politicians doing their internal interests and supporting their often-weak governments. The very peak of this phenomenon has been reached in the 70s, when also the Communist Italian Party turned to Europeanism. From these few points it can be sorted out a series of structural weaknesses, mostly distinguishable as political and cultural deficiencies that made impossible the transition toward a modern paradigm of democracy.

On the other side, intellectuals from comparative political science offer a less critical paradigm of the relationship between Italy and Europe.

Among them, T. Padoa Schioppa[12] underlines the many events occurred in the European politics when Italy has decisively influenced decision-making processes. Some of them can be recalled, as for example the extension of the majority vote in the Council of Ministers, the enforcing of democratic principles, the *juste retour* logic refusal, the enlargement of the EC/EU to new member States.

Actually, if observations on the interaction between internal and external political choices are made, it can be appreciated a quite defined strategy for what concerns the political and diplomatic moves of Italian foreign policy. In facts, also for what concerns Italy's European decision, it can be distinguished a two-levelled game that can be described as a strategy of internalization of external obligations, and externalization of internal obligations[13]. In this interpretation, Italian euro-optimism can be seen as a strategic choice, more than a mere calculation made on domestic parties political interests. In order to understand these dynamics, a useful conceptual metaphor is given by the concepts exit, voice, and loyalty[14]. These notions are useful in order to explain the actor's behaviour in contexts of crisis. Even though the period examined in this work is not only characterized by crisis, the concepts that are going to be explained will be relevant because they permit to frame Italian positions towards European politics.

[12] Padoa Schioppa T. in *Europa, forza gentile*, Bologna, Il Mulino 2001
[13] As Isernia P. defines foreign italian policy in 1980s in *Bandiera e risorse: la politica estera italiana negli anni '80,* in Cotta e Iserina (a cura di) [1996, pp. 137-186]
[14] As Cotta M. suggests in *L'Europa in Italia – Élite, opinione pubblica e decisioni,* Bologna, Il Mulino 2005

1.2.4
Exit, voice, and loyalty options

Briefly explained by their application to the Italian case, the concepts of exit, voice, and loyalty will be analysed with regard to the critical juncture of the decision to join the Maastricht Treaty.

According to Italian national actors, the euro sclerosis can be either a risk or an opportunity. Italian interest coincides with the interpretation of the European Union as an integrated cooperative system; if the European integration gives the option of cooperation, then the exit would be a problem for Italy, and it would compromise the stability of this economic and political system. This kind of interpretation explains why Italian decision-makers have often bended their country to elevated adaptation costs; this explains the choice to enrol the Maastricht Treaty. Hence, the exit option has never been practiced by Italy because it has always been considered more costly than any other option. In facts, exit has only been used by Italy as a threat in order to claim its right to have a voice. Indeed, voice has been to advocate innovation and favourable reformations.

Undoubtedly, loyalty can be defined as the first Italian bargain technique in Europe. Italian loyalty sense for Europe has always been traduced as a strong commitment to European policies, being often optimistic on the positive overcome of cyclical crises periods. Even in cases in which Italy seemed to be subordinated to Europe more than being an active actor in the making of Union proposals, there has to be considered the loyalty option. Therefore loyalty strategy, seen in its peculiar Italian exercise as a mix of protest and defection threat, has allowed national actors to enforce the Italian concern in the communitarian space. Even if these decisions have often been made at the expenses of the internal front, especially for

what concerns the implementation of economic and monetary policies, however they show an actual engagement by Italy to European projects.
The shift in the lecture of Italian position towards EU is of crucial importance not only in the scope of this work, but also more broadly in order to reconsider the relevant position of our country in international and European arena.

1.3
The Italian governments path towards the recognition of a supranational authority

1.3.1
The European issue

1992 is a significant year not only for what concerns the institutional aspects, but also with regards to the Italian political élite attitude towards Europe. Indeed, since the 1992 political elections, namely after Maastricht Treaty ratification, European integration issue has been tackled in a more attentive way. Also, consciously differentiated positions emerged in this period. This phenomenon was due to the transformation that occurred in the Italian party system in 90s. From now on, supranational choices will be a relevant matter in the Italian parties debate, and each time being more serious about the preferential policies that have to be actuated.
In the last ten years there has been a major shift in the plurality of Italian voices on the future of European Union. All these voices agreed on the

need to overcome a sense of isolation that made of Italian political élite a subordinated actor in the European concert.

It is generally acknowledged that politicians who feel competitive pressures to make reforms may be more likely to engage in policies that benefit themselves and their core supporters at the expense of the rest of society. This assertion quite fits the history of Italian participation in the European Community and then European Union. Indeed, even if in a broad and approximate manner, the logic that has led Italian governors to adhere to the EMU has been the one of the unwillingness of remaining out of the games of the European chessboard. This logic can be considered truthful still today. Indeed, Italian national governments are better if they practically get the approval of the European heads especially for what concerns economic policies decisions. By this way, Italian leaders have the chance to hold some voice at the supranational round tables, and the national interests they carry are more likely to be taken into consideration.

The Maastricht Treaty embodies a commitment to the culture of the stability, as it advocates a radical reform of wage-setting and labour market arrangements. By accepting the 1992 parameters, the European States agree on an economic integration based on prices stickiness. Moreover, the economic and social cohesion is strengthened and it is foreseen a future of economic security and monetary reliability by the creators of the Treaty.

The three principal standards that the Treaty requires to the States in order to be part of the Maastricht deal have been considered too demanding and, as it concerns Italy, it has not taken into consideration the structural characteristics of the Italian economy. In fact, Italy has undergone huge economic and social efforts in order to be able to join the Maastricht club.

G. Carli was among the ones who represented Italy during the passage from CEE to Maastricht. Although he was one authoritative and respected figure he subjected his country, whose economic scenario was uncertain, to a serious and demanding commitment. Actually, the premises of the Maastricht Treaty were that a framing political union should have been added to the economic and monetary pact; which has never been implemented.

When important institutional transformations occur, as it has happened in Europe ever since the 1950s, they entail numerous detailed decisions among a broad array of institutional choices. Italy has been one of the six founder countries of the European Community. It is still one of the biggest and most powerful countries in the European Union; actually it is the fourth industrial power in Europe, the third in the Euro zone, and it has always provided a huge support for the implementation of the European integration. Besides, there is another dismal side of the story that tells about a defaulting country, which though being one of the six founding fathers of the European Community and then of the European Union, has actually risked not being part of the very foundation of the EMU in the 90s.

Before stepping more extensively in the core analysis of the Italian adherence to the European Monetary Union in all its aspects, it is interesting to broadly introduce and to give some hints about what has the history of Italy in the European Union been. That is not an effort to provide a mere historical study of the political position of Italy in the European Union, or to give some already investigated knowledge on how the Italian political élite influenced the building of the political building of European Union, because all these themes have already been previously widely tackled. The utility of this digression is to highlight the very origin of the idea of building a monetary community and its proposal to all the countries that accepted the common currency project, and all the political and policies-making implications that derived from the eventual decision of being part of it.

The effort of this work is to prove the effectiveness and the incidence of Italian policies and political élite to influence the integration in low politics sectors, that is, in our case, the monetary integration. Historically, it is known that the European integration in low politics sectors has been easily conducted in Europe thanks mainly to two relevant variables, namely the protective frame of which European countries benefited in the aftermath of the Second World War, and the non-willingness of the European Nation-States to completely renounce to the exercise of their sovereignty.

Starting the discussion from the second point, the settlement of the sovereign priorities[15] of Nations has occurred in the very origin of the modern State in its European genesis, and the capacity of a State to ensure security to its people and to protect them has always been a core dimension of the European Nation-State. As the discourse on the European Union shifted from the economic cooperation and turned to security issues and so to the perspective of a European Defence Community (EDC), the involved States started to feel the threat of the complete loss of their sovereignty. This aspect has of course to be linked to the whole story of the European countries and to the great struggles that

[15] Mario Telò in his book *Dallo Stato all'Europa – Idee politiche e istituzioni*, writes about << Prerogative “regaliane”>> referring to the internal and external security of the country, the money-making, and the authority to levy taxs through central fiscal systems.

twice exploded in the Old Continent, giving the sparks for a worldwide fire.
That is to say that it has been possible to reach the completion of a monetary union both because of some particular historical contingences and national requirements, and because of the fact that when European countries started to deal with the hypothesis of a Community, they lived in a sort of bubble.

From an international relation point of view, the United States of America then improved their presence in the world politics in an escalation of actions that brought them to take a leading global role in the aftermath of the Second World War. Somehow they helped imposing a peaceful asset in Europe in the second half of 1900. Indeed, the European States were protected by the USA from every danger coming from the foreign politics because of the status of world politics at the time. After the Second World War, they found themselves under the American umbrella protection, so they did not need to be present as before on the external side. Roughly reasoning, they were quite off the international games and they were excluded from the necessity of having an active role and had only to tackle with their internal matters. European States have always been at the core of political world life until the blast of the First World War, when other actors challenged this position, especially on the Atlantic Ocean side.

The aim of this third paragraph is to give an outlook of the historical and political Italian frame with regards to its European policies, in order to be sure that broader mechanisms and contingencies are clear. Indeed, before entering in more detailed and technical observations in the following chapters a historical outlook is considered to be crucial in order to understand the variables and motivations which influenced Italy to join the Economic and Monetary Union. Nevertheless, this circumstantial frame serves also the purpose of giving a guideline, which is the one following the path of history. In fact, even if the present research has not many points in common with the historical approach, however historical events represent of course an issue not-to-omit.

1.3.2
Major historical, economic, and political Italian turnovers since 1992

The whole process that led to the Economic and Monetary Union in Europe stretched over a ten-year long period. The path towards Maastricht convergence officially began at the end of 90s, when also Italy finally signed in the third phase of the Economic and Monetary Union.
From a diplomatic point of view, the historical period conventionally known as the end of the Cold War was problematic for the Italian foreign policy. Indeed, it was the uncertain relationship between the two superpowers that favoured the diplomatic initiatives of Italy. While the Italian foreign policy was weak and lacking of new initiatives, the economy was undergoing an artificial boom, factually inflated by a dilatation of the expenditure of the State. This situation originated in the political system crisis that was dominated by “partitocracy”. Italian parties had progressively renounced to every political draft or initiative, reducing themselves to their survival perpetuation, feeding by this techniques clienteles and corruption.

In the aftermath of the fall of the Berlin wall, talks on the unification of the two parts of Germany started and, to avoid the risk that an angrier and more powerful Germany could be reconstructed, the project of embedding it in a broader context started to develop. Moreover, there were some discussions about the implementation of Rome treaty of 1958 with an economic union in the European continent. They began to lay the foundations for an economic and monetary Union, by a treaty that would have been signed in Maastricht in 1992. However, the main European leaders who took part to the meetings had some perplexities on the possibility for Italy to join this union, given its precarious economic conditions[16]. Nevertheless, when the time to sat at the round table on the European Community started, also Italian agents were present there. G. Andreotti, G. De Michelis, and at the time Treasury Minister G. Carli, were present to the meetings and accepted all the economic convergence criteria. Actually, they were quite prohibitive commitments, given that in 1991 the Italian public debt reached 101% of GDP, which represented more than the double of the German debt (46%) and the French one (47%). Moreover, Italy respected one out of the three convergence criteria set in Maastricht, namely the one of the exchange rate.

The *ratio* of this 'thoughtless' decision has to be understood in the light of the electoral and political feeling of Italian people, who enjoyed the Maastricht project. Since then, Italy has started the "*via crucis*" of a recovery program of finances and establishment of rebalancing of public accounts, in order to immediately adhere to the euro.

The positive aspect of the situation at that moment was that the strong devaluation of the lira improved the competition of our products compared to the French and the German ones. This aspect helped exports and, together with the efforts Amato government made in order to reduce

[16] In 1992 the President of the European Commission J. Delors, wrote to the at the time Italian premier G. Andreotti a letter in which he expressed his concerns about the economic situation in Italy. Moreover, he underlined the non-fulfillments and the retards of our delay in receiving and actuating the communitarian directives.

the inflation tax and the balance deficit, improved the public accounts and as a consequence, the image of our country.
Finally, the efforts proved to be effective and not useless: the balance deficit, which was about 10% of the GDP in 1992, in 1997 had been reduced to 3.2%. In the same period inflation went down from 8% to 2.6% creating the conditions for the admission of the lira in the EMS in 1996. Nevertheless, Italy joined the euro not without any difficulties, as there were internal and foreign actors who had strong perplexities on the reliability of the *Sistema Italia*.

Another breaking point in the economic history of Italy has to be considered with regards to the events of 1992. Indeed, that year Italy suffered a huge balance sheet deficit, which counted up to more than 10 % of the GDP. The public balance sheet deficit unsustainable growth and a persistent positive inflationary differential as compared to the other European countries had also some negative effects on the Italian products competitiveness. This heavy heritage coming from the previous decade represented an obstacle to the Italian entry in the European Union and marked our country as a possible defaulting one in front of the international financial community. This internal situation was moreover aggravated by the worrying international economic situation of the currency international crisis.
For what concerns the lira, the strong deterioration of public finance macroeconomic fundamentals had some alarming consequences in the financial operators' opinion. Indeed, they started to be convinced that Italian economy and specifically the lira were not able to sustain anymore the central parity of the exchange rate within the oscillation strict band adopted just two years before.

In the effort to defend that parity, the Italian Central Bank employed in less than a month a sizeable amount of official reserves. Nevertheless the use of more than 50.000 billion of lire, at the end of the day the Italian Central Bank was obliged to accept a burdensome devaluation of the national currency.

The negative effects of international currency crisis rapidly influenced the internal economic Italian conditions. As a consequence, these conditions, added to the already severe situation of our country economy, turned the 1991 economic growth stall into a recession in the years 1992-1993.
As a result of both the incapability of the German Bundesbank to handle the situation and the inefficient sustaining interventions from EMS to provide a solution, the lira was temporary out of the European Monetary System from September 1992.

A twofold pattern can be distinguished when considering the Italian State involvement in the actuation of Maastricht deal. On the one side the 1992 commitments were only slightly anticipated by the 1979 European Monetary System, this meant for Italy a strong medium-term effort for what concerns the public finance. On the other side, the convergence policy offered an escape route complying with the definition of methods and strategies by which it had to be actuated. Indeed, the Maastricht Treaty did not indicate the starting date of the third phase of integration[17], referring the decision to the European Council. European State and Government Chiefs had to express themselves by qualified majority on the adoption of the Euro by 1996. However, the final decision of joining

[17] Indicatively, the other two monetary integration phases were: the 1990's liberalization of the capital movements in the Community, while the second one consisted in the creation of the European Monetary Institute (EMI) in 1994, and the creation of the European Central Bank (ECB) in 1998.

the third phase should not have been taken later then January the 1st 1999, the decided date for the third phase to start.

Thus, all options were open for Italy until 1996. Hence, Italian policy-makers could choose how and within what timings “actuate Maastricht”, as the Treaty had left flexibility margins. However, Italy did not engage itself properly and, still in 1997-1998, when timing became more limited, the Italian government had not actuated proper convergence policies yet. Prodi’s centre-left government gave a more incisive slant towards European commitments. In that period the convergence policy was more radical than the ones performed in the past. Prodi identified the mission of convergence as the project that Italian executive had to succeed. This kind of policy proved to be the winning one, also thanks to two contextual factors. On the one hand, the corrective measures adopted by Amato government and by the technical leadership that had approved and led the transition. On the other hand, the positive 90s macro-economic trend that supplied Italy with a suitable platform in order to join the Euro in an extraordinary brief time-lapse. Moreover, the second manoeuvre made Italian governmental class regain credibility both on the European and on the internal sceneries.

Furthermore, two other important contextual factors played a key role. Indeed, the internal political crisis and the stiffness of European bound that forced a re-alignment of the public finance gave more legitimacy to the institutional governmental actors, enforcing their role.

During the 1994 government coalition led by Lamberto Dini, the engagement with the European Monetary Union was again included in the government agenda. Moreover, they scheduled a “minimal” plan in order

to rebalance the European pressures from the external side and the opposition from centre-right parties and Confindustria.
The head of the XIII legislation, Romano Prodi, initially maintained continuity with the policies of the Dini government, and a progressive line in joining the European Monetary System. Then Prodi chose to make Italy join the monetary union completely, without any other exceptional provisions like the exclusions from fiscal measures and special taxations.

The policies of the Italian centre-left government proved lack of incisiveness in many fields, but at least on the terrain of the European integration they registered a prestige and credibility recover. Indeed, the convinced Europeanist G. Napolitano enhanced the path towards Europe of a country disoriented and deluded by the political *impasse* of the European Constitution Treaty. Politically, Napolitano and others among European politicians and governors believed that the enlargement of the Union to the former communist eastern countries made Europe barely governable. Despite this, the Italian diplomacy was active also on the economic and financial side. Considering these issues, the early months of 2009 saw an increase of the crisis, together with problems of underemployment.

During Berlusconi governments, in 1994 as well as 2001, Italian Europeanism became more fragile, as the centre-right Italian Prime Minister was less prone to accept the European rules that he judged as a "prevaricating super-State"[18]. Berlusconi aligned his politics mostly on Atlantic positions that is to say on the politics of the UK and the USA. Factually, from a political-strategic point of view, the intentions of the Italian premier were to become the second (after UK) ally of the USA in

[18] Cacace P. and Mammarella G., *La politica estera dell'Italia – Dallo Stato unitario ai giorni nostri* (2010), p. 271.

Europe, as the participation to the *coalition of the willings* was studied in order to eventually divide the revenues of the war in Iraq.
Indeed, a decentralization of the centrality of the European discourse occurred during the period of the XII legislation, when the European tie lost its centrality. This was due to the infighting in the governmental coalition on the budgetary document.

1.4
Concluding remarks and research questions

EMU has certainly changed the pattern of financial-market relations. Observing the behaviour of the member States' economies, there is a distinguishable mixed pattern of convergence and divergence among the economies of the Union. The literature on the argument, however, little explains about the causes that brought to this differentiation. Moreover, the phenomenon has to be explained and some additional questions on the issue raise. There are some indicators that are left aside from the evaluations of the performances of the states, as supply-side policies. Besides, other questions arose. For example, how do these evaluations contribute to policy choices?

There is a widespread conviction that has to be falsified, before proceeding with this study, i.e. the fact that national governments that joined the EMU are left with "no room to move". This is false in the measure that the means by which governments achieve macro-policy outcomes, and the nature of government policies in other areas do not concern investors. This actually means that governments do have "room to move”. Observations of this importance entail serious implications in order to shift the paradigm. The innovation of this work is tightly linked to this statement, which opens a series of other matters to deal with. What has the “room to move” of Italy been? Specifically and empirically, how much space of autonomy was left to Italy? How much incisiveness has Italian policies had on EMU policy-making?

Given the criteria for participation in EMU, as well as the mandate of the European Central Bank, the mission of EMU should be of promoting lower inflation and more trustworthy public finances. It also should facilitate cross-border flows of goods, capital, and services. The single currency makes taxes and other distortions more transparent; moreover it reduces currency risk and the need for hedging, and it creates larger economies of scale. At the same time, EMU removes governments’ control over monetary policy. Although governments might welcome added pressure for discipline, they also might find themselves facing asymmetric economic shocks and domestic pressures for welfare state maintenance. EMU could become a difficult issue within domestic politics, especially as the euro crates winners and losers.

Has Italy acted as a winner or as a loser in EMU? Has Italy gained from the participation to EMU? Were the motivations that brought to join EMU founded? Do they prove to be substantial still nowadays? What were the preferences of Italian governments toward European Monetary Union? How have they changed from Maastricht Treaty to nowadays? What weight did they have on the governments that succeeded in Italy from 1992 on?

These open questions, together with the other ones arose previously in this chapter, are the subject of the following pages.

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SECOND CHAPTER

The political economy of Italian preferences

<< Coming together is a beginning; keeping together is progress; working together is success. >>

H. Ford

2.1
Preliminary remarks

2.1.1
Introduction

Italy's domestic political economic context is the starting point for the analysis of the Italian preferences towards the European Monetary Union. To this end, documents concerning the intergovernmental bargain to which Italy has taken part, official governmental reports, and banking reports will be considered. As previously discussed, the referential methodological support of the research is content analysis.

The decision to focus on Italy's preferences and choices is not casual. Indeed, the relative importance of economic interests is explained also by preference aggregation and strategy formation processes. To this purpose, this chapter will be dedicated to an investigation over the Italian economic choices since 1992. The aim is to understand what political economy requirements were advanced by Italian governors, ministers, and diplomats during the negotiations for an enhanced European monetary and economic cooperation.

The core issue of this dissertation consists in an investigation on the politics of economic and fiscal integration. Therefore, the point at stake in this chapter is not to focus on Italy's economics per se, but rather on the explanation of political economy preferences. It is important to be specific on the difference between the two notions. Indeed, political economic explanations differ from purely economic ones because the formers focus on the distributional as well as the efficiency consequences of policy coordination, while the latters do not. Hence, the objective of this chapter is to provide a comprehensive analysis of the political economic preferences of Italy. In line with this purpose, the background material that will be used as referential leans on "hard" primary sources[19].

As Moravcsik points out [1998], this means to refer predominantly to internal documents, interviews, and reliable memoirs, in order to provide a precise examination of the policies implemented. In this regard, considering those labelled as "secondary" sources it would mean to rely on government's public statements, or journalistic accounts. These documents are not going to be considered as primary source, because their eventual contribution could be misleading. Indeed, the slant of the readings and the interpretation of international press articles or papers yield often to a subjective lecture of official documents. By doing so, it

[19] Moravcsik A., *The Choice for Europe. Social Purpose and State Power from Messina to Maastricht* (1998) Routledge

does not actually provide any support for a plausible research on conjectures about Italy's preference towards European integration. Nonetheless, references to academic papers and journalistic articles will be made especially in the conclusive part of this dissertation. Accordingly, the last chapter will provide more general, theoretical reflections.

This chapter is divided into five paragraphs. The current one has outlined some political and economic concepts, and has introduced a theoretical model, helpful in understanding the Economic and Monetary Union origin and development. From the second paragraph on, the Italian choices toward EMU are analysed with the objective of providing a general idea of the economic policies and positions Italy has stood for since 1992.

2.1.2
Political economy considerations

It is generally assumed that nation governments seek multilateral trade liberalization when it is no longer possible to pursue producers' and consumers' interests internally [20]. Observations conducted by a political economy perspective suggest that international policy coordination is a means to secure commercial advantages for producers.
Governments administering economically competitive countries are likely to open up to multilateral trade with other countries, especially because nowadays the whole system of international production and consumption is predominantly based on the open market and free trade model. In

[20] As A. Moravcsik observes in *The Choice for Europe. Social Purpose and State Power from Messina to Maastricht* 1998, Routledge

general, there is a trend toward liberalization, which has been accompanied by the decline of tariffs or quotas over time.

From the 1950s to the 1990s trade and investment among European Community countries expanded, following the efforts for the economic harmonization, the policies of the major European States converged at different rates. The timing and the degree of policies' implementation for the adaptation depended on the specific economic characteristics of each European country. At the time of the EC negotiations, Italy was a country whose economy was mainly based on agriculture and rural productivity. This was the reason why Italian representatives, together with the French ones, championed the development of agricultural trade liberalization within a protected preferential trading area. They supported moderate price levels, while accepting industrial trade liberalization with initial caution, but accelerating confidence.
A substantial step towards an enhanced common economic area has been managed with the Schengen agreements implementation for the free movement of capitals, goods, services, and people. The introduction of Schengen regulation has had a relevant impact on the shaping of European market[21].

The European monetary union was realized because European States' governments saw its potential benefits. However, beyond the ideological factor and the agreement on the economic union elaboration, there were some interests to preserve and to reinforce. At that time, in Europe there already existed a consistent amount of exchanges among the countries that afterwards would champion the Maastricht Treaty, finally signing it. At

[21] This aspect will prove to be crucial both for its economic and its fiscal consequences, but also for the development of the other policies concerning, for example, the movements of Italian workers within the European area.

that moment, a common currency appeared to be the best option, given that it would have allowed lowering transaction costs of exchanged goods and capitals, and reducing uncertainty in the exchanges.

Hence, the Schengen agreements (1985 – 1996) first, and then the establishment of common monetary policies were chosen as strategies to complete the path toward an improved currency European region. Market liberalization and the introduction of the principle of free initiative was an enormous effort toward a political and economic union in Europe. The necessity to respect and implement this political economy principle was linked to the necessity of the integration of European economies. With Maastricht Treaty, sanctions on behaviours that could have had proved to menace the European political and economic integration were severe not only at the communitarian level, but also at the national one.

Theoretically speaking and according to the Optimum Currency Areas model[22] (OCA), in the long period it is possible to practically observe and distinguish the benefits of the common currency. The introduction of the model permits to control the pursuing of the European Monetary integration on a theoretical economic level. OCA model suggests that, as market integration raises, the efficiency benefits of a common currency increase. On the other side, as symmetry[23] rises, the stability costs of a common currency decrease.

It is useful to refer to an economic theory that allows assessing advantages and disadvantages of a European common currency area. To this purpose, references to OCA theory notions will be done even if it works well on paper, but less in practice. This happens because States are the subjects of the paradigm. As a matter of facts, they consist of aggregates of

[22] The theory of the optimal currency area was pioneered by economist Robert Mundell (1961)

[23] When speaking of the economies of two countries, being “symmetric” means to face more symmetric shocks and fewer asymmetric shocks. Asymmetry is defined as the way in which different economic areas respond to macroeconomic shocks.

preferences, a collision of a varied range internal and international interests, and different evaluations of costs and benefits. Hence, there are State's behaviours that cannot be easily reduced to a single paradigm, and that can be difficult to predict when it comes to refer to processes that are in fact the outcome of an aggregation of previous internal bargains and eventually conflicting positions.

2.1.3
EMU and the Optimal Currency Area identification

Before analysing why the Euro Currency Area cannot be considered as an Optimal Currency Area, the monetary policy integration character of the model will be briefly examined. According to this model, the first assumption is that a central and politically independent[24] bank is established. Effectively, in the European Monetary Union, it actually happened with the foundation of the European Central Bank.

Then, theoretically speaking, a plausible scenario is that the common bank will better perform by delivering low inflation on average, and no worse levels of unemployment or output. In this case, joining the monetary union for home country will imply an improvement of economic performance because of the nominal anchoring. In fact, this case could quite well broadly exemplify, among the other causes, the Italian decision to join EMU.

This pattern could be identified in the Italian case. Italy joined the Monetary Union even at the expenses of the loss of monetary autonomy

[24] Herein "politically independent" suggests that the bank has no external political pressures, which would eventually entail for the banking institution to use expansionary monetary policy for short-term gains.

and Italian monetary authority. Indeed, after 1970 Italy has never came back from its recessional period that led to a long high inflationary phase.

Studies concerning the application of the OCA model[25] have proved that, at given levels of market integration and symmetry, high-inflation countries are more likely to join the currency union, the larger are monetary policy gains.

Moreover, in explaining the Optimal Currency Area it is necessary to make references to the criteria that distinguish it as "Optimal". Concretely, an OCA has to be characterized by: productive factors mobility, as capital and labour; prices and wage flexibility; financial market integration; high degree of economies opening; high degree of consumptions and productions differentiation in the countries participating to the Area; similar inflation tax; fiscal integration.

Particularly, Mundell gave great relevance to productive factors mobility criteria, specifically for what concerns labour mobility. According to Mundell, the problem generating asymmetries in any common currency area lies in the relocation of the consumer's preferences.

According to the Mundell-Fleming model, a rise in the capital mobility does not necessarily provoke net macroeconomic incentives for nominal exchange-rate stability. Instead, it is the addition of other variables, rather than market integration or symmetry among the countries, which proves to be critical. The incentives that governments face are indeterminate.

Even if the Euro countries have proved to be committed to the harmonization of regulatory policies and exchange-rate politics, nowadays

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[25] As demonstrated by R. C. Feenstra, A. M. Taylor in *International Economics* Worth Publishers (2012), page …

there is still some difficulty in defining the Eurozone as an Optimum Currency Area. As R. Mundell observed that applying his model to the European Common Currency Area at its initial stage, the tension in the European market lied in the processes of convergence or divergence among inflation rates. But when European States started to liberalize the movement of goods, capitals, services, and workers in the European area, the effects had not been yet the ones predicted by Mundell model.
The failure of EMU in being an OCA can be ultimately found in the fact that the European market was entrusted to the management of some rebalancing mechanisms that cannot actually be controlled.

