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Ambition or illusion?
Italy and the negotiations of the European Monetary Union (1971-1992)

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Introduction

There is a dominant and recurring narrative in Italian public opinion that portrays our country as a passive actor in the stories in which it finds itself passively involved; an actor incapable of writing its own history independently, influenced by external actors, sometimes even forced to submit to decisions made for it by others. In other words, a country incapable of determining its own destiny without someone else dictating its main trajectories and at the mercy of major issues beyond its control. The consequence of this narrative is the substantial non-responsibility of Italy, which is thus often absolved of the choices made in the past that inevitably condition its present. Such non-responsibility implies a dramatic inability to recognize the causes of the problems that afflict our country, and hence the immobility that prevents the possibility of dealing with them effectively. Just as at the individual level, where the first step in solving a problem is to take responsibility for what ails us, at the level of the country-system, non-responsibility often makes us immobile and unprepared to deal with today's challenges with a sense of practicality and statehood.

This narrative applies in an exemplary way to issues of European integration, and especially to those concerning monetary integration. There is a pervasive belief, though not without a margin of error, that the euro has negatively impacted the Italian economy. This perception has contributed to a general distrust of European institutions, which are often perceived as external forces that have imposed themselves upon the Italian national system. This perception has led to a sense of disillusionment and frustration, with many Italians feeling that they have been forced to accept the consequences of decisions made by European institutions without their consent.

This thesis project aims to investigate Italy's role in the negotiations that led to the signing of the Maastricht Treaty and the decision to adopt a single currency for the twelve member states of the then European Community, in order to restore its status as an active bargaining party, and thus responsible for its choices. Indeed, it is believed that no decisive step toward improving the country's economic and social conditions can be taken without first going through an awareness of why and how the country decided to be part of the process of European monetary integration. In other words, it is necessary to take responsibility in order to actually be masters of our future.

The economic and social challenges that have come to dominate the public debate in the months leading up to the elections for the next term of the European Parliament are so pervasive that they have become almost a mantra. These challenges include the need to revive the competitiveness of European industry, to overhaul its economic development system, and to improve the functioning of the single market. In a speech at the informal Ecofin meeting in Ghent on February 23, Mario Draghi addressed these needs in an unabashed manner, stating:

"*The European development and growth model has ceased to exist. It is evident that the traditional pillars of economic growth are no longer sufficient, and a new approach to growth is required"*

While awaiting the release of Draghi's report on European competitiveness – expected after the European Parliament elections of 8th and 9th June – it is noteworthy that numerous elements identified by Draghi as contributors to the stagnation of European economic growth and several of the solutions he proposed, such as the establishment of a unified debt system at the European Union level, can be traced back to the discourse preceding the decision to establish a single European market and subsequently the adoption of a single currency. The renewed centrality of these issues in the public debate and the need to confront these critical issues by proposing new political and macroeconomic recipes to address them render the topic under consideration particularly relevant at this time.

The following analysis examines the choices and the ways in which Italy participated in the negotiations for the Maastricht Treaty from a three-level perspective: the dimension of Italian foreign, domestic, and economic policy. These different, but interconnected levels of analysis must be taken into account simultaneously, as they identify the three major issues underlying Italy's accession to the European Monetary Union. What role was foreshadowed for Italy in the international and European chessboard with the end of the bipolar conflict, and with it the balances between European states? Secondly, how to reconcile external changes with the maintenance of an internal institutional and political order? Finally, what macroeconomic implications and consequences were inscribed in the EMU for the Italian economy? This highlights another interesting aspect of grappling with the topic of European monetary integration and Italy's role: namely, the diversity of aspects that it forces us to consider and with which we must deal in order to fully understand its significance. Studying the history of European integration from the Italian perspective allows us to gain insight into the present state of our country and prompts us to examine our economy, the composition of our ruling class, our political system and government, and our approach to foreign policy.

In 1992, an attempt was made to shape a future about which little was known. The past, that of opposing blocs, had been swept away on a November night in Berlin, where rivers of people, for the first time in forty years, crossed the city freely. In those pivotal years, the twelve countries comprising the European Communities collectively resolved to respond with unified voice, striving to become a unified chorus capable of firmly answering the questions that had arisen from the fall of the Berlin

Wall and the end of cold war. This was achieved by taking the final decisive step towards the full realisation of the economic union that commenced with the signing of the Single Act in 1986, which was accompanied by the political union: the adoption of the single currency. The decision was driven by two key factors: political and economic. France's desire to anchor Germany in the European Community, fearing a superpower that would overshadow and diminish France's influence, and the need to resolve the "irreconcilable quartet" dilemma, whereby full freedom of trade, full mobility of capital, fixed exchange rates, and national and autonomous monetary policies cannot coexist, were two of the key factors driving the decision to adopt the euro. The solution was the decision to end the plurality of sovereign currencies held together by a fixed exchange rate system, replacing them with a single currency, the euro. The decision to adopt a single currency also challenged the long-held belief that currency is a symbol of state sovereignty.

What was the role of Italy in the process of defining the contents of the Treaty? What was the response to the signing of the treaty when it became a reality? And who was the proponent and advocate of these choices within our country? To answer these questions, the years from 1971 to 1992 will be traced, examining the interaction between the internal dimension, domestic economic policy choices in relation to those of the EU, and the international context in which the process of European integration was set. The aim is to understand how the wills of Italian political authorities met, and clashed, with those of economic authorities, and how this interaction influenced Italy's negotiating position at the EU level. The objective of this research is to present a different narrative of Italy as an actor in European integration. This narrative will focus on Italy's responsibilities, wills, limitations, and strengths within this process. It will also investigate a particular sphere of the country's foreign policy through a lens that views it as the result of the internal structuring of the positions of political and economic authorities.

The first chapter will introduce the *fil rouge* of the entire narrative, namely the schism between the two souls of the country: those who advocate for internal protectionism and those who advocate for external constraint. The presentation of this fundamental concept that pervades the entire narrative of Italy's involvement in European economic and monetary integration will facilitate an understanding of the parameters that, in the 1970s, influenced the country's stance vis-à-vis the nascent European monetary integration projects that emerged at the advent of the end of the Bretton Woods system, or the European monetary snake that subsequently became the European Monetary System. This analysis will demonstrate how the interplay between developments at the international and EC levels and the macroeconomic decisions desired by political authorities and implemented by economic authorities in those years in response to these changes contributed to a policy shift in economic and monetary policy beliefs in Italy. We will examine how the redefinition of the competing pressures between internal protectionism and external constraint caused by this shift will give more prominence to the leadership of technocratic elites. Additionally, we will analyze how the new geometries between political and economic authorities and internal rifts will condition Italy's ability to define content in the EMS negotiations. The profound interconnection between domestic politics and the ability to exercise foreign policy, as presented in the initial chapter, will be a central theme of the second one, in which the Italian 1980s will be described in parallel with the EC dynamic of stalling and then reviving European integration. The newfound economic growth that began in the second half of the decade, the enthusiasm for progress and modernization of the country and the mores of society, will result in ambitious foreign policy goals, including European economic and monetary integration. This chapter will present these changes, their positive reflection on Italy's ability to influence the integration process, but also the limitations of economic growth based largely on the extensive use of public debt instruments to support growth. The shadow of public debt and the country's structural difficulties will be determining factors in the country's inability to keep up with the community events of the second half of the 1980s. These fragilities and their consequences will be the subject of the third and last chapter, where the years from the signing of the Single European Act to the Maastricht negotiations will be presented.

Chapter one

The investigation of Italy's role in the definition of the contents of the Maastricht Treaty requires a preliminary exercise. This exercise consists in identifying parameters that helped to internally structure the positions of the actors and the institutions they represented. These parameters, or structural conditions, shaped and formed Italian perceptions towards European monetary integration, and thus its approach toward the negotiations. In other words, this chapter will identify the basic features of the Italian political system and its economy through the description of actors and institutions that embody its essence as they evolved during the years leading up to the signing of the Treaty. While some traits have in fact remained as constants, others have evolved over time.

The Italian position on European monetary integration is the result of the interaction of external factors, the subjects of the next chapter, and internal factors. After all, the intertwining of internal and external policy is a peculiarity inherent in Italian foreign policy identified by Sergio Romano in his seminal "*Guida alla politica estera italiana*", which makes of the entanglement between the two dimensions the central theme of his handbook. [1] This Italian peculiarity also figures prominently in the history of European monetary integration. This chapter will begin by describing the internal structural factors that were decisive in shaping Italy's vision of the EMU and those that from the outside contributed to their formation.

A first key factor of analysis is the constant tension between two competing pressures, namely internal protectionism and external discipline. In the narrative portrayed by one of the main Italian actors in the history of the EMU, Guido Carli, these competing pressures are called "the two souls of Faust" that have always lingered in the Italian economy. [2] The two "souls" correspond to two distinct and opposing currents: the statist and protectionist current, which recognizes in the state, economic planning and state presence in companies the solution to the problem to the production of wealth and its distribution according to the principles of equity; and the liberal current, which regards individual initiative as the way to the satisfaction of the needs of the community and individuals, albeit with some general orientation imposed by the state. In the early post-war years when the rules of the international economic system were still being defined [3], the coexistence of these two souls was characterized by a strong tension, which was expected to result in a return to domestic protectionism.[4] For what Carli calls "*one of those historical cases in which luck, chance and brilliant intuition are*

[1] S. Romano, Guida alla politica estera italiana, Rizzoli, 2021, p. 10
[2] G. Carli, Cinquant'anni di vita italiana, Laterza, 1993, p. 4)
[3] F. Cesarano, Monetary Theory and Bretton Woods. The Construction of an International Monetary Order, Cambridge, 2006, p. 190)
[4] F. Petrini, Il liberismo a una dimensione. La Confidustria e l'integrazione europea 1947-57, Franco Angeli, 2005, p. 75

intertwined" [5], Italy joined the international monetary institutions, i.e., the institutions created at Bretton Woods, abandoning the protectionist and statist ambitions of the most in favor of the liberal ones of the few. By joining the Bretton Woods Statutes [6], and by being part of the intra-European cooperation through the establishment in 1957 of the Common Market and the European Economic Community, Italy had its first taste of the *vincolo esterno* [7], which helped anchor the country to market economies, and thus, to parliamentary democracy. This experience will not be the last. In fact, the need to resort to external constraints, arising from supranational obligations (i.e., European integration), to graft into Italian society something not naturally self-produced, will recur again and again, and will coincide with the deepening of European integration. Knowing this quintessential element of the Italian economy also exemplifying its foreign policy - the tension between external discipline and internal protectionism - is crucial to understanding Italian actors' perceptions of the EMU and how it has evolved through several fundamental steps.

The dynamic between these two forces is a constant in postwar Italian history, which, with the experiences of the 1970s and 1980s, evolves in a more liberal orientation at the expense of the protectionist soul. In a parabola strongly conditioned by developments in the international political and economic system, we witness a policy shift that allowed Italy to make its own features otherwise alien to its understanding of economics: price and exchange rate stability; the independence of the Central Bank, fostered by the gradual "divorce" between the Bank of Italy and the Treasury[8]; and financial liberalization. As a result, the competing pressures of securing external discipline and satisfying demands for internal protection were redefined in a way that changed perceptions of the advantages of the European commitment as an external constraint and heightened the policy leadership of technocratic elites. [9]

1. *Pathei matos*: the 1970s crisis and the policy shift

Italy’s specific response to EMU has to be placed in a longer-term context in which both indigenous and exogenous pressures resulted in shifts in economic policy. Until the 1980s, Italy's membership of the EC had not penetrated so deeply into domestic state–economy relations. The *partitocrazia* was sustained, and an ‘internal protectionism’ (*protezionismo interno*) along with it;

[5] G. Carli, Cinquant'anni di vita italiana, Laterza, 1993, p. 6
[6] Assemblea costituente, 21 febbraio 1947
[7] For a focus on the *vincolo esterno* see R. Gualtieri, L’Europa come vincolo esterno, in *L’Italia nella costruzione europea. Un bilancio storico*, di A. Varsori e P. Craveri, pp. 283-313
[8] For an accurate description of the “*divorzio*” see G. Garavini & F. Petrini, Il divorzio tra Tesoro e Banca d’Italia: il vincolo interno e le origini del problema del debito pubblico italiano, in *Al governo del cambiamento. L’Italia di Craxi tra rinnovamento e obiettivi mancati,* di D. Caviglia e S. Labbate, pp. 39-71, Rubbettino, 2014
[9] K. Dyson & K. Featherstone, The road to Maastricht: Negotiating Economic and Monetary Union, Oxford, 2003, p. 454

those advocating liberal, market-based reform were in a clear minority. But the problems experienced in the 1970s started to change attitudes. Italy slowly changed its external position and its posture toward EMU, subjecting the culture of internal protection to increasing challenge and eroding its strength. These pressures strengthened those political and technocratic figures in Italy urging reform, enabling them to argue that a liberal shift was essential to maintain Italy's international position. [10]

What were the events that ended the almost unchallenged dominance to domestic instances of protectionism? How did they enter the domestic dimension by affecting Italian economic policy? The 1970s represent a decade of severe political and economic crisis for Italy, punctuated by some of the most dramatic events in the history of the Republic. [11] The pincer of the crisis clutched Italy and other European countries in its grip simultaneously from two sides: from the West, from where the end of the Bretton Woods system and the crisis of the U.S. economy brought financial instability and a slowdown in the pace of growth that European economies had witnessed for almost a decade; from the East, particularly from the Middle East, from where the oil-producing countries decided to use their weapon, the rise in the price of oil, to strike at economies dependent on that source of energy supply. [12] Decelerating economic growth, declining rates of investment and productivity, inflation, rising unemployment and loss of international competitiveness became the hallmarks of industrialized economies for almost a decade. These crises had important consequences for the future of the European economic, financial and monetary system and redefined the Italian position in this regard.

1.1 From provisions to plans

With the first of the four measures enacted by U.S. President Nixon [13] to deal with the crisis in the U.S. economy i.e., suspension of dollar-gold convertibility [14], the U.S. decided to renege on one of its commitments within the International Monetary Fund. The dollar would no longer serve as the pivot of the international monetary system. The system was finally abandoned in 1973 and that was the end of Bretton Woods. The founding treaty was formally amended at the Kingston conference in Jamaica in January 1976 [15] and with this amendment to the IMF's Articles of Agreement the gold

[10] Ivi
[11] P. Ginsborg, Storia d'Italia dal dopoguerra a oggi, Einaudi, 1989, p. 442
[12] P. Rivlin, *Energy, Oil and the Role of Middle East Politics*, Institute for National Security Studies, 2000, pp. 15-25
[13] R. Nixon, *Address to the Nation Outlining a New Economic Policy: "The Challenge of Peace"*, online by Gerhard Peters and John T. Woolley, The American Presidency Project, accessed at https://www.presidency.ucsb.edu/node/240602
[14] The other three being: imposition of a temporary 10 percent tax on all U.S. imports, wage and price freeze, cut in aid to developing countries.
[15] F. Fauri, L'Italia e l'integrazione economica europea 1947-2000, il Mulino, 2001, p. 150

standard was put to an end, gold was monetized and the advent of flexible exchange rates was legalized.

The move to flexible exchange rates reintroduced those problems already experienced in the 1930s[16] related to exchange rate volatility and instability. What was the reaction of European countries? Until then, stability in the monetary sphere had been assured by the organization of the international monetary system designed by the Bretton Woods agreements. The crisis, and then the downfall, of the system necessitated alternative solutions of European monetary cooperation, which would enable European countries to shelter themselves from the fluctuations inherent in the flexible exchange rate system. The monetary crisis had made it clear that negative integration would not be sufficient for the survival of the European community: instability in the exchange market had put customs union in great danger. On the political level, the war in Vietnam seemed to place Western Europe as a low priority in the eyes of the US administration. [17] If the necessary political backing could not come from the United States, then it had to come from a more united Europe. [18]

This is when Article 3 of the 1957 Treaty of Rome, which until then had only remained *in potenza*, finally found concrete realization. Paragraph g of the article referred to vague principles on common economic and monetary policy, provided for

" *the application of procedures by which the economic policies of Member States can he coordinated and disequilibria in their balances of payments remedied* ". [19]

With the presentation of the Werner Plan to the European Council of June 1970, the article ceased to be dead letter. The plan, conceived by Luxembourger Minister Pierre Werner on the basis of the mandate he received from the conference of heads of state held in The Hague in December 1969 [20], called for the implementation over a decade of economic and monetary union through a gradual process of development divided into two stages. [21] The report envisaged an economic and monetary union to be achieved through a gradual, flexible and pragmatic process designed according to the functionalist logic of *petits pas*. On March 22, 1971, the Council decided that within ten years the EEC countries would implement an economic and monetary union on the basis of the Werner Report's

[16] R.Triffin, *Il ritorno alla convertibilità 1926-1931 e 1958-?*, in Moneta e credito, 1959
[17] N. Ludlow, *European Integration and the Cold War*, in The Cambrige History of Cold War, edited by Melvyn P. Leffler and Odd Arne Westad, Cambridge, 2010, pp. 179-97
[18] L. Tsoukalis, The Politics and Economics of European Monetary Integration, Routledge, 2017, p. 98
[19] Treaty of the European Economic Community, Rome, 1957, article 3, par. a
[20] Statement made by the Heads of State or Government on 2 December 1969, in Bullettin of the European Communities, 1970
[21] Council and Commission of the European Communities, *Report to the Council and the Commission on the realisation by stages of Economic and Monetary Union in the Community*, in Supplement to Bullettin no. 12, 1970

indications. It was also decided to limit the fluctuation margins between European currencies to ±0.75 percent as of June 15, 1972.

These fluctuation margins were later widened to ±2.5 percent when the Smithsonian Agreements were signed in Washington in December 1971. The negotiations began at the initiative of the United States, determined to contain the much-feared international monetary disorder, and were the first ever conducted with the aim of achieving a realignment of parities on the basis of multilateral negotiations.[22] The negotiations were not easy and were characterized by intense debate, at the end of which: margins of fluctuation of currencies around the parity rate were set between 1 and 2.5 percent; it was decided that the maximum instantaneous divergence between a currency and the dollar calculated over a certain time interval should be the sum of the two margins, i.e., ±4.5 percent. The result was that the amplitude of fluctuation between two currencies other than the dollar could reach a variation of ±9 percent. [23]

This range of fluctuation disregarded what had been envisaged in the Werner Plan and was perceived by the European countries as a step backward from Community aspirations to arrive at a progressive narrowing of the fluctuation margins of their currencies. The EEC countries reacted by creating what has gone down in history - thanks to a rather eloquent expression - as the "Snake in the tunnel": a system that would allow European currencies to maintain their dollar value within the wide range of the Smithsonian Agreements (the tunnel), allowing European currencies to fluctuate among themselves by a maximum of ±1.125 percent (the snake). The “Snake’s in the tunnel” experience was short-lived and characterized by numerous defections starting in 1972 when Britain and Ireland exited within months of joining. In February 1973 it was the Italian lira's turn, followed by the French marc in January 1974. [24]

The functioning of the “Snake” was affected by what was happening in the Middle East. Coupled with the decline of the dollar, the first oil shock caused by the OPEC countries' decision to significantly increase crude oil prices in response to the outbreak of the regional conflict after the Yom Kippur war led to the build-up of large deficits in the balance of payments of all European countries, which put the exchange system in trouble. The oil-producing countries set the price of

[22] Fauri, 2001, p. 153
[23] Ivi
[24] M. De Cecco, *L'Italia e il Sistema monetario europeo*, in L’economia italiana dagli anni Settanta agli anni Novanta, ed. Felice R. Pizzuti, McGraw Hill, 1994, p. 22

crude oil at $11 per barrel, revealing the vulnerability of the economies of the Community countries, fragilized by energy dependence.

The weakness of the EEC countries' economies was exacerbated by the lack of coordination of policies put in place to deal with the crisis. The collective effort of the early 1970s soon gave way to national crisis response policies, shaped on the basis of different conceptions of economic and monetary policy instruments in times of crises. The EEC countries pursued divergent economic policy objectives, prioritizing the national interest. While countries such as Germany took choices aimed at maintaining the stability of its exchange rate, always aiming north of its compass, price stability [25], other countries, including Italy pursued policies of fiscal expansion, followed by inflation and currency depreciation.

Failure to coordinate economic policy choices among EEC countries doomed the “Snake” to its failure. Fortunately, from the negative experience of the early 1970s new awareness also sprang forth, and some leaders were able to foresee the need to continue in the wake of European cooperation. By the end of the decade, thanks to renewed Franco-German synergy and the closeness of vision between Valery Giscard d'Estaing and Helmut Schmidt, European monetary integration regained momentum. The European countries had learned an important lesson, which they were able to capitalize on with the creation of the European Monetary System (EMS), the starting point of the monetary union enshrined among the targets decided at Maastricht 12 years later.

1.2 Voices unheard: Italian reaction to the 1973 crisis

What did Italy learn? The two crises marked a turning point in the country's stance toward European monetary integration. It is interesting to note how Italy's position went from substantial dissatisfaction with the “Snake”, to a gradual acceptance European Monetary System (EMS), through adjustment in the late 1980s monetary discipline as a *conditio sine qua non*, to making great collective efforts to maintain economic discipline in the 1990s in order to be part of the single currency project. The flawed expansionary policy in response to the first oil shock, and the lessons learned from its negative effects, are accountable for this evolution as they succeeded in re-orienting economic policy according to new principles, prompting a policy shift underlying this parabola in the evolution of the relationship between Italy and the EMU.

[25] L. P. Feld, E. A. Kohler, & D. Nientiedt, *Ordoliberalism, pragmatism and the eurozone crisis: How the German tradition shaped economic policy in Europe,* in European Review of International Studies, Vol. 2, No. 3, 2015, pp. 48-61

To understand this shift, we have to look at the management of the economic crisis of the early 1970s, taking into account the interaction between the Treasury, the Bank of Italy and the government. This lens is necessary in order to understand what has been foretold, namely, a balancing of the forces at play in favor of the technical actors and a strengthening of their demands for public spending restraint and price stability. This strengthening serves to explain Italy's acceptance of the conditions underlying European monetary integration.

In the early phase of the response to the crisis, government forces are responsible for determining the economic policy choices to be implemented to cope with the oil shock. The Bank of Italy fails to challenge the decisions made in Parliament, subjecting itself to politics. In Fratianni and Spinelli's reconstruction of the relationship between the Bank of Italy, the government, and economic policy choices in "*Storia monetaria d'Italia*", such subalternity was a feature of Guido Carli's period as governor of the Bank of Italy (1960-1975). In fact, the authors argue that with Carli as governor, the Bank accepted and rationalized the dominance of political authorities instead of defending its autonomy and independence, suffering the destabilizing impulses of fiscal policy and giving up acting as a guarantor of the country's monetary stability. [26]

The ungovernability of Italian monetary policy is one of the effects of the pervasive political and social crisis of the 1970s. Indeed, the decade is punctuated by some of the most tragic events in recent Italian history such as the kidnapping and assassination of the Christian Democrats' leader Aldo Moro by the Red Brigades. [27] For what concerns economic policy, highly expansive monetary policy was adopted between 1973 and 1976, with monetary growth unequaled in the peacetime years of the entire post-unification period. [28] This resulted in an out-of-control state of public finances. The 1970s were years of stagflation, a phenomenon that affected not only Italy but all industrialized countries. [29] However, the Italian inflation rate had its own specificity compared to other European countries. While it is true that in a flexible exchange rate regime, where the authorities of each country have the possibility to choose their own inflation target, average inflation rates tend to diverge by definition, it is nevertheless worth noting Italy's inflation differential with the rest of the world, which was never as high as in those years. This figure gives a measure of the situation the country's economy was in, characterized by an unprecedented acceleration in monetary aggregates and a sharp increase in the

[26] M. Fratianni & F. Spinelli, Storia monetaria d'Italia, 2001, p. 570
[27] For an accurate description of the political and social turmoil of the 1970s in Italy see Riccardo Bellofiore, *I lunghi anni settanta. Crisi sociale e integrazione economica internazionale*, in Le radici della crisi, ed. Luca Baldissara, Romam Carrocci, 2001, pp. 57-102
[28] M. Fratianni & F. Spinelli, Storia monetaria d'Italia, RCS Libri, Milano, 2001, p. 460
[29] L. Kilian, *Oil Price Shocks, Monetary Policy and Stagflation*, in Center for Economic Policy Research, 2009

public deficit. [30] The influence exerted by political actors on these choices can be made apparent in the words of Antonio Fazio, director of the Central Bank's Research Office from 1973 to 1979, then governor from 1993 to 1998.