M. Fleming in 1971 introduced another causal explanation for the crisis of the Eurozone as an Optimal Currency Area. He individuated the causes of the EMU problems in the difference of inflation taxes that, in the long period, make the difference in competitiveness among European countries unsustainable[26]. So far, this means that the harmonization of monetary policies and the other efforts performed by ECB have not been enough.

Euro countries in the European Union have not established an improved system of fiscal integration. This entails that fiscal policies are still decided independently by the States, which however depend upon the same currency and consequently the same monetary policies. This aspect is actually helpful to explain why the Eurozone cannot still be considered an OCA.
In order to better clarify this statement, it is useful to briefly consider the consequences of fiscal federalism. Fiscal federalism creates a third channel, together with the ones of monetary policies and labour markets, according to which when country A suffers a negative shock, country B

[26] He draws these conclusions by the observation of Eurozone participating countries' Phillips curve construction.

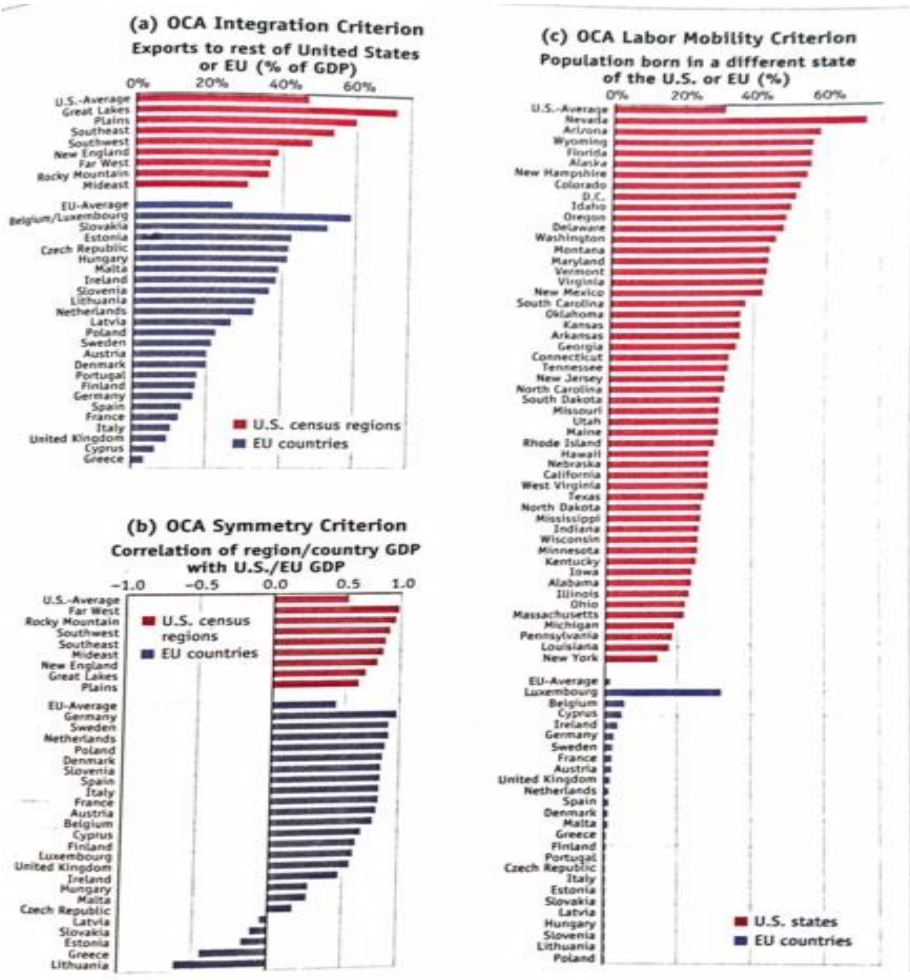
can cushion these shocks through fiscal transfers. Country B will help country A with a provision of money that would not be otherwise possible.
Taking a glance to the EU economic system as a whole, it can be noticed that actually the fiscal transfer mechanism is non-existent: the EU budget is little more than 1% of EU GDP and is devoted to other purposes, as the agricultural subsidies [Feenstra & Taylor 2012].

The Eurozone still performs low levels of trade among its member countries.
Indeed, if compared to the level of a successful example of OCA as the USA, it is noticeable that, contrary to intra-US trade flows, intra-EU trade flows appear very low [27].
Finally, the levels of labour mobility within the EU are still low. Although EU has been engaged and still works towards an easing of these barriers, the European labour force barely moves from a Union country to the other, even if they have the legal right to do so. Hence, labour market adjustment within European Union proves to have a weak mechanism.

Economists tend to believe that the EU, and the current Eurozone within it, were not set as an optimum currency area yet at its birth in 1990s when EMU project was launched, and that still nothing has been done in order to adjust that situation [Feenstra & Taylor 2012].

[27] As illustrated in *International Economics* R. C. Feenstra and A. M. Taylor, Worth Publishers (2012)

2.1)



[28]

EC national economies have often experienced divergent underlying rates of inflation, which are deeply embedded in domestic institutions and expectations of governments and people, based mostly on wage-setting, public-spending, and monetary policies. It is quite obvious that during all the bargaining periods for the EU, representatives of European governments tried always to gain the realization of the best conditions for their countries, in the effort to allocate them on a better-off position. To

[28] Sources: HM Treasury, 2003, the United State as a Monetary Union (London: HMSO); Paul de Grauwe, 2003, Economics of Monetary Union, 6th edition (Oxford: Oxford University Press); Eurostat; bea.gov IN Feenstra R. C., Taylor A. M. *International Economics* Worth Publishers (2012), page 805.

this regard, it is interesting to introduce the Pareto-efficiency concept, adjusting it to the issue studied. Pareto-efficiency is defined as the allocation of preferences according to which everyone is better off. Indeed, when in a Pareto-efficient solution there are no possible better-off options except for the one that makes one of the bargaining participants worse-off.

During the bargaining stages, the configuration of the domestically determined preferences is actually defined by the equilibrium of the outcomes that every national governmental or political coalition has provided during the preceding phase. Generally, these alternatives consist of purposes of policies implementation reflecting the internal needs of the State. Therefore, Pareto-efficiency provides an efficient and quite undemanding method to analyse the preferences of a Nation government. Moreover, its utility lays in the fact that the Pareto-efficiency check can be applied both on the internal and on the international stages of interstates negotiations.

2.1.4
The core-periphery issue

Before getting to the analysis of the economic implications of Italy in the European Monetary Union, it is necessary to step back and consider the Italian position vis-à-vis the situation of distribution of weight and power in the European context. In this regard Italy presents some peculiarities. Indeed, since its story in the European Community and then in the European Union is deeply rooted one should assume that it represents still nowadays one of the European leading countries. Nevertheless, today

Italy seems to play a somewhat peripheral country role - and not because of its geographical position.

The central role of Italy in the construction of the European Community is well known, starting from its very inception in 1957 with the Rome Treaty. Italy is one of the founding members of the European Union, and it has always been part of the most substantial and meaningful moments of the Union. Nonetheless, in the period of existence and implementation of the EC/EU, Italy came up with some structural problems, particularly for what concerns the economic domain. A symptom of such problems was evident in the fact that at the moment of joining the Economic and Monetary Union, the Italian economy suffered from structural economic deficit that had been solved neither before joining the Maastricht Treaty, nor in the aftermath of the agreement signature.

This is precisely the reason why the Italian economic performance became a key question in the debates over political economy issues. Is Italy a core or a periphery country in Europe? What position did it hold with respect to the Monetary Union? Has Italy always pushed in favour of Europe, but what kind of role has concretely played in it?

Another preliminary mention should be made about the concepts and understandings of economic factors. In fact, their comprehension should go beyond the common and simplistic notion of economic benefits, especially when the European Monetary Union is at stake. In this case, economic factors should be rather understood as the various types of economic policies, provisions, and contingencies that play a role in the arrangement of a country's preferences.

In fact, the Monetary Union was possible not because of expected future economic benefits, but because of a favourable economic climate. This statement is truer if the actual economic situation is examined. Later, at the time of Maastricht Treaty signature, Member States evaluated the macroeconomic indicators related to trade, inflation, and budget deficit. These data showed a growing convergence between the European Community Member States' economies and their monetary policies. Moreover, they were experiencing a positive political and economic trend. Indeed, the positive conclusion of the negotiations on the single market in 1986, and the decision to fully liberalize the capital movements by 1990 further influenced the belief about the necessity of the Monetary Union in the perspective of a full economic integration.

The analysis that will be developed in this chapter and the following ones mainly consists of an analysis of empirical data. This entails a comprehensive understanding of the whole set of political economy variables that influenced the Italian choice to enter the European Monetary Union. Moreover and more importantly, this kind of approach provides insights on the steps taken so far by Italian stakeholders and governments towards European integration. The latter aspect is the most interesting one. Departing from a study of the economic variables of the European Monetary integration and continuing then with an evaluation of the above-mentioned other variables, this work is meant to provide an outline of the Italian preferences and proposals in the European Monetary Union since Maastricht.

The focus, thus, is on economic variables, namely, labour market regulations, industrial relations and strength of trade unions, economic competitiveness, economic growth, unit labour costs, importance of the financial sector, export dependence, inequality and unemployment rate.

Economic factors played a central role in intergovernmental bargaining. Generally speaking, they remained central. The primary stake of representatives during negotiations was in the sense that no major government was willing to sacrifice a major economic interest for the sake of ideologically desirable integration.

As far as this chapter is concerned, the analytical order in which the documents will be analysed is mostly an historical one. This means that data will be analysed according to a temporal sequence. This is the most practical and coherent way of proceeding for two reasons. The first one is that by referring to a similar structure, the path from Maastricht towards the European Monetary Union implementation will result clearer. The second reason why this analytical strategy procedure is considered the best option is that it allows both the reader and the researcher to follow the evolution of Italian participation and position in relation to European Monetary Union through all its stages. Hence, it will be finally possible to distinguish in its various phases what position Italy held on political economy issues in the EMU setting.

2.2
Italy and the Maastricht Treaty

2.2.1
The Maastricht Treaty

On February the 7th 1992 the Maastricht Treaty was signed. Actually, more than being regarded as a turning point in the European economic policies, it can be seen as both the conclusion of a process and the launch of a new type of European understanding. It has been the outcome of a route undertaken by nineteen members of the European Community – which, from that moment on will be named European Union. Among the signing countries, together with Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Leetonia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain, there was also Italy.
If it is considered[29] the puzzling and problematic economic situation in our country in that time, what were the political economy motivations that persuaded Italian governors to renounce to lira and to join this wider project of economic integration?

The Maastricht Treaty embodied a commitment toward economic and monetary stability. More extensively, it is herein possible to outline the weaknesses and the strengths of the Treaty [30]. On the deficiencies side, and for what concerns the political economy aspects, particularly two of them can be distinguished. Indeed the Maastricht Treaty, yet from its entrance into force in 1993, contained no provisions for a contraposition to the autonomous European Central Bank institution. With regards to the economic surveillance, the EU banking system actually lacked the presence of a counterbalance to the Strasbourg institution.

The institutional counterbalance deficit proved to be substantial when in need to have another institution capable of providing the Monetary Union

[29] As discussed in the first chapter, page …
[30] The referential document is the Official Journal of the European Communities N.C 125/81, April the 7th 1992

with some democratic and adequate legitimacy. The need of such an institution was crucial in order to democratically legitimate the political economy decisions. Moreover, the Maastricht Treaty equipped the Monetary Union with a decisional process of adoption of specific political economy procedures that moved away from traditional communitarian procedures. This process turned out to be favourable for the European Council influential weight concerning the decision-making procedure on economic and monetary policies.

The second relevant political economy deficiency of the Maastricht Treaty with regards to the economic matters was the bureaucratic and procedural complexity. Indeed, the Treaty considered under its domain such a variety of legislative procedures that the final result has been an invalidation of the general clearness and transparency of the intervention policies [Moravcsik 1998].

Nevertheless, the Maastricht Treaty also introduced some important achievements. One of these accomplished goals was first of all the trustworthy commitment to the creation of a comprehensive institution for all the signing States in the subjects of monetary and economic policies. The creation of a unique currency and the establishment of a common European Central Bank represented a great effort undertaken by the Member States towards the economic and monetary unity of the European area.

Always on the political economy side, the second success reached by the Maastricht Treaty was the expansion of communitarian competences through the addition of new claims and articles to the EEC Treaty, specifically for what concerned subjects in fields of consumers, public healthcare, culture, instruction, industry, development, and trans European web.

The third achievement consisted in an emphasized commitment towards principles of economic and social cohesion, toward an ecologically sustainable growth, and toward a high degree of occupation [Moravcsik 1998].

The commitment towards Europe was highly felt by Italian politicians who led at that time the economic convergence process. They knew that Italy, its people, and its industries should have been engaged in a great effort for the purpose of aligning the Italian economy to Maastricht parameters and to harmonize it with the other European Monetary Union signing countries' parameters.

From a Constitutional point of view, undertaking the Maastricht Treaty was possible because of article 10th of the Constitution of the Italian Republic. This article allows a reduction of the Italian national sovereignty in favour of international supranational institutions.

2.2.2
State balance sheet reform and the European Monetary Union

After the Maastricht Treaty ratification, European States started the implementation of the reforms to adjust national economic policies and the State balance sheet accordingly to EMU parameters. In Italy, in order to provide the guidelines for the Maastricht rules implementation and improvement, a Commission on State balance sheet was appointed.

The Commission, in the effort to regulate the Italian economic and fiscal system, and trying to align it to the schedule defined by the Parliament, proposes that:

<< By February the 28th of each year, the Parliament adopts an economic and financial planning act in which one can individuate the financial trend lines of public sector. The individuation will have to be done according to the invariable policies criteria. Therefore, the general scheduling lines of the multi-year intervention will be set.
Multi-year lines have to be determined by referring to the most significant objects of the administrations activity, bearing also in mind the particular general interests of the Country>> [31].

G. Carli, an Italian politician who sponsored and actively participated the Italian accession to the Monetary Union, made a criticism to the conformity of the above-mentioned regulation to the Maastricht directives. Indeed, Carli's disappointment was particularly directed to the provision that:

<< The Commission [for the reform of State balance] proposes to delegate the Government of the Italian Republic to emanate administrative orders containing modifications of the current disposals, which can therefore aim to "the amelioration of the coordination degree among the various phases of State balance definition and the objectives as defined in the economic and financial planning document" >>.[32]

The Maastricht Treaty required the signing parties to regulate their economies according to the principles of the open market economy. In the society that Maastricht regulation shaped, there is not any authority that owned the arbitrary power to decide what the general interests of the country were. But it did exist a market where consumers and producers

[31] Extract from *Riforma del bilancio dello Stato e Unione economica e monetaria* G. Carli, p. 19 (1992).
[32] Translated by the author.

that did not have any kind of information about each other's preferences, behaved in harmony to the variations of the price [Carli 1992].

> << The execution of the Maastricht Treaty rejects the conception of an economy conducted according to programs that have been outlined by superior authorities. National authorities as such cannot in any case outline the programs, which moreover have to be defined in conformity with the directive principles of economic policy approved by the communitarian authorities. In defining the directive principles, authorities have to ensure the conformity of them to article 103, bearing in mind the objectives specified in article 3 A. Member States economic policies must be oriented to the convergence objective, and their execution must be constantly submitted to the Commission exam. The most stringent boundaries concern the balance sheet policy, the public debt management, and its financing system.
> The Commission for the State balance sheet reform has to think about a serious reconsideration of its work >> [33]
> [Carli 1992].

Carli's opinion was that the Commission for the State balance sheet reform was not behaving accordingly to what had been required by the Maastricht agreement. Particularly, the points at stake of his critique are two. The first one refers to the above-mentioned yearly parliamentary approval; the European economic order set by Maastricht rules prospects a growing interdependence of the economies, which leads to the unpredictability of macroeconomic variables.

The second critical evaluation started from the statement made under the section "Constitutional Profiles" of the report of the Commission, which affirmed that << the access to lending is admitted exclusively to tackle with the expenses in capital account>>. In fact, the Maastricht Treaty

[33] Translated by the author.

aimed at the squaring of the balance sheet independently from its composition. Moreover, it restricted the debt threshold in the 3% of GDP, regardless of the causes of the deficit.

As conceived in the Maastricht Treaty, the principle of the State balanced budget implied that the whole or most of the public policies have to be subsided by public savings. Maastricht Treaty, in Carli's vision, aimed to create a market and therefore a society, where individuals' opportunities and range of choice were amplified. In such a society there is no place for an authority that rules the market, because the economic variables are constantly changeable and unpredictable.

While the 1990s were a period of budgetary insufficiency, Italian governments overcame the Maastricht parameters and dictate, with the entrepreneurial attitude that characterized States in the previous period, from 1970s on.

Hence, by not applying the Maastricht rules for market regulation and market economy, the Italian legislators in the very first phase of the European Monetary Union, acted as if it would not practically give any regulation.

Treasury Minister Carli's criticism highlighted how the necessity to discuss the budgetary policy was strictly reserved to the executive branch; the Parliament in this process had no right to propose amendments. The *ratio* of the Minister's claim was to exclude the public opinion and its representatives form a process that requires highly technical competences. As he wrote:

> << The nexus between the Italian balance-sheet law and Maastricht Treaty has been the *fil rouge* of the 1991 long-lasting negotiations that preceded the signature on the Treaty. We believe that we achieved our task, which

> namely was to import in Italy the French financial principles of the good discipline and order, and not to export in our partners' economies the Italian indulgence and dissipation >>[34] [Carli 1992].

By analysing Carli's 1992 critical commentary it is possible to notice the extent to which, regardless of European requirements, each Italian legislator gave a somewhat subjective slant to the European open economy market.

As a matter of facts, they provided the implementation of a set of rules according to which the preference that can be red in it was to overcome what Maastricht Treaty requirements and leave factually to a national organism the power to decide over market mechanisms. Even if formally signed and therefore bounded to the Maastricht Treaty rules, it seems that Italy had some difficulties in adapting its economy to market logics. Indeed, the Italian choice for EMU was in practice different than the liberal ideology that guided negotiations over European market in 1990s.

2.2.3
The Italian cleavage: the preferences for the South

The above-explained discourse about the Pareto-efficiency has a particular relevance when dealing with the Italian problem of the Southern area of the country.

In the CEE framework, the new directives were oriented to a substantial reduction of the State subsides. By this means, CEE aimed to prevent the public finances of the Member countries to support the national competitiveness in the open market. Yet in the Treaty of Rome, CEE

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[34] Translated by the author.

authorities stabilized a distinction between legitimate subsides and distortive ones. However, to define the difference between the two kind of subsides was practically impossible[35].

This kind of policy against State subsides was afterwards strongly opposed by some States, particularly from Italy, which proposed a few alternative solutions to this unfavourable policy. In particular, Italian policy-makers made some remarks on the consequences of these economic policies, with particular concern to the Italian economic situations and one of its most sensible areas: Southern Italy.

> << The impression is that the vigilance on the money transfer side cannot be actually aware of the amount of transfers that are then converted into fiscal facilities by the State institutional legislation >> [36].

Italian commentators, worried about the regional peculiarities, proposed the reintroduction of the possibility to supply with subsides to that geographical area of the Country that has always been one of the major problems for Italian economy. Indeed, at the beginning of the 1990s in the Southern part of Italy persisted a structural gap although of the extraordinary intervention policies made during a period of forty years. Nowadays, Southern Italy still presents the characteristics of a development delaying economy, characterized by a high level of dependency from the rest of the country.

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[35] As comments by Italy's Expert Council state in *Integrazione dei mercati e politica economica. Studi di finanza pubblica e di politica economica del Consiglio degli Esperti* Ministero del Tesoro volume II Istituto Poligrafico e Zecca dello Stato Roma (1994)

[36] As comments by Italy's Expert Council state in *Integrazione dei mercati e politica economica. Studi di finanza pubblica e di politica economica del Consiglio degli Esperti* Ministero del Tesoro volume II Istituto Poligrafico e Zecca dello Stato Roma (1994).

In the meanwhile a big currency and financial crisis hit Italian economy. In September 1992 the Italian RPP[37] described as follows the economic account of Southern Italy:

> << In 1991 South Italy GDP composed less than a quarter of the total amount of national GDP […]. The Southern areas expanded themselves at a minor speed than the ones of the Northern part of Italy. >>[38]

Also in the aftermath of the devaluation of lira in 1992 and the strong recovery of exports that followed, Southern Italy enterprises could gain little from the major competitiveness of Italian prices, because of their scarce tendency to export [39].

In this context it has to be red the effort of Italian policy makers to provide a more substantial sustain to the economy of the South of the country. The willingness to somehow overcome and provide a few modifications to the directions given by the Treaty of Rome on the subside policies, was moreover manifest in the willingness of Italy to pursue the application of article 94 of 1957 Treaty. This provision foresaw the application of a greater transparency over the CEE Commission guiding criteria. However, European authorities were somehow reticent in applying the required measures because of they considered them as a loss of their own discretional capabilities. What Italy and some other European countries asked was simply the establishment of a referential framework on Commission's activity guiding principles[40].

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[37] Acronym for the Italian "Relazione Provisionale e Programmatica", a document attached to the Italian annual balance sheet.
[38] Translated by the author.
[39] From *I Documenti di Programmazione. Una lettura della politica economica in Italia dal Piano Marshall al DPEF 2008-2011* A. Crescenzi LUISS University Press (2007).
[40] From *Integrazione dei mercati e politica economica. Studi di finanza pubblica e di politica economica del Consiglio degli Esperti* Ministero del Tesoro volume II Istituto Poligrafico e Zecca dello Stato Roma (1994).

Notwithstanding that since the period after the end of the Second World War, Italian economic provisions has been committed to fill the gap between the Southern and the Central-Northern parts of the country, the efforts proved to be without any significant result.

According to the opinion of Italy’s Expert Council, it proved to be difficult to blame the distortionary effect of subsides at the Communitarian level when speaking about assistance policies and economic incentives for Southern Italy. More in general, when complaining on the subject of the subsidiary policies, the European authorities used to refer to the goods that rendered European market excessively competitive. << For what concerns the South-Italy case, this is of course not the problem>>[41]. As conceived by Italian policy makers, the auxiliary policies for the South aimed to provide just the survival for the allocation of Southern Italy goods in the market. Therefore, with respect to Southern Italy subsides, the Italian effort was due not to reach a competitive position in the European market, but to succeed to ensure to the national economy as fewer losses as possible. Moreover, the possible consequences of such a subsidiary policy for the European states were considered to consist in financial transmission mechanisms, and not in relative prices incidence [Italy’s Expert Council 1994].

At that time, and with concerns on the Southern Italy policies the question, for Italian policy makers the central questions were: “is it true that in the Italian context the subsidiary policies help the progressive approach to the market? Or do they effectively distance from it? Surely, as

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[41] As comments by Italy’s Expert Council state in *Integrazione dei mercati e politica economica. Studi di finanza pubblica e di politica economica del Consiglio degli Esperti* Ministero del Tesoro volume II Istituto Poligrafico e Zecca dello Stato Roma (1994).

it concerns the Northern part of Italy, the case corresponds to the first part of the question, but what about South Italy?"

Southern Italy economy can be generally defined as market-oriented, but the two open questions at that time where about how to deal with the intermediary objectives and what instruments of interventions had to be used. In relation to the second category of policies, some strategies designed to "substitute" the market throughout *ad hoc* interventions had been individuated to immediately pursue the final objectives [42]. However, if suspended, the lack of these policies would have been remarkable for the State economy, as they highly contributed to it. The problem was that these policies were exactly the ones defined by the Rome Treaty as the distortive helping policies and therefore prohibited by the Treaty.

Summing up, Italy at that time pushed in order to implement a series of subsidiary policies. The aim was to reach an improving of those policies that allowed an easing of the credit access to Southern Italy enterprises and research. The problem of this approach consisted exactly in the fact that the strategies individuated by our country's policy makers did not respected the strategies individuated by the European authorities.

European rules aimed at flexibility, innovation, and decentralization as guiding economic principles. However Italy – and especially some of its areas, showed real commitments to European guidelines, and undertook a considerable willingness in respecting Maastricht obligations, the step toward Europe seemed to be, at least in its first phase, an unsustainably demanding duty.

[42] Which are identified with the employment augmentation and/or the per capita GDP.

Italy was not able to implement Maastricht principles yet and to develop its economy according to the European traced path, because it actually was in a situation of political economy need different from the one European Monetary Union pretended it to be.

2.3
Italy in the EMU: the path toward the monetary Union (1993 – 1999)

2.3.1
The progresses towards Maastricht

As previously mentioned, the path towards monetary Union was articulated into three different phases. The first one, which was expected to end by 1993, considered that member countries should achieve a series of objectives which were: the elimination of every restriction on capitals and the completion of the internal market; the launch of some normative modifications that aimed to ensure the independence of the national central banks; the prohibition to finance the public deficits by currency printing (also known as the *no-bail-out* clause); the adoption of the strict oscillation band for every participating country[43].

The second phase, of whose years are the objects of the current paragraph, started in 1994 and ended in 1998. During the second phase the European Monetary Institute (EMI) was constituted in Frankfurt, with the objective to coordinate the monetary policies of every single member country. The

[43] Notably, Italian lira adhered to the strict band of 3% (leaving the provisory and wider one of 6%) in 1990.

aim of the coordination was to favour the macroeconomic convergence and to prepare instruments and procedures for the monetary policy realization of the third EMU phase. The second phase was conceived as a prelude to the third and last one; it was structured so that the member states would have been able to satisfy the Maastricht convergence criteria. Indeed, the compliance with the 1992 treaty parameters would have been verified at the end of the second phase by the European Commission and then also by the European Council.

The third phase, which concretely launched the monetary union, started in 1999.

Given the communitarian commitments, the main Italian political economy aim consisted then in the realization of a lasting and credible process of adjustment of the economy. The way through the economic adjustment is found in the reduction of the inflation differential with concerns to the other European countries, the rebalancing of the public finance, and the rebalancing of offshore accounts.

Given these objectives, the instruments that will be employed by economists and politicians to succeed in the rebalancing action consist of: a revenue policy, which would have allowed the deduction of the inflation rate and ensure the competitiveness of the enterprises; a huge policy of privatizations, which would have had the double effect of liberalizing the system and the debt reduction; policies of public expenditure containment [Crescenzi 2007].

2.3.2

Italy's realignment with the Maastricht criteria

Italian government commitment finally produced positive effects both on the national and international sides. Starting from November 1996, which actually was set as the final deadline to be able to respect the exchange rate stability, as conceived by Maastricht Treaty, the lira entered again in the European Monetary System.

As the 1996 RPP[44] editors punctually observe:

> << Observing the rules and the adhesion conditions envisaged by the Treaty represents a very demanding effort for our country, even if relevant progresses have been achieved for what concerns the inflation reduction and the public deficit control. Summing up briefly the **achievements reached in years 1994 – 1995 […] some divergences can still be noticed with regards to the Maastricht fixed parameters.** These are: 1) in 1994, Italian inflation rate amounted to 3.9 %, compared to the average inflation rate of the three best results countries, which was 2% […]. **In 1995, the variation gap between Italy and those other three best countries has widened because** of the temporary acceleration of prices dynamic in Italy. 2) **Lira remains out of the European Monetary System even if**, starting from this year's late spring, **it has shown some reassuring signals** both at the national and international levels. These results have to be read together with the growing amount confidence in Italian economy. 3) For a long time period during 1994 our interest rate has been equal to 10.6% versus the three best inflation result performing countries' average, which amounted to 7.3%. As with the prices dynamic,

[44] *Provisional and Programmatic Relation* (1996), page 176.

> **the 1993 gap reduction has been followed this year by an amplification of itself, caused by the rising of rates in the first part of the year**. 4) The past year public administrations net indebtedness has been equal to the 9% of GDP, against the average of 4.7% of the other countries, and 3% of Maastricht parameter. Only three countries in 1994 respected this parameter, and Germany was the only one among the big ones. Better results are expected in 1995, with an indebtedness/GDP relation reduction to 7.5%. 5) **During 1994, the public administrations debt matched with national GDP was equal to 125.4%, which is actually almost twice as much Maastricht requests** […]. In 1994, just four countries in Europe respected the 60% Maastricht rule. In 1995, because of the amelioration of the Italian economic and financial framework, the perspectives expect a one-year anticipation over the prospects of the relationship inversion. Therefore, the indebtedness/GDP reduction in 1995 is expected to reduce itself for the first time in fifteen years>>.