As in Fazio’s word:

“If Parliament has in fact established, even incoherently with initial announcements (announcements, moreover, made by the Executive) a given value for the public deficit, it is not possible for institutions, even those endowed with ample autonomy, to disregard those indications or even to operate in a direction contrary to the directions in which they are institutionally called to move” [31]

In other words, the direction taken to implement an expansionary fiscal policy and monetization of the public deficit, did not have the support of the economic authorities, but was sought by political actors. Political actors’ approach was largely due to the serious domestic problems that were shaking the nation’s structures: terrorist attacks both from the extreme right and the extreme left; the perspective of an involvement of the powerful Communist party in governmental responsibility; and social turmoil corroborated by contrasts between unions and industry owners. Indeed, during the 1970s the unions witnessed a dramatic increase in power and influence which highly influenced Italian political and economic life. While in the 1960s the unions were divided and suffered from the defeats and political isolation of the preceding decades, in the 1970s they were ready to overcome their political divisions and to embrace the radical democratizing momentum arising from the rank and file. [32] The growth in strength of the labour force resulted in a disorientation by the entrepreneurial class. In February 1975 an agreement between Confindustria and trade unions sealed the unions victory: the pact established the system of the “*scala mobile*” (sliding scale) according to which wages were automatically and equally adjusted to inflation. This system made recourse to the inflation/devaluation mechanism useless as a means of defending profits because, in the end, it would have triggered a rise in labour costs through automatic adjustment of wages. [33]

Views on monetary and economic policy were therefore greatly divergent. The position of the Bank of Italy can be read in the Report published at the end of May 1975, in which it takes a position

[30] L. Spaventa, *La crescita del debito pubblico in Italia: evoluzione, prospettive e problemi di politica economica*, in Monet e Credito, no 147, 1984

[31] A. Fazio, Evoluzione dei metodi di controllo monetario, in Banche e banchieri, Vol XI, 1984, pp. 703-714

[32] F. Petrini, *Mercantilism and Class Struggle: Italy in the international economy, 1960-1990*, in Italy in the International System from Détente to the End of Cold War, eds. Antonio Varsori and Benedetto Zaccaria, Palgrave McMillan, 2017, pp. 127-160

[33] Ivi

against a reflation implemented with the monetary instrument "*as it is likely to give rise to a new worsening of the external accounts before activating productive activity in a relevant way*". [34] But the government holds a different view, and in the summer monetary policy becomes, along with fiscal policy, strongly expansionary. Production resumes, with increased imports, until the end of 1975 when the currency available to the authorities covers less than two weeks of imports. [35] For Italy, 1976 is one of the most chaotic years from a currency and monetary point of view and marks the culmination of the destabilization of the Italian economy that began in the late 1960s. [36]

The *Leitmotiv* of monetary actors is an appeal to a restrictive policy, which is also echoed in the words of Baffi, who writes:

> "*the desirability of not blocking the productive recovery, advised mitigating the severity of the restriction; the scope of monetary policy was very limited in the effort to reconcile conflicting objectives*". [37]

The case for restrictive measures was not embraced by the new government, born in March, which reaffirmed the priority of supporting production. Pressure was especially exerted by the Minister of the Treasury, Emilio Colombo, who insisted on fiscal expansion, pressing the Bank of Italy to monetize the fiscal deficit. This is an example of how the Bank of Italy, by acting as the residual buyer of Treasury bills at auction, would cover the cost of government profligacy. The price paid by the bank was huge in terms of the loss of monetary control. In 1975, the fiscal deficit reached 12 percent of GDP, and half of it was financed by money creation.

The defining feature of the early 1970s is thus the acquiescence of the monetary authorities to public spending targets decided by political actors. The authorities cannot prevent a large part of deficits from being financed with monetary base, adopting, in effect, a policy functional to minimizing the cost of covering public deficits. The vicious logic of minimizing the political cost of public deficits encourages growing deficits and thus contributes to the strong instability of the dynamics of monetary aggregates, resulting in an inflationary process never experienced in peacetime and a rapid succession of violent currency crises.[38] But if in 1975 the obligation posed by profligate *partitocrazia* unrestrained by an externally imposed discipline on the Banca d'Italia critically weakened its ability to promote monetary stability, resulting in a devastating monetary and fiscal situation, in the second

[34] Bank of Italy, Relazione annuale sul 1975, Rome, 1976
[35] Fratianni & Spinelli, Storia monetaria d'Italia, 2001
[36] S. Rossi, La politica economica italiana dal 1968 ad oggi, Laterza, 2020, p. 73
[37] Bank of Italy, Considerazioni finali del Governatore, in Relazione annuale sul 1974
[38] Fratianni & Spinelli, Storia monetaria d'Italia, 2001

crisis of 1979 the lesson was partially learned. Building on the failures of the policies of the previous years, this time the response was different, eventually resulting in a change balance of power between economic and politics actors. The policy shift had happened.

2. 1979: a breakthrough

The year when Italy decided to join the European Monetary System, 1979, represents a turning point for Italy's stance toward the EMU. Italy's participation in the EMS and thus the alignment of the lira with the Exchange Rate Mechanism, required a major change in Italian monetary policy. This change was very relevant to the future of Italian participation in European monetary integration and to the interplay of domestic forces at play. Indeed, Italy, when compared to other European countries[39], suffers from strong instability and fragmentation of the pro-integration coalition, especially in the early stages of the integration process. This fragmentation is reflected in the marginal role played by Italy in the “Snake” and EMS negotiations. In part due to the changes we will describe, during the 1980s Italy managed to strengthen internal cohesion and play a much more decisive role at the European level.

The shifts in Italian monetary policy and the relation between technical and political elites can be attributed to: a change of leadership in economic institutions (i.e., the Bank of Italy); the transformations that occurred in the structure of domestic monetary policy; and the second oil shock.

2.1. Changing leadership

In the years when the “Snake” was conceived and negotiated, Italian economic actors, the "technicians," belonged to the "economist" camp. This term refers to the existence of two different conceptions of European monetary integration: the economist one, for which monetary union would have to be the crowning act of a process of harmonization and then unification of economic policies; and the monetarist one, which sees in a quick progress in the monetary field a stimulus which would oblige national governments to coordinate their economic policies more effectively.

Italian concerns about the “Snake” were attributable to the economist view of the EMU. In fact, when the “Snake” was *in fieri* Italian actors did not fail to make their adverse opinion of the system heard. Speaking out were Emilio Colombo and Giulio Andreotti, respectively Minister of the Treasury and Prime Minister between 1973 and 1974, who called for a delay of the introduction of an autonomous

[39] I. Maes & L. Quaglia, *Il processo di integrazione monetaria europea: un confronto tra gli approcci belga e italiano*, in Moneta e Credito, No. 224, 2003, pp. 423-460

EC exchange-rate system till the time when economic integration had advanced sufficiently. Another strong voice in the chorus was that of Guido Carli, then governor of the Bank of Italy. Italian perplexities stemmed precisely from the belief that it was necessary to make progress with economic integration and then later with monetary integration, hence the introduction of the "Snake" was considered premature. This position was supported by Carli in a 1970 article for *Euromoney*, in which he entrusted the "coronation theory" with a virtuous development of monetary integration, stating that the creation of a European currency should constitute "'*the culminating act in a sequence through which political and economic unification*". [40]

The qualms were accompanied by counterproposals. Indeed, in opposing the introduction of the European Monetary Snake system, Colombo proposed as an alternative the adoption of a crawling peg system, that is, a system of progressive but limited adjustment in exchange parities, something which was fervently opposed by the Commission. Italy and Germany wished for a more flexible exchange rate system, while France envisaged a fixed intra-EEC exchange rates policy. [41] The two different visions gave rise to different coalitions of European states, which from time to time backed or faced each other in discussing the "how" of monetary integration. At this stage, Italy was part along with Germany and Holland of the economist camp, in opposition to France's monetarist camp. It is interesting to note the following parallelism: from 1979 onward, Italy's position will tend to veer more and more toward the monetarist camp; at the same time the geometry of alliances will be totally redrawn with, on one side Germany and Holland, on the other side Italy and France. [42] Another important alleged ally of Italy during this period of the European construction appeared to be the British government. Italy considered the participation of Britain to the EMS as central in its strategic thinking. The reason for allying with Britain was to help press the case for wider margins of currency fluctuation. [43] To this end, Italian authorities exerted great effort to persuade Callaghan's government in London to join as they felt to have shared interests with the British on the EMS. However, the Italian strategy appeared to have relied much heavily on the prospect of such an alliance and London was not persuaded by Italy's pressures. In the eve of the final negotiations, Britain stated that it would not join the EMS. [44]

Italy's position in 1970 on European monetary integration was based on three convictions: further steps toward closer monetary cooperation had to be preceded by agreement on long-term goals;

[40] G. Carli, *The world's money now*, in Euromoney, 1970, pp. 4-7
[41] L. Tsoukalis, The Politics and Economics of European Monetary Integration, 2017, pp. 120
[42] Dyson & Featherstone, 2003, p. 477
[43] Ibid
[44] A. Varsori & B. Zaccaria, Italy in the International System from Détente to the End of Cold War, Palgrave McMillan, 2017, p. 98

monetary cooperation was to be understood as part of a broader package that included greater political integration; and the EMU would involve the creation of new institutions to guide it through the adjustment phase. [45] With reference to the first point, therefore, one of the fundamental reasons for Italy's opposition to the Werner Plan can be captured.

What changes in the late 1970s? We saw how one of the voices that had spoken out against the “Snake” was that of Bank of Italy Governor Guido Carli. In 1979 the governorship was assumed by Carlo Azeglio Ciampi. His leadership of the Bank imprinted a very significant change in Italy's monetary policy and exchange rate[46] and a marked acceleration in the innovation process. Ciampi succeeded Paolo Baffi in 1979, when a judicial affair affected the Bank's top management [47], leading Baffi to resign as governor. While from a practical point of view there were no changes in exchange rate policy between 1975 and 1980, from a theoretical point of view Baffi's governorship is regarded as the prelude to the monetarist turn of the early 1980s [48]. This "revolution" can be traced in the words of Governor Ciampi, who immediately showed a willingness to pursue a variety of objectives with monetary policy:

"*The Central Bank's action must counter inflationary pressures and expectations; this aim is interconnected with the defense of the exchange rate and the containment of the balance of payments deficit*". [49]

Governor Ciampi sensed that Europe was moving in other directions and that this made it necessary for Italy to adjust. A "strong" exchange rate policy was practiced from 1979 onward, which consisted of using a restrictive monetary policy to combat inflation through the imposition of discipline that also allowed for greater fiscal policy stringency, reversing the exchange rate policy pursued in the 1970s. This policy became necessary for Italy's pursuit of the path it had embarked on toward the single currency, which was increasingly conditioned by the discourse of monetary discipline, price stability and restraint in public spending.

2.2 Changing institutions

This transition was facilitated by transformations in the structure of domestic monetary policy, which strengthened the Bank of Italy's standing. One of the most important of these transformations

[45] Ivi
[46] I. Maes & L. Quaglia, 2003
[47] For insights on Baffi and the Bank of Italy judiciary see B. Piccone, *Quel marzo di 37 anni fa. L'attacco politico-affaristico-giudiziario alla Banca d'Italia*, in Econopoly, 2016
[48] Fratianni & Spinelli, Storia monetaria d'Italia, 2001, p. 145
[49] Bank of Italy, Relazione Annuale sul 1980, Archivio della Banca d’Italia, 1981, p.201

was that of the so-called "divorce" between the Central Bank and the Treasury: in 1981 the Bank of Italy was relieved of its obligation, introduced in 1975, to purchase unsold government bonds. This provision effectively increased the Bank's autonomy in conducting monetary policy.

The initiation of the divorce came from Carlo Ciampi, but the terms of this measure were defined through an exchange with Treasury Minister Beniamino Andreatta. The historic turning point of the divorce also greatly owes to the fact that Andreatta himself had developed a conviction that monetary policy was negatively and strongly conditioned by the 1975 decision to force the BI to participate in Treasury auctions as a residual buyer. This conviction is expressed in the confidential exchange of letters between Ciampi and Andreatta on February 12, 1981, in which the minister writes:

"*Dear Governor, I have long held the view that many problems in the management of monetary policy are made more acute by an insufficient autonomy of the Bank of Italy's conduct vis-à-vis the financing needs of the Treasury. In particular, the existence of a residual purchase obligation in BOT auction sessions, the habit of relying on a convention between the Treasury and the Bank of Italy for the placement of multi-year bonds (...), entail a set of constraints on the freedom of money supply management"*[50]

This seminal decision for Italian economic institutional framework, represented a countertrend if compared with other EC countries, where finance ministries were jealously guarding their control over their central banks. [51] At the heart of the shift toward independence was the relationship between Andreatta and Ciampi. The Governor sought monetary stability; Andreatta accepted that Tesoro's hand needed to be tied to obtain this goal.

How did this renovated institutional set enhanced the Bank of Italy's ability to control monetary base creation? The *divorzio* had the merit to introduce uncertainty about financial authorities' behavior in respect to Treasury's financing, thus incentivizing a less accommodating monetary policy and strengthening the Bank's reputation and credibility [52]. As a result, short term interest rates' flexibility increased and so did the Bank's room of maneuvre. Retrospectively, Andreatta examines the decision of 1981, which in his view:

"*Without exaggerated presumptions, that letter did indeed mark a turning point and the divorce, together with membership of the EMS dominated economic life in the 1980s allowing a*

[50] B. Andreatta, Lettera del ministro Andreatta al governatore Ciampi del 12 febbraio 1981,
[51] K. Dyson & K. Featherstone, 2003, p. 480
[52] F. Passacantando, *La creazione di un assetto istituzionale per la stabilità monetaria: il caso italiano (1979-1994)*, in Moneta e Credito, No. 143, 1996, pp. 37-88

relatively painless process of disinflation without the problems of industrial restructuring being further complicated by a heavy recession from stabilization". [53]

The divorce marks the first decisive step of the BI toward independence.[54] Its degree of independence was to be gradually reinforced de facto during the 1980s and the resurfacing of the debate on EMU at the beginning of the 1990s would be a golden opportunity to complete the process on a formal basis. [55] The institutional dimension is an interesting factor of interrelation of Italy's internal struggle between its two "souls" - external pressures and internal protection - and European monetary integration, as it is an example of how the latter important changes in the internal structure and shifts in policy belief.

2.3. Exogenous factor: the second oil shock

Finally, the second oil shock served as an exogenous accelerating factor that contributed to the policy shift. As pointed out by the Treasury Minister Beniamino Andreatta, *"the crisis of the second oil shock required political decisions to be made with determination, which had never been attempted before".* [56] These words convey the sense of urgency that characterized some of the fundamental decisions that were imposed by the crisis by the end of the 1970s. Following the failures of the responses to the first crisis in 1973, policymakers recognized the need for change when the second crisis hit in 1979. This time, they were aware of the necessity to move towards a more disciplined monetary environment.

The second oil crisis began in 1979 due to the war between Iran and Iraq. Its full effects were felt the following year when the price of crude oil skyrocketed, increasing by 150 percent compared to 1978.[57] The crisis coincided with a revaluation of the dollar, causing the price to rise by more than 230 percent when calculated in Italian lira[58]. In that circumstance, the average price of a barrel of crude oil had increased by 300 percent in Italian lira. The second wave of international price increases sparked inflation, which reached 20 percent. Compared to the effects of the 1973 crisis, the effects of the second one were less disruptive for industrial economies due to better policy planning, resulting in a more effective counteraction. This time, economic policies are promptly restrictive. Italy has

[53] B. Andreatta, *1981: un divorzio per tutte le stagioni*, in Il Sole 24 Ore, 24th July 1991
[54] B. Andreatta, C.A. Ciampi, M. Draghi, F. A. Grassini, E. Letta, M. Monti, G. Mussari, M.T Salvemini, L'autonomia della politica monetaria. Il divorzio Tesoro-Banca d'Italia trent'anni dopo, Pubblicazioni AREL, il Mulino, 2011
[55] K. Dyson & K. Featherstone, 2003, p. 490
[56] B. Andreatta, *1981: un divorzio per tutte le stagioni*, in Il Sole 24 Ore, 24th July 1991
[57] S. Rossi, La politica economica italiana dal 1968 ad oggi, Laterza, 2020, p. 200
[58] It should be noted, however, that these price increases, while significant, were still lower than those experienced during the first oil shock, when the average price of a barrel rose by 260 percent in dollars and 300 percent in Italian lira.

followed the same path as other countries by implementing a set of restrictive policies, resulting in higher rates. [59] Economic authorities have learned important lessons throughout the long decade that is now coming to an end.

The changes of the 1970s were the result of a combination of external pressures and internal changes. The changed international context, the uncertainty of a newly flexible exchange rate system and the US disinterest in the European continent, together with the first crisis experienced after the years of double-digit economic growth after the war due to the two oil shocks, led European countries to rethink. The “Snake” experience, an attempt at an exchange rate system to replace the dollar pivot of the Bretton Woods system, is an early example of a European monetary coordination policy. The failure of this experience, and the disastrous response of the Italian monetary authorities in dealing with the first oil crisis, contributed to an innovation of monetary policy ideas in Italy. This innovation was made possible by a change in leadership, the advent of new monetary policy ideas, a new institutional set-up and a second crisis.

The crisis of the 1970s produced a change in policy beliefs. What were the implications of these changes for the relationship between EMU and Italy? As some of the main connotations of Italian economic policy changed; and as the Bank of Italy and the Treasury became more leveraged with respect to political actors; externally Italy adopted a new attitude with respect to the future steps of European countries towards monetary integration. At the end of this process, EMU was also understood in our country in terms of price and interest rate stability; central bank independence; and financial liberalisation.

3. Commitment issues: Italy and the European Monetary System

Crowning this process, Italy entered the EMS and joined the Exchange Rate Mechanism (ERM)[60], albeit after a long and divisive internal debate. The domestic fragmentation and divergent positions among the Italian actors - on one hand a decidedly perplexed technocratic elite and on the other a political class convinced of the absolute necessity to participate - damaged Italy's ability to play a leading role in the EMS negotiations. As a result, the country's weight and influence in these negotiations was quite negligible. For this reason, the discussion in this chapter has focused on domestic policy actors rather than those operating in foreign policy.

[59] S. Rossi, 2020, p. 210
[60] This specification is to recall that while all EC countries were part of the EMS, only some of them joined the ERM

In light of the changes recounted so far, we will dive into the debate surrounding Italy's entry into the European Monetary System. This event can be viewed as the culmination of the complex and tumultuous events of the 1970s as the accession to the EMS represented a significant shift in Italian economic policy.

3.1. A second shot, German style

In December 1978 the Council meeting in Brussels adopted the "Resolution on the Establishment of the European Monetary System and Related Matters". [61]The resolution became operational in March 1979, and from that time the EMS began to regulate relations between the currencies of the European member countries. The gestation period of the System was relatively short. Two years earlier, in January 1977, European Commission President Roy Jenkis had delivered a speech at the European University Institute in which he appealed for a change in attitude toward EMU, leaving aside the politics of the *petits pas* and the need to transfer powers to a central authority responsible for economic and monetary policy [62]. His words very much contributed to a change in approach:

"Some commentators believe the time is unpropitious for adventurous ideas. I do not agree. The concept and indeed the politics of monetary union stand immobilized in skepticism, following the demise of the Werner Plan (...). The consequence has been an understandable shift of emphasis. The concept of gradualism, (...) has come to supplant more ambitious schemes. Some people seem to believe that we can back our way into monetary union; others that better coordination is all that is required. I am afraid neither view is right. The last few years have seen a retreat rather than an advance. In any event, the idea of an antithesis between gradual evolution and dramatic advance is misconceived. Evolution is a process which once begun goes both gradually and in jumps. There is room for tomorrow's act of better coordination and for today's discussion of a more ambitious plan for the day after tomorrow".

The impetus in this direction came from the Franco-German entente and their respective leaders, Giscard d'Estaing and Helmut Schmidt. The latter is credited with the decision to include the idea of a European Monetary System as a topic of discussion at the Copenhagen European Council (April 7-

[61] European Council, Resolution of the European Council of 5 december 1978 on the establishment of the European Monetary system and related matter, 1979
[62] R. Jenkins, Address given by Roy Jenkins on the creation of a European monetary union, 1977

8, 1978). The creation of the EMS reflected a fundamental concern: to prevent monetary instability from calling into question the whole project of European Community integration.[63]

Indeed, the Franco-German-driven project had the great merit of reviving European integration, which in the second half of the 1970s had experienced a period of general stagnation, often referred to as *eurosclerosis*. [64] Accomplice to this paralysis was the substantial divergence among the EC countries on the terms of a monetary cooperation. In fact, the implementation of the EMS was as rapid as the debate about its characteristics was heated and contentious. The driving need was the same in all European economies, that of eradicating inflation, reigniting the debate about what kind of exchange rate rules to adopt to govern national economic policies. In this regard, two alternative models of exchange rate agreement were compared, advocated by French and German negotiators respectively. The first involved fluctuation limits set against the ECU, a virtual basket containing all EU currencies and serving as a reference. According to this model, the deviant currency is at all times identified, the one whose deviation from the ecu is greatest in absolute value, whether it is the weakest or the strongest; the country issuing it would bear the responsibility for intervening to prevent the maximum limits of deviation from the ecu from being exceeded. [65]The second model took up the idea behind the “Snake”, providing maximum fluctuation limits for each currency pair. If a given bilateral exchange rate tends to deviate from the "central" parity more than allowed, it is the country whose currency is depreciating that is actually forced to take adjustment measures, due to the exhaustibility of expendable foreign exchange reserves to stem the depreciation of a currency in the foreign exchange market. The latter, proposed by the Germans, was the model that prevailed.

3.2. Internal division, external weaknesses: Italy as a dispensable ally

For Italy, the EMS negotiations were something of a nightmare. [66] The international negotiations were entrusted to the Bank of Italy, but it was political will that drove the decision to join the System. Membership was experienced and understood by the political class, and in particular by Prime Minister Giulio Andreotti, as an imperative foreign policy move. [67] This decision met with quite a bit of opposition from the economic players, in particular the Bank of Italy. Hence, there was a clash between those who saw participation in the EMS as essential if Italy was to remain a full player in the EC, and those who doubted that Italy could bear the internal costs of joining the new

[63] F. Fauri, 2001, p. 95
[64] A. Szasz, The Road to European Monetary Union, Palgrave McMillan, 2000, p. 60
[65] S. Rossi, 2020, p. 215
[66] K. Dyson & K. Featherstone, 2003, p. 475
[67] S. Rossi, 2020, p. 217

European discipline. This intense internal debate on whether or not Italy should join the EMS, and if so on what basis, highlighted the divisions over Italy's position in Europe. Consequently, from a negotiating point of view, the Italian position suffered from both political and strategic weaknesses.