The overall political economy action is effective and it effectively helps in reaching the prefixed strategic objective: the compliance of the required conditions to join the Economic Monetary Union as established in the Maastricht Treaty. It is well shown by some explanatory graphs of the 1998 RPP.

Moreover, in the economic and financial Exposition of October the 1st 1998, the Treasury Minister Carlo Azeglio Ciampi is able to announce to the Italian Parliament that:

> << The political economy and balance sheet documents of the years 1999 – 2000 collect the products of an economic management that helped us to reach objectives of great significance. Moreover, it discloses

> some previously precluded horizons of growth and employment. This challenge that was rewarded by success – the regain of the monetary stability, the equilibration of public accounts, the recapturing of international credibility, the participation to the unique currency – is followed by another challenge, more ambitious and more vital, more difficult: the transformation into action the development potentialities that the country owns. The aim is to make effective for every citizen the recognition of the right to work, to provide the access to the socio-economic general condition to the weaker ones, to give them the opportunities to responsibly manage their own lives, to build the new setting caring about the future generations wellbeing>>.

2.3.3
The three pillars of the rebalancing policy

In order to adjust Italian economy to the European requirements, and finally to be ready for the 1999 appointment, during the 90s Italy underwent a series of severe political economy reforms. Those known as the pillars of the reform were actually three: the policy on earnings, privatization and the market competition policies, and the balance-sheet policy.

The policy on earnings is one of the three pillars on which the new direction of Governmental economic policy has been based. Starting from those years, the traditional objective to eliminate the wage/prices inflationary spiral was flanked by new finalities: first of all, the aim was to progressively remove the inflationary differential with the principal European partners, with the goal to guarantee the exchange rate holding.

The second aim consisted of the abatement of the public deficit. Finally, the third aim was to reduce the economic disproportions among the different categories of workers [Crescenzi 2007].

The focus on earning provisions proved to be a real concern for the Italian government in that period. The "Protocol on earning policy and on occupation, on contract assets, on employment policies, and on the productive system support" turned the traditional earning policy into a real political economy instrument.

In the European Monetary Union framework this economic policy renovation corresponded to the Italian willingness of recovering its purchasing power. Indeed, the worsening of the international exchange convenience caused the purchasing power loss.

The second pillar consisted of the privatization policy. Actually, the word privatization appeared for the first time in the Italian governmental documents at the end of the eighties; only in the aftermath of 1992 the privatizations process became significant. As the Italian Programmatic Document on Finance and Economy 1996 – 1998 underlines[45]:

> << The privatization process that has been launched in July 1992 by turning into limited companies the principal public authorities consists of one of the biggest structural transformations that our country has confronted in the latest decades >>.

Amato government has taken the most important and decisive steps in this sense[46]. The regulation 359/92 disposed the transformation of the public authorities ENI, IRI, ENEL, INA, BNL and Ferrovie, into limited companies, by giving their ownership to the Treasury Minister. Then

[45] *Documento di Programmazione Economico – Finanziaria per gli anni 1996 – 1998*, page 36.
[46] The first Amato government lasted from June the 28th 1992 until April the 28th 1993.

Ciampi government[47] implemented the privatization process in June 1993, instituting the "Committee for the privatizations". The Committee would then have been legislatively recognized by the 474/94 law, which is still nowadays the referential one in this subject.

The third pillar of the political economy action finalized to align Italian economy to European Union's parameters, in order to allow the entry in the Economic and Monetary Union has been the balance-sheet policy.
As long as it consisted mainly of financial provisions, the analysis of this aspect of the Italian reforms towards EMU will be provided in the following chapter.

The next paragraphs will analyse the economic Italian preferences. The focus will be on the structure of the economy, by which it is meant the export orientation versus the domestic one, and the size of financial and industrial sectors. The reasoning will follow a chronological order, giving some hints on the economic policies that have been proposed by Italian policy makers during the analysed period.
Hence, the time lapse considered will be from year 2000 on. The logic of this choice, other than on chronological reasons, lays more specifically on the fact that at an international level, 2000 has been characterized by a slowing down of the economy expansive cycle.

[47] Ciampi government lasted from April the 28th 1993 until May the 10th 1994.

2.4
The first decade of the new millennium: major economic policy turnovers in the years 2000 – 2010

2.4.1
The Euro and its economic implications

January the 1st 1999 represents the official date in which the introduction of the European common currency has finally occurred. According to the Treaty, to the European currency union could be admitted those European countries that respected the convergence criteria, and that did not ask for the *option out* (the chance to deliberately choose to not participate to the European common currency). The institutional asset shaped during Maastricht provided the Union with a unique authority in the monetary field, and furthermore the responsibility of the single member States for what concerned balance sheet policies and the structural interventions in the national economic systems. This aspect entailed the implementation of both a unitary monetary policy aiming at guaranteeing price stability in the monetary union, which should have been pursued by a collective and general economic development of the area, and at the same time a decentralized system of structural and balance sheet policies. Through the decentralized system they thought possible to tackle with specific economic issues and with the peculiarities of economic conditions of each member of the currency union.

However, the European situation at that time was not the most favourable one. In an international context in which new economic powers arose, like the Asian countries, and others confirmed their predominance over the world economy, as the USA, the European economic cycle struggled in the effort to restart. The greater difficulties were experienced by the three major EMU economies: Germany, France, and Italy. The causes of this situation have to be found firstly and more broadly in the weakness of the internal demand of those countries. Indeed, families' consumptions levels were low, also due to some distortive effects caused by the introduction of the common currency [Crescenzi 2007].

After having dealt with the "disenchantment" situation of the aftermath of Maastricht signature, in Italy the expectations on the European Monetary Union and on the economic situation that derived from it in the country, started to arise. Yet in the *Documento di Programmazione Economica – Finanziaria per gli anni 2001-2004* [48] it has been observed:

> << […] All this [the economic reforms program] is expected to happen in an economic framework characterized by vast and widespread innovation processes. These conditions favourable to the accumulation of physical and human capital, and to the long-term economic choices, together with the additional development of structural reforms, will be able to guarantee a durable and sustainable growth phase, putting behind the difficult times of nineties>>.

The above-mentioned Document also refers to competitiveness, described as the real problem of Italian economy, which had also consequences at the structural level. Actually, the problem of the competitiveness represented a priority because of the fixed exchange rates regime. The request advanced in the programmatic document is once again a reform of the legislature: << A strong acceleration has to be impressed on the

[48] *Documento di Programmazione Economico – Finanziaria per gli anni 2001 – 2004,* p. VI.

reformation and simplification of the regulation, employing the important instruments that had been built until these years>>.

As well as in the early nineties, the willingness of developing the privatization and the liberalization processes appears to be once again the priority, together with the flexibility of the markets.

From a national perspective, once achieved the completion of the three phases that led to European Monetary Union, Italian governors and ministers knew that Maastricht was a non-retour commitment. Indeed, the Maastricht pact required a total adherence to European policies; in this sense the conditionings of European monetary and economic parameters were stringent.

The official moment when the European Monetary Union began has been when Member States had to finally accept the modification in the process of their economic policies agenda-setting and its implementation.

From January the 1st 2002, the Euro was in circulation in Italy, as well as in the other countries participating to the Economic and Monetary Union. In the Italian Economic and Financial Programmatic Document for 2001-2004 years, they had considered the guidelines for the coordination and the management of this huge operation.

> << It has taken office in the Treasury Minister, since 1996, a “Euro Committee”, which is similar to the other committees been installed in the other Euro countries, to manage and coordinate a similar wide range operation, as decided in Brussels.
>
> During 2001, the Italian Committee will be charged to direct and sustain the different subjects in the various assignments. This activity is financed by communitarian founds, to which a commitment of national expense has to be added. This expense has already been accounted in

> the national balance sheet. Nevertheless, it has been contemplated the possibility to integrate it with further amounts of money, precisely because of the great organizational and expenditure efforts that will be necessary mostly in the second half of the next year >>[49].

2.4.2
Italian competitiveness in the European Monetary Union framework

After the good economic performances of the ten-year period of 2000, Italian economy started to slow down: the annual GDP growth rate between 2001 and 2005 was 0.4%. This meant that the Italian performance was clearly inferior compared to UK and USA performances, but also in comparison to the annual GDP growth rate of France (1.6%) and Germany (0.8%).

The private consumptions benefited from an increase in earnings caused by the positive evolution of the employment rate. However, they still resulted to be weaker than the previous periods.

The same happened to the consumption inclination that augmented of more than 10 points during the 90s, and afterwards underwent a progressive reduction. In 2000s the families' attitude towards consumptions these years can be defined as more cautious, surely because of the incertitude climate on the economic perspectives, both on the national and international sides [Crescenzi 2007].

The level of investments on machineries and equipment dropped too, even if Italy was actually experiencing a long-lasting stability of interest rates.

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[25] *Documento di Programmazione Economica – Finanziaria per gli anni 2001 – 2004*, p. 5.

In fact, the causes of those performances have to be found in the uncertain demand perspectives and in the consequent reduction of the expected profit margin. On the other side, investments in buildings, facilitated by the introduction of fiscal facilitations, registered since 2001 the starting of a strongly expansive cycle, which would have had a decline only in 2005.

Generally speaking, the exchange rate policy can prove to be a useful instrument in the short period, but it turns to be expensive in the long period [Blanchard, Amighini, Giavazzi 2011]. The observation of Italian exchange rate fluctuations in the long run gives evidence to this statement. At that time, on the foreign side, a series of factors contributed to the Italian export loss of competitiveness. They were: the lack of the exchange rate policy to provide support to the national products in the external markets, the progressive appreciation of euro compared to the other international currencies, the concurrence of the new international powers, the Italian entrepreneurs' slowness in yielding a restructuration capable of augmenting the dimensions of the enterprises and the technological level, and the problems of the Italian productive structure, whose concentration has been retained in the traditional sectors [Crescenzi 2007].

Italian exports went through a progressive reduction that hedged one of its lowest levels in 2005, when the share of global market retained by Italian exporters has been equivalent to 3%.
Actually, the loss of shares in the global market had been caused also by a particularly inadequate trend of the labour productivity.
In this context, it is interesting to focus on Italian exporters' behaviour. Indeed, those years it has been registered an increase of exports that exceeded the interior prices. The aim of this kind of price policy in the

exports can be actually found in different causes, as a qualitative selection towards products with a higher added value, the willingness to privilege the core market (the internal one), the practice of pricing to market policies, according to which relatively higher prices are applied in the markets where the demand is more vivid [Crescenzi 2007].

Concretely, what led to this ten-year lasting phenomenon of slowing down of the Italian economic growth was the fiscal adjustment. As observers entrusted with the task to monitor Italian economic policy report in the *Documento di Programmazione Economico-Finanziaria per gli anni 2006-2009*, << From 1992, the Italian economic policy has often been limited to the public balance – sheet adjustment >>. Consequently, less attention has been paid to themes inherent to the medium and long period development.

The Italian economy proved to be in difficulty especially with regards to the external sector. Indeed, the lack of growth in Italy was also due to the adoption of a different model of specialization that was not built on the Italian specificity, but that had been "imported" by the developing countries. The problem with the developing countries, especially concerning Eastern European ones, was that their leading economic sectors were the same ones in which Italy demonstrated better performances. These sectors were the textile one, the clothing one, and the leather production one.
To these factors it had to be added the Italian productive infrastructures unsuitableness of entrepreneurships. Weighting on the Italian economic performances there was also the dearth of investments in the research and innovation sector and finally, the bureaucracy load.

Another sensitive problem to our economy and to our enterprises condition was the dimensional characteristics of national enterprises, which did not facilitate delocalization. Indeed, at that time delocalization helped advanced economies in regaining their economic advantage with regards to the developing countries, which enjoyed lower labour costs. The fact that Italian enterprises were limited in their economic size did not allow the delocalization process. Therefore, management characteristics kept on by being centralized, while the capacity to expand and implement the know-how processes was reduced.

> << The industry is specialized in traditional sectors, which are mainly exposed to emerging countries concurrence and to forgery. The reduced dimensions of Italian enterprises do not allow to fully gather the opportunities offered by the evolution of the global economic development. >>[50] [*Documento di Programmazione Economico – Finanziaria per gli anni 2006 – 2009*].

2.4.3
The Italian recovery and the path towards Lisbon (2009)

> <<After a five – years period of substantial stagnation, **in 2006 Italian economy showed some recovery signals** (GDP +1.9%). Commenting the *Relazione unificata sull'economia e la finanza pubblica*, Minister Padoa-Schioppa has underlined: " The 2006 good results in the economy and financial sectors and the perspectives for the future years confirm that **Italy has overcome the public accounts emergency.** At the same time, these results induce many people to consider as disappeared the bounds that have existed up to now for what concerns the Governmental action; according to

[50] Translated by the author.

them, the resources would have suddenly become so much abundant that broad expenditure increases are authorised, together with fast taxes reductions.

Relatively to a year ago, it is no more a matter of avoiding an imminent risk, but of **governing with success.** To do it **wisely**, it is necessary that the debate on the economic and financial policy stays stuck to the reality, and that at the same time it avoids the shortness of breath. The evaluation of available resources and the hypothesis of new initiatives have to be done simultaneously, in the light of an **accurate estimation of public finance and economic system**. It has to avoid that the expected avoided danger becomes a lost occasion.

An optimistic estimation leads to the conclusion that the additional entries […] amount to 8 - 10 billions, which correspond to 0.5 – 0.7 points of GDP. However it has to be considered that, in virtue of the commitments taken in the European office, **by 2008 Italy is bounded to reach a new correction of the structural deficit of 0.5%, corresponding to 7.5 billions**". >> [51].

In fact, the strengthening of Italian economy has to be read together with the changes occurring those years in the economic international panorama, where Europe succeeded in reducing the gap with the USA. However, even if this favourable context made the principal international organisms to foresee a prosecution of the expansive phase, there still was the awareness of some dangerous imbalances in the world economy. These imbalances, mainly coming from the USA, could have had a negative impact on the expected evolution. This danger and its implicit risks are predicted in the *Documento di Programmazione Economica – Finanziaria per gli anni 2008 – 2011*[52]:

<< […] However, some risks that could influence this positive scenario have to be considered: first of all, the

[51] *Relazione Unificata sull'Economia e la Finanza Pubblica 2006,* p. 2 – 3. Translated by the author.
[52] *Documento di Programmazione Economica – Finanziaria per gli anni 2008 – 2011,* p. 10.

potential consequences of another slowdown of the USA economy. The real estate market crisis has weakened the residential investments. It persists the *incognita* of the possible impact of this crisis on the expenditure of USA families, and on the possible contagions on the international markets.
Another type of risk is the one concerning the times and the ways in which the unbalance with the external accounts has to be reabsorbed. […] Finally, considerable risks concerning the growth of the inflation rate come from the raw material prices, particularly from oil prices. These negative effects are yet in action on the world richness and growth. >>[53].

Even if the concerns about the future scenario of the world economy were real, the European Union was still working on the development of the integration policies. Italy approved integration provisions, showing real mindfulness in its engagement with the European Monetary Union.

In the frame of a new address for the political economy, the *Documento di Programmazione Economica – Finanziaria per gli anni 2007 – 2011* letter of presentation sketched the three pillars on which the reformed political economy would have been based.

<< By the presentation of the *Documento di Programmazione Economica – Finanziaria*, the government takes the second important step of its political economy, and at the same time starts the balance sheet procedure that will lead, by next September, to the presentation of 2007 Budget Law. This step follows the approval […] of the corrective manoeuvre and of the promotional measures of concurrency and consumers' care. The objective of these two initiatives […] consists in the releasing of the adverse trick in which Italian economy was bounded in […].
The combination of the high level deficit, the depletion of the primary surplus, and the debt rise shape an unsustainable condition of public accounts, rendering them more vulnerable to the augmentation

[53] Translated by the author.

> **of interests tax, to international financial market, and to the rating agencies judgment**. Moreover, **this situation puts us in a deficiency position with regards to the European rules**. At the same time, a low level of growth, inefficiencies and distortions of the tributary system, scarce efficiency of the balance-sheet policy with redistributive finalities, the diffuse retard in the public administrative apparatus contribute to the worsening of the disparity and poverty indicators.
> […] **Political economy discipline is therefore called to operate on three frontlines: the development one, the renovation one, and the equity one**. They have to be tackled with by a simultaneous action because they are inseparable>>[54].

The three political economy pillars individuated in the Document represented also the referential framework in which the First Report on the realization status of the National Program of Reforms is collocated. The public account renovation, the growth, and the equity were all inserted in the context of the revised Lisbon Strategy.

> << The final objectives of the economic and social policies for the enhancement of Lisbon Strategy are: the promotion of development, growth of the employment rate, the reduction of the difference between Italian regions, and the reduction of the social exclusion phenomena. This means that the activity rate and the production one have to increase contemporarily, in a more financial sustainable framework. To ameliorate Italian competitiveness is the challenge to foster a durable and sustainable development of the country, and to guarantee a fairer society. >> [*Primo Rapporto sull stato di attuazione del Programma Nazionale delle Riforme* 2006, p. 4]

Hence, in the Lisbon framework the Italian government preferences were concentrated in these sectors, together with an effort in order to provide some concrete results on the way to the entering into force of Lisbon

[54] Translated by the author.

Treaty. Italy tried to show the European authorities that the policies that were about to be implemented were complementary with the supranational cohesion policy.
Finally, the European Commission positively evaluated the Italian Report. Successively also 2007 European Council recognized that Italy was accomplishing some progresses in the actuation of Lisbon Strategy.

2.5
Italy's last five years in the European Monetary Union (2010 – 2015)

2.5.1
Overlook of Italian national orientations and preferences

Generally speaking, the analysis led until this point attests that in almost all lists of Italian interests, concerns about economics and political economy development are just as prominent as the willingness to demonstrate support and adherence to the European Monetary Union.
2010 was a crucial appointment, as the Lisbon Treaty had to come into force also by proposing a new type of economic governance for the Union. The European Commission proposed to harmonize the balance-sheet organization and the national policies. In the view of this harmonization, a "European semester" has been set, with the objective to coordinate the economic policies of the area. Obviously, a measure like this was helpful for Member States, as they could have profited of the European coordination.

For what concerns Italy, as it has been observed in *La partecipazione dell'Italia all'Unione Europea* - *Relazione Consuntiva 2010*[55]:

> << […] The Government has been continually committed in every kind of activity, conducting both actions useful to the aim of rapidly implement the Treaty, and actions focused on the attainment of a higher degree of coordination of economic policies. Particularly for what concerns the latter point, the Government has proceeded in the alignment to the new European rules the already existing rules on economic and financial scheduling. >>[56]

Moreover, in the framework of the Strategy "Europe 2020", the completion and deepening of the internal market constituted a relevant economic crucial aspect to ensure a dynamic growth for the entire continent. Between the two key initiatives that were conducted in 2010, the one that has been handled by Mario Monti[57] aimed to the restarting of the internal market. On the basis of the Monti Report of 2010, the European Commission has adopted the Communication "Toward an act for the unique market – For a highly competitive market social economy". The mentioned Communication was actually in line with the path traced by Monti.

Broadly speaking, in 2010 the activity conducted by Italian delegates in the frame of the European Union Political Economy Committee has been effective and successful. Indeed, in the same year, the leadership role of Italy had improved, both because of the analytical and informative significant efforts and the incidence of the Committee presidency itself[58]

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[55] *La partecipazione dell'Italia all'Unione Europea* - *Relazione Consuntiva 2010,* p. 11.
[56] Translated by the author.
[57] Commissioner for the Concurrence policies from 1999 until 2004.
[58] Assigned to Italy in 2010.

[*La partecipazione dell'Italia all'Unione Europea – Relazione Consuntiva 2010*].

Concerning 2011 year, undoubtedly the European agenda has been dominated by economic and financial themes. The sharpening of sovereign debts crisis in some of the Member States and the necessity to defend Euro stability compelled the European Union to generate some practical strategies. Indeed, the European Union handled the problem by on the one side activating the so-called "firewalls" (protection mechanisms), while on the other side it dealt with the introduction of new economic governance for the European Monetary Union.

For what concerns the economic governance, in 2011 it has been adopted the new package economic and balance – sheet reforms, the "Six Pack". Italy positioned itself as the third net contributor to the EU balance. This data actually represented an excessive disequilibrium, if related to the reduced Italian relative prosperity[59].
The difficult situation of Italy, which had to participate to the negotiation from a negative net payment status, forced national Government to reduce the Italian contributions. This decision had been taken in order to obtain more consistent returns in the traditional expenditure policies [*La partecipazione dell'Italia all'Unione Europea – Relazione Consuntiva 2011*].

With regards to Government activity towards the Schengen reform governance, Italy stood up clearly and strongly in favour of reforms on the agreement. Italian stakeholders made clear that every eventual procedural

[59] Which at that time collocated itself under the EU average.

revision of the Schengen system should have been finalized to the strengthening of the free circulation fundamental principle.

2.5.2
The economic governance reform

> << In the Euro zone economic governance wide revision process, the Italian Government intends to promote an equilibrated approach, which aims to reconciliate of the fiscal discipline, the solidarity mechanisms and initiatives for the growth and the employment. These policies are created in order to enforce the internal market stability. […]
> Nevertheless, the Government is engaged in keeping an exclusive approach to safeguard the communitarian method and the unitary on the institutional architecture of the European Union. The Italian Government wishes for the new intergovernmental agreement could be shared by every Member State of the Union, and be connected to the EU Treaties institutional group, as soon as the political conditions permit it. On this regard, the Government considers that the fundamental elements that compose the new Treaty will concur to compose an efficient frame, susceptible to enforce the conditions for a sustainable growth. Moreover, it has to be noticed that the Fiscal Compact has principally the objective to solemnly reaffirm the commitments yet taken at the European Union level. This major solemnity is going to produce positive effects on the markets.
> […] Generally speaking, during 2012 the Government will continue to reaffirm its position in favour of ambitious European governance, which is capable to tackle with the open challenges deriving from the crisis. The aim is the one to defend the unique currency, to concentrate on structural reforms for the

> competitiveness and the employment. After the Fiscal Compact, to guarantee the balance – sheets discipline it seems even more compelling an “Economic Compact”, this one aiming to the growth and to the wellbeing of European citizens. >>[60] [*La partecipazione dell’Italia all’Unione Europea. Relazione Programmatica 2012*]

Accordingly, Strategy “Europe 2020” has constituted a sensitive focus for Italian Government, whose aim was the development of transparent methods, based on clear and commonly agreed analysis in order to evaluate the national progresses. The Government aimed to produce a final quantitative evaluation of the instruments efficacy. Italian preoccupations and attentions to the topic proved to be so valid that in 2012 our country obtained the necessary connection between the obligations for the launch of the social and economic development and the next Multiannual Financial Framework, as an instrument for the growth and employment investments promotion.

Those years the stability of the economic policies in the European Monetary Union became a priority, given the general problematic contingencies of international economy, and the fiscal and economic difficulties that Euro currency had to deal with. The systems provided by European countries for the economic recovery of the Union were chiefly based on the constitution of an “authentic economic and monetary Union”[61].

On this issue:

> << Building an “authentic economic and monetary Union” constitutes one of the essential elements of this

[60] Translated by the author.
[61] Extract from *La partecipazione dell’Italia all’Unione Europea. Relazione Programmatica per l’anno 2013,* p. 4.

> system. The key point is the one of the (un)sustainability of a monetary Union not followed by an adapt economic and political integration. To this end, the European Council has invited the President Van Rompuy “to elaborate, in strict collaboration with the Commission president, the Eurogroup President, and the BCE President, a specific and circumscribed schedule to realize an authentic economic and monetary Union. This schedule should comprehend concrete proposals aiming at the preservation of the unity and integrity of the Single Market of financial services […]. >>[62] [*La partecipazione dell’Italia all’Unione Europea. Relazione Programmatica 2013*].

In response to this requirement, the four authorities came up with four load-bearing axes, namely a financial integrated space (the bank Union); an integrated balance – sheet frame; an integrated political economy; democratic legitimacy and control of the decisional process.

Italian contribution to this adjustment effort was substantial. In particular, Italy’s stakeholders had insisted on two crucial aspects, one about method and the other one about merit. The first one concerned the necessity to act in conformity with the juridical frame of the European Union, ensuring the participation of European and National parliaments. The second one regards the importance of ensuring that the discipline and stability rules enforcement capable to guarantee the stability is accompanied by effective mechanisms. These mechanisms should be able to promote prosperity and growth in every Union country; the subdivision of benefits and risks of the common currency has to be equally shared.

[62] Translated by the author.

Proposals on the single mechanisms on the banking vigilance were an issue that Italian stakeholders sustained for a long time. To this purpose, it has to be noticed that the Italian tradition on vigilance matters is one of the most solid in Europe and in the world. Italian Government intended to give voice to this tradition in order to characterize the new European system with a sample arrangement.

> << On the economic integration plan, it is necessary to advance toward a major convergence in issues that have decisive relevance for the competitiveness and the economic growth, as for example the taxation on the mobility of the labour force.
> […] The aim should be the one to ensure a full assumption of Member States responsibilities on the actuation of structural reforms. Moreover, solidarity and incentives mechanisms related to the assumption of precise obligations on this topic should be implemented.
> On the EMU decisional processes democratic legitimacy, it is fully shared the necessity of an enhanced involvement of the European Parliament in the European decisions. Nevertheless, it is necessary the actuation of disposals for the national Parliaments.
> […] In this crucial moment, it appears clear that Europe needs Italy to be able to implement its historical fidelity to the European project, turning it into a real proactive and bargaining capacity. Also because of this needing, it will be necessary to make a great effort in this sense, and to be able to count on the Parliament. >>[63] [*La partecipazione dell'Italia all'Unione Europea. Relazione programmatica per il 2013]*

[63] Translated by the author.

2.5.3
2014 Italian Presidency of the European Council

Italian "Semester of Presidency" at the European Council coincided with the aftermath of the elections at the European Parliament. As far as the fourth chapter is going to deal with political programs presented by Italian representatives, in the present section the discussion will verge on the most recent years political economy provisions.

In the above-mentioned transitional phase, the Italian Government intended to act carefully. If the requirement for some reforms made in the Van Rompuy Report (2012)[64] will be finally realized within the timing individuated.

> << […] The Italian semester Presidency will correspond to a decisive phase for the enactment of the two pillars of the bank Union: the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). >>[65] [*La Partecipazione dell'Italia nell'Unione Europea. Relazione Programmatica 2014*]

The Italian objectives for 2014 were to ensure a fruitful discussion on the Economic and Monetary Union, the completion of the bank Union, and the contrast to fiscal frauds.

Specifically, developments of the Euro economic area governmental mechanisms reform were at the centre of the Italian Government agenda. Incentives on the structural reforms were particularly highlighted. Their implementation was supposed to be done through the interception of common measures, even thought the difficult economic period that European countries had to face. Individuated developments of the mechanisms reform would possibly include the so-called partnerships.

[64] *Ibidem* page 95.
[65] Translated by the author.

The aim of these partnerships would be the one of giving incentives to structural reforms in Member States. Moreover, the solidarity mechanism that could have been originated from this provision could possibly conduct to an autonomous fiscal capacity of the Euro area.

Considering the banking Union:

> << To the end of guaranteeing financial stability to EMU, the banking Union constitutes one of the priorities for 2014. Therefore, the Italian Government will make all the possible efforts in order to constitute the bank Union within the arranged timing. Progresses in this sense will be useful to avoid those dangerous vicious circles between sovereign debt and banking sector, which have recently highly menaced financial stability in the Euro area.
>
> […] During the Italian Presidency Semester, the attention will particularly be on an overall evaluation of the banks balances, which are subjected directly to the ECB.
>
> […] According to the opinion of the Italian Government, to respect the foreseen timing is fundamental in order to transmit to international markets Eurozone Member States determination in undertaking the banking project. >>[66] [*La partecipazione dell'Italia nell'Unione Europea. Relazione Programmatica 2014*]

Among the other policies, the Italian Government showed a great effort toward the implementation of a macroeconomic supervision of the balance sheet. Recognizing the authority and the helpfulness of the European Central Bank on the management of balance sheet policies, and expressing the willingness to work together with the European banking authority was a big step toward the enforcement of the banking Union.