Criticism of the System came from many fronts and also from the fervent Europeanists who were traditional advocates of external restraint. Carli, for example, was one such sceptic. He considered the EMS design as faulty being tilted against deficit countries. Among the harshest critics was Rinaldo Ossola, Minister of Foreign Trade and former Director General of the Bank of Italy. Ossola argued that the EMS would lead to radical problems for Italy and believed that the system would simply turn out to be a second version of the 'Snake'. His criticism was based on the issue of homogeneity, an early recognition of the problem of asymmetry. Moreover, internally, Ossola doubted that the political parties and social partners possessed the necessary commitment and cohesion to adopt the restrictive economic policy measures required to remain in the EMS. [68]

This view was shared by the governor of the Bank of Italy, Paolo Baffi, and other members of the government. The governor argued that the exchange rate system should be 'realistic' and therefore be endowed with 'inherent flexibility'. This indication responded to the concern of the Bank of Italy authorities that the exchange rate system would not be supported by sufficiently convergent economic policies. In 1978 in La Repubblica Baffi openly declared that *'the fundamentals are too divergent and, therefore, the EMS cannot enjoy credibility*'. [69] The opinion of Baffi, the governor who managed the negotiations, reflected the orientation of the Banca d'Italia, a natural constituency for the EMS, which in this case found itself to be closer to the sceptics. During the negotiations, the governor pursued a strategy of seeking a wider margin of currency fluctuation. Between the two European Council meetings of Copenhagen (April 1978) and of Bremen (July 1978) the Bank supported a loose arrangement. Such an arrangement would involve *'reference rates expressed in terms of effective exchange rates without compulsory interventions*'. [70] A repeat of the ‘Snake’, rigid as it was, but now including the currencies previously left to float, was not seen as sustainable.[71] The Bank was also concerned about asymmetries in the new system: like others, it saw this as too biased towards German interests. Baffi's efforts brought the desired result and Italy managed to wrest an important concession: the lira would join the ERM, but with a special fluctuation margin of 6 per cent, much wider than the 2.25 per cent decided for other currencies. This diversification represented the only

[68] I. Maes & L. Quaglia, 2003, p. 428
[69] P. Baffi, La Repubblica, 1978, p. 21
[70] L. Spaventa, *The political economy of European monetary integration,* in PLS Quarterly Review, Vol. 66, No. 266, 1990, pp. 325-342
[71] K. Dyson & K. Featherstone, 2003, p. 483

recognition of the Italian 'specificity' that the country's authorities were able to obtain from other European countries. The agreement over a 6 per cent band for the lira was reached by 14 November 1978 in the Committee of Central Bank Governors. To eased Italian embarrassment, the final arrangements had a cosmetic aspect: technically any member state could avail itself of this facility, though in reality only the Italians sought it. [72]

In many other respects, the negotiations were a failure for Italy, unable to exert any influence on the outcome. Italy's appeals about its uniqueness and the Andreotti government's concerns about the potential effects of the EMS on the national political economy were brushed aside. Andreotti felt offended by what he perceived as a brutal dismissal of all his demands, marginalised at the decisive Brussels European Council in December 1978. [73] The Italians were excluded from the Giscard-Schmidt alliance that was the driving force behind the launch of the EMS and from the Schulmann-Clappier-Couzens (German-French-British) working group that planned it. [74] Rome resentfully accepted the fact that the French and German governments seemed to regard the Italian counterpart as a superfluous ally.

Italy's marginality in the EMS negotiations suggests a lack of bargaining power and a failure of negotiating strategy. Moreover, it largely reflected the dramatic situation faced at home. In this regard, it is very important to consider the domestic context to understand Italy’s weaknesses at the European level. In the 1970s the political and cultural balance was characterized by a move toward the left and the increasing power of the Italian Communist Party (PCI), which seemed likely to come to power. The threat of a Communist party as an actor of government shaped also the perception by Western leaders of Italy as the “sick man” of Europe, and it was feared, together with Spain and Portugal, to be part of the whole instability of Southern Europe, lost by the West and becoming an area of lasting instability. [75] As Western powers feared about Italy’s international situation, Andreotti had to clear the sky from these worrying concerns while maintaining the balance at home. Eventually, he was able to form a cabinet, which benefited by the abstention of the PCI, but had no Communists members. Andreotti stood as a guarantee that Italy would never see the direct participation of Communists in its governments, although not rejecting dialogue and the external support of the PCI, thus diminishing Western concerns. In the midst of the EMS negotiations the President of the Council

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[72] Committee of Governors of the Central Banks of Member states of the European Economic Community, Report of the Committee of Governors to the Council on the European Monetary System, 1978
[73] L. Spaventa, 1990, p. 324
[74] P. Ludlow, The making of the European monetary system: a case study of the politics of the European Community, London, Butterworth, 1982, p. 122
[75] A. Varsori, *Italy’s foreign policy in the 1980s: From Enthusiasm to Disillusion*, in Italy in the International System from Détente to the End of Cold War, 2017, p. 95

had to face a thorny dilemma due to the fierce opposition of both the PCI and the unions to the policy of austerity imposed by the ERM mechanism: on one hand, loyalty to European integration and the West; on the other continuing the dialogue with the Communists to avoid fractures at home. [76] Having in mind the complex domestic context, we can understand the fragile Italian negotiating position.

Finally, another important factor that kept Italy in the shadows was the very nature of the subject of the negotiations: the EMS debate was narrow and excluded from the picture other dimensions in which Italy is traditionally active, namely the political dimension of European integration.

3.3 One man show?

As described above, the divergences that characterized the domestic debate on the EMS weakened Italy's negotiating position, marginalized by France and Germany, the real driving forces in this phase of European integration. The fracture lines can be summarized as follows: on the one hand, the economic authorities, including Rinaldo Ossola, Guido Carli and the governor of the Bank of Italy, Paolo Baffi, believed that there were no prerequisites for the implementation of an exchange rate system between European currencies, especially according to the strict fluctuation terms of 2.5 percent; on the other hand, the political actors, and in particular Giulio Andreotti as Prime Minister, supported the need for Italy to remain a full player in the EC based on the conviction that whatever the economic disadvantages that might arise from membership, the political costs of non-participation would still be greater. [77]

The domestic dynamic that gave rise to the EMS negotiation is very interesting in that it represents a parallel of the foreign constraint/domestic protectionism logic, albeit with the actors generally in favor of the foreign constraint, i.e., the Banca d'Italia and the economic authorities, skeptical of the System, pressed by the political actors to ensure that compliance would be achieved. However, after a few years of operation of the System even the monetary authorities began to support it, as its constraint gradually tightened and became crucial in the struggle for monetary stability in Italy.

If the first part of the negotiations was led by the economic authorities, and by Paolo Baffi in particular, who managed to obtain the 6 percent margin for fluctuations in the lira, in the final phase it was Andreotti who played a decisive role. In his support for the Italian participation, he stressed the need to make domestic reforms to accomplish this task. Under these guises, the Andreotti government announced its intention to introduce an ambitious stabilization programme to its EC

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[76] ivi
[77] P. Ludlow, 1982, p. 124

partners in July 1978[78]. The plan was proposed by Treasury Minister Filippo Pandolfi, from whom it takes the name[79] and it highlighted the need to reduce the PSBR and to lower labor costs, provoking much controversy within the governing coalition and with the unions. [80] Now, implementation of the plan was being justified in terms of the demands of EC membership, in order to win more support for it. The argument had shifted to one of a *vincolo esterno*. This shift was a clear precursor to the Maastricht case a decade late.

Andreotti's conviction of the political necessity of Italy's participation in the EMS was also due to the pressure exerted by Giscard and Schimdt, who posed the EMS participation in terms of “the ultimate European test”. The pression worked and Andreotti announced to enter to the Camera dei Deputati on 12 December. However, as a response to the experience Andreotti had at the European Council of December 1978, he decided to delay the decision by one week. The choice in Brussels had been posed too starkly and the Prime Minister tried to use the wait as an advantage to strengthen his negotiating position. The decision to take a week of reflection was taken independently by Andreotti. It is important to emphasize at this stage the decisive role of the Prime Minister, who was particularly sensitive to the pro-European narrative. Indeed, the symbolism of an 'European test', well resonated with its Europeanist orientation and that of his party, the Christian Democracy (CD). In Italy, in the debate that preceded the making of the EMS, the acronymous became a synonym of the concepts of 'Europe' and 'European integration'. [81]Guided by his conviction of the political necessity for Italy to continue to play a leading role in European integration, Andreotti remained firmly convinced of the decision to be made, overshadowing the concerns of the economic authorities. His belief of Italy's European vocation will remain constant and decisive in successive stages of European monetary integration. However, this was not the only factor that determined Andreotti position toward EMU. As we have seen above, his hands were largely tightened by the political unrest at home.

In the decision on whether to join the EMS or not, politics was rather deaf to the call to prudence by economic authorities. European integration was conceived as a greater good, a fate that could not be escaped. As Ulysses tied to the boat asked his crew to continue sailing, not letting himself be distracted by the sirens' song, so Italy continued on its journey towards European monetary integration. This dynamic was not circumscribed to Italy and this highlights a fundamental aspect of the nature of European integration. The EMS marks the shift for the EC from “low” policy to “high”

[78] G. Bentivoglio, *The Tentative Alliance? Britain, Italy and Participation in the European Monetary System*, in Journal of European Integration History, 2016, pp. 85-106
[79] G. Piluso, *Una scelta per l’Europa, una scelta per lo sviluppo? La Banca d’Italia, il Piano Pandolfi e lo Sme (1977-1979)*, in Storia Contemporanea, 2022
[80] Camera dei Deputati, Seduta antimeridiana di martedi ottobre 1978, Rome, 1978
[81] I. Maes & L. Quaglia, 2003, p. 428

policy[82] (where low refers to matters such as trade, agriculture, steel and transports, while high refers to defense, economic and monetary matters). Its conception and birth provided the clearest evidence that the EC was beginning to tackle high policy questions in a practical manner: without the EMS, 1992 could not be contemplated. [83] This interpretation gives to EMS negotiation a political connotation. Indeed, as it has been argued, the launch of the EMS far from being the result of deep economic thinking, was the unexpected outcome of political initiative. [84] It was therefore a major achievement that enabled its adherents to end the disastrous 1970s and open up to the new decade with renewed enthusiasm. The EMS largely contributed to monetary stability and economic growth which European countries, Italy among them, experienced in the 1980s. Seen in a longer-term perspective, the 1970s crisis had an important positive effect in the integration process.

From Italy's perspective, the EMS case highlights several themes of longer-term importance for both the domestic dimension and the external one, which will remain constants in future negotiations. In all three cases, Werner, EMS and Maastricht, Italian negotiators sought a system that could be flexible, stressing the problem of asymmetry. A new aspect relatively to the Werner plan, but recurrent both in the making of EMS and Maastricht, was the identification of the EC with an external constraint, declined in the unpopular Pandolfi plan in 1978 and later in the EC rules to constrain budgetary expenses in 1992. Finally, in all three cases Italy made the European choice an essential one, considering that of remaining a full EC member in the inner circle as a high priority. This constant will be the subject of the next chapter where the issue of the traditional Europeanist positioning of Italian foreign policy will be examined. Thanks to the mixture of renewed economic growth and relative political stability, in the 1980s Italy will be better able to project itself also in the foreign dimension, playing a relevant role at the head of European monetary integration. This is why we will focus more on the analysis of diplomatic action *tout court.*

The decision to sign the Maastricht Treaty was not made in a vacuum and cannot be seen as an isolated case of adherence to new rules and principles of economic and monetary policy. This chapter provides essential elements for understanding Italy's role and attitudes towards EMU. Firstly, we described the competing pressures in Italian economic policy, the two 'souls', namely internal protectionism and external constraint. During the 1970s, a shift in balance occurred between the two contrasting dynamics, resulting in a tendency towards the *'vincolo esterno'* and strengthening the stance of economic authorities over political ones. This change was a result of external pressure and the need

[82] P. Ludlow, 1982, p. 130
[83] ivi
[84] L. Spaventa, The political economy of European monetary integration, 1990, p. 326

to adapt to a changing international environment, including the fall of the Bretton Woods system and developments in the European monetary integration process. The policy reorientation helps to explain what happened in 1978-79 when Italy decided to join the EMS, the geometries of power between the actors and the motives behind Italy's participation. Secondly, we described the internal debate on joining EMS. This highlighted traditional dividing lines among economic and political actors, as well as recurrent narratives that underscore Italian commitments towards Europe. The domestic debate resulted in a rather weak negotiating position for Italy, which played a very marginal role in the EMS negotiations.

This reconstruction briefly outlines the key events that relate Italy to the EMU during the 1970s. It underpins the Italian role and conceptions of EMU. Bearing in mind the *fil rouge* introduced at the beginning of this chapter, i.e., the close interdependence between the internal and external dimensions of Italian foreign policy, we will now examine how the changes that took place in the 1970s allowed Italy to experience a period of economic success and how this led to a better foreign policy stance, which ultimately allowed Italy to play a more influential role in the European integration process.

Chapter two

The Italian eighties are a complex and contradictory phenomenon, a story of expectations, illusions, and hopes, which have been inflamed by the winds of unconscious and unscrupulous enthusiasm. The interpretation of the Italian eighties has been shaped by a multitude of contradictory forces. The decade in fact represents the period that preceded the crisis of the Italian political system in the early 1990s, which has been referred to as the end of the “first republic" following the "Tangentopoli" scandal. As a result, the period has been subjected to ex post readings that trace the origins of the dramatic change in Italian politics that occurred during those years. This has resulted in a kind of *damnatio memoriae*. Conversely, a reading "in the present," as if we were living those years in the very moment in which they happen, reveals a radiant image, characterized by economic growth, political stability, and a relative independence in foreign policy. [85] In the historiographical debate, this different periodization affects the different interpretation of the legacy of the decade. Those who see all the evils of the present tend to view the decade as a period of decline, whereas those who are nostalgic for that time of growth and well-being tend to view it as a period of opportunity. [86] It is not coincidental that the use of oxymorons to describe the contradictions underway persists. The 1980s are described as a period of transformation and resistance to change, as well as a time of cheerful sadness and modernity without development. [87] Regardless of the approach taken to trace the history of the 1980s, the constant that cannot be separated from any interpretation is contradiction. Contrast is the key to interpreting these years.

This interpretation also applies to the events of European monetary integration and Italy's role in its creation. In the 1980s, European integration was divided between stalemate and dynamism, between skepticism and enthusiasm. It was a decade in which much was questioned, changed, adapted to the times, and much more was definitively accepted as a priority for the future of European integration. During these years, the will of the Member States to pursue the path of the single currency has been consolidated, held together by the common experience of the European monetary system, but also by the conviction that commitment to monetary integration was necessary in order to pursue a broader political project.

[85] A. Varsori, *Italy’s foreign policy in the 1980s: From Enthusiasm to Disillusion*, in Italy in the International System from Détente to the End of Cold War, 2017, p. 100
[86] L. Benadusi, *Oltre il paradigma della crisi: per una diversa lettura degli anni Ottanta*, in Ventunesimo Secolo, 2016, pp. 92-112
[87] Ibid

We have seen how the 1970s taught hard lessons to European countries and how they laid the foundations for internal change, in the case of Italy, and external in the case of coexistence between the Member States of the Community. In this chapter we will analyze through the lens of contradiction Italy in the 1980s and its role in the process of European monetary integration, adhering to a periodization that divides the decade into two distinct phases, an "ascending" and a "descending". This periodization will also be used to tell the story of European monetary integration. First of all, we will look at the dimensions that made up the framework for a comprehensive analysis of the decade, since it is difficult to understand Italy's new ambitions in the international arena without examining the domestic changes that characterized the country in the 1980s - the economic dimension, the internal dimension, and foreign policy. We will consider these elements one by one in order to describe Italy in the 1980s and to be able to link this description to the role played at the European level. The analysis of these three correlating factors serves to explain Italy's transition from foot dragger to a pace setter in EMU, at least in one phase. The outcome of the interaction between these dimensions and its consequences for Italy's role in EMU will be assessed by looking at the objectives and results of the Italian presidencies of the European Council and the country's negotiating influence at these junctures, discussed in details later in the chapter.

1. Italian economy in the 1980s: growth, monetarism and public debt

1.1 The new "economic miracle"?

The 1980s are regarded as a period of significant economic growth in Italy, viewed as a recovery from the 1970s and a benchmark for comparison with the 1960s. This growth has led to speculation about the possibility of a new "economic miracle." However, at the beginning of the decade, economic data did not indicate this development. Following a brief period of economic growth in 1980, the subsequent two years were characterised by the persistence of the recessionary climate that had previously afflicted the Italian economy. [88] Indeed, 1982 and 1983 were years of significant economic decline, with negative growth rates of 0.5% and 0.2% respectively. These figures evoked memories of the 1970s, and one must go back to 1975 to find worse result. [89]

Over the following years, there was a rapid and intense recovery in all sectors. Since 1983, there has been a period of prolonged economic development, although not entirely linear. Several concomitant factors contributed to the recovery of the Italian economy being particularly relevant. These included the favorable international economic situation, which was influenced by the positive performance of

[88] P. Ginsborg, Storia d'Italia dal dopoguerra ad oggi, Piccola Biblioteca Einaudi, 2014, p. 530
[89] ivi

the economy of the United States; the fall in the price of oil; the new formula of the relationship between enterprises and unions; relative political stability; and participation in the European Monetary System. These factors will help alleviating some structural imbalances in the Italian economy, while at the same time aggravating others. This is why many historians have spoken of a partial and not fully consolidated stabilization of the Italian economy. While economic policy is able to pursue new avenues in controlling inflation and incomes, partly thanks to the EMS and a new monetary policy stance, it is still recurring to less virtuous approaches to the use of public budgets. During these years, the government authorities failed to capitalize on the growth of the gross domestic product (GDP) to stabilize the debt-to-GDP ratio and the overall deficit. In the 1970s, the average debt-to-GDP ratio was 7.6%, but by the 1980s, it had risen to 10.7%. The expansion of public expenditure was further compounded by the cost of interest, as reduced inflation increased the real cost of servicing public debt. In the 1980s, rather than stabilizing, the debt-to-GDP ratio increased from 56% to 94%. [90] No other developed country, since the end of World War II, has experienced such a rapid expansion of debt in such a limited period of time. The first element of contradiction emerges.

This dualism is also to be found in the final considerations of the Report of the Governor of the Bank of Italy on 1986. Governor Ciampi, in office for the seventh year, does not hide his satisfaction with the results obtained in 1986 by stating that:

"In 1986, the fruits of tenacious action and positive trends were concentrated, as had not happened since the first oil crisis, which, together with internal imbalances, tighten the Italian economy in the grip of inflation and undermined its chances of development. The interweaving of the problems that have marked the last fifteen years has been loosened"[91]

However, it does not refrain from reducing the scope of this success:

"The same statistical picture of 1986 proposes, alongside the lights, many shadows. The still high increase of 8% in the gross product deflator indicates the persistence of domestic inflation factors. The trade balance (...) is worsened by 7,000 billion (...). Government deficits remain large and their containment has resulted not only from the corrective action of trends but also from the favourable economic climate and temporary measures. To the recovery of profitability and creditworthiness, domestic and international, the companies have not yet combined a renewed

[90] N. Craft & M. Magagni, *The Golden Age and the Second Globalization in Italy*, in The Oxford Handbook of the Italian Economy since Unification, ed. G. Toniolo, Oxford Press, 2013
[91] Bank of Italy , Considerazioni finali del Governatore sul 1986, 30th May 1987, p. 10

propensity to carry out large-scale productive expansion investments. The expansion of economic activity, if it has created 120,000 jobs, has not been enough to affect the unemployment rate; this went up again, to 11%". [92]

In light of the contradictory signals regarding the state of the Italian economy, it is necessary to examine the factors that contributed to its development in order to understand why the term "new economic miracle" has been invoked.

Among these factors is the performance of the international economy in the 1980s. The dissolution of the cartel of oil-producing countries, resulting from internal disputes between OPEC members and a decline in demand, led to a reduction in energy prices, which returned to pre-crisis levels (1973 and 1979). Between 1981 and 1985, the decline in prices by nearly 40 percent and the subsequent 50 percent drop in the first half of 1986 brought the price of crude oil to an all-time low of $12 per barrel. The advantages of reducing the cost of energy are reflected in inflation, which fell sharply, touching 4.7 percent in 1987. The distress experienced by industrialized economies is further compounded by the depreciation of the dollar, which reduces the price of imported energy sources in Italian lire by half. In general, the global economy in the 1980s was characterized by a sharp recession followed by a period of sustained and prolonged growth in industrialized countries. This growth was marked by increased trade, market liberalization, high interest rates, declining real commodity prices, and significant fluctuations in exchange rates. [93] The "silent revolution" in economic policymaking was in action, as described by James Boughton, a subtle but dramatic shift throughout the decade toward policies that were more cooperative, outward-oriented, and market-friendly than before. This would pave the way for globalization in the 1990s. [94]A more detailed examination of this phenomenon will be presented later in the chapter, with a focus on the ways in which new theories of economic policy have influenced the process of European monetary integration. These developments were also evident in Italy, where significant changes occurred, reinforcing the shifts that had already taken place since the 1970s.

It is indubitable that the international economic environment exerts a profound influence on internal growth. However, the extent of this impact is contingent upon the specific characteristics of the policies implemented at the national level and the interactions with national institutions. It is therefore crucial to acknowledge that the performance of each country is influenced both by a common component, that depends on external circumstances, and a specification that is shaped by internal

[92] Ivi
[93] World Bank, World Development Report, New York, 1980
[94] J. Boughton, *Globalization and the Silent Revolution in the 1980s*, in Finance and development, 2022

historical and political factors. [95] An endogenous factor that contributed to the period of prosperity of the Italian economy was the change in the relations between unions and enterprises, in favor of the latter. Italian companies, which until the beginning of the 1980s had often operated at a loss, accumulating large debts, recorded clear operating improvements from 1984. In these years, the production system underwent a significant restructuring, with a lower incidence of labor costs on turnover, returning to the levels observed in 1960. This outcome was the consequence of the end of the inflation-adjusted wage adjustment policy, the "sliding scale" system, which was implemented in 1975. In 1984, an act by the government, the "St. Valentine decree", terminated the system and reduced the wage index system in an attempt to break what was perceived as a vicious circle between wage and inflation. This action consolidated Italy’s macroeconomic policy in opposition to inflationary pressures and modified the policy of controlling income dynamics. The measure effectively undermined one of the main unions’ achievements of the 1970s, significantly reducing their influence in the political and industrial arenas of Italian society. [96] The confirmation of this change in the balance and of less support for trade union action also from the workers came with the rejection of the referendum induced by the CGIL and the PCI, which marked the opening of a new epoch. The electorate had embraced the promise of growth, which monetarist stabilization seemed to reveal. [97]

The positive economic indicators were perceived by consumers and families as a signal to increase domestic demand in the country. This was stimulated by high levels of consumption and a concurrent tendency to save, with new features emerging. The sale of shares on the stock exchange became a mass phenomenon, with over three million Italians investing a portion of their savings in the stock exchange. [98] This established a direct link between citizens’ propensity to save and capitalist firms. The 1980s were a period of particular industrial activity, facilitated by the proliferation of a novel moral code, the "business culture," which appeared to have found a natural home in Italy. [99] Capitalism Italian style exhibited distinctive characteristics, including a pervasive presence of small and medium-sized enterprises, a robust manufacturing specialization in hundreds of niche areas, and an export-oriented economy. Indeed, the Italian industrial structure was characterized by a paucity of large companies. While difficulties were experienced by major businesses, small and medium-sized enterprises (SMEs) flourished and their exports were able to support the balance of payments in

[95] N. Craft & M. Magagni, *The Golden Age and the Second Globalization in Italy*, in The Oxford Handbook of the Italian Economy since Unification, ed. G. Toniolo, Oxford Press, 2013
[96] S. Liebman, *9-10 giugno 1985: Il referendum sulla scala mobile*, in Rivista il Mulino, 2022
[97] P. Ginsborg, Storia d'Italia dal dopoguerra ad oggi , 2014, p. 501
[98] S.Rossi, 2020, p. 230
[99] P. Ginsborg, Storia d'Italia dal dopoguerra ad oggi , 2014, p. 503

unexpected ways. The notion "small is beautiful" became widely accepted in public opinion and among a number of influential economists. [100] Through the promotion of small industry and the launching of its products on world markets, it appeared to challenge, if not contradict, global trends. This perspective proved to be misguided in the long term and ill-suited to address the emerging trends in industry during the 1990s. However, it resonated among many during that period.