[66] Translated by the author.

The serious Italian commitment in order to impose the respect of a precise timing for the implementation will prove to be helpful also at the international markets level.

2.6
Concluding remarks and recent evidences

The following paragraph is written in the effort to provide a general outline of the discussed topic, and to allow some comments on the empirical research. Generally speaking, it is possible to profile a great commitment of Italy's representing body toward the promotion of EMU implementation and then a resolution of the economic deficiencies of the Eurozone.

Italian political economy underwent fundamental changes in the time period from 1992 on. Indeed, since the very beginning of the monetary union, Italy stood as a promoter of the unique currency creation and implementation, nevertheless of its structural deficiencies. Although first years engagement in the Euro project proved not to have been felt as highly demanding by the Italian institutional body, it was thanks to some Italian spokespersons' particular dedication to the project that it was finally possible for Italy to be part of it.

Notwithstanding the political commitment, other issues originated from the structural problems of Italian economy. Speaking of which, the greater issues derived from the economic cleavage with the Southern Italy.

The trend toward liberalization characterized the European project from its very beginning, and above analysed data show that still nowadays represents an achievement not yet accomplished. Structural reforms for what concern Schengen principles enforcement still aim to a greater flexibility in labour and products markets. The implementation of these policies is crucial also in order to get to the European economy more competitiveness on the external market. For what concerns Italy, it is the country that among the Euro-area ones performs the lowest shares of trade. However, progresses are still significant, as recent data[67] shows that the Italian intra-euro exports share augmented from 166.0 to 209.3 from 2002 to 2013.

Generally speaking, and with concerns to the discussion on EMU identification with the OCA model, Euro area countries exports are relatively similar but present well-diversified baskets of good. This characteristic is positive with regards to the low-level incidence and aggregate impacts of asymmetric shocks, because it favourites the conduction of a smooth functioning of the Monetary Union. However positive these observations are, similar export patterns alone clearly cannot guarantee convergence in economic development across the euro area. Moreover, European observers notice that inadequate domestic policies in particular can lead to nominal and real divergences. Therefore, the implementation of determined policies even at the national level becomes crucial.

A major turnover was reached in years 1999-2000 when, as Ciampi stated, Italy << collect[ed] the products of an economic management that helped us to reach objectives of great importance>>[68].

The rebalancing provisions implemented by Italy those years, especially for what concerns privatization policy, proved to be for Italian economy a

[67] Provided by the European Central Bank monthly Bulletin, January 2013.
[68] *Ibidem* page 82.

great commitment and a huge modification of the economic structure of the country. Indeed, in the discussion on the European monetary integration, it has to be kept awareness of the fact that each country joined it with its different specific national economic characteristics, which had of course an influence in deciding and approving the participation to EMU.

As stated before, when Italy entered in the economic European convergence project was a country whose economy was mainly based on agriculture and rural productivity. To this regard, Schengen agreements gave some substantial provisions in the reformation of Italian economic system, as they helped the beginning of structural renovation of Italy's economy. In spite of this, it has been highlighted how by the loss of monetary autonomy, Italy has also entered into a long high inflationary phase. Indeed, one of the major problems of EMU is that still nowadays it experiences alternative phases of convergence and divergence of the inflation rates among the participating countries.

Another important Italian policy implementation in the European Monetary Union framework, intended to align Italian economy with European rules and Maastricht requirements, was the policies promotion toward the competitiveness. Competitiveness development was promoted in line to comply with the exchange rates regime. Actually, bringing off privatization and liberalization processes has represented a priority since the nineties.

As the *Documento di Programmazione Economico-Finanziaria per gli anni 2006-2009*[69] commented, the Italian economic policy has been mainly concentrated, and therefore limited, on balance sheet adjustment

[69] *Ibidem* page 91.

policies from 1992. This entailed disregarding other political economy themes that could have helped the Italian economy in the medium and long period. Italy could have, for example, worked more on delocalization policies.

In fact, in the *Documento di Programmazione Economico-Finanziaria per gli anni 2007-2011*, a “new address for the political economy” is mentioned. The new address was therefore concentrated on development frontline, renovation frontline, and equity frontline.
For what concerns the discussion at the supranational level on the European policies implementation, Italy’s stakeholders had insisted on two crucial aspect, method and merit. Worried about the Parliament role, in *La partecipazione dell’Italia all’Unione Europea – Relazione programmatica 2013* it has been underlined the enhanced involvement of the European Parliament in the European decisions. The banking union has been another core issue according to Italian preferences, specifically during 2014 European Presidency.

Summing up, Italy has an historical involvement in the European project, both on the political side and the economic one. Italian participation to the EMU could be defined as “cyclical”, according to all the different phases and the involvements in the monetary policies. This has been of course linked to the political economy structural imbalances that Italy had to tackle with.

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THIRD CHAPTER

The Italian choice on fiscal and monetary policies

<< I finally know what distinguishes man from the other beasts: financial worries. >>

J. Renard

3.1
Preliminary remarks

3.1.1
Introduction

In order to pursue the analysis of the Italian preferences on the European Monetary Union, the present chapter aims to provide an analysis of another dimension of the Italian domestic political economy, i.e. the fiscal realm. Thus, the investigation that will be developed in the following pages mainly deals with proposed and implemented provisions in the fiscal sector, these are the policies on deficits and debts. In the effort to build a comprehensive general framework, an introduction will be provided to the Italian monetary policy in the period considered.

It the previous chapter it has already been explained and discussed the fact that the European Monetary Union mechanism consists of provisions on inflation policies. To this purpose, it was Maastricht Treaty that directly dealt with the introduction of some directives. By setting several burdens, the 1992 Treaty fixed the burdens within which Eurozone States should have to keep their inflation paradigms. The Maastricht Treaty, as well as the Treaty of Rome, represents one of the provisions that entrusted Europe with the role of controller on Member States fiscal policies. Even if fiscal policies are still listed among the competences of the EU Member States, since 1992 the European Union has continuously provided its legislation body with enforcements of economic and fiscal coordination rules in the European Monetary Union frame.
Intuitively, the path toward the monetary Union entailed a series of reforms that profoundly impacted on the domestic national economic and fiscal systems.

Financial markets perform a central role in the monetary policy transmission. In practice, they are the means through which the initial stimulus on economic policies recommendation and check is given. Hence, the relevance of a broad analysis of financial policies lies exactly in the possibility to better understand the Italian preferences in this field concerning the European Monetary Union. Moreover, balance sheet policies and fiscal provisions are considered as the best options to influence consumers' and producers' behaviour [Vitali 2010]. Indeed, fiscal and balance sheet policies still represent nowadays a pivotal stabilization instrument for EMU economies.

As for the previous chapter, nation States have held specific preferences towards the implementation of the European monetary policies also for

what concerns the discussion on fiscal policies. Specifically, according to internal conditions and institutional concerns, Italian choices on the EMU have been also due to the puzzling internal fiscal conditions.
This chapter will be structured broadly following a chronological order. Therefore, each paragraph will deal with specific periods from 1992 on. In particular, herein it is intended to keep the focus on those periods that have been more meaningful for Italian fiscal policies preferences and choices in the EMU frame.

Before starting the study of Italy's fiscal policies preferences, it is appropriate to provide an overview of fiscal provision development in the broader context of the European Union since 1992. This is necessary in order to clarify what have been policy preferences have been at the higher institutional level, given that the European directives are an essential part of Italian fiscal history and legislation.

3.1.2
European economic financial history before Euro

In the 1990s, while the USA power started to regain its international role as a leading guide of the worldwide economic and technological innovations, the European Community has been integrated with the European Union. This shift was symptomatic of the member States' willingness to undergo broader structural changes in order to consolidate European integration. Indeed, the new challenge that European States were tackling with was the creation of a unique monetary area characterized by a European common currency. This project had been preceded by the launch of massive fiscal consolidation programs, which were expected to have consequences on the overall growth performances of the area.

The EMS[70] had immediately been subjected to attacks in the financial markets because of various problems. Indeed, EMS was at its initial stage, moreover some structural differences existed among the European Member States' economies, and States were at different degrees of macroeconomic convergence. In few weeks, the violent speculation led to the collapse of the European agreements on exchange. Moreover, the achievement of the full capitals mobility in Europe in 1990 - that made France and Italy completely abolish border controls - was an additional determinant reason for the crisis to sharpen. Another wave of euro scepticism and financial markets problems for EMS had been the unpredicted negative result of Danish referendum on the euro, and the uncertainty on the results of the French referendum. The speculative attack hit all the currencies in the European Monetary System.

In 1994, most of the European countries recovered and profited of the positive effects of the *new economy*[71] expansion. European States underwent the transformation of their economic system some years after the USA did. The causes of this gap can be found in the structural difference between the two regional integration systems: while the United States enjoyed a fully integrated economic system, the European States were at the very beginning of their economic integration path. The weight of the difficulties over the European social model was heavy and it is one

[70] European Monetary System. It had been introduced in 1979 under the Jenkins European Commission period.
[71] "New economy" is a term introduced at the end of 90s, defining the economic transformation started in the USA. During this period, the USA economy has been transformed from a system mainly based on the industrial/manufactory sector to a system based on high technologies, namely the ITC (information and technology sector).

of the factors that still negatively affects the area. These difficulties have to be considered together with the depressive effect of the fiscal consolidation plan that was undertaken by some of the European countries.

During those years, European institutions and policies influence on Member States' economy increasingly expanded. Indeed, in the second half of the 1990s it can be distinguished a precise strategy for growth and employment, developed in the Processes of Luxemburg, Cardiff, and Colonia[72]. Moreover, in 1997 an important provision for the harmonization of European countries' economics was agreed upon: the Stability and Growth Pact (SGP).

For what concerns those years' budgetary situation of European Member States, it is possible to consult the chart 3.1. It provides a year-by-year outlook on the budget balance from 1991 until 1997. Among the other data provided herein, another important measurement to take into account is the gross debt amount. As the evidence suggests, throughout the analysed period, both budget balance amount and gross debt one underwent a considerable diminution.

3.1)

Table 1 Fiscal developments in the euro area, 1991-1997

(as a percentage of GDP)

	1991	1992	1993	1994	1995	1996	1997
Budget balance	**-4.6**	**-4.8**	**-5.6**	**-5.1**	**-5.1**	**-4.3**	**-2.6**
Cyclical component	1.0	0.6	-0.6	-0.4	-0.3	-0.5	-0.3
Interest payments	5.0	5.5	5.6	5.4	5.6	5.7	5.2
Cyclically adjusted primary balance	-0.6	0.1	0.6	0.7	0.8	1.9	2.8
Gross debt	**58.6**	**61.9**	**67.2**	**69.5**	**73.0**	**75.4**	**75.4**

Source: European Commission, autumn 2003 (AMECO database). Cyclically adjusted figures based on Commission methodology.
Note: Figures may not add up due to rounding. [73]

[72] Respectively: the European Councils of 1997, 1998, and 1999.
[73] The chart has been taken from the article *EMU and the conduct of fiscal policies* in European Central Bank Bulletin (January 2004), page 43.

The aim of Amsterdam Council - during which the SGP had been approved - was to encourage Member States throughout the adoption of a correct and sustainable balance-sheet policy, in order to be admitted to the third phase of the European monetary integration.
As stated in the summary of the Amsterdam Act (17 June 1997):

> << The Member States undertake to abide by the medium-term budgetary objective of positions close to balance or in surplus. In addition the Member States:
> - Are invited to make public, on their own initiative, the Council recommendations made to them;
> - Commit themselves to take the corrective budgetary action they deem necessary to meet the objectives of their stability or convergence programmes;
> - Will launch the corrective budgetary adjustments they deem necessary without any delay on receiving information indicating the risk of an excessive deficit;
> - Will correct excessive deficits as quickly as possible after their appearance;
> - Undertake the commitment of not invoking the exceptional nature of a deficit linked to an annual fall in GDP of less than 2 % unless they are in severe recession (annual fall in real GDP of at least 0.75 %). >>

On January the 1st 1999, eleven European countries started the European Monetary Union. Within it, new institutions have been created in order to coordinate the monetary policies, and new balance sheet rules have been introduced in order to guide and rule the participating countries.

The new millennium started with major turnovers. The first one was the rising of USA economy; the other one lied in the entry of two developing countries in the global game, namely India and China.

At the European regional level, launching the European Monetary Union entailed for the Member States a final transformation of the way national political economy had been conducted until that time. In fact, the structure of European States' political economic strategies changed itself. Indeed, during the previous decade European States' efforts were all intended in respecting the convergence criteria, as the aim was the integration. Starting from the introduction of EMU, the European policies strategy was reorganized. To be more precise, efforts were mainly directed to the goal of economic development, aiming at harmonizing it with the sustainability of public finances.

> << European Union Member States must actuate their economic policy accordingly to the directions approved at the European Council (as suggested by the European Commission). These policies aim to achieve the Community objectives, through the coordination of different provisions (articles 98 and 99 of EC Treaty, as modified by 1997 Amsterdam Treaty). To this end the Council monitors the economic policies evolution of each State. In the case which implemented policies are not coherent with the issued indications, the Council will provide States with the necessary recommendations. >>[74] [*Documento di Programmazione Economico-Finanziaria per gli anni 2002 – 2006,* p. 5].

More specifically, the European strategy was articulated on two levels. On the one side, it was necessary to sustain the introduction of the common currency throughout the enforcing of fiscal discipline and the full efficiency of the Stability and Growth Pact; on the other side, they intended to pursue the economic development through the activation of

[74] Translated by the author.

the Lisbon Agenda and of the Broad Economic Policy Guidelines (BEPGs)[75] tools [Crescenzi 2007].

For what concerns the budget constraint, its basic principle is the one according to which the *conditio sine qua non* to guarantee economic growth is due to the maintaining of public accounts in line with the budget balance. These provisions should have been helpful in stabilizing the expectations of economic agents. Indeed, the core problem was the necessity to shelter the newly born European Monetary Union from international financial markets speculative attacks. Therefore, the logic on the budget constraints was introduced in the effort to establish the unique European currency as a strong and competitive coin.

Moreover, the conception of the budget constraints was in line with the EMU construction as a *sui generis* institution. Actually, one of these exceptionalities lied in the fact that, although monetary policy provisions are unique for all the Eurozone states and the European Central Bank is the competent institution, Member States have been designated as the ones in charge of balance sheet policies ruling [Crescenzi 2007]. As it will be more extensively commented in the concluding remarks, the EU institutions rule the coordination of fiscal policies, but the European States still have the final word on it. This represents still a major issue for what concerns the European Monetary implementation.

[75] BEPGs formulate the general guidelines for economic policies, that is general recommendations for the combination of the European countries, together with specific directions for each of them.

3.1.3

European States in the European Monetary Union

On March 2000, European Council was held in Lisbon. As long as it constituted a crucial turnover for what concerns a consistent number of provisions, when it comes to financial matters, Lisbon changeover was not expected to have a substantial impact on the inflation levels of the Eurozone. As it has been considered in the ECB monthly Bulletin[76]:

> << On 1 January 2002, the euro banknotes and coins were introduced and all prices in the euro area were converted into euro. Concerns have been raised by the public that the cash changeover could have triggered general price increases, starting already in 2001, as companies may have tried to increase profit margins by rounding up to new "attractive" euro prices. Furthermore, firms may have passed on costs related to the changeover to consumers. In recent months, consumer organisations and the media have reported examples of individual price increases interpreted as being euro-induced, i.e. resulting from the change from prices in legacy currencies to prices in euro. However, the euro cash changeover is not expected to have a significant impact on consumer prices at the aggregate level. Over a longer horizon, downward price movements should dominate, as the physical introduction of the euro will further strengthen competition in the euro area. >>

Therefore, the expected effects of Euro introduction on European economies were ambitious. More in detail:

> << General considerations, as well as available empirical evidence, suggest that the **risks of a significant upward impact on consumer prices should remain rather limited**. First of all, competition in most markets in the euro area seems to be strong enough to limit any upward rounding. Moreover, downward rounding of prices is also likely. In fact,

[76] *European Central Bank monthly Bulletin*, January 2002, page 24.

several euro area companies have taken the cash changeover as an opportunity to **reduce prices** in order to attract new customers and **increase market shares**. Second, the cyclical slowdown in euro area demand has also limited the scope for price increases. Third, **consumers and consumer organisations have been vigilant and are monitoring the situation closely**, also helped by the dual display of prices, making it more difficult for retailers to raise prices. Fourth, several items in the consumer price index should remain largely unaffected by any rounding, as psychological price-setting is less common for them, e.g. petrol, or they are contractually fixed, e.g. rents. Lastly, all **central governments have ensured that the conversion of prices, charges and fees administered by them was price-neutral or smoothed in favour of the consumer**. Local governments have been requested to follow this example. >> [*European Central Bank monthly Bulletin*, January 2002]

In fact, policies directed to the harmonization of the Euro countries toward the unique currency introduction seemed to bring about their effects. The cash changeover produced a steady fall of the overall inflation values in the Euro area in terms of the Harmonised Index of Consumers Prices (HICP). Moreover:

<< […] By monitoring closely the price dynamics of selected consumer goods that are usually offered at attractive prices, these institutions and bodies [*The Eurosystem and consumer organisations*] have tried to estimate the actual impact of the conversion of prices into euro. Although these exercises have confirmed the evidence of **euro-induced price increases for some specific products in individual countries**, these changes have been negligible in terms of their effect on the overall HICP in the individual euro area countries and in the euro area as a whole. In this context, it should be stressed that **the identification of changeover effects is not straightforward**. Any price changes might be due to either the changeover (i.e. rounding of prices or the pass-through of changeover costs), or they might reflect

> a change in other cost factors (e.g. wages or import prices) or a change in profit margins.
> […] However, even if these **price changes** were to be individually significant, **it is not expected that they would have a strong impact on aggregated price developments** in the coming months.
> In conclusion, any upward effect on **prices stemming from the cash changeover should be limited** mainly owing to strong competition in euro area markets, the subdued demand situation and consumer vigilance. However, **some uncertainty is still attached to this assessment** and a clearer picture will emerge in the months to come. Nevertheless, any possible upward effect on prices will be of a one-off nature, while **from a longer-term perspective, the introduction of the euro will increase price transparency across the euro area, which should encourage arbitrage and strengthen competition**. Lastly, the permanent gains in terms of **reduced transaction and information costs are expected** to outweigh the one-off costs of the changeover, which should ultimately benefit consumers.
> >> [*European Central Bank monthly Bulletin*, January 2002]

Nevertheless, empirical evidence demonstrates that the introduction of Euro banknotes and coins that has followed the completion of European Monetary Union third phase was accompanied by an increase of the perceived inflation rate. Moreover, the sudden change from the national currency to the euro entailed some speculative movements leading to the penalization of employees' wage amount. However, if broadly considered, the changeover can be regarded as successful. The functioning of the new supranational institutional system required a strict respect of European engagements for what concerns public finance policies.

In 2000, the fifteen European Union member States adopted an *ad hoc* strategy that aimed at making the European economy the most competitive at a global level in a ten-year period. The strategy supplied in order to achieve this result was individuated in strengthening employment policies, promoting economic reforms, and sharpening social cohesion. The context within which these improvements would have been situated was a “new economy” scenario based on knowledge and investments on human capital. By 2010, Europe should have reached the following main objectives: European employment rate should have been amounted to 70%; female participation to labour market should have been equal to 60%; rapport between EU overall investments expenditure and GDP should have been counted to 3% at least [Crescenzi 2007].

The involvement in the economic strengthening strategy was not discouraged by the failure of the Constitutional project for the European Union. Indeed, the Member States still aimed to deepen and strengthen the Union, even if throughout a less ambitious design. Faltered the Constitutional Treaty, a “Reform Treaty” amended the pre-existing Treaty unifying the three pillars of the EU and leaving two documents, which are the Treaty on the European Union and the Treaty on the functioning of the European Union. The Euro asserted itself as a strong and stable currency, both on internal and international markets.

The strength of Euro currency was tested in 2008, when major financial turnovers occurred in the aftermath of the subprime crisis exploded in the USA. It inevitably involved also the European commercial partner. In a context where the global economic and financial perspectives were deteriorating, the efforts in order to tackle with the emergency situation proved to be substantial. Indeed, both States’ efforts and international organizations’ ones were mainly directed to overlook both international financial system criticalities and their consequences on national internal markets.

At the European level provisions in order to face the crisis were stringent. The Stability and Growth Pact, already implemented in 2011 and 2013 with some enhancements[77] has been revised in 2014.

Nowadays leftovers of the financial crisis keep on struggling the Eurozone countries. However, the delay in handling with a solution of financial diseases has to be explained also with the lack of unique financial policies coordination at the European institutional level. This is mainly due to the fact that convergence among Euro countries is still a work in progress. Another troublesome issue in the perspective of a complete harmonization of European States' fiscal policies is that real growth and inflation rates are still divergent within the Union.

3.2
Italy's fiscal preferences: an outlook of the first decade in the Maastricht Treaty

3.2.1
Italy's fiscal distortions in the nineties

From the fiscal and economic perspective, 1992 and the coincident effective date of Maastricht Treaty entrance are a period of great difficulty because of 1991 – 1993 recession. In fact, the speculative attack was caused by the international financial crisis, which made the Italian

[77] On 2011 the SGP has been implemented with a collection of new laws known as "Six Pack"; on 2013 SGP has been further strengthened with the adoption of "Two Pack" provision and a set of budgetary targets known as "Fiscal Compact".

currency extremely weak on the monetary market. Financial uncertainty was expected to have enormous negative consequences on other aspects of Italian economy. The emergency was defined by even more worrisome characteristics. Indeed, those years corresponded with the period of Maastricht Treaty implementation.

> << The evolution of public accounts does not match with the conditions to proceed with European monetary and economic unification […]. Our country denounces growing difficulties with regards to the governmental fiscal policy manoeuvre in order to respect the parameters required for the full participation to EMU. Then it is not rhetorical to talk about an emergency>>[78] [*Documento di Programmazione Economico-Finanziaria per gli anni 1993 – 1995*]

This exceptional situation pushed the Amato cabinet to adopt an extraordinary financial budget in September 1992. This provision aimed to correct the potential trend for about 93.000 billion of lira. For 1993, it was expected a progressive loosening of monetary policy. The exceptionality of 1993 operation can be explained by analysing two of its general characteristics. On the one hand, it represented a great innovation in the fiscal policies field because for the first time there were introduced structural measures for the main sectors of public expenditure. On the other hand, the exceptionality of Amato's monetary manoeuvre was its great quantitative dimension [Crescenzi 2007].

In 1994 the Berlusconi cabinet foresaw in the *Documento di Programmazione Economico-Finanziaria per gli anni 1993-1995* an incisive reform in the fiscal field. However, as it can be read in the above-mentioned Document:

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[78] Translated by the author.

> << This Government pursues the objective to maintain unchanged the taxation pressure until a real fiscal reform will be agreed on. It should be based on the principles of federalism (from the centre to the periphery), efficiency (from direct taxes to indirect ones), and transparency (from the aggregate to the basic). Specifically, the pressure could start to decrease when a well-structured reform will be implemented, which will be able to remove stickiness factors that rendered excessive public expenditure until now. >> [*Documento di Programmazione Economico-Finanziaria per gli anni 1995 – 1997*, page 36]

However, the measure envisaged by Treasury Minister Dini in 1994 did not succeed in achieving the recovery of Italian financial and economic status.
1996 was set as the ultimate date for the Italian lira to return to respect EMS criteria of exchange rate stability decided at Maastricht, no matter the conditions in which State finances would have been. Therefore, it represented also the deadline for Italy to be included in the Euro currency countries group. On November of that year, lira had finally been realigned on European parameters. It had been possible to ultimately reach the alignment by taking advantages of the fluctuation band of the central rate.

The period of Italian economy stagnation lasted until 1997. These years were characterized by negative and then zero employment growth. However, by 1997 the financial situation got ameliorated and started even to improve. Indeed data show that the inflation rate, which during the early nineties was stationary at 6%, went through a progressive decrease in the second half of nineties, stabilizing itself at 3.6% in 1996.

3.2)

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During the second half of nineties, together with the uprising of the international cycle, the general economic situation drifted enhancing progressively. Moreover, the accounts with the rest of the world ameliorated too: the current balance, which was positive in 1993, kept rising. This constant boost made possible to reach at the end of the decade a net active position with foreign, equal to 4.5% of GDP. In addition, inflation continued to decelerate positioning itself on 2% [Crescenzi 2007].

Thanks to the recovery program started in order to realign Italian economy with foreign accounts, collecting the revenues of the current account surplus allowed Italy to cancel the foreign net debt. Indeed, at the end of 1997, Italian foreign net position was again slightly positive. Foreign net position of Italy kept on growing. These values gave Italy the chance to afford a positive influence on the assets of European Union

[79] Italy's inflation rate in the period from latest 1960s until nowadays. Source: ISTAT (National Institute of Statistics as reported by http://www.tradingeconomics.com/italy/inflation-cpi. Consulted on August 2015.

current accounts. It proved to be another demonstration of the financial structural adjustment Italian economy was undergoing.

Until final years of the nineties, the Italian Parliament policies address was set in order to uphold with the implementation of policies on the conversion of State's role in the economy. This political economy address aimed at endorsing the transition of Italy's economic system toward a more competitive and compliant with the other EU economies one.

> << In a context of an orderly development of economic system, centred on its opening up to markets, on competitiveness and on deregulation policies, the State is no more entailed with the management of entrepreneurship activity. Rather, it has to address and control market rules in order to avoid the insurgence of any kind of monopoly. If a definite normative frame will be set, directed to liberalization policies, disinvestments introduce: in the markets, new concurrency and competitiveness factors; among the operators, more clearness in the relations and more investments occasions; in the society, an improved level of investors pluralism. >>[80] [*Documento di Programmazione Economico-Finanziaria per gli anni 1998 – 2000*, page 84]

Even if at the end of the decade the process on privatizations was not concluded, it anyhow reached some good and positive results, introducing also some benefits for what concerns public finance.

> << Privatization returns have a relevant role because by contributing to debt reduction with regards to GDP, they facilitate the convergence of public finance parameters in the direction of Maastricht Treaty. Disinvestments returns are not utilized to finance State requirements, but they are saved in the public debt amortisation Fund to be then invested in the acquisition of circulating State's bonds and to their repayment term. >>[81] [*Documento di*

[80] Translated by the author.
[81] Translated by the author.

> *Programmazione Economico-Finanziaria per gli anni 1998 – 2000*, page 85].

3.2.2
The balance sheet policy: the third pillar

The third pillar set by Italian policy makers and finalized to Italian accession in the EMU was individuated in the balance sheet policy[82]. Reassessing the way by which Italian balance sheet was managed was a required step toward the harmonization of our economy on other European States ones and, most importantly, to align with Maastricht requirements. The reform of national balance sheet aimed to produce a structural change in Italian economy. The final goal of this measure was to accelerate the process leading to the adoption of the unique currency. Indeed, after 1992 speculative attack, Italy was tackling with a financial emergence. In spite of the precarious economic situation, Italian policy-makers did not discard the European Monetary Union project. On the contrary, pursuing the European blueprint was felt as an essential and obliged choice by Italian governors:

> << However, it has also augmented consciousness on the fact that the path toward the economic and monetary Union is irreversible choice for all the countries. Moreover, the creation of a European monetary stability area is an essential requirement for its economic development. >>[83] [*Relazione Provisionale e Programmatica per il 1996*, page 176]

[82] A broad explanation of the three pillars policy aiming at adjusting Italian economy according to the EMU entrance is given in the second chapter, from page 83 to page 85.
[83] Translated by the author.

On 1996 the situation was not ameliorating in any sense, so another manoeuvre was decided for the following year, in order to achieve net debt/GDP amount inferior to 3%. Prodi cabinet[84] adopted the so-called "taxation for Europe", which applied some extraordinary provisions on the revenue side.

At the end of the whole Italy's economy reassessment period, efforts made by the Italian government were finally acknowledged by the European Commission, which foresaw Italy's deficit/GDP relation for 1997 amounting to 3.3%, while the expected value measured 6.6%. The content of the provisions for spring 1997 estimated a deficit/GDP relation corrected for even lower levels than the ones that were resulted by the first set of estimations (amounting to 3.2%). In the autumn of the same year, deficit/GDP measure collocated itself at 3%. The objective was finally reached [Crescenzi 2007].

The success of the manoeuvre can be attributed also to an improvement in the financial sector management. Indeed, if until first years of the nineties the principal strategies to get over financial problems were basically all based on fiscal pressure augmentation, starting from 1993 an expenditure rationalization policy was launched. Structural reforms were introduced in the main national public sectors, as social services, healthcare, public employment, and transfers to decentred authorities.

> << Fiscal adjustments, even if in limited imports, have continued the long rationalization expenditures path, involving also those of administrative apparatus functioning. The objective has been to render more efficient public administration work. >>[85] [*Documento di Programmazione Economico-Finanziaria per gli anni 2000 – 2003*, page 17]

[84] Romano Prodi's first mandate as President of the Italian Council lasted from May 1996 until October 1998.

[85] Translated by the author.

Therefore, the action on public accounts of 1991-1997 years has represented a strong discontinuity factor in the finances management. More impressively, it was a definitive step toward the correction of Italian economic situation. The net financial policy turnover has been led trough a virtuous combination of the augmentation of primary surpluses on the one side, and abatement of interests' expenditure on the other. This action stood for a decisive step in allowing Italy to join EMU. However, the results did not seem to be durable because "not fully structural"[86]. Indeed, by analysing 1998 public account trend, it appears that even in the frame of the corrective manoeuvre strategy, the primary surplus was reduced in the amount of 1.5 percentage points. Moreover, the outcome of the whole consolidation policies was not as satisfactory as it might have seemed in a medium-long period perspective. In particular, starting from 1997 the adjustment was pursued both through fiscal pressure and the reduction of public investments [Crescenzi 2007]. This sort of policy proved to have depressive effects in the long-term Italian economic overall context.

In 1997, the turnover occurred in Italian financial history appeared more likely to be an illusion, to the extent that that the financial reforms introduced at that time proved to be unsustainable in a medium-long term perspective. If from one point of view 1991-1997 corrective measures seemed to be decisive in order to adjust national public finances, from another more realistic perspective, the problem of consolidating and keeping those results in the long-term period imposed itself.

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[86] Franco 2005 in A. Crescenzi, *I Documenti di Programmazione. Una lettura della politica economica in Italia dal Piano Marshall al DPEF 2008 – 2011*, page 328 LUISS University Press (2007)

While Italy was struggling in the effort to find and implement policies that could have been helpful in the reduction of its public debt, at the European supranational level another initiative started that period. This initiative was based on a financial reinforcement of Maastricht fiscal provisions and it has to be inserted in the frame of the third stage of the Monetary Union building. It was Stability and Growth Pact, which introduction consisted of an operational clarification of the 1992 Treaty budgetary rules.

Broadly speaking, it introduced a more stringent procedure for the management of national public finances.

3.2.3
Introduction of the Stability and Growth Pact

A protocol contained in the Maastricht Treaty arranges a specific procedure for what concerned excessive deficits. Actually, it represented an operational clarification for what concerned the realization of the third step of European Monetary Union creation.

> << The Stability and Growth Pact requires member States to aim for the medium-term budgetary objective of position close to balance or in surplus and lays down procedures for the surveillance and the coordination of fiscal policies. It also defines the excessive deficit procedure in more detail. >> [*EMU and the conduct of fiscal policies*, European Central Bank monthly Bulletin (January 2004), pages 41-42]

Among the other rules mentioned in this document, and for what concerns deficit/GDP relation 3% threshold, some conditions are listed in order to distinguish cases in which it is allowed to override 3% limit. The three of them are: exceptionality, temporality, and the proximity to the reference parameter[87]. However, the Treaty is not specific on what are these cases and how to define them. Therefore, to give a definition of the three cases above mentioned, an interpretation of the first two parameters had been given in the Stability and Growth Pact introduced in 1996 and signed by the Amsterdam European Council in 1997.

The Council proposals considered establishing the Stability and Growth Pact through two juridical instruments. The first one was a Council regulation on the supervision and coordination enforcement of each country's balance sheet positions based on article 103 of Maastricht Treaty. The second one was a Council regulation on the acceleration and on the clarification of fulfilment modalities for the realization of excessive deficits procedure, as set in article 104c of the Treaty.

The *ratio* by which SGP was introduced was that financial markets signals are far too instable and too weak to be taken into consideration by governments. Hence, a common fiscal framework for the countries participating to the European Monetary Union could have helped to correct political-economic biases and supplement the dissuasive effects of market forces.

The Maastricht Treaty had already introduced some fiscal provisions in order to harmonize European Monetary Union countries. Actually, the review of fiscal policies in the euro area showed that there was a serious degree of progress in the strengthening of the sustainability of public finances. However, the levels of progresses in the harmonization of fiscal conditions in the EMU area were still far too different among the States. This could have been a problem for the implementation of the monetary

[87] Article 4 of the Protocol to Maastricht Treaty as mentioned in *I Documenti di Programmazione. Una lettura della politica economica in Italia dal Piano Marshall al DPEF 2008 – 2011* A. Crescenzi LUISS University Press (2007), page 334.

Union, the SGP introduction aimed to make States attaining Maastricht targets under the EU fiscal framework.

Therefore, the new Pact actually introduced some strict limitations on States' autonomous choice on political economy. Indeed, it submitted Euro countries to firm rules. Among the others: in cases in which the deficit or debt criteria are exceeded, economic sanctions will be provided. Sanctions amount might be from a minimum of 0.2% to a maximum of 0.5% of GDP. Another provision is the one that charges the European Commission with the duty to monitor States public accounts. In cases of excessive deficit a notification to Ecofin is sent, which then gives to the State a ten months period in which it has to recover its accounts. If it does not, Ecofin will sanction the State. Sanctions are deposited in a not interest-bearing account. The down payment is lost if, at the end of the two-years period, the State has not aligned its account.

The other principal modification that the Stability and Growth Pact instituted regards a specification on the implementation on fiscal policies. The Pact specifically addresses to the governmental authorities fiscal action as a means to realize the balance-sheet medium term equilibrium. This is a provision that was not explicitly indicated by the Maastricht Treaty [Brandimarte, Leproux & Sartori 1998].
Rules introduced by the Stability and Growth Pact are considered controversial. They have been contested by some Italian economists because of they wandered from Maastricht Treaty disposals. Among the others, Nobel Price Franco Modigliani highlighted the alarming consequences of those modifications of the Maastricht Treaty and, more generally, of the European Monetary Union. He denounces that: <<In Europe everything is controlled by the Bundesbank, which imposes the

unique policy of currency. This is totally wrong and provokes constantly an augmentation of European unemployment. >> [88].

However, all the European Monetary System countries faced some problems in respecting the obligations of the Stability and Growth Pact, as they were experiencing low rates of growth. Low levels of growth negatively affected both the entry and the expense sides, determining a growing pressure on the public balance. In this context the SGP had a negative impact on growth, by forcing the abandon or the limitation of the balance sheet policy instrument in order to pursue cyclical stabilization. This is truer for Italy[89]. These problems led in 2005 to modify the Stability and Growth Pact [Crescenzi 2007].

3.3
The second decade in the European Monetary Union (2002 - 2012)

3.3.1
Compliance with Euro rules

The introduction of Euro currency in Italy, as well as for the other countries participating to the single European Monetary System, provided a real challenge for the fiscal policies implementation. In the first years of 2000 the objective is to reconcile the financial rebalancing goal with the development one. Complying with the set of rules provided by the

[88] As reported by Angelo Polimeno in *Non chiamatelo Euro. Germania, Italia e la vera storia di una moneta illegittima* Mondadori (2015), page 89. Translated by the author.
[89] *Ibidem* page 143.

excessive deficit Procedure and the Stability and Growth Pact became central in managing balance sheet policy of our country. Indeed, the principal objectives of the governmental action are to guarantee the respect of balance sheet commitments, and to pursue a structural reforms program, which aim to increase the growth potential of Italian economy [*Documento di programmazione Economica e Finanziaria per gli anni 2002 – 2006]*.

The negative phase of the economic cycle and the following phase of semi-stagnation imposed to Italian government a thoughtful consideration on modalities and instruments in order to simultaneously reach the balance sheet and the development objectives. Italy made serious attempts to get to these results because of the high amount of debt/GDP relation, which actually was 40% higher than Germany or France ones [Crescenzi 2007].

To come up with a lower level of trade-off, the government adopted some instruments that anyhow did not satisfy the expectations.

> << Given the high public debt level, the Italian State owns a considerable material and immaterial property. However, just a minor amount of this property is recorded in the general Account of the State property. For example, there are not considered intangible activities as concessions, rights of use, new properties, and part of the public real estate property. Moreover the recorded property, which includes financial activities and mobile and immobile goods, is always priced to historical prices and not to market ones. The principal consequence of this characteristic is that, while the State passive balance is all about the market, the patrimonial active is in it just partially. […] Therefore, from the estate management the State

obtains moderate, zero, or even negative outputs. The actual public accounting and management system neither guarantee, nor favourite, an economic use of the property. Then, it is necessary to actuate a system reform, directly operating on mechanisms that stand upstream. >>[90] [*Documento di Programmazione Economica e Finanziaria per gli anni 2003 – 2006*, pages 79 – 80]

Beside of the implementation of a policy to finance public infrastructures by the constitution of *Infrastrutture SpA,* which was qualified as a financial intermediary, another implemented instrument for the balance sheet management was securitisation.

In 2001, public finance conditions underwent an expansive phase. During 2001, provisions on the net debt have been revised many times. Specifically, from April onwards the Government has actuated some manoeuvres in order to restrain the expensed on the acquisition of goods and services, to accelerate the public real state selling, to stipulate agreements with the regions on health issues, and to relaunch the economy. In the summer of the same year, improvements on financial requirements were evident.

The ruling government[91] confirmed Italian commitment toward European rules, deciding to introduce in the years 2002 – 2003 temporary measures (the so-called "one – off" measures) in order to reduce the net debt without affecting growth with depressive effects.

<< The action of the government cannot develop itself in the form of a violent public finance "manoeuvre" being this either fiscal (taxes increase) or "social" (cuts

[90] Translated by the author.
[91] At that time led by S. Berlusconi. It lasted from June 2001 until April 2005.

> on pensions funds, healthcare funds, etc.). This is so because such a manoeuvre would produce regressive effects, opposed to the ones hoped for. >>[92] [*Documento di programmazione Economica e Finanziaria per gli anni 2002 – 2006, Sintesi e Conclusioni*, page X]

3.3.2
2006: financial positive turnovers

After the five-year period of stagnation, in 2006 Italian economy showed some recovery signals[93]. Economic positive data created an increase of governmental actions credibility. By its side, Italian Government committed itself in a series of initiatives aiming at the promotion of the economic growth and at the credibility of Italian markets.

During 2006 public finance benefited particularly from the Government policies that were finalised to rebalance public accounts. Particularly, these modifications involved Public Administrations expenses redistribution[94]. Given the stickiness of policies, in 2006 they estimated a progressive diminution of the net debt. The values would have led in 2009 to a GDP reduction in the amount of 2.1%. However, as reported in the 2006 *Relazione unificata sull'economia e la finanza pubblica*:

> << These data not only permit to fully respect July 2005 Ecofin Council Recommendation, but also set the conditions to ameliorate the path toward the balancing of the balance sheet. It has to be achieved by 2011. However, the accounts rebalancing cannot be considered

[92] Translated by the author.

[93] GDP value increased of 1.9%, according to the *Relazione unificata sull'economia e la finanza pubblica* published by the Italian Treasury Ministry in 2006.

[94] The net debt of Public Administration in 2006 amounted to 4.4% of GDP, while the previous year amounted to 4.1%. However, as the *Relazione unificata sull'economia e la finanza pubblica (2006)* reports, the 0.3% augmentation is due to IVA reimbursements on company cars, and the State credits cancellation on high-speed trains company (page 2).

> accomplished yet, and in the coming years more efforts will be necessary in order to keep on with the diminution of public debt. The rebalancing plan has been decided in the last *DPEF*, which foresaw a reduction of less than 100% of the debt/GDP relation by the end of the legislation. >>[95] [*Relazione unificata sull'economia e la finanza pubblica 2006*, page 2].

However, estimating public accounts trend is never a simple activity. Indeed, Italy could possibly faced some risks those years regarded the uncertainty that each year weights on self-taxation, or on financial exigencies that are linked to the acceleration in the infrastructures realization.

Minister Padoa-Schioppa, in giving his advice on 2006 *Relazione unificata sull'economia e la finanza pubblica,* commented:

> << 2006 positive economic and financial results, and the perspectives for the forthcoming years confirm that Italy exited from the public accounts emergency. At the same time, they make some people believe that the existent boundaries to the Government action disappeared. According to them, resources have unexpectedly become so abundant that it is possible to largely increase expenditure amount and to reduce taxes. **Differently from the past year, it is no more a matter to avoid an imminent problem, but to govern a success.** […] The evaluation of available resources and the new initiatives have to be studies simultaneously, being aware of data on public finance and on the economic system.
>
> We have not to turn the avoided coming danger into a lost occasion. An optimistic estimation of the extra entries on which we can lean, make us believe that they amount to 8 – 10 billions, corresponding to 0.5 - 0.7 GDP points. However, it is necessary to be aware of the fact that according to the European commitments, **Italy**

[95] Translated by the author.

> **has to adjust its deficit of 0.5% of GDP.** This practically amounts to 7.5 billions. >>[96] [*Relazione unificata sull'economia e la finanza pubblica 2006,* page 3].

Equity and the European commitment were identified as the main goals to get to that period. In the 2007 *Relazione unificata sull'economia e la finanza pubblica*, these two elements were considered as central in the Government policies implementation. Particularly for what concerns the European commitment, they practically signified to reach financial sustainability.

> << Even before Brussels, [financial sustainability] is imposed by the fact that without account equilibrium there are neither growth, nor equity. Therefore, the bound has a double meaning and concerns both the deficit and the debt. By the end of the legislation we have to cancel the structural balance sheet deficit, rebuild a primary advance that amounts to 5%, and to bring public debt to values fewer than 100% of GDP. >>[97] [*Relazione unificata sull'economia e la finanza pubblica 2007*, page 11].

Moreover, the Stability and Growth Pact required the Italian government to apply a procedure on excessive deficits. Indeed, it imposed a relation debt/GDP of 2.8% by the end of 2007 and required to effectuate a deficit structural correction of 0.5 GDP percentage points through the 2008 Financial Law. The recommendation came from the Ecofin Council and Italy seriously considered respecting these values, as Germany and France did to avoid the special surveillance procedure provided by the Stability and Growth Pact[98]. Indeed, the conclusion reached in order to respect these requirements was to employ all the available resources in the years

[96] Translated by the author.
[97] Translated by the author.
[98] As briefly explained in this chapter at page 132 and followings.

2007 and 2008 to rapidly achieve the balance. To achieve this objective it was considered necessary to activate an expansive manoeuvre. It demanded the employment of most of the resources for expenses increase or entry reductions, with the compliance of Brussels authorities.

However positively increasing, if compared to Maastricht requirement Italian public debt dynamic in 2007 was not completely satisfactory. The recreation of a consistently positive primary advance proved to be an imperative action, even if difficult. Italian economic authorities realized that to reach a balance sheet squaring would have been difficult. Obstacles could come by Brussels, reluctant in granting the actuation of the above-mentioned policies to recover Italian economy. Moreover and more importantly, collected data on expected economic setting showed that the amount of gathered additional resources would remain however inferior to the total of the prospected intervention provisions.
Italian Stability Program foresaw the achievement of a primary advance amounting to 5.1% of GDP in 2011.

Provisions made in 2007 *Relazione unificata sull'economia e la finanza pubblica* for what concerns the fiscal situation showed that the more dynamic economic situation would be both the result of a positive international frame[99] and a positive domestic growth mainly led by the augmentation of the internal demand[100].
From 2007 the results of the policies on the deficit started to prove worthless. For example, the Public Administration was halved, turning from 4.2% on 2005 to 1.9% on 2007. Finally, Italy definitely fulfilled in

[99] In 2006 world economy GDP augmented in the amount of 5.3% with regards to the previous year [data from the *Relazione unificata sull'economia e la finanza pubblica 2007*, page 27].
[100] The growth consisted mainly of a contribution of 0.5 percentage points coming from investments and of 0.9 percentage points coming from families' consumptions.

respecting the boundaries with the European Union, obtaining the promotion off the excessive debt procedure[101].

However, there was the suspect that the recovery experienced during those years was merely because of the economic situation. That is to say that the upswing was an illusion because factually the structural characteristics of Italian economy were not modified, so that effectively the Italian economic growth braked [Crescenzi 2007].

> << The causes of the lowering of our economy growth rate have to be searched in the progressive **deceleration of productivity dynamic** (beside of the demographic slowdown): from the early nineties' 2.2%, to the 1% of the second half of nineties, until its thwart in the five years period from 2001 to 2005. Within a European context where there is a general reduction of the productivity, **Italy is characterized by a more marked tendency.** […] >> [*Documento di Programmazione Economica e Finanziaria per gli anni 2007 – 2011*, page 30 and followings]

In the Document, the phenomenon was linked to the progressive reshaping policy of the Italian productive system. Actually, it was carried out a reform that hit all the different sectors from the manufacturer to the services one. Also, an analysis on the delay of the development was effectuated in the Document. It explained that the delay of the Italian tertiary sector caused low efficiency levels and minor international concurrence exposition.

> << Therefore, **tertiary sector productivity growth rate resulted constantly inferior to the industry one, determining as a consequence a structural reduction of the average economic productivity.** […] The global concurrency effects have progressively undermined the development capabilities, while other internal structural

[101] *Relazione unificata sull'economia e la finanza pubblica 2008*, page 10.

factors have impeded or slowed the reallocation process toward production segments characterised by more elevated added value. This determined the "stalemate" position of Italian economy. These structural problems find their origin in the limited average dimension of enterprises and in the low inclination to the innovation. The reduction of the growth rate has been traduced in a loss of competitiveness of the country system. Moreover, this trait has undergone an accentuation in the last ten years. >>[102] [*Documento di Programmazione Economica e Finanziaria per gli anni 2007 – 2011*, page 30 and followings]

The blasting of subprime crisis from the USA that in 2007 started to trouble the markets with financial distress seemed to not disturb Italian economy.

<< In the past years, international problems hit Italy more impetuously than the other countries, giving to our one the reputation of a "crock vase". Nowadays, **thanks to the anchoring to the Euro area, we escaped from the "nominal" problems** (inflations and devaluation) linked to interest rates and exchange rates. However, **we are not excluded from the "real" problems** (low growth and productivity stalemate), linked to a productive specialization too much exposed to concurrence and globalization pressures, while the consumers' confidence is scratched by prices strong increases on main sectors (energy and food) and the producers' one is suffering from external fears (recession threats) and the internal one (political instability). >>[103] [*Relazione unificata sull'economia e la finanza pubblica 2008,* page 12].

[102] Translated by the author.
[103] Translated by the author.

3.3.3

The 2008 crisis and the change of course

> << For what concerns Italy, the consciousness on the importance of Europe and of European policies has increased during the last few years. The recent events linked to the financial crisis have definitely proved that it is far easier to deal with such difficulties all together than at a single State level. This is even more correct if the country has to tackle with high levels of public debt, as Italy does. >>[104] [*Relazione annuale sulla partecipazione dell'Italia all'Unione Europea 2008*, page 8]

As a matter of fact, to tackle with the worldwide financial crisis that blasted those years European national governments and monetary authorities intervened in a massive and coordinated way. Central banks had to inject markets with current assets, governments had to avoid insolvency of the main financial institutions. In this context, during 2008 crisis Italy was able to act coherently with the instruments agreed by the European consensus.

> << Particularly, and coherently with the other European governments, policies actuated in Italy have been directed (i) firstly to the normalization of the operative conditions of our financial system and to keep opened the credit canal on the economy, (ii) then to the reduction of the negative impact of the crisis on the Italian economy and society, which has been pursued through an amplification of the social security cushions […]. >>[105] [*Relazione unificata sull'economia e la finanza pubblica 2009*, page 14]

[104] Translated by the author.
[105] Translated by the author.

The European Commission noticed that Italy was taking the right path in facing the financial crisis. Indeed, Italian policies were respectful of the domestic public accounts structure and furthermore coherent with the European Economic Recovery Plan (EERP)[106].

Even if European authorities feedbacks on Italian economic situation were positive, from a more analytical point of view, Italian GDP on 2008 was reduced in the amount of 1.0%. However, this was mainly caused by the international circumstance.

> << Italian economy resulted to be relatively less exposed to the specific risks of the crisis, also if it has equally heavily suffered from its indirect impact. In particular, the Italian banking system appears comparatively less vulnerable to the financial crisis. Its impact on Italian banks' balance sheet is less evident than in other countries. If compared to the average of the Euro area, Italian families have a lower level of debts. Moreover, Italy does not suffer from those internal imbalances that in the other countries contributed to the aggravation of the actual negative conjuncture. All these factors suggest that, once the actual critical phase will be over, the Italian economy will profit of a more stable basis for its recovery. >>[107] [*Relazione unificata sull'economia e la finanza pubblica 2009*, page 15]

Even if the financial Italian scenario seemed relatively more reassuring than the other countries' one, the impact of the 2008 crisis on the share market has been substantial. In this context, the sectors that registered the biggest losses have been the insurance and the banking ones. For what concerns the banking policies:

> << The inquiry on the banking credit led by Italian Bank for 2008 fourth semester has observed that all the polled banks have moderately restricted the conditions for the enterprises credit. In the euro area, the average

[106] It was adopted on November 2008.
[107] Translated by the author.

> amount of banks that operated a restriction of the above-mentioned conditions has been inferior. The fact that in Italy this kind of policy has been so widely implemented has to be linked to more subjective elements, namely pessimism and the risk aversion. The behaviour of Italian banks has to be connected to these feelings more than to some objective bounds linked to banks' patrimonial situation or to their capability to finance themselves in the market. >>[108] [*Relazione unificata sull'economia e la finanza pubblica 2009*, page 27]

For what concerns the Single Market Act, 2010 has been a year charged of developments. Indeed, the Italian government participated throughout the Communitarian Policies Coordination Department to the European debate for the preparation of the Single Market. Particularly, Italian stakeholders pushed for a provision capable of enhancing communications among European nations. The final report was welcomed by Italy.

Another important issue has been the one concerning the fiscal discipline provision. The fiscal component has been represented by "Stability, coordination and governance in the Economic and Monetary Union Treaty", also known as "Fiscal Compact". This new treaty aimed to enforce balance sheet discipline, with the objective to avoid another sovereign debt crisis. While the Italian part asked for a stronger jurisdiction on the point, the United Kingdom and the Czech Republic showed perplexities and unwillingness towards the new agreement. Consequently, a modified agreement more in line with Czech and English requirements has been decided. The new modified provision consisted in a different arrangement from the above-mentioned Treaty reform. Therefore, the enforcement of balance sheet discipline has been finally made in the form of an intergovernmental agreement.

[108] Translated by the author.

However, a modification of the Treaty would have been favored by Italy, and its delegates worked considerably to get it [*Relazione consuntiva della partecipazione dell'Italia all'Unione Europea 2011*]. Also the proposal on financial transitions directive has been of particular relevance. It was conceived in order to disincentive speculative transitions. Another revision proposal was launched for what concerns the directive on energy taxation. On this subject, Italian government initiated some public consultations.

Furthermore, for what concern financial markets problems, during 2011 an intense control activity has been pursued. It finally helped in concluding negotiations on credit rating agencies directive, and on alternative investment funds management directive. [*Relazione consuntiva sulla partecipazione dell'Italia all'Unione Europea 2011].*

Of course, these provisions were induced by the willingness of avoiding another financial crisis and protect financial markets.

3.4
Italy in the EMU: latest years

3.4.1
The 2013-2014 period

This last paragraph aims not just to suggest an outlook of the most recent Italian policies decisions and relating events but, more importantly, it provides an analysis of how all the previous Italian choices have influenced our nation's role in the European Monetary Union. Moreover, it will be done an effort in order to point out where Italy stands now, trying to provide a less empirical kind of discussion. Finally, sorting out all the above-considered evidences, some conclusions will be drawn.

During 2013, in the frame of the European internal economic crisis, particular hint has been given by the European Central Bank executive Council to nation States roles. As reported in the European Central Bank bulletin:

> << National fiscal frameworks reflect the full set of rules, procedures and institutions that shape fiscal policy-making at the national level. They are also expected to transpose the European governance framework to the national level. Their main purpose is to anchor fiscal discipline and market expectations, as well as to support sustainable public finances in every EU Member State. The most important requirements for national fiscal frameworks to be fully effective are credible and enforceable numerical fiscal rules, clear medium-term budgetary planning, strong budget coordination arrangements between the different levels of government, independent fiscal councils, reliable fiscal statistics and effective budget monitoring, as well as unbiased macroeconomic and budget projections. >> [*The importance and effectiveness of national fiscal frameworks in the EU,* European Central Bank Monthly Bulletin (February 2013), page 73]

Therefore, the requirement of the executive body of the European bank was actually the one of a higher level of coordination among the various national institutional levels on the budgetary monitoring.

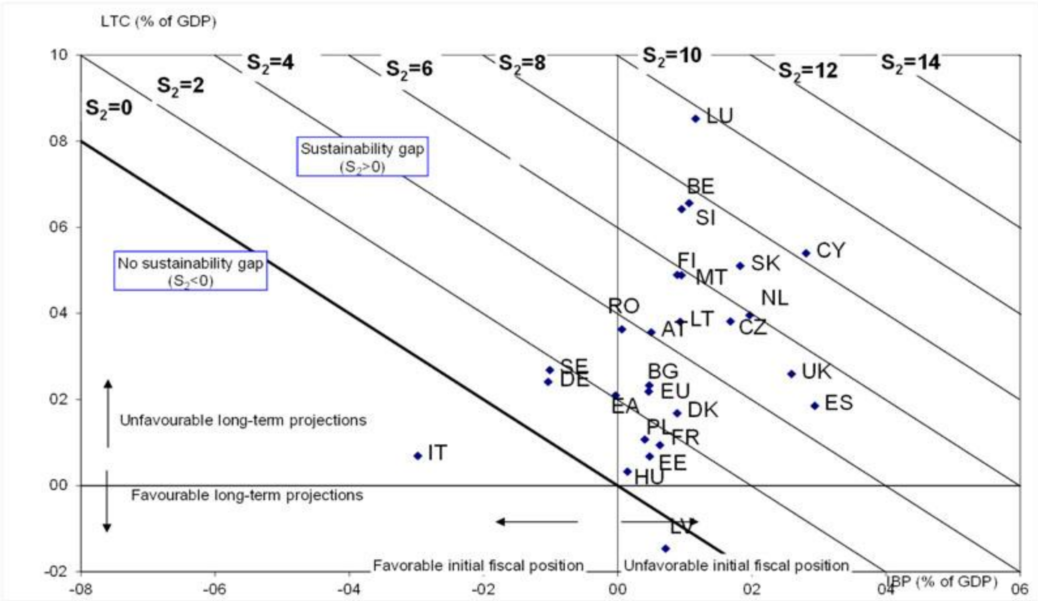
Taking into consideration this request, Italy has well responded by implementing a specific legislative procedure on this issue. Indeed, following the ratification of the "Treaty on Stability, Coordination and Governance in the Economic and Monetary Union" Italy, together with other Member States, passed legislation concerning balanced budget rules for a general and collective management of the issue[109]. This policies responsiveness gave particular prestige to Italy, whose economic reliability started to arise.

On the Italian reliability, referring to surveys conducted by the European Commission in the Fiscal Sustainability Report[110], it is possible to notice that Italy in 2013 did not seem to face a fiscal stress in the short term. Moreover, sustainability risks appeared to be medium in the medium run. For what concerns the long-term perspective, Italian risk sustainability has been considered by the European Commission survey to become low. Of course, the long-run prediction should be read as a condition on the full implementation of the planned ambitious fiscal consolidation, and on the maintenance of the primary balance well beyond 2014 expected levels.
Nevertheless, observations on the Italian government debt level shows levels above 60% of GDP Treaty threshold. Indeed, Government debt in 2011 amounted to 120.7% of GDP in 2011, and it was expected to rise to 126.5% in 2014.