The extent of the "new economic miracle" can also be deduced from the comparison with Great Britain. Italy surpassed Great Britain in economic terms and became the fifth industrial power of the capitalist world after the United States, Japan, Germany, and France. This figure was corroborated by the OECD statistics of 1987, which indicated that Italy’s GDP had reached 599.8 billion dollars, in comparison to 547.4% in the United Kingdom.

These positive elements of the Italian economy generated great enthusiasm for a new *Zeitgeist,* summarized in this passage of the Observer of 1987:

"Italy is, in 1987, one of the best examples of success throughout Europe. By magic this has become the land of upward social mobility, a vibrant computer industry, busy young managers and skilled middle-aged capitalists who have abjured the ideals of the 1960s for the cause of profit. The class struggle has gone out of fashion” [101]

Italy in the 1980s presented an optimistic image of a country that had overcome the gloomy 1970s and was modernizing, both in economic and social terms. [102]This modernization was reflected in a changing way of life and adherence to new beliefs. [103] This image was further enhanced by Italian positive economic performance, as evidenced by the following figures: between 1987 and 1990, the GNP increased by more than 4% each year. Inflation decreased from over 22% in the early 1980s to 4% by the end of the decade. The echo of a new Italian economic miracle reached the ears of other countries, where international media and foreign opinion makers would sing the praises of the country, proposing an image that finally went beyond the recurring themes and stereotypes about Italy abroad. [104] This aspect will be deepened when we discuss Italian foreign policy. For the time being, we will present the picture of the Italian economy in the 1980s and some of the factors underlying it.

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[100] V. Zamagni, The Italian Economy, Agenda Publishing, 2018, p. 93
[101] P. Ginsborg, Storia d'Italia dal dopoguerra ad oggi , 2014, p. 510
[102] For a description of the 1980s in Italy see S. Colarizi, P. Craveri, S. Pons, & G. Quagliarello, Gli anni Ottanta come storia, Rubbettino, 2004 and M. Gervasoni, Storia d’Italia negli anni ottanta. Quando eravamo moderni, Marsilio, 2010
[103] A. Varsori, *Italy’s Foreign Policy in the 1980s: From Enthusiasm to Disillusion*, in Italy in the International System from Détente to the End of Cold War, eds. A. Varsori & B. Zaccaria, 2017, p. 112
[104] One of the most spread and recurring themes was that of the “*Italiani brava gente”,* which origin can be traced in the postwar period.

Albeit important, these elements of change do not completely explain the growth experience by Italy in the 1980s. One of the most significant factors driving this expansionary process was the monetarist turn of the Italian monetary authorities. They fundamentally altered the relationship between politics and economic policy, domestic protectionism and external constraint, the *fil rouge* of our analysis. As a consequence, their actions shaped the relationship between Italy and European monetary integration.

1.2 Monetarist belief: the role of the Banca d'Italia

The performance of the Italian economy in the 1980s must be understood in the context of broader European economic and monetary integration. Only by considering the linkage between the new approach to economic and monetary policy and the deepening of the EMU can the stimulus behind these prosperous times be fully appreciated. The most significant underlying change in the Italian economy during this period was the monetarist stabilization, which involved the transfer of economic policy management to the technocratic elite of the Bank of Italy and the relegation of politics to a residual role. This was to ensure the existence of a sufficiently broad and stable parliamentary democracy, consistent with the necessities dictated by the policy of stabilization. This significant underlying theme enables us to connect the transformation in Italian economic and monetary policy to the developments occurring at the European level with regard to the process of monetary integration.

As Carli observed "*the Banca d'Italia in these ten years has been the entity that has been best able to interpret and transmit the stimuli coming from Brussels*". [105] Indeed, the Bank of Italy played a pivotal role in guiding the country's economic and monetary policy in the 1980s, inspired by new principles of monetary stability. Having overcome the Bank of Italy's initial reluctance to embrace European monetary policy orientations during the lira's accession to the EMS band, the institution, and in particular its governor, Carlo Azeglio Ciampi, became the interpreter of European orientations in terms of monetary policy and the promoter of a change of direction. This contributed to the continuous economic growth from 1983 to 1991 and the stabilization of the lira. This was also made possible by the increasing independence that the Bank of Italy enjoyed over the course of the decade. In this section, we will analyze these two aspects: monetary policy in the 1980s and the independence

[105] G. Carli, Cinquant'anni di vita italiana, 1993, p. 73

of the central bank. Our aim is to understand the interaction between these changes and the process of European monetary integration.

1.2.1 Ciampi and the call for a new "monetary constitution"

Carlo Azeglio Ciampi served as the Governor of the Bank of Italy from 1979 to 1993. During his tenure, he navigated the country through pivotal moments in Italian and European history, acting as a bridge between the two. In 1992, he played a pivotal role in facilitating Italy's accession to the Maastricht Treaty. His period of governorship represents a key turning point in the monetary policy beliefs of Italian economic actors, who were influenced by a new ethos that regarded the stability of currency exchange rates and the containment of inflation as the priority objectives to be pursued by the central bank. This development of belief change can be traced by examining the Final Considerations traditionally enunciated by the governor at the conclusion of each year. Read in retrospect, many of the acquisitions that had become common sense among economic agents in the 1980s can be found there. [106] First among these was the belief that inflation should not be considered a lesser evil, but rather that it was of fundamental importance in determining the health of an economy. This realization was also the fruit of a decade of constant warnings and consistent interventions by Governor Ciampi.

How does this change relate to European monetary integration? The origin of this evolution - both in thought and action - can be traced Italy's decision to join the EMS. The lira's membership in the narrow band of the EMS was the seal of the policy pursued in the 1980s. Interpreting the European Monetary Agreements not merely as a technical tool, but more importantly as a commitment to achieve convergence of the participating economies, the government of the currency was inspired by an anti-inflationary line that would stimulate players to seek competitiveness and strengthen the productive base. Moreover, the steps taken toward greater central bank autonomy and capital market liberalization, something unknown to traditional Italian monetary policy, was the result of major achievements at the European level such as the Single European Act, which dismantled the heavy architecture of controls on exchange rates and capital flows. In other word, the external constraint was highly significant in promoting the policy changes in the first place. Domestic momentum for reform was further reinforced and accelerated by the EC's policy commitment to capital liberalization, the single market, and the EMU. This change was part of an international economic revolution, during which the Keynesian creed was largely replaced by monetarist theory and neoliberalism. [107] The

[106] R. Bocciarelli & G. Dragoni, *Le due guerre di Ciampi*, in Il Sole 24 Ore, 31st May 1989
[107] L. Tedoldi, Il conto degli errori. Stato e debito pubblico in Italia dagli anni Settanta al Duemila , Laterza, 2015, p. 60

advent of monetarist theory was a response to the necessity to overcome the shortcomings of the previous interventionist economic policies, which had proven ineffective in combating the stagflation of the 1970s. This led to the rejection of the Keynesian paradigm in favour of the monetarist doctrine developed by the Chicago boys and Milton Friedman's school. The monetarist revolution also spread to Europe, where it was reflected, albeit a few years later, in Italian economic policy.

In this regard, the intentions of Governor Ciampi are from the outset clearly and explicitly presented in the form of programmatic statements by which the priorities to which the central bank's action should be inspired are made manifest: combating inflation and containing the balance of payments deficit. [108] The importance of the stability of the currency, defined as a "common responsibility," is immediately enunciated, and the image of a central bank that believes it has the priority task of pursuing price stability emerges. Indeed, BI's action with its general approach to monetary policy was the main determinant of the remarkable cooling of inflation in the early 1980s. The control of exchange rate movements, inscribed in the framework of the EMS, exerted a dual calming action on domestic prices: directly, through the cost of imported products; indirectly, by pressing on firms' profit margins and forcing them to seek cost savings, primarily in labor costs. [109]

Ciampi outlined the features of a Central Bank with different priorities than in the past in the conclusion of the Final Considerations of 1981, in that epilogue which, in the tradition of these documents, draws special solemnity from the "Mr. Participants" revival. In his annual address before bankers, businessmen and politicians, the governor presented a veritable programmatic manifesto that envisioned and called for a new "monetary constitution." The use of the phrase "constitution," which refers to the broader principles and values underlying the functioning of a state, is justified by the broaden scope of the manifesto Ciampi presents, which calls on every institution, every part of society, to do its part, stating:

> *"The erosion of currency is an economic deception, it is a social contradiction, from which the collectivity could only emerge suddenly if it knew, all at once, how to transform itself*" [110]

The governor identifies the three essential tools in order to be able to achieve these goals: greater central bank autonomy; strengthening of budgetary procedures; and revision of the collective bargaining code. The first of these objectives was effectively pursued during the 1980s, through a

[108] Bank of Italy, Relazione annuale sul 1980, 30th May1981
[109] S. Rossi, 2020, p. 232
[110] Bank of Italy, Considerazioni finali del Governatore, 30th May 1981

long overdue process that gave the Italian central bank a degree of independence it had never before granted. [111] This evolution was carried forward by Ciampi, based on the change in the intellectual climate in the BI promoted by his predecessor, Paolo Baffi. Baffi in fact had advocated for years that the power of money creation (the primary function of central banks) be exercised in complete autonomy from the centers where spending decisions were made. [112] He was unable to implement many of the ideas he was professing, and it was up to Ciampi to put many of them into practice. As in the word of Fratianni and Spinelli, these ideas represented a “breath of fresh air” in the strongly Keynesian tradition of the Banca d’Italia. This formal division has to be considered as the starting point of a long process that would enable the BI to gradually gain monetary independence, rather than a sharp breaking point, as it would be only in the 1990s that the Bank would be completely freed by the constraints posed by the Treasury. These were: the automatic recourse to central bank financing through the Treasury current account; the Treasury’s required consent to changes in the discount rate. These represented the two ways through which the Treasury imposed fiscal dominance. [113]

The Banca d'Italia managed to have its hands increasingly free from Treasury restrictions thanks to two interventions by Governor Ciampi: the achievement of the dismantling of the three quantitative limitations that had straight jacketed the banking system, namely portfolio constraints, credit ceilings and controls on exchange rates and capital movements, abolished in 1988; the shift toward a higher degree of conservativeness of the BI. [114] This shift was undoubtedly influenced by similar changes in attitudes prevailing place in other central banks[115] and reflected the growing importance of the idea that Italy ought to be part of a low-inflation European monetary union. Finally, another innovation under Ciampi's tenure pertains to monetary policy strategy that resulted in a change in the modus operandi of the BI. In 1983, the instrument of administrative control of bank credit, which had been in use since 1974, was abandoned and indirect methods of control, based on open market operations, i.e., buying and selling of short-term securities on the money market, were adopted. Through these changes then, Italian monetary policy became less dependent on the Treasury.

Beyond the technicalities, this evolution during the 1980s toward an increasingly independent and autonomous BI and oriented toward conservative monetarist positions is of great importance for two

[111] M. Fratianni & M. Spinelli, *Italy in the eighties: toward central bank independence*, in A Monetary History of Italy, Cambridge, 1997, p. 234
[112] L. Tedoldi, Il conto degli errori. Stato e debito pubblico in Italia dagli anni Settanta al Duemila , 2015, p. 117
[113] M. Fratianni & M. Spinelli, 1997, p. 237
[114] ivi
[115] J. C. Chouraqui, *Public Sector Deficits in OECD Countries: Causes, Consequences and Policy Reaction*, in Public Sector Deficits in OECD Countries, ed. H. Cavanna, Palgrave McMillan, London, 1988

reasons: first it represented a dramatic shift from the traditional predominance of the fiscal dimension in Italian political economy; secondly, it brought Italy, represented by its technocratic elite, closer to the positions that were being consolidated in the European sphere. This alignment is crucial to understand Italian negotiating position in the 1980s, its posture toward EMU and the internal structuring of actors. Over the course of the decade monetary discipline became the ruling mantra, strengthening the policy leadership of technocratic experts and their stance both at home and at the European level. In this regard, Ciampi's strategy toward monetary policy and its commitment for Italy as a fully - fledged actor in EMU, was key in relaunching Italian economy in the 1980s.