For a clearer vision of the issue on the Italian sustainability, it is possible to refer to graph 3.3:

[109] Data from the European Central Bank Monthly Bulletin, February 2013.
[110] From Fiscal Sustainability Report 8/2012 (2012), page 101.

3.3)



Source: Commission services.

[111]

As the above-referred 2013 European Commission document explains, Italy is the only country having an initial balance position that allows the country to absorb the foreseen augmentation of expenses correlated to the population age.

Therefore, the European Commission promoted Italy on the public debt management, amplifying its referential parameters with concerns to the European Treaties from Maastricht on. However at the same time, the Commission asked for fiscal consolidation policies, a provision that drove Italy forward a 22% augmentation of VAT value.

In the effort to handle the economic difficulties of the area, the European Commission also suggested that the States should have adopted three main principles in deciding their budget discipline.

[111]Taken from Il sole 24 ore website http://www.ilsole24ore.com/art/finanza-e-mercati/2013-10-08/italia-paese-sicuro-europa-111842.shtml?grafici Source: EU Commission service. Consulted on September 2015.

> << The empirical and theoretical literature underlines the importance of effective national fiscal frameworks, and in particular fiscal rules, in guiding fiscal policy towards stronger budget discipline. Fiscal rules can target the budget balance, public debt, and government revenue or government expenditure. The effectiveness of fiscal rules largely depends on their specific design. Past experience shows that the design of numerical fiscal rules needs to satisfy three main principles: the rules need to be (i) well defined – encompassing all levels of government – (ii) strictly binding, and (iii) fully enforceable. >> [*The importance and effectiveness of national fiscal frameworks in the EU,* European Central Bank Monthly Bulletin (February 2013), page 74]

On a more general basis, the Eurozone underwent a recovery in 2014, which however has been weaker than expected because of the low amount of international commerce. Financial market conditions kept on with the recovery path, thanks also to measures adopted by the Eurosystem, the implementation of the banking Union, and the progresses in the establishment of European economic governance.
Inflation amounts were significantly lower than the ones expected by ECB estimations based on stickiness of prices[112]. In the Italian Central Bank report it has been observed that in the first trimester of 2015 that real GDP of the Eurozone has increased by 0.4%. Although in Germany there have been a deceleration, productiveness values have strengthened in France, Spain and Italy. Specifically, in Italy productivity has returned to positive values in summer 2013.

2014 *Documento di Economia e Finanza* presented by the premier M. Renzi[113] and Economy and Finances Minister P.C. Padoan set as a primary goal the achievement of balance stability. It has been defined as

[112] As comments in the *Relazione annuale della Banca d'Italia 2014* analyze at page 24.
[113] Matteo Renzi government is in charge from February 2014.

an imperative in order to initiate a solid and long-lasting development path.

> << This strategy requires contemporaneity and complementary of actions: the fiscal consolidation and the public debt reduction; growth re-launch in order to guarantee public finances sustainability; a retour to normality for what concerns credit fluxes to enterprises and families, also throughout the enforcement of systems other than the banking credit and the payment of Public Administration commercial debts; the adoption of structural reforms which allow to raise productivity and relax problems as bureaucracy, inefficient justice, or mafia's conditionings and corruption. >>[114] [*Documento di Economia e Finanza 2014*]

Moreover, in the 2015 Document there have been added some observations on financial market performances:

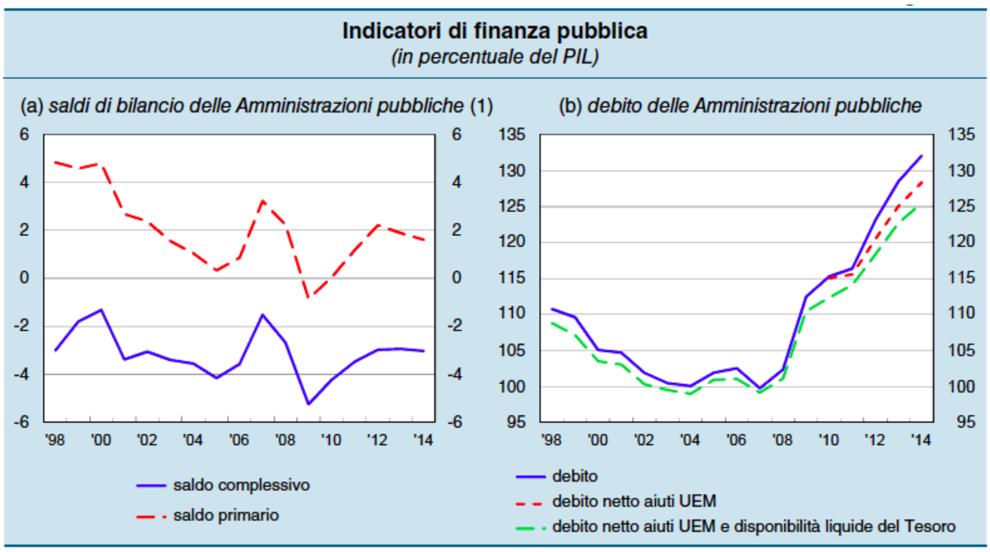
> << Financial markets have finally rewarded the noteworthy efforts of the national control on public accounts. Moreover, they allow Italy to go out of a phase of severe austerity. However, any political economy choice cannot derogate from balance stability, which is attentively monitored by our country's debt financiers. To completely realize the structural reforms program in order to relaunch competitiveness capacity and therefore internal product while keeping the economic recovery is going to be helpful for the fiscal consolidation path. >>[115] [*Documento di Economia e Finanza 2014*]

In 2014 policies on balance sheet management have not significantly changed. In the frame of the European rules, Italian government has operated a reform of the public balance composition, which was finalized to provide sustainment to the economy. Net public debt values for 2014 amounted to 3.0% of GDP, which was more or less the same value of the

[114] Translated by the author.
[115] Translated by the author.

previous year (in 2013 in amounted to 2.9%).[116] The stabilization of Italian public debt amount was positive in order to begin a stabilization path of the national economy.

3.4)



Fonte: Istat, per l'indebitamento netto e per l'avanzo primario.
(1) Un saldo negativo indica un disavanzo (indebitamento netto); un saldo positivo indica un avanzo (accreditamento netto). [117]

During 2014, fiscal pressure in Italy was still higher than international amounts. The gap was of 1.7 percentage points with concerns to the other Euro area countries. However, it can be noticed an improvement of fiscal pressure diminution, as the difference has been reduced of approximately 0.8 percentage points, compared to 2013 Italian levels[118].

Italian economy in the last trimester of 2014 has finally succeeded in recovering from its recession phase[119].

[116] From the *Relazione annuale della Banca d'Italia 2014*, page 94.
[117] Figure taken from the *Relazione annuale della Banca d'Italia 2014*, page 94.
[118] Data processing from the European Commission (Spring forecasts, May 2015), as explained in the *Relazione annuale della Banca d'Italia 2014*, page103.
[119] As reported in the *Nota di aggiornamento al Documento di Economia e Finanza 2014.*

3.4.2

2015 preferences and future expectations

Broadly speaking, 2015 started with some overall good results for what concerns Italian economy performances. The macroeconomic context in which Italy started to regain safety has been favoured by the structural economic context that helped Italy not to suffer the crisis as much as the other Southern Europe countries (i.e.: Spain or Greece).

> << After a remarkably serious and prolonged crisis, in the last trimester of 2014 Italian economy has been able to come out from recession. The favourable evolution of the macroeconomic context is pushing the main international organizations to upgrade the expectations on Euro area and Italian growth. We have a special opportunity window in order to restart a sustained growth and to regain decent levels of debt/GDP relation, putting it on a descendent path. We cannot afford to give away this chance. >>[120] [*Documento di Economia e Finanza 2015,* page I]

In the frame of an enhanced macroeconomic situation, for 2015 the government foresees an enforcement of growth values. To this end, policies approved and launched in 2014 seems to work properly:

> << During 2014 economic policy interventions aimed at re-launching the economy throughout earning policies support and fiscal charge reduction. This will provide also the final solution to the problem of Public Administration overdue amounts. Despite the persisting cyclical weakness phase, Government has guaranteed public accounts equilibrium. The primary surplus maintained itself among the most elevated in the Euro area, while the debt bearing on GDP kept on reducing itself. Net debt remained within 3% threshold. […] In order to sustain recovery and occupation, Government intends to i) pursue a balance sheet policy

[120] Translated by the author.

> that permits to sustain growth while complying with European Union adopted common rules; ii) pursue the path towards the structural reform of the country in order to significantly augment competitiveness capacities; iii) ameliorate the normative framework in which enterprises operate and also the conditions context in which investment decisions are taken. >>[121]
> [*Documento di Economia e Finanza 2015*, page II]

Policies proposed by Renzi cabinet in 2015 *Documento di Economia e Finanza* did not substantially change the economic provisions approach. Indeed, 2015 provisions stated in the Document foresee an orientation of balance policy nearly neutral and unchanged with references to ones of the previous year. Interest expense reduction would however allow a slight improvement of structural payments. Generally speaking, it is possible to underline the commitment and the continuous improvement of structural reforms, which have aimed and still aim to substantially help the recovery of the Italian economy.

On the investments side, the Document shows how Italy worked properly and actively, reaching some good results in this field at the European institutional level, also thanks to the Italian "Presidency Semester" in the European Union.

> << During its semester at the European Union Presidency, Italy has provided a great contribution on the debate over the European investments agenda. Therefore, Italy resulted among the main promoters of the initiative that led to the launch of Strategic Investments (EFSI – European Fund for Strategic Investments). It represents an important occasion in order to urge private investments with public sustainment, regardful of balance sheet commitment limits. Acting together, European countries will be able to impact more effectively on the area aggregate

[121] Translated by the author.

demand. >>[122] [*Documento di Economia e Finanza 2015*, page VI]

The European Commission has acknowledged that Italian recession crisis has been among the worst and longest ones in the whole history of the country. The biggest contraction underwent in the years 2012 – 2013, while 2014 ended with an additional GDP contraction, which amounted to 0.4% of GDP. In 2015 it has been foreseen that during 2016 GDP values will undergo a growth equal to +0.7%. According to the macroeconomic frame of this Document, the growth GDP rate will be equal to 1.0% starting from 2016.

3.5
Concluding remarks

Even if not directly providing a fiscal Union, Maastricht Treaty entailed a great commitment for Eurozone Member States. Indeed, progressively reinforced provisions on the harmonization of fiscal policies in the area often proved to be too stringent for the States, which not only entered in the European Monetary Union with different financial starting positions, but also throughout time showed different preferences on policies implementation. Therefore, these diverging needs have been more substantially evident when effective provisions had been put in force, i.e. the creation of a single banking system.

As it has been seen in the previous chapter, the creation of the currency Union led to some relevant changes in States' monetary policies, which

[122] Translated by the author.

basically is no longer under European nations' legislation. What has not yet been unified under the European economic institutions is the whole range of fiscal and financial policies. This lack actually led to puzzling periods both for the supranational institution and for the States themselves. However, symptoms of this problem are, for example, the divergences among inflation rates, which perform divergent amounts. Indeed, they have to respect European guidelines for nineteen different countries. Still, the financial side of the Union represents a big issue to be evenly tackled by European institutions and national ones.

As it has been analysed throughout this whole chapter, for what concerns Italy, the participation to the European Monetary Union has been sealed from its very beginning. However, the high degree of Italian commitment did not exempt the country from major setbacks. The determination to respect the European responsibility and also to recover from the economic crisis pushed Italy to be strongly active on the reforms side, improving its relative position with concerns to other European countries. Indeed, while in 1995 Italy's indebtedness was above the average value of other European countries, in more than ten years the trend has changed. Then, 2007 data show that Italian indebtedness gas been lower than the average European values[123].

Generally speaking, one lesson that emerges from the study of European financial situation is that a rigorous implementation of the EU fiscal framework is needed in all circumstances. At the current juncture, progress towards attaining sound budgetary positions is needed to firmly set the euro area's deficit and debt dynamics on a sustainable path.

[123] From *Documento Programmatico di Economia e Finanza per gli anni 2010 – 2013*, page 6.

The 1997 period of stagnation ended up positively, with the final Italian re-entrance to the European Monetary Union. One of the provisions that helped to finally reach this position was the balance sheet policy reform. Indeed, Italian governors perceived the pursuit of the European blueprint as an obligation. They saw in its establishment a guarantee against further economic and financial diseases. In fact, Italy underwent a series of relevant reforms, as clearer policies on concurrence and competitiveness, or the establishment of definite financial relations and more investment occasions. Among all, privatization policies have been the most relevant. Introduced between the 80s and the 90s, they actually facilitated the convergence of public finance parameters in the direction of Maastricht Treaty.

In the aftermath of the introduction of the Euro currency, other major setback occurred in the Euro zone. Once again Italy needed a huge reconsideration of its fiscal policies. Therefore, being characterized by a deceleration of productivity dynamic, it was needed a reshaping of the Italian productive system, which lacked more on the tertiary side. Service sector underwent a constant inferiority with regards to industrial sector, and this peculiarity caused major problems in a regional and world context where the affirmation of “new economy” was spreading.
Even if, thanks to the structural characteristics of Italian economy, 2008 subprime crisis hit Italy less than the other countries, fiscal consolidation policies were needed in order to ensure a more stable and trustworthy financial framework.

As an overall consideration, it is possible to sum up the documents analysed in the previous pages by noticing that Italy underwent to huge financial policy reformations that, however, have never caused prolonged or long-term structural changeovers.

The problem could be related to a structural deficiency in the setting of the European Monetary Union framework, which lacks a unique financial market. As it has been reported in the *Documento di Economia e Finanza 2015*:

> << The wide investments deficit in Europe is not only due to structural factor, but also to uncertainties on growth perspectives and to the low aggregate demand. The deficiency appears particularly acute in different fundamental sectors for competitiveness (as research and infrastructures), and in some countries, as Italy. In fact, investments deficit has to be associated to financial markets fragmentation, which is contrary to the conception of the unique market itself. >>[124] [*Documento di Economia e Finanza 2015*, page VI]

In the effort to provide a deep analysis at the supranational level of the current European fiscal situation, it is important to underline the fact that none of the European treaties or agreements provides any arrangement on a fiscal Union. Indeed, the main deduction of this lack of jurisdiction is that, in order to introduce a fiscal Union, it should be necessary to undergo a complete revision of the whole provisional legislative body of the European Union.

Leaving aside the "jurisdictional" problem, it remains another major problem to solve in order to create the fiscal Union. This concern regards the heterogeneous composition among European countries' systems of fiscal imposition. Indeed, the general trend of the majority of the European Monetary Union members is to simplify taxes on work and to

[124] Translated by the author.

increase the ones on incomes, properties, and real estates. This is not true in the Italian case, which actually performs exactly the contrary trend.

By referring to the EMU framework, Italy is a totally deviant case in the fiscal imposition. In order to harmonize Italian fiscal system to the European ones the trend should be inverted.

Hence, it appears clear that nowadays European Union is totally unable to practice a unified set of fiscal provisions. Before aiming at a unique fiscal area in the Euro zone, Euro States should be capable to harmonize and coordinate their fiscal provisions[125].

The Italian fiscal policy should pursue the innovation path that it has finally undertaken in the last years. Therefore and first of all, fiscal policy choices should be able to align Italian economy to other EMU Member States economies, in order to reach a fiscally harmonized monetary union.

[125] As M. Messori has stated in an interview held in January 2014 at *Scuola Superiore dell'Amministrazione* dell'Interno, LUISS Guido Carli. Source: https://www.youtube.com/watch?v=gSx0XLGAoUs

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FOURTH CHAPTER

Political choices and the stances of political parties

<< Economic freedom is the necessary condition for political freedom. >>

L. Einaudi

4.1
Preliminary remarks

4.1.1
Introduction

This chapter provides an overview of the choices and preferences that Italian parties and their contextual political system have endorsed in the construction of the European Monetary Union since 1992. Herein, the central assumption is that domestic political stakeholders and parties have been as important as financial market pressures in EU governments' policy decisions [Mosley 2004].

Therefore, the starting point is what kind of political discourse has led Italy to support European integration and how the debate on the participation in the EMU has evolved. The chapter relies on the assumption that economic outcomes have to be always linked to political choices. These choices find their foundation in the confrontation among and within parties and their spokespersons.

Hence, the inquiry will be centered on the political contestation in Italy. The discussion will analyze which political actors pushed more for the European Monetary Union participation and its following enforcement. In order to develop this kind of inquiry, the debate on the EMU among political spokespersons, governmental heads, and parties will be scanned in the coming pages. The main research question on which this chapter is built could therefore be formulated as follows: what kind of preferences have Italian political élites had in the community building process?

For what concerns the referential documents of this chapter, it is important to highlight that mentions will be referred not only to official reports, books or academic articles, but also to journal articles. Indeed, as the main purpose of the present dissertation is to conduct an empirical research, it is more useful to provide in this chapter an inquiry directly based on ministers', commissioners', stakeholders', parties', and governmental political sources.

Moreover, the fragmented and complex nature of Italian parties does not allow a clear selection of a given number of documents. Therefore, the analysis will be based on a report at an aggregate level of various statements of the different Italian political élites. The analysis is conducted throughout the examination of the main claims of the principal parties and stakeholders in Italy with references to the time-period since 1992.

This chapter follows a thematic division. That is to say, it has been deemed more profitable to structure the ensuing discussion by dealing with the issue of Italian parties' and stakeholders' choices through a categorization along the various political positions. In the effort to accomplish an exhaustive argumentation, the first paragraph will introduce some key concepts in order to better approach the reconstruction of political choices made by Italian governors and spokespersons in the European political and monetary bodies.

The second paragraph deals with the Berlusconi cabinets and the positions held by his various governments toward EMU. Moreover, this section will deal with the stances supported by the other center-right parties and coalitions.

In the third paragraph, positions held by Italian center-left parties are discussed. Particularly, the discussion will hinge on Prodi's work and the latest Renzi cabinet.

The fourth paragraph enters in the core discussion by analyzing the Italian "technical"[126] cabinets and their role of in the European Monetary Union.

Finally some conclusions will be drawn. The aim of the final section is to summarize the considerations done throughout the chapter and to provide some observations based on presented data.

4.1.2
Italian participation strategies in the EMU: exit, voice or loyalty?

In the first chapter a theoretical distinction was provided among the three different participative strategies in the political life[127] namely, exit, voice,

[126] The word technical has been put in inverted commas because actually just two of the four governments herein considered technical (for narrative buildup reasons). Indeed, just M. Monti cabinet and the previous L. Dini one were formed completely by experts and functionaries that have not been elected by the people. G. Amato and C. A. Ciampi cabinets were semi-technical, as composed both by experts and politicians.

[127] *Ibidem* in the first chapter, pages 36 – 38.

and loyalty. Herein, it is interesting to practically apply these concepts to evaluate the Italian engagement in the European Monetary Union. The attempt is done in order to understand how and to what extent Italian political élites have influenced the European Monetary Union building.
Therefore, it is interesting to investigate if, in the concerned period, there have been changes in the strategic pattern of Italian participation in the European Monetary Union, accordingly to the different thematic or leading governmental party.

Broadly speaking, among the three different conceptions of the participation in political life it is possible to affirm that the pattern generally chosen by Italy's governing political élites has been the *voice*.
As it has been explained in the first chapter, exit consists of the complete refusal of the supranational policies. By the above-conducted observation it is easily deducible that so far a case of exit has never taken place, even if from times to times there have been some political movements or parties invoking the Italian retreat from the Monetary Union.
If there have been any claims about insufficient performances in or management of the European Monetary Union, about its inability to ensure appropriate development levels to member States, or its inability to guarantee reasonable levels of employment or appropriate trading conditions, they have all been solved by adopting the *voice* strategy.

The voice strategy consists in holding clear positions about national preferences and choices. In the EMU realm, national political élites have always strained in order to get across their preferences, so as to obtain the adoption of policies at the European level. Indeed, the more the European policies were approved accordingly to national stakes, the more these policies could have been favorable also at the domestic level.

The underlying logic for choosing the *voice* option in the European Monetary Union framework is that there are some policy areas in which national governments have lost their power to decide. In these domains, governments have missed the possibility to carry on preferred policies. Therefore, throughout the *voice* strategy national governments can still obtain the implementation at the European Union level of some policies they are concerned about.
In the end, it can be affirmed that national preferences translated into European preferences are the final outcome of States' bargaining and intergovernmental debate [Cotta, Iserina & Verzichelli 2005].

In the purpose of being successful, the *voice* strategy should be advanced by national élites who are effectively capable to influence the European agenda. In order to do so, they have to be considered credible and to prove a certain degree of accountability in front of other Member States and of the European institutions. Besides, as different States compound the Union, "voicing" national élite should be able to gain other national élites' support. If they are able to reach other States' support on a given issue, they will have the power to channel supranational decisions.

Maastricht rules implementation entailed the introduction of new addresses and new themes in the internal political parties' debate. As the discourse on the European Union integration went ahead, new and different points of view on the European integration purposes and on the European Monetary Union consequences were originated [Cotta, Iserina & Verzichelli 2005].

For what concerns the positions held by the Italian parties towards the European Monetary integration, a rough distinction can be done between the two sides of the Italian Parliament. Center-left and center-right parties adopted different attitudes toward the European Union and its institutions. Leaving aside the extreme-left or extreme-right parties that often took hostile positions vis-à-vis the European integration – at least for what concerns the first two decades of European integration since 1992 - the different positions taken by Italian parties on the European Monetary Union issue are easily discernible.

Italian center-left parties evaluated the chance to join the European Monetary Union as an opportunity to make the Italian economy more dynamic and integrated in the world economy. Therefore, they adhered to a more or less strong supranational conception of the European integration. On the contrary, center-right parties saw the impact of the European Union on the Italian domestic politics as the main cause of welfare policies cuts. Moreover, they feared the national identity dispersion. As a consequence, they expressed the preference of an intergovernmental European Union institutional building.

In spite of these differences, both sides of the Italian party system figured out the same "domestic" conception on Europe. Indeed, parliamentarians from both sides proposed an interpretation of European politics as an external constraint in order to stabilize internal politics. Indeed, Europe has been called upon either by the ruling government to hold responsible the opposition, or by the opposition on duty in order to frame in the European commitment implemented policies that are not shared.
However, the overall picture of Italian parties' positions on the European issue is controversial. Actually, the meaning and implications of European integration often divide rather than bringing together Italian political élite [Cotta, Iserina & Verzichelli 2005].

From a historical point of view, it is possible to affirm that the Italian attitude toward the European integration has changed throughout time. Particularly for what concerns the monetary integration, the overall trend is that the center-right parties have proved to be systematically more Euro-skeptic than the center-left parties. The main division lays in the fact that center-right parties generally feel that policies implemented at the European level somehow affect and threaten national autonomy and identity. On the other side center-left parties are, broadly speaking, positive on the European integration issue as they link Europe to economic development. According to them, EU has almost no costs, and it is perceived in its economic terms. Therefore, in the center-left parties opinion, Europe means to share resources and to develop occupational sector [Cotta, Iserina & Verzichelli 2005].

It is widely acknowledged that the European Monetary Union should promote lower inflation and sounder public finances. As a matter of fact, the single currency renders taxes and other distortions more transparent [Mosley 2004]. This affects also the political economy of a country and, as a consequence, governments express their preferences in the political economy implementations. By providing a given political economy address, each country weights on the whole European Monetary Union policies implementation process. Of course, the other side of the issue is that governments have to deal with EMU guidelines.

During the nineties, Italy was among the European governments with higher levels of indebtedness even if, as Italian representatives pointed out, most of their debt was actually owned by their investors, rendering therefore their fiscal system less sensitive to international markets fiscal pressures [Mosley 2004].

In the 1990s the Italian political system underwent some major transformations, which concerned also a change in the electoral system. According to the new system, 25% of the seats in both chambers had to be allocated on a proportional basis to parties that achieve the 4% threshold of valid list votes [Quaglia 2003]. The consequences of this change in the electoral system have been huge on the Italian party system, as some of them lost much of their electorate, disappearing from the electoral competition - Christian Democracy, the Socialist Party, and the Liberal Party-. In addition, others changed name – Communist Party became the party of Democratic Left – while a few new parties were formed, as the Northern League and Forza Italia. The newly born party system looked more like a bipolar system, than a polarized pluralism[128] [Quaglia 2003].

The focus of this chapter is on the ascendant political decision-making process. The following pages will therefore contribute to the dissertation by briefly examining parties' and stakeholders' history in Italy. Afterwards, the main spokespersons' positions and their way of dealing with the European Monetary Union issue will help in clarifying the following discussion.

4.1.3
Party system in the European Union

As this chapter focuses mainly on the activity of parties and party representatives in the Italian system, and their participation in the

[128] G. Sartori gave the definition of polarized pluralism. This concept is applied to a two-party or a multi-party political system that is seen as overly polarized and therefore as dysfunctional.

European Monetary Union integration, it seems necessary to provide some hints on how the party system at the European Union level operates and how national parties are integrated in this system.

The European party system is centered mainly on the elections for the European Parliament. A measure of its strengthening and growing relevance can be observed in the fact that three of the 1979 original groups still exist. Among the three of them, two are particularly relevant, namely the EPP and the PES[129] [Bardi 2002:274].
However, if some trends show that the European party system consolidating, from another point of view it is possible to observe the opposite tendency. Indeed, the fact that the European Parliament is isolated from the national party's pressures is not true [Ladrech 2009]. This fact, which actually would help in the building of institutionalized Euro parties, actually takes place solely during the legislature and it is interrupted when elections occur.

National political parties are present at the European level through two types of structures. On the one side there are parliamentary groups, on the other side there are extra-parliamentarian organizations. Party people elected in the different member countries are positioned into the parliamentary group that owns to their party family or to similar one. Extra-parliamentarian organizations are less organized than the parliamentarian groups. Nevertheless, they aim at collecting on a trans-European level the different political families or even less formalized international coordination structures [Bardi 2002].

[129] Respectively the European People's Party and the Party of the European Socialists.

Besides these two types of structures, also national parties have a relevant role at the European level. Therefore, they are directly and effectively active in the European politics and policies implementation. Moreover, the centrality of national parties can be found in the fact that they actually constitute the sole link between European Union political system and national civil society.

A complete picture of Euro-party organizations has been delineated. In the European institutional area, national parties should represent the territorial part of the party; extra-parliamentarian organizations should correspond to the core organization of the party; parliamentarian groups should be seen as the party in its public offices.
Unfortunately, the three above-mentioned institutions do not fulfill their assignment of being the three faces of the same European party system. National parties basically use Euro-parties as a networking tool, because of the fact that being involved in one of the Euro-parties helps in reducing the transaction costs of multiple bi-lateral relations [Ladrech 2010:144].
In particular, national parties are inclined not to perform their bridging task. Indeed, they prefer to keep their privileged position in the European societies, using this position to compete with the Euro-parties instead of cooperating with them [Bardi 2002].

The European Union has not any direct influence on the party management, i.e. financial resources control, or party organization jurisdiction. If the EU were to have an impact on political parties, it would necessarily be found in the pursuit of their objectives [Ladrech 2010:136].
Has the process known as “Europeanization” influenced in any way national party system or party management? The answer has to be sought in the analysis of parties’ statutes. Indeed, parties change their

organization and modify their statutes from time to time; any sign of Europeanization of parties has to be found in parties’ programs and their organization. Finally, European rules provoke an indirect impact on national parties.

As Ladrech [2010:134] has punctually observed, parties responded to Europeanization in some indirect ways. Indeed, mass attitude toward the European Union has changed, in the sense that the electorate now is more sensitive about the European issue. This aspect has to be linked with the evidence that EU policies competence has been broadened, and contemporarily expanded. Two other modifications have to be found both at the supranational and national level. In fact, while at the supranational level European Parliament elections need an additional electoral mobilization [Ladrech 2010]; at the national level national parliaments have created European affairs committees.

All the above-introduced examples may only indirectly affect the internal structure, manifestos, or program of Italian parties, while surely scarcely influence parties’ functions in the political system, or their general ability to secure their goals [Ladrech 2010].
In the following paragraph the issue of the Italian ‘technical’ cabinets will be dealt.

4.2
Italian 'technical' cabinets

4.2.1
The Amato[130] cabinet

The signature of the Maastricht Treaty coincided with a structural reform of the Italian party system. Indeed, the first years of the nineties were characterized by the fall of the so-called "First Republic" in Italy. Therefore, an initiative like the one of the major European supranational rule implementation greatly upset those years' Italian political context. From the Italian point of view, signing the Maastricht Treaty did not just mean to bind its national economy to the other European ones, or to give a different meaning to the way foreign politics was conceived. Rather and more considerably, for Italy entering the European Monetary Union system meant to give a newer and modern slant to political economy management. Moreover, the EMU entailed a reorganization of the core Italian political system, departing from its economic sector.

In fact, the governmental change caused by the "Tangentopoli" scandal, which made the Treaty of Maastricht Prime Minister signer Giulio Andreotti lose the cabinet, may seem as symptomatic of this transformational effort in Italy.

Among the other causes of the decline of Andreotti government, it is necessary to mention herein the fact that for the first time Italian Presidency formally dealt with financial issues. The failure of the budgetary policy for 1992 is both a sign of the decline of the Italian *party*

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[130] Herein is particularly considered the first Amato cabinet, which lasted from June 1992 until April 1993.

government system and of the actors who kept the system going [Cotta & Isernia 1996].

Giuliano Amato government was a technical one, chosen for its assertiveness in the path towards European Monetary Union convergence. He took the lead in the Italian cabinet in the afterwards of Andreotti's resignation as Italian Prime Minister because of the "Tangentopoli" scandal. In fact, Andreotti was the premier who, together with Treasury Minister G. Carli and Foreign Minister G. De Michelis took Italy into the Maastricht deal. However, particularly for what concerns Andreotti's attitude towards the European integration, he often maintained a "wait and see" [Ferrera & Gualmini 2004:67] stance, not being able to compensate for past disequilibria by the implemented financial maneuvers.

After May 1992 elections, the new Prime Minister Giuliano Amato was charged to rule Italian cabinet. From a historical and political science perspective, the originality of Amato's first government lies in the fact that he came to power in a delicate period for Italian parties' system. Indeed, the two-year period 1992-1994 is indicated as the conclusive era of the party government[131] in Italy. This is an aspect that is worth concentrate on, as it mirrors a structural peculiarity of the Italian party system. Moreover, it is a feature that differentiated Italy from other European democracies, giving rise to a practice according to which parties' leadership stayed out of the cabinet policies. This aspect meant that the government in Italy has always been weaker than the party'

[131] Party government is defined by Katz [1987] (Katz in Cotta M. *La crisi del governo di partito all'Italiana* in *Il gigante dai piedi di argilla*, by Cotta M., Isernia P. (1996) page 18) as the governmental form which is differentiated by the following characteristics: 1) decisions made by elected party men; 2) policies decided by parties; 3) parties act as cohesive entities to actuate policies agreed in the party; 4) rulers are recruited and 5) political responsible through their party.

chiefs. Indeed, from this mechanism resulted a cabinet practically guided by an external authority.

Amato's executive had a technocratic definition, the first one in the history of the Italian "second" Republic. Moreover, the phase in which he governed can be identified as a transitional one. As a matter of fact, all the typical factors of a transitional phase can be listed: a de-structured party-system, a technical government, and a weak parliament [Cotta & Isernia 1996].

In June 1992 Amato entered in the cabinet, breaking with the pre-existent parties-parliament-government balance that constituted the skeleton of Italian party government.

He tackled the European Monetary integration problem launching a two-step maneuver. Firstly, in July 1992 he passed an additional "correcting" plan of 30,000 billion liras. Moreover, he reformed national health and pension systems, together with the civil service and local government finances. The second step of his maneuver amounted to a 93,000 billion liras[132] withdrawal, launched in September 1992. It can be considered a real effort in the direction of correcting the disequilibria of Italian public finances [Ferrera & Gualmini 2004].

Amato's maneuver has been more evident and successful on the financial side. Indeed, the most urgent issue to tackle was the macroeconomic policy. As stated in the previous chapters, 1992 was the year of great movements of financial speculations against lira[133] [Radaelli 2000].

The debate during the first half of the nineties was all centered on the imperative of not to miss the chance to enter in the EMU with the first

[132] *Ibidem* page 124.
[133] *Ibidem* page 125.

group of European States, as founding countries. By their part, the other EMU member states started to acknowledge Italian efforts to align lira to the European Monetary System parameters. Indeed:

> << […] "The commitment undertaken by the monetary committee of the twelve" […] "proves that there has been the willingness to held an equilibrated and coordinated position in the European Monetary System". "This is a positive fact. Germany's and monetary Committee attitude will probably allow Italy to solve its difficulties. Everyone thinks that the core of our difficulties is Germany's high interest rates level and there have been positive declarations by Treasury Minister Theo Waigel". >>[134] [As stated by G. Amato and reported in *La lira alla prova del fuoco Amato spera nella Germania, La Stampa,* August the 31th, 1992 page 4]

However, on the one side Amato had to deal with international financial organizations, as the International Monetary Fund that defined Italy as the country with the slowest growth among the EMU States, on the other side, the Italian governor had to fight the skepticism among Germany thinkers: "It is arithmetically impossible for Italy to reach the objective of the relation deficit/GDP within 60%" [Hans-Peter Froehlich in *Deficit << L'Italian non ce la fa>>, La Stampa,* August the 31th, 1992 page 4].

In spite of all Amato's efforts in order to comply with Maastricht rules, also by actuating the privatizations policy, it was Carlo Azeglio Ciampi, the new Italian Prime Minister, who completed the privatization process.
Amato cabinet fell in the spring of 1993. His successor, Ciampi and his cabinet, has been the first purely technical cabinet in Italy.

[134] Translated by the author.

4.2.2
The Ciampi cabinet

Carlo Azeglio Ciampi was the Italian Central Bank governor during Amato cabinet. In the aftermath of Amato government collapse, he became the Italian Prime Minister, from April 1993 to May 1994.
Actions undertaken by the previous government helped in facilitating the policies of Ciampi cabinet. As it was a "technical" executive, it has been able to implement policies without much concern from the domestic political parties. Moreover, it was able to gain new international credibility.

Ciampi politics consisted in keeping a direct relationship with trade unions. He was able to negotiate with them important structural reforms, such as the abolition of the automatic system of wage indexation (the so-called *scala mobile*), the privatization of employment and placement services, and the reform of collective bargaining [Ferrera & Gualmini 2004].

Ciampi cabinet, as the previous Amato government, acted in two steps in order to deal with the European Monetary Union integration issue. Indeed, its policy has been constituted on the one side in the approval of a correcting maneuver, while on the other side he has been capable to reduce public expenditures. As a matter of fact, in May 1993 he approved the correcting maneuver of 12,500 billion liras (which actually amounted to 0.8% of GDP). The second operation consisted in a financial measure. Indeed, in September 1993 Ciampi cabinet presented the financial law in advance, being capable to reduce public expenditures by 28,000 billion liras (equal to 1.8% of GDP), and introducing a package of measures on civil service reform [Ferrera & Gualmini 2004].

The operation put into effect during this cabinet was actually due to the work of Minister Sabino Cassese[135]. He helped the 1993-1994 cabinet to reason on the required fiscal adjustments, more than focusing on cuts. Therefore, the aim was to increase the public sector productivity. The core actions in this realm had been simplification and rationalization of central administrative structures, together with measures on public employees.
The innovational characteristic of Ciampi government lies exactly in the fact that it managed to work contemporarily on administrative reforms together with fiscal adjustments [Radaelli 2000].

Ciampi distinguished his mandate for its assertiveness. Indeed, in a governmental statement he firmly pronounced himself on the European Monetary System functioning and management:

> << [Prime Minister Ciampi] observed that he has for a long time been of the advice that the actual performance of ESM is structurally weak. Therefore, it is necessary to enforce it by interpreting its rules throughout a more incisive and binding approach. This approach has to be coherent with the European monetary and economic Union spirit. >> [136] [*Ciampi: salviamo lo Sme. Appello a Delors per l'unione europea* in *La Stampa* August the 11th 1993]

Basically, Ciampi's proposal to the European Community was to conceive the European Monetary System agreement as a real definite procedure. Therefore, its aim should be to coordinate the States' actions in a jointly manner. These three actions were conceived in a way that could not allow

[135] Sabino Cassese was Minister of Public Functions during Ciampi cabinet, from April 1993 until May 1994.
[136] Translated by the author.

financial markets to separately attack the European Union currencies. Specifically, they consisted of:

> << Parities among currencies have to be collectively determined; it is necessary to periodically undergo a re-examination of currencies value, in order to decide if there is the necessity to intervene to modify them; the responsibility to defend the agreed parity have to be jointed. >> [*Ciampi: salviamo lo Sme. Appello a Delors per l'unione europea* in *La Stampa* August the 11th 1993]

In those years, the Italian call for a more assertive and coordinated vigilance on the European monetary policies was resolute, pushing for an enhanced Member States' coordination on the issue.

However, Ciampi cabinet had been followed by Berlusconi election as Prime Minister. Therefore, in 1994 the Italian political approach to the European Monetary Union came under a strong discontinuity.

The discussion will therefore be centered on the center-right, center-left coalitions and their principal spokespersons. In order to be as linear as possible, for what concerns the remaining 'technical' cabinet – given that the Dini's will be omitted for economical reasons in the present dissertation - Monti cabinet will be addressed in the fourth paragraph of the present chapter.

4.3

Center-right coalitions

4.3.1

The Berlusconi cabinets[137]

In 1994, elections were won by the center-right coalition and Silvio Berlusconi became the Prime Minister with a political cabinet – the first one elected in 1994 after the reform introducing the majority principle in the electoral system.

Because of the electoral reform, and unlikely the previous "technical" cabinets, the Berlusconi government was not able to act independently and to autonomously decide the policy-making [Radaelli 2000]. *Forza Italia* governmental bound with other right parties represented a serious limit. Indeed, other governing parties that came out by the 1994 elections were *Alleanza Nazionale* and *Lega Nord.* The fact that also *Lega Nord* representatives compounded the cabinet had been the cause of the governmental failure. Indeed, *Lega Nord* component together with trade unions opposition made it difficult for Berlusconi to govern, and led to a governmental crisis on the delicate issue of pension reform [Ferrera & Gualmini 2004]. Moreover, there were problems in the coalition structure, as *Lega Nord* profoundly positioned itself against the State-centered culture of southern Italy. Then, this conflict had been translated in the more paradigmatic struggle between right and left wings [Ferrera & Gualmini 2004:126].

[137] Silvio Berlusconi obtained the Prime Minister seat four times. The first cabinet was from May 1994 until January 1005. The secondo ne was from June 2001 to April 2005. The third one was from April 2005 until May 2006. Finally, the fourth one was from May 2008 until November 2011.

However, the main problem of 1994 Berlusconi cabinet laid in its attitude toward the European Monetary Union. Indeed, Berlusconi's Foreign Minister Antonio Martino positioned himself strongly against the Maastricht Treaty. He argued for a re-negotiation of the 1992 Treaty, not reassuring the EMU partners on the Italian attitude toward the monetary Union and its commitment to join it.

Berlusconi took an ambiguous position on the issue. Indeed, at first he separated himself from this position, supporting the Italian involvement in respecting Maastricht convergence criteria [Radaelli 2000]. Afterwards, he declared that the treaty of Maastricht should be re-negotiated and Italy should be admitted to the Euro-zone also if it did not respect the convergence criteria.

The negative experience of the first Berlusconi government can be defined as a "dry-run" [Quaglia 2003:12] for the second Berlusconi government.

Berlusconi's position on the European Monetary Union remained unclear also in the period before its second cabinet. For example, Berlusconi claimed that Italy should raise his national profile in the world, or that it should hold a protagonist's role in the European Union.

Indeed, 1997 electoral campaign had been entirely based on the contrast with Prodi center-left coalition. This time *Forza Italia* launched again the idea of renegotiating Maastricht in order to allow Italy to join the European Monetary Union even if not complying with the agreed convergence criteria.

The second Berlusconi government[138] was characterized by another wave of Italian friction with European rules. Unconcerned about all the previous governments' efforts in order to comply with European Monetary Union rules, Berlusconi's second mandate marked a new pattern of Italian participation to the European integration. With Berlusconi's second mandate began a period in which Europeanism started to lose ground among Italian public opinion. Indeed, the European "orthodoxy" of previous governments started to be challenged [Quaglia & Radaelli].

The Maastricht Treaty entailed that Euro zone national authorities were no more able to adjust macroeconomic deficits through the use of exchange rate by setting it at the more convenient level for their national currency.
The SGP compelling external constraint was weakened by obstructing policy choices made by the French and German governments in 2001 – 2002, policies that had been backed by Italy [Quaglia & Radaelli]. Indeed, the Berlusconi government caught France and Germany's opposition as an opportunity to increase Italian fiscal room for maneuver.

The Berlusconi government acted in a way that made Italy reducing its primary budget surplus[139]. Consequences of policies implementation that led to this result were that in 2004 Italy faced serious problems in meeting SGP 3% parameter. Berlusconi, acting as *ad interim* Treasury Minister[140], had to present a special saving package and to persuade the Ecofin Committee to trust Italian finance management and not to accept the

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[138] The second Berlusconi cabinet was elected in June 2001 and lasted until April 2005.
[139] Two factors account for this: an increase of public expenditures, and the downfall of public revenues, due to the attempt to reduce fiscal pressure (and the European Commission criticized Italian fiscal policy concerning the one-off measures) [in Quaglia L., Radaelli C., *Italian Politics and the European Union: A Tale of Two Research Designs*. Pages 22-23]
[140] The former Treasury Minister G. Tremonti resigned on this issue in July 2004.

Commission's proposal for an "excessive deficit early warning"[141] against Italy [Quaglia & Radaelli].

On a more symbolic level, the detachment of Berlusconi cabinet from the European monetary integration is epitomized by the fact that for the entrance of the euro currency in January 2002, neither official celebration nor governmental event took place.

In 2005, following the deterioration of Italian budgetary situation, the European Commission addressed a formal warning to Italy.

Berlusconi blamed the slowness of European institutional edifice in the implementation of competitiveness rules. During that period Italy held the "Semester Presidency" in the European Council. Supported by the Confindustria President A. D'Amato, Berlusconi highlighted the shadows of the Stability and Growth Pact.

> << It allowed to "contain unbalances of single countries, guaranteeing stability"; but this is not the sole required action. Policies on development are also needed. Today Europe has no capabilities to bet on growth, as on the one side Member States "cannot perform monetary policy anymore, intervene on exchanges, or create deficits that go beyond Maastricht margins". >>[142] [*<<Troppi vincoli dell'UE limitano la competitività>>, La Stampa* November the 15th 2003, page 9]

Berlusconi observed that the introduction of the euro had positive effects on the domestic commerce in Italy, but in fact it also provoked a fall in private demand.

The opposition of 2001 – 2005 Italian Prime Minister was not only addressed to the impositions that came from Brussels, but also to its organizational structure and functioning.

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[141] *Ibidem* page 133.
[142] Translated by the author.

> << European governments […] cannot actuate an effective political economy in order to get out from the stagnation period and from the economic recession. There are too many obstacles. There is a crazy monetary policy actuated by ECB that has rendered higher European labor costs with comparisons to the dollar area. This has put our enterprises on their knees. Exactly, technocrats and bureaucrats. […] The worst thing is that bureaucracy and technocracy are transforming the image of Europe itself in the eyes of public opinion. Therefore, they conceive it no longer as a chance or a resource, but as the source of many problems. >>[143] [*Berlusconi adesso sfida I "tecnocrati di Bruxelles", La Stampa* May the 31st 2005, page 9]

Apart from Berlusconi's campaign against the European organizational structure and its leadership, the criticism on this kind of Europe helped Berlusconi also on the domestic side. Indeed, the Italian public opinion turned to be disenchanted on its vision of the European unification process [*Berlusconi adesso sfida I "tecnocrati di Bruxelles", La Stampa* May the 31st 2005, page 9]. Therefore, Berlusconi message was calibrated on the internal climate.

In that period, *Forza Italia* leaders' campaign address was all about trying to please the electorate on the European issue, by taking advantage of Italian people's feelings. As one of Berlusconi's advisors, Fabrizio Cicchitto, declared:

> << It is obvious that the problem of a Europe governed by technocrats will be at the core of our electoral campaign. Only Italian left party, which still thinks that it is possible to beat Berlusconi through the Europe's rhetoric, can ignore what is actually happening. […] European problems are structural, but Europe instead of solving them, is aggravating them. […] In Europe they maintain high the euro value, even if BCE functionaries know that European enterprises competitiveness

[143] Translated by the author.

> is lower than the US one. It is exactly against this kind of European Union management, which proves to be indifferent to the real concerns of Member States that French people voted against. They surely did not vote against a Constitutional project that is worthy to talk about. >>[144] [*Berlusconi adesso sfida I "tecnocrati di Bruxelles", La Stampa* May the 31st 2005, page 9].

In 2002 the center-right government initiated the Law on savings (*Legge sul risparmio*) following some major domestic policy failures. The law introduced three important amendments to the legislation concerning the central bank. It modified the way by which the ownership of the central bank was managed. Indeed, the governance structure of the Bank was made more pluralistic and transparent. Moreover, the Bank's powers concerning banking competition policy were transferred to the Competition Authority [Quaglia & Radaelli].

In September 2005, Berlusconi tried to enlist the support of the European Central Bank not only for the national legislation in the making, but also in order to overcome the Italian Central Bank governor. However, the Central European Bank refrained from intervening, answering that it was not its field of expertise. Indeed, the Law on savings amended the Italian Central Bank legislation in the aftermath of the opposition by the Italian Central Bank governor A. Fazio[145], who repeatedly objected foreign takeovers of Italian banking system [Quaglia & Radaelli].

Another issue of debate during the 2001 – 2005 Berlusconi term was the Lisbon agenda for competitiveness implementation. Although it should

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[144] Translated by the author.

[145] Antonio Fazio had been appointed governor of the Italian Central Bank in 1993, when the office was for life. In the aftermath of the inquiry to which he had been subjected he was forced to leave the office in 2005.

have consisted of a set of policies complying with the center-right political position, it nevertheless posed some problems. Indeed, economic ideas contained in the Treaty of Lisbon were difficult to be implemented in Italy, given the internal resistance of domestic constituencies [Quaglia & Radaelli]. Berlusconi's attitude towards the neo-liberal idea and the European understanding of it did not help in promoting any further incisive step towards the Lisbon agenda. Indeed in 2002, on the liberalization of the labor markets the Italian government observed that the European Employment Strategy << has simply given particular emphasis to certain concrete guidelines that were not suited to the often fundamental nature of the Italian structural problems, with respect to the actual labor market. >> [Quaglia & Radaelli:25].

Because of the fact that Italy had not improved on competitiveness indicators, PICO[146] plan was finally approved. It was upheld with no public debate. It provided a huge reformation of innovation, growth, and occupation in a too stringent time-period. In the 2001 – 2005 period, the government designated 30 billion euros, while in the 2002 – 2008 period the financial Document foresaw to add 3.8 billion euros to that amount. Finally, PICO plan added 12.7 billion euros.

To conclude the discourse on Berlusconi's stances towards the European Monetary Union and the European integration, it is interesting to analyze the attitude of the four-time Italian Prime Minister for what concerns participation to the European Parliament.
In the European Parliament, *Forza Italia* merely adopted a bandwagoning strategy. As Ladrech [2010:138] observed, the Italian party of S. Berlusconi, *Forza Italia*, sought membership in the European People's

[146] In its original Italian denomination *Piano per l'innovazione, la crescita e l'occupazione.*

Party (EPP) in the 1990s as a sign of its acceptance by mainstream center-right parties in the EU.

Departing from this final observation and on a more general bias, it is remarkable that the relations that the leader of *Forza italia* had with the European institutions were mainly pursued in order to acquire external reliability within Italian domestic political system.

4.3.2
Other right wing party positions

After the majoritarian elections in 1994, new parties were able to enter in the Italian government. Together with the yet-discussed *Forza Italia* entrance, there were also *Lega Nord* and *Alleanza Nazionale*. The so-compounded cabinet of parties from the extreme side to the center-right held back the European integration path [Cotta, Iserina & Verzichelli 2005].

As previously explained[147], *Lega Nord* defection provoked the end of the first Berlusconi cabinet.

In fact, *Lega Nord* had historically been an opponent of the European integration process. Indeed, they worried about a weakening of the Italian institutions and a lessening of the Italian Parliament.

With regards to the economic realm, *Lega Nord* had a defensive attitude toward European economic policies. Indeed, they feared an alteration in the Italian welfare system. Moreover, at an institutional and ideological level, they thought that Europe was a threat for Italian governing power, and furthermore for the national identity [Cotta, Isernia & Verzichelli 2005:204].

[147] *Ibidem* page 184.

According to the opinion of the Italian parties' spokespersons, where there some perceived costs they to had to bear in the European parliament? Surveys [Cotta, Isernia & Verzichelli 2005:197] showed that center-right parliamentarians highlighted costs of participating to the European integration. They felt these ties as a lessening of autonomy and diminished capacity to manage resources and policies. In fact, it has been observed that in 2002 44% of center-right parliamentarians deemed economic standards established by Europe as not sufficiently considerate of Italian economy peculiarities.

Moreover, it has been also recorded that center-right representatives perceive the European Commission as an impediment that prevents Italian interests promotion in Europe [Cotta, Isernia & Verzichelli 2005:199].
For what concerns the impact of the Euro currency, it is generally perceived as having a negative impact in Italian economy. Indeed, center-right spokespersons tend to approach in a "defensive" manner to the euro, and also to Italian position in Europe.

As an overall trend, it is possible to mention the theoretical observation known as the *core parties'* European inclination[148]. That is to say that parties which are placed at the center of the political divisions have the tendency to be more cooperative and supportive in the process of regional integration. On the contrary, more extreme parties adhered to positions nearer to the Euro-skepticism. This is more evident for what concerns the right wing attitude of the Parliament than for the left one. However, together with the extreme-right Italian party *Alleanza Nazionale* or *Lega*

[148] Szczerbiak & Taggart 2002 in Cotta M., Iserina P., Verzichelli L., *L'Europa in Italia. Élite, opinione pubblica e decisioni* Il Mulino (2005), page 108.

Nord anti-Europeanism, in Italy also the extreme-left movement *Rifondazione Comunista* showed strong positions opposing European integration.

As a general conclusion for what concerns the involvement of Italian center-right parties in the political European debate, it is possible to consult figure 4.1.

The chart tries to give an overlook on European issue inclusion in the right and center-right Italian parties. Indeed, it shows that most of the contents of right wing parties' manifestos on Europe are focused on the EU integration issue. The sole exception to this pattern, for what concerns Italian right wing coalitions, can be found in the small Christian Democratic Party (CCD/UDC).

4.1)

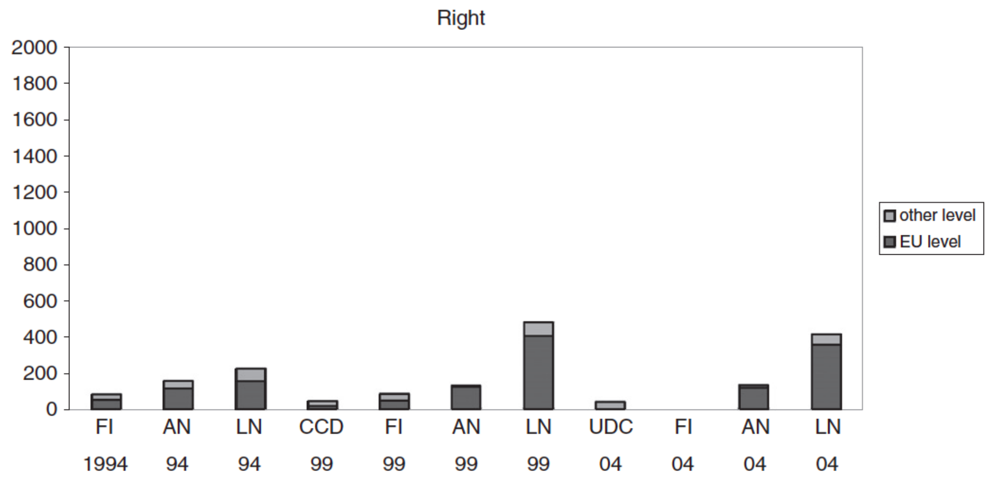

Figure 2. Number of quasi-sentences and their content level in the Italian Euromanifestos. Source: Author's elaboration on data of the Euromanifesto Research Project, MZES, University of Mannheim.

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[149] The chart has been taken from Conti N., *Tied hands? Italian political parties and Europe* in *Modern Italy*, Routledge (2009), page 210 http://www.tandfonline.com/loi/cmit20

4.4
Center-left coalitions

4.4.1
The Prodi cabinet and positions

At the end of the nineties the goal to be included in the Treaty of Maastricht was finally reached. However, another important goal was about to struggle the Italian political governing class: adopting the Euro currency with the first group of signing countries. To be one of the Euro-zone countries Italy had to implement Maastricht paradigms that until nineties had been mostly as a not-committing boundary.
Prodi has been one of the Prime Ministers who mostly strived in order to join the Euro-zone group. In 1997-1998 European tie became more stringent and the referential national policies frame in which until then Italian spokespersons had moved freely, became less comfortable.

The first Prodi cabinet[150] saw Italy's adhesion to the European Monetary Union as an absolute priority. Indeed, he made Italy's entrance in the EMU his first governmental objective, giving it major relevance throughout its government.
The center-left cabinet committed itself both on the internal and external sides in order to pursue its objectives. On the one side, it continuously asserted in the international and European *fora* Italian readiness in the European Monetary Union engagement. Moreover, Treasury spokespersons, Italian Foreign Office, and the Italian Central Bank undertook an assertive action. On the other side, structural domestic

[150] The first Romano Prodi cabinet lasted from May 1996 until October 1998. The second one lasted from May 2006 until May 2008.

policy changes were launched[151] in order to reach the fulfillment of the convergence criteria.

In the aftermath of its conclusion, the Maastricht deal was not perceived as a strict boundary. As a consequence, until 1996 the implementation of the Maastricht Treaty had not been a compelling step. This perception changed in 1996-1998, when boundaries for Member States became more stringent and the deadline was approaching. Moreover, the frame within which national policies could be implemented became more limited. The new center-left Prodi government radicalized the “Europe by any means” goal, imposing a turning point in the way that Italy approached to European integration.

The commitment of 1997 Prime Minister Prodi and its President of the Italian Republic Ciampi, claimed to be so serious that the former declared:

> << Italy will enter in Europe together with the head countries of the Union; there are any doubts on this. […] If I am not able to bring Italy in the monetary Union, I will resign. >>[152] [*Prodi e Ciampi: nell’Unione con i primi* in *La Stampa* February the 2nd 1997, page 2]

Moreover, Ciampi added:

> << There do not exist two phases for Europe […]. To postpone the participation to the unique currency would be a great risk […]. Italy has to convince itself and its European friends that its entrance in Europe does not bring unreliability, but exactly the opposite. >>[153] [*Prodi e Ciampi: nell’Unione con i primi* in *La Stampa* February the 2nd 1997, page 2]

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[151] *Ibidem* in the second chapter.
[152] Translated by the author.
[153] Translated by the author.

The aim of the two Italian representatives was to prove to European watchers that Italy was no more the same it had been during the seventies. Indeed, Ciampi explained that Italy turned itself from an indexation and inflation country to a country in which the stability culture is strongly imposed.

Prodi cabinet marked a discontinuity with the gradualist line carried by the previous governments. Indeed, while governments since 1992 had actuated a convergence process by entirely focusing on internal resonation policies, on the claim to modify Maastricht parameters, and on flexible interpretations of the European commitment, Prodi changed substantially the Italian governmental attitude towards the European Union and its monetary implications [Cotta, Isernia & Verzichelli 2005].

Prodi's willingness was to avoid recurring to the voluntary *exit* strategy. Hence, he identified his 1996-1998 cabinet's mission with the "Europe by all means" slogan. Prodi and "joining Europe by any means" discourse dominated the political debate of those years. Of course, the overly underlined discussion on the European "external constraint" has been duly and strategically deployed in order to have more space of maneuver to actuate heavy fiscal retrenchments, or welfare state reforms. Indeed, it helped in convincing the public opinion to accept further economic and fiscal operations.

The final success of Prodi's policy was eased by two contextual factors. On the one side, results of yet adopted corrective measures by Amato government and by technical governments that helped the early nineties transition. On the other side, Prodi attainment was due to the relevant circumstantial macro-economic factor that gave Italy an effective platform

in order to “jump” into the Euro. He pursued this goal by making the Italian governmental class recover some credibility, both on the national and international spots.
Furthermore, the conjunction of two other fundamental contextual factors, the domestic Italian political crisis and the stiffness of European boundary for the public finance re-equilibration, enforced the institutional centrality of governmental actors. Moreover, he rendered more substantial the debate between parliament and political parties, giving light to the latter [Cotta, Isernia & Verzichelli 2005].

In the afterwards of the Amsterdam European Council[154], a public statement assessing progresses made by EMU participating countries was diffused by the European Commission. In evaluating each country, this technical document provided the following commentary on Italy: << not to stop shortly before having reached the last obstacle. >> [Cotta, Iserina & Verzichelli 2005:364]. Therefore, the Italian government kept on with the financial document approbation, and it finally succeeded in ratifying it without recurring to the vote of confidence. Prodi fiercely concluded: << The therapy actuated by government has had positive effects, and the reduction of the discount rate proves that also the most skeptical ones now acknowledge the Italian commitment. >>[155] [Cotta, Iserina & Verzichelli 2005:364].

<< The policy of my government has been always surrounded by skepticism. Not certainly by the people, but by the establishment. >>[156] [Radaelli 2000:13].

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[154] Held in June the 16th – 17th 1997.
[155] Translated by the author.
[156] Translated by the author.

In this way Prodi described the pressures coming from the lack of credibility on its government by the Central Bank of Italy. Less credibility meant a more onerous service of the debt and therefore more problems with the overall budget balance. Also Confindustria was not confident on Prodi's policies and did not trust his government. Prodi commented: << I was not surprised: the skepticism of Confindustria in relation to the first Europe and then to the EMS is written in all history books. >> [Radaelli 2000:13].

However, the relative distance between the Prodi government and Confindustria did not preempt the power of neo-corporatist decision-making. Indeed, during September 1996 the government made a deal with the main trade unions and Confindustria itself. The agreement consisted of laws that consolidated innovation, i.e. concentration-based policies for economic development at the local level, temporary work, and the ending of public monopoly on placement services – in order to pursue the liberalization policies trend.

The final component of Prodi's successful set of initiatives in order to finally succeed in joining the European Monetary Union consisted in strengthening the core executive. He reformed the Italian economic department, which was divided in the Budget Ministry and the Treasury Ministry, unifying them in the unique Treasury Minister institution. Moreover, Prodi introduced a reform on the budget management, rendering it more governable on the economic side. Reforms of the Prodi government brought about a re-organization of the Treasury, strengthened by the introduction of new technologies in order to monitor the flow of public expenditures. This issue in particular was extremely relevant as in 1997 even small deviations in the economic area could cause troubles in the financial markets, destabilizing the whole European Monetary Union region.

4.4.2
Other left wing party positions

As a general observation, and in opposition with what has just been analyzed for what concerns the center-right cabinets position, center-left Italian governments used pressure on the European issue as a lever for policy change. On an ideological bias, left parties stood as the defenders of the welfare State. Therefore, after the passage of Maastricht and the implementation of the concerned austerity measures necessary to enter into the European Monetary Union, parties of the left depicted themselves as the defenders of the *status quo*. Indeed, they acted favorably the state benefits in an era of austerity measures [Bohrer & Tan 2000].

What about the European commitment that Italian parliamentarians had to respect in the European political arena?
In 2002, 19% of center-left parliamentarians underlined that economic standard decided at the European level did not take into consideration the peculiarities of Italian economy. As the percentage points out, center-left parliamentarians were more positive on the European integration in comparison to the center-right ones[157] [Cotta, Isernia, & Verzichelli 2005:198].
On the comprehension of the European Union, center-left parliamentarians revealed preferences for a more democratic Union. They

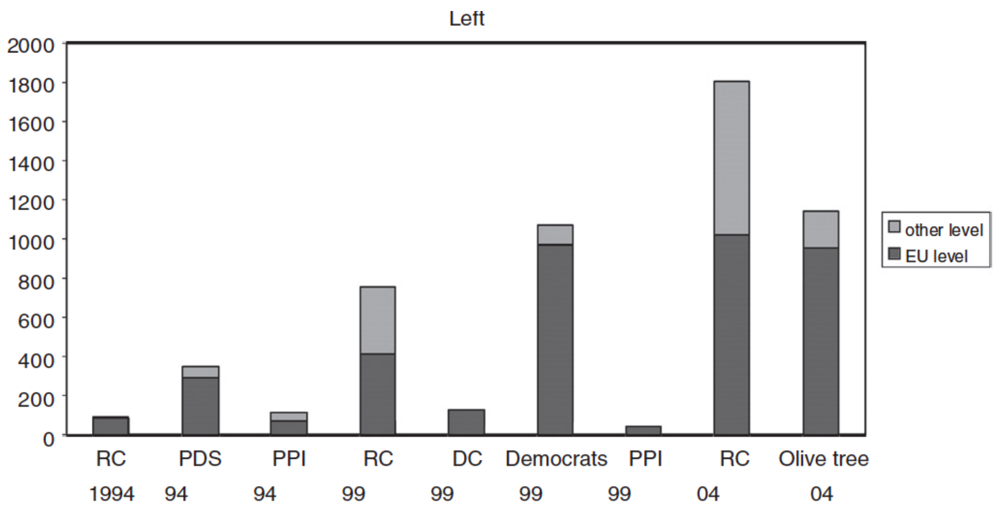
[157] *Ibidem* pages 192 – 193.

tended not to judge the European Commission as too intrusive. By underling the importance of respecting the *acquis communautaire*, they practically supported a supranational understanding of the European Union [Cotta, Isernia & Verzichelli 2005:198].

Finally, on the Euro issue, center-left parliamentarians pronounced themselves positively. Indeed, they supported a perspective of economic resources liberation [Cotta, Isernia & Verzichelli 2005:203].

Chart 4.2 aims to give an overlook of Italian center-left parties for what concerns the integration of the European issue in their manifestos. Indeed, the graph highlights that center-left parties in Italy greatly included the European issue in their manifestos. Indeed, if compared to the right wing parties' manifestos[158], it is evident that the former executed higher levels of integration of the European matter. The sole party according to which the European theme is left aside is the Communist party, *Rifondazione Comunista*.

4.2)



159

[158] *Ibidem* pages 192 – 193.

[159]The chart has been taken from Conti N., *Tied hands? Italian political parties and Europe* in

The position of *Rifondazione Comunista* can be explained in the optic of a strategy of the radical party to take advantage of the opposition to the European Union integration. Indeed, by not including this issue in its manifesto, it practically rejected to give too much political legitimacy to its authority. Therefore, the strategy adopted is clearly a *voice* one, in the effort to de-legitimize European institutions.

The *Rifondazione Comunista* manifesto is not a platform to compete over the European matter, but a broad document that shows the party objection towards the EU and the global order [Conti 2009]. This aspect is in line with the core ideals of the party. Moreover, the Communist Italian party always acted coherently on the European integration issue, that is to say, against its development and implementation. As a general trend, throughout time the other Italian center-left parties mostly held less coherent position.

4.5
The last 'technicians' government: Monti cabinet

Together with L. Dini cabinet, M. Monti's has been the other entirely technical cabinet of the "second" Italian Republic. This means that both of them had been called to rescue Italy from a critical economic and financial situation. In order to be effective, they chose to form a cabinet composed by no-partisan people, the so-called 'technicians'.

Modern Italy, Routledge (2009), page 210 http://www.tandfonline.com/loi/cmit20 Source: Author's elaboration on data of the Euromanifesto Research Project, MZES, University of Mannheim.

Mario Monti cabinet had been in charge from November 2011 until April 2013. However, because of Monti previous role as Commissioner in the European Union, his contribution to the debate of Italy’s role into the European Monetary Union has been vast.
Indeed, his vision on the European Monetary Union corresponds to a repeatedly changing objective, an ongoing and still growing process that is far from being completed.

In his article taken by *La Stampa*[160] this concept is clearly explained:

> << Europe has underwent some political cycles very different one from the other. Clearly, the guardrails of Maastricht path have consistently limited the space of manoeuver for internal institutional and economic policies. International markets have felt this characteristic as one of the factors of European membership. >>[161]

Moreover, on the financial sector state of art, he wrote in the same article:

> << If we take a glance to the financial sector, it is noticeable that it is slightly easier to accept directives in the banking field, or for what concerns the surveillance, or the real estate markets. It is relatively more difficult to institute efficient vigilance agencies on banks or on Stock Exchange. It is even more difficult to make it work properly. This is a work in process and it has to not surprise that it will take long time. >>[162]

As Monti himself defined his government, it was one with the mission of accomplishing a “national obligation” [Marangoni 2012:135]. Indeed, Monti was called as Prime Minister in order to deal with the economic

[160] Monti M., *Euro: quanto costa la virtù* in *La Stampa* May 30th 1999, page 19.

[161] Translated by the author.
[162] Translated by the author.

and financial situation that during those years Italy was struggling with. Monti executive was formed by technicians and not by politicians. Besides this aspect, another crucial factor of this government was that it had the support of the two larger parties at that time, namely the *Popolo delle Libertà* and the *Partito Democratico*.

Being an emergency government, called to pursue a precise scope, its political program was mainly focused on the management of the economic and financial crisis. Indeed, Monti tried to pursue the mission of bringing down the colossal size of Italian public debt. In order to achieve these purposes, the Prime Minister outlined the main strategies in his program to the Parliament. These objectives were: improving the public finances; reducing costs for the maintenance of elected bodies; rationalizing Italian public administration; reforming the welfare system; fighting against tax evasion; taxations of property. For what concerns in particular the economic European realm, his objectives were: to implement the European Union commitments; to sell off publicly-owned real estate; to actuate macro-economic policies to encourage growth; to intervene in the labor market; and to encourage growth through micro-economic policies [Marangoni 2012:139].

Because of the exceptionality of Monti government, he made pressures on the Parliament so as to be sure that approved laws would be effectively put in action. Therefore, the executive did not confine itself to the presentation of emergency decrees but, more specifically, it recurred to the vote of confidence in a strategic way.

Broadly speaking, the autonomy and the increased expertise of a few ministers have a clear impact in the law implementation. On a general bias, the fact that the cabinet is purely technical entails a number of possible “attempts for reform” from different ministerial actors, but also the possibility of a rigid “stop” by the government chief, as Prime Minister has no political boundaries. In fact, Monti several times contradicted their own agents during confrontations [Cotta & Verzichelli 2012].

What consequences and what stances has Monti developed with concerns to the European Monetary Union integration?
Being a former EU Commissioner, he did not play the game of blaming the European Commission. Monti finally accomplished the aim to make Italy regaining a leading role in the European integration. His policies provided a set of initiatives in the financial and economic field that, at the end of the mandate, partially helped in restoring Italian economics.

> << The new Italy – according to Monti, a former banker and economics professor - will be committed not only to austerity, but also to growth, and will not just "passively transpose EU guidelines, but it aims to be a major driver of these guidelines." >>[163]

4.6
Concluding remarks and the Renzi cabinet

Before tracing the final considerations of the discussion led in this chapter, few words will be dedicated to the participation to the European Monetary Union of the latest Italian cabinet, namely Matteo Renzi[164] one.

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[163] Extract from Pop V. *Monti to make Italy “driving force” of EU integration* in *Euobserver* February the 15th 2012 https://euobserver.com/institutional/115271

[164] Matteo Renzi has been appointed as Prime Minister of the Italian Republic Government in February 2014.

In the Italian contribution to the European Monetary Union strengthening, in a Document released in May 2015, it is possible to read:

> << European leaders should show a high level of ambition and of political will for the European project. The new report new report on the Future of the EMU must be ambitious and give the right signal of the commitment by all Institutions to move towards a strengthened institutional framework endowed with adequate resources and democratic legitimacy. We need to preserve the irreversibility of the Euro, to avoid any internal fragmentation in the Eurozone, to promote its resilience in responding to shocks, to improve its performance. The peak of social discontent towards Europe could still be ahead and bring devastating consequences. Europe needs do adapt and keep up the rhythm of change as governance instruments are concerned. Changing our governance means making it more effective, democratic, fair. >> [*Completing and Strengthening the EMU,* Italian contribution, May 2015, page 1]

Renzi cabinet’s claim is for a more political approach. In order to do so, several key attributes are indicated herein. Concerning the “deepening” of the European Monetary Union, the Italian part asks to make unambiguously clear that the single currency is irreversible. Instead, with regards to solidarity, the Document indicates that it is a constitutive element of a well functioning EMU, together with responsibility. Moreover, on this issue it is added that effective instruments should be addressed.

In order to enhance the Eurozone, few measures are suggested:

> << 1) Economic governance must imply a much more cooperative rebalancing where the added value of being part of an economic union is maximized and the implementation of structural reforms is supported.
> 2) Measures to address the social cost of the crisis and enhance citizens’ trust in the EU are needed. Adjustments, notably in the labour market, could greatly benefit from a common cyclical unemployment support that would amplify

positive spillovers, impact and effectiveness of reforms. In addition, a positive signal on the irreversibility of the common currency would contribute to macroeconomic stability and anchor positive expectations.
3) The Banking Union must be completed with the implementation of a common backstop and a Single Deposit Insurance scheme, while a deeper financial integration is needed to address markets' fragmentation and to promote all lending channels within a Capital Markets Union.
4) Single market must be a driver of growth and innovation in support of structural reforms.
5) An effective use of the resources of the EU budget and of the Juncker Plan must address market failures in the financing of European public goods bringing the highest growth potential, possibly with direct support from Member States. >> [*Completing and Strengthening the EMU*, Italian contribution, May 2015, pages 2-3]

With a view to the European Parliament elections in 2014, proposals of the Italian *Partito Democratico* mainly focused on the claims for a different response to the crisis from the one that had been given by right wing governments.

Specifically, for what concerns the European Monetary integration, suggestions focused mainly on the enhancement of the monetary coordination at the European level. Therefore, the European Central Bank has been called in order to have also voice in the domain of expansive monetary policies. On the financial side, the claim was to create a financial reserve amounting to 1% of the European GDP. Moreover, the 2014 European manifesto of the *Partito Democratico* declared to sustain the creation of a European Investments Fund and a more active role of the European Investments Bank.

In the effort to provide a general overlook to the political attitude of Italian parties' since the 1992 Treaty of Maastricht signature, it is possible to synthetically retrace what it has been analyzed throughout the present chapter.

The institution of the 1993 Amato “technical” government in the aftermath of Treaty of the Maastricht Italian signature provided great vigor in the Italian European political assertiveness. Policies implemented by this cabinet proved to be a substantial step toward a factual participation and implication of Italy in the European Monetary Union scene. Amato cabinet, as the following ones, gave Italy voice and credibility in the European institutions. Moreover, they proved to implement stringent economic policies, which have been often judged by both the public opinion and other parties as too austere and stringent.

However, on the European side, Italian technocratic parties were able to act freely, as more or less untied to any domestic political coalition’s pact. Furthermore, there has been an increase of European institutions confidence on Italian participation to the supranational integration process during Amato, Ciampi, Dini, and Monti cabinets. Indeed, Italy’s European reliability increased.

On the political side of the discourse, center-right and center-left coalitions have been more contradictory on the European concern, generating an intense political debate on this issue in the domestic arena. However, as previously explained, the tactic to which Italian parties always recurred in order to participate to European institutional implementation and to support Italian stances, has always been the *voice* option. However, right and left wings of the Italian parliament had different participative attitudes, using differently the *voice* strategy.

With center-right coalitions, and especially during Berlusconi cabinets, Italy underwent a loss of reliability in the eyes of Europe. Certainly, Berlusconi government acted coherently with his political line, but of course a good degree of its political position was due to the public opinions' contingencies. Indeed, Berlusconi had been capable to surf on the Euro-skepticism of those years accordingly to his vision on European integration. With Berlusconi cabinets Italy lost reliability on the European scene. For what concerns the European monetary integration, Berlusconi criticized it in spite of the fact that it is actually inspired by a liberal thought.

Broadly speaking, center-right coalitions often exercised an aloof attitude toward the European integration issue. Particularly for what concerns the European Monetary Union, they adopted positions intended to protect Italian economic policies on the unique currency issue and its implications.

For what concerns center-left coalition, the left wing contribute to the European integration appeared to be more committed. Among the others, Prodi involvement into the European Monetary Union issue has been crucial in order to comply with the further implemented Maastricht commitments, and therefore to join the Euro.

On a general bias, Italian center-left parties recurred to the European monetary policies implementation issue as a pressure instrument against austerity measures.

In the realm of left representatives, it has to acknowledged great importance to Prodi's commitment in giving Italy voice and commit our country to the European integration. The positive results gained by Prodi cabinet in reaching the respect of Maastricht rules were also due to favorable domestic and foreign circumstance[165]. On the one side he had also to tackle with Confidustria hostility, but on the other side he was favored and backed by at-time Italian President Ciampi.

[165] *Ibidem* pages 196 - 197.

However, in spite of the differences, the characteristic in common among Italian right and left wings on the European integration is the attitude of the extreme parts of the two sides of the Parliament. Extreme-left *Rifondazione Comunista* and extreme-right *Alleanza Nazionale* parties mostly stood on a Euro-skeptic position, often trying to delegitimize European institutions and their enhancement.

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CONCLUSION

The last part of this thesis aims to recollect the main inferences made in the previous chapters and the principal deductions that resulted from the above-mentioned observations. The purpose is to give an overall frame summarizing the principal outcomes of the discussion lead until now, and to broadly recall the main statements made throughout the whole dissertation. The discussion will deal with the above-introduced themes discussed above by following the same structure of the dissertation. Firstly evidence in the field of the Italian political economy will be commented. Afterwards, financial results will be briefly considered. Thirdly, the investigated change in the Italian political party policies will be resumed. In the end, a final general overlook on these issues will be advanced, in the unassuming effort to provide a hint for further researches in the field.

For what concerns its member States, the European Monetary Union has certainly introduced a modification in the pattern of the relations among financial and market realms. Moreover, it changed the Euro States' attitude towards the monetary, financial, and economic policies. By doing so, it actually helped in bringing about change also in the national political class and in its party-system. This has been clearly evident in Italy, where the European Monetary Union bound has entailed a profound revision of the before-1992 *status quo*.

This research was started with the idea to test the idea according to which national governments that joined the European Monetary Union have no room left for manoeuvre.

As a matter of fact, especially for what concerns the European institutional building, it is possible to effectively highlight a shift towards an enhancement of supranational powers since the Maastricht Treaty entrance. Indeed, European Member States have to take into account the directives coming from the European Monetary Union institutions in their economic policies. However, this has not really penalized the policy autonomy of EMU member States; in fact, it has changed the national attitude towards economic and financial issue. This is particularly true for what concerns the Italian situation.

On the monetary policies side, being the Euro-zone a currency area not yet optimally integrated, it is possible to distinguish winners and losers from the on-going integration process. Concerning the monetary political economy field, national governments actually pushed a lot in order to pursue the integration process. The reason why they stood so strongly for the European Union is that, at the end of the day, everyone potentially can potentially draw some benefits from the participation in the European Monetary Union, although in different fields and accordingly to their economies' size.

As a matter of fact, the single currency makes taxes and other distortions in the national economic systems more transparent; it also reduces currency risks and the need for hedging. Moreover, it creates larger economies of scale.

Generally speaking, it is possible to recognize a great commitment of Italy towards the European Monetary Union, both politically and on the level of effective economic and financial domestic adjustments.

The Italian political economy has undergone fundamental changes in the period from 1992 onwards. Indeed, since the very beginning of the monetary Union, Italy has stood as a promoter of the unique currency creation and implementation, nevertheless its structural deficiencies. Notwithstanding the political commitment, other issues have originated from the structural problems of the Italian economy. Particular concern derived from the economic cleavage with Southern Italy.

The trend towards liberalization has characterized the European project since the very beginning. However, this set of policy implementation in Italy has been implemented later than the other European countries. Moreover, provisions on liberalization are a policy attainment not yet completely accomplished.

The introduction of the provisions designed according to Schengen principles has been a core point of the competitiveness side of Italy in the European free-market zone. However, nowadays Italy still remains one of the countries that performs in the Euro-area the lowest shares of trade. Nevertheless, Italian progress through time has proved to be significant. Indeed, recent data show that the Italian intra-euro exports share augmented from 166.0 to 209.3 in a ten-year period - from 2002 to 2013.

Although, speaking with reference to the supranational level, the path towards liberalization still does not entail that nowadays Euro-zone can be identified as an Optimum Currency Area. This evaluation can be conducted on two sides of the issue. On the one side, there is the evidence that levels of exports in the Euro-countries remain low. Indeed, countries in the Euro-area exports are relatively similar, but they present well-diversified baskets of goods. This characteristic is positive with regards to the low-level incidence and aggregate impacts of asymmetric shocks, because it fosters the conduction of a smooth functioning of the European Monetary Union.

On the other side of the issue, similar export patterns alone clearly cannot guarantee convergence in the economic development across the euro area. Moreover, European observers noticed that inadequate domestic policies in particular could lead to nominal and real divergence. Therefore, the implementation of determined policies even at the national level becomes crucial.

Concerning Italy's political economy, Schengen agreements proved to be substantial in order to reshape the national economy, which historically was mainly based on agriculture and on rural productivity. Furthermore, another relevant turnover in the economic policy field has been the push towards competitiveness.

Therefore, the address of Italian political economy has changed substantially since 1992. Moreover, the European Monetary Union had the potential to enhance the domestic economy. Participating to the European Monetary Union represented a decisive step in order to finally introduce a serious set of reforms in the Italian budgetary management.

Bringing off privatization and liberalization processes has represented a priority since the 1990s. Moreover, other substantial changes were introduced in the period after the implementation of the Maastricht Treaty. Indeed, once the Italian economy has been finally realigned to the European Monetary Union standards, the focus has been placed on balance sheet adjustment policies. In addition, in the first years of the new millennium other themes have been introduced. As documents of those years demonstrate, there was a call for a "new address for the political economy" and it was concentrated mainly on development, renovation, and equity policies. Lately, Italy has been engaged in developing the banking union. The commitment became more stringent particularly during 2014 Italian 'Semester' Presidency at the European Council.

For what concerns the fiscal policies in the European Monetary Union frame, they still represent a national prerogative. In fact, the Treaty of Maastricht did not directly provide a fiscal Union. However, at the European institutional level reinforced provisions on the harmonization of fiscal policies in the area have been progressively introduced. Actually, from time to time these provisions have proved to be too stringent for the Member States that, as previously explained, still perform different economic structures and accordingly, preferences.

The whole range of fiscal and financial policies under the European Monetary Union legislation has not yet been unified. This is seen as a lack in the European institution and it has led to puzzling periods both at the supranational and domestic level. Generally speaking, one lesson that emerges from the study of the European financial situation is that a rigorous application of the EU fiscal framework provisions is needed in all circumstances. At the current juncture, progress towards attaining sound budgetary positions is required to firmly set the euro area's deficit and debt dynamics on a sustainable path.

It has been often demonstrated that the Italian participation to the European Monetary Union has been mostly positive. Italy has been deeply involved in the supranational institution building and in the actuation of supranational required policies. However, the high degree of Italian commitment did not exempt the country from major setbacks. The determination to respect the European commitment and to also recover from the economic crisis pushed Italy to be strongly active on the reforms side. It improved its relative position with concerns to other European countries. Indeed, while in 1995 Italy's indebtedness was above the average value of other European countries, in more than ten years the trend has changed. Therefore, 2007 data show that Italian indebtedness has been lower than the average European value.

In the aftermath of the introduction of the Euro currency, other major setbacks occurred in the Euro zone. Once again Italy needed to undergo a huge revision of its fiscal policies. Therefore, being characterized by a deceleration of productivity dynamic, a reshaping of the Italian productive system was required. Italian economic structure lacked more on the tertiary side; in fact service sector underwent a constant inferiority with regards to industrial sector. This peculiarity caused major problems in a regional and world context where the affirmation of a “new economy” was spreading.

The different structure of the Italian economy, however, proved to have its positive sides. Indeed, thanks to the structural characteristics of Italian economy, 2008 subprime crisis hit Italy less than the other countries. Nevertheless, fiscal consolidation policies were needed in order to ensure a more stable and trustworthy financial framework.

As previously explained both in these conclusions and in the previous pages of this dissertation, the European countries nowadays still perform different preferences towards the economic issues. One of the reasons why these preferences diverge is linked to the heterogeneous composition among European countries’ systems of fiscal imposition. Indeed, the general trend of the majority of the European Monetary Union members is to simplify taxes on work and to increase the ones on incomes, properties, and real estates. This observation is not true in the Italian case, which is a country that actually performs exactly the opposite trend.

By referring to the EMU framework, Italy is a totally deviant case in the fiscal imposition. In order to harmonize the Italian fiscal system to the European ones the trend should be inverted.

Hence, it appears that nowadays the European Union is unable to practice a unified set of fiscal provisions. Before aiming at a unique fiscal area in the Euro zone, Euro States should be capable to harmonize and coordinate their fiscal provisions.

The Italian fiscal policy should pursue the innovation path that it has finally undertaken in the last years. Therefore and first of all, fiscal policy choices should be able to align Italian economy to other European Monetary Union Member States economies, in order to reach a fiscally harmonized monetary Union.
This aspect is crucial because of the risk of asymmetrical effects inside the European Monetary Union. Moreover, concerns on the issue rise when the focus is on the fact that actually there is no common authority on fiscal policies, as it does exist for monetary policies.

Particularly for what concerns Italy, it is generally possible to affirm that the commitment towards the European integration has been taken seriously. The benefits of the European Monetary Union proved to be worthy despite all the difficulties Italian governors and their people had to undergo in order to be admitted to the three phases of the Euro-zone institution. Economic problems have to be related to the political economy irresponsibility that characterized Italian governments especially during the so-called ‘First’ Republic. The collapse of the Italian political élite in the early nineties proved to be crucial in order to help Italy to join the European Monetary Union path. The ending of ‘party government’ period signed with the Amato cabinet opened a new era for the Italian political system, together with the beginning of the so-called ‘Second’ Republic. Besides the differences explained in the fourth chapter between the center-left and center-right coalitions in Italy, and the different cabinets’ approaches to the European integration issue, a final remark has to be highlighted.

Regarding the participation and preferences of political parties towards the European Union and its monetary institution, the discourse should be put in terms of political alliances. National political parties should help the European integration and the process of European identity building. Therefore, national parties should promote themselves as bridges between national citizens and the supranational institutions, helping the formers in the understanding of the latter, and encouraging their participation.

Because of the transformations in the domestic economy the European Monetary Union has changed the nature and the importance of governments' choices about debt management. Fiscal consolidation allowed many European governments to reduce their reliance on foreign currency debt. This aspect provoked a reliance of the financial markets on national European governments. The result is a changed pattern in the government-financial market relations.

Sorting out all the data analyzed in the above conducted research, it can be finally stated that the Italian participation in the European Monetary Union policy process in the three main domestic fields observed has been substantial. Indeed, Italian stakeholders in the EMU frame have always adopted the 'voice' strategy, proving that Italy could really participate and contribute to the European monetary integration process. Moreover, they showed that the participation of Italy, with its economic peculiarities and performance, could be crucial for the survival of the European Monetary Union.

Of course, Italy has gone throughout difficult economic conditions, but as the above-discussed data show, this has been mainly due to the structural problems of Italian economy, and to the sometimes-thoughtless attitude of some Italian political stakeholders’ towards European integration.
Changes that Italy went through during these twenty-three years have been so remarkable that this dissertation could be only considered the prelude, or a suggestion, for a wider research on the issue.

As a final remark, it is important to highlight that the efforts provided by Italy in order to respect European Monetary Union rules and to follow the integration path, have been huge and moreover they proved to be effective. Indeed, policies implemented in order to comply with the Maastricht Treaty and its following provisions have benefited Italian monetary stability, financial accountability, and political responsibility.