1.3 The dark side of prosperity: Italian public debt and the governments' "rational illusion"

As economic growth returned to double digits, and inflation to single digits, prosperity spread throughout Italian society, and the country's newfound wealth made its reputation shine abroad in a new light, a shadow loomed over the *made in Italy* prosperity, casting a grim shadow over the Italian economy. It swelled like a comber in the distance, portending a storm. This shadow was what has remained as the most notorious plague afflicting the Italian economy since those years: the national debt. Indeed, between the 1980s and 1990s, the largest debt accumulation in the history of the Italian state was created, and the transition from "lender" to "debtor" state was realized. However, if the policy promoted in the 1970s had resulted in the formation of structural public deficits that had triggered a process of self-feeding of debt, the growth of the latter would have been contained and sustainable. During the 1980s, a confluence of political, institutional, social, and economic transformations compelled governments to maintain the level of spending observed during the previous decade. However, this period also saw the removal of mechanisms that had previously helped to dampen the growth of public debt. This period thus created the hard core of Italian sovereign debt, which rose from 59 percent of GDP in the early 1980s to over 100 percent in the early 1990s.

The disproportionate growth of Italy's public debt in recent years is largely attributable to the short-sightedness of the Italian political class, deaf to the calls of the economic authorities, and to the political parties' use of debt as a short route to achieving and maintaining consensus among the public. The expansive dynamic of Italian debt is closely linked to the political dynamic: with the end of the season of the historic compromise (*compromesso storico)* began that of the *pentapartito,* which made large use of the adoption of "opportunistic" fiscal policies, in an attempt to expand consensus among citizens.

The issue of debt emerged in political debate as early as the late 1970s, when the Corte dei Conti began to bring to the attention of Parliament the danger of self-feeding deficits that was beginning to emerge. By 1982 most of the world's economic powers were grappling with growing deficits, and in Italy too, the dangers of real "ungovernability" of public finance emerged in parliamentary debate.[116] However, despite the reminders, the issue did not take on the characteristics of a real emergency until the end of the decade, aided by the grip that gripped the executives of the "rational illusion" of being able to govern the debt beyond its size [117] because of its "'Italian foundation". [118]

If political dynamics were the underlying cause, the reckless rise in Italy's sovereign debt in the 1980s was also the result of chronic elements, such as continued recourse to the provisional budget exercise; the government's political difficulty in managing the public sector account; spending on public administration, whose deficit had exceeded 10 percent by far higher than that of other European states; and policy choices, such as those to expand spending on welfare policies (public health, pension system, education). While in the 1950s this expenditure item accounted for half of total spending, by 1980 it had increased to account for two-thirds of all spending. [119] In addition to welfare spending, justified to a large extent by the electoral logic of a political class seeking shortcuts to get into the hearts and minds of citizens, swelling the public debt through the effect known in economic policy as "snowball" acted interest spending, according to that vicious circle whereby, pushing for financing deficits through ever larger placements of government bonds triggers a rise in interests rates and thus the activation of one of the main mechanism of debt growth.

Beyond the harmfulness that the pursuit of this policy had for the health of Italy’s public finance, which resulted in a long-standing, now chronic problem for the country, this dynamic undermined the political idea of centralization of decision-making as a function of expenditure control, to be achieved through the budget maneuver and the finance law. This in fact had to take into account the polycentric structure of government-parliament relations and the clash between government and parliament over control of spending policy. For this reason, the issue of public debt represents one of existential significance for Italy, as it becomes, precisely in the 1980s, a real political issue, and no longer an exclusively economic problem. The worsening of public finances during the decade and the pursuit of non-virtuous public debt spending policies contributed to the interpretation of the "crisis

[116] L. Tedoldi, Il conto degli errori. Stato e debito pubblico in Italia dagli anni Settanta al Duemila , 2015, p. 120
[117] L. Tedoldi & A. Volpi, Storia del debito pubblico in Italia. Dall'Unità a oggi , Laterza, 2021, p.180
[118] The fact that according to the Statistical Database of the Bank of Italy in 1988 58.12 percent of the debt was held by residents, 13.37 percent by the BI and only 3.97 percent by nonresidents and 24, 54 percent by other financial and monetary institutions
[119] L. Tedoldi & A. Volpi, Storia del debito pubblico in Italia. Dall'Unità a oggi , 2021, p. 182

paradigm" [120] that identifies the 1980s as the beginning of the end. It is undeniable that this element casts quite a few shadows on the growth that the country experienced in those years. However, going back to the premise of this chapter, if we look at the period with the perspective of the present, the key words are economic growth and social modernization. This enthusiasm, accompanied by the vision of new exponents in the political class, resulted in a new impetus for Italian foreign policy.

2. Rejuvenated foreign policy

The *magnifiche sorti e progressive* that economic growth, political stability and social modernity seemed to hold for Italy led Italian decision-makers, and in particular some new members of the political class, to aspire to a bold foreign policy. This ambition materialized-and was fortified-in a new image of Italy in the international press, which extolled in particular two aspects of the country: the newfound political stability in the figure of Bettino Craxi; and the existence of a successful entrepreneurial class, towing Italy's self-promotion, which contributed in large part to shaping the image of a country on the move, dynamic, international, and ready to project itself into the world. [121]

Regarding the first element, the figure of Bettino Craxi, in government from 1983 to 1987, was celebrated in the foreign press for his stay in power, which restored, at least for that period, the idea of an Italy at the mercy of political instability, and for the strength of the government, which, never before in post-World War Il Italian history, was able to make its case in the international arena. [122]
In the collective imagination of the foreign press, the Italian Socialist leader had gone from being an unlikely leader with a short-sleeved shirt and populist tendencies, to a politician capable of holding his own against Margaret Thatcher and even Ronald Reagan. In fact, in the famous episode of the Sigonella crisis of 1985, a representative episode of Italian foreign policy in the 1980s *par excellence*, Craxi, President of the Council and Andreotti as Foreign Minister, stood up to the American decision to have the Achille Lauro ship bombers, who had killed an American citizen, handed over to the United States so that they could be tried in the US. [123] The Italian head of cabinet gave order that the terrorists would be taken into Italian custody and a Carabinieri unit surrounded the US Delta Force personnel carrying the terrorists. After some tense hours in the Sigonella air base, the U.S,

[120] L. Benadusi, 2016, p. 97
[121] V. Lomellini & A. Varsori , *Italian way of life: vizi e virtu dell'Italia degli anni '80 nella stampa internazionale*, in Memoria e Ricerca, Vol.52, No. 2, 2016, pp. 261-282
[122] Ibid
[123] A. Varsori, *Italy's Foreign Policy in the 1980s: From Enthusiasm to Disillusion,* in Italy in the International System from Détente to the End of Cold War, eds. A. Varsori & B. Zaccaria, Palgrave McMillann, 2017, p. 115

administration backed down. [124] In this episode, Craxi was able to denounce the "American interference," impersonating the need to protect national sovereignty even in the face of *the* ally country, without betraying Italy's traditional international positioning. The episode in fact did not harm transatlantic relations. This attitude of greater autonomy with respect to the traditional moderate line in Italian foreign policy had earned the Prime Minister a positive return in terms of image both internally and externally: in an era characterized by strong leadership, the leader of the PSI was, in the eyes of international observers, a true leader, a strong politician, credible and able to impose himself on the international scene. His authority and modernity in the way he presented himself to the electorate gave Craxi the role of innovator and true representative of political change in Italy. [125]

Although being one of the most prominent, Craxi was not the only symbol of the partial renewal of Italy's political elite, also represented by Sandro Pertini, President of the Republic from 1978 and Giovanni Spadolini, head of the cabinet in 1981 and 1982. The element of continuity was represented by Andreotti, Foreign Minister between 1983 and 1989, the bulwark of the power and omnipresence of the Christian Democrats in the Italian political landscape. The extent to which the renewal of the Italian political elite could actually be considered as a real breathing wind is subject to divergent evaluations. However, to the purpose of describing Italian foreign policy in the 1980s and its stance toward EMU, it is worth noting that there was a renewal that was perceived as such also by foreign observes, which translated into a more assertive and determinant Italy in foreign affairs.

2.1 Italian European projection: traditional beliefs in Italian foreign policy

Beyond perceptions and images, which do not always return a faithful memory, the new momentum of Italian foreign policy materialized in actions and achievements of some diplomatic significance. These include those in the area of European policy, achieved in particular at the 1985 Milan Council.

Before digging into the negotiations and the achievements of this moment, it is important to fix some key concepts of the relation between Italian foreign policy and the European project. Since the early days of its construction the process of European integration strongly influenced the reorientation of

[124] To know more on the Sigonella crisis see Piason, Frank J. "Italian Foreign Policy: The 'Achille Lauro' Affair." *Italian Politics* 1 (1986): 146–63. http://www.jstor.org/stable/43039578 and *Brownfeld, Peter; Baino, Ginevra. 2021 The 1985 Sigonella Episode and the Limits of the United States-Italian Relationship.* The Free Library *(January, 1), https://www.thefreelibrary.com/The 1985 Sigonella Episode and the Limits of the United...-a0677389452*
[125] V. Lomellini & A. Varsori , 2016, p. 266

Italian foreign policy. [126] One of the reasons is that the prospect of the European integration was linked to the Italian aspiration to initiate a new course in foreign policy and to recover Italy's international power after the defeat of the Second world war. Decision makers and political leaders believed that Italian interests would be better served within the European framework. [127]
Underlying this conviction was the myth of Italy as one of the countries that has most shaped European civilization and inherited by the federalist ideas of Altiero Spinelli and his "Manifesto of Ventotene." The narrative of a primacy of Italy in the process of European integration continued to shape Italian European policy and stayed as the institutional *ethos* at the Farnesina, which in the EMU process translated into the absolute need to ensure that Italy remained in Europe's inner circle. Both for the EMS and EMU, officials have prioritized the European commitment and urged that the consequent domestic costs be borne. [128] This is the juncture between economic authorities and foreign policy decision makers, that linked the European vocation of the latter with the sustain for the external constraint of the former. Moreover, from a domestic viewpoint, Italy's European commitment was perceived as a political asset, as it represented the only common ground in foreign policy for all political parties. [129]

This meeting point between foreign policy makers and economic authorities is particularly important for understanding the evolution of Italy's approach to European monetary integration. According to the linkage politics theory used by Jeffrey Frieden with particular reference to the Italian and French experience, the linkage between monetary integration and European integration, meaning the fact that cooperation on the monetary front was essential to cooperation on other fronts valued has highly important i.e., for Italy, the political integration, made the EMS experience in the 1980s a success and explains the commitment of these countries to the EMU process. [130] From a domestic point of view, this linkage is crucial to understand why foreign policy actors and economic/monetary actors were able to speak the same language, working for the same goal, although having very different dictionaries.

[126] E. Diodato & F. Niglia, L'Italia e la politica internazionale. Dalla Grande Guerra al (dis-)ordine globale, Carocci, 2019, p. 59
[127] ivi
[128] K. Dyson & K. Featherstone, 2003, p. 490
[129] A. Varsori, 2017, p. 120
[130] B. Eichengreen & J. A. Frieden, The Political Economy of European Monetary Unification, Routledge, 2018, p. 45

2.2. *L'Europe en perte de vitesse*: irreconcilable fractures?

During the 1980s the five party governments, strengthened by the optimism that animated Italian international action in those years, continued to confirm Italy's steady loyalty to European ideals, in making in the European arena in the 1980s closely reflected those at the European level, which can be subjected to the following periodization: a stalemate at the beginning of the decade; the "relaunching of Europe" by the mid 1980s, culminated in the adoption of the Single European Act in 1986.

Therefore, if at an early stage Italy's position was negatively influenced by the impasse which characterized the European Community between 1980 and 1983, in a second phase of "recovery" Rome was to play a relevant and autonomous role in paving the way for the most important communitarian achievement of the decade, the Single European Act, although not in the way Italy foreseen, as we shall see in the next chapter.

It is interesting to note a certain correspondence between the up and down in European integration and the development of the Monetary System. If between 1979 and 1983 realignments were frequent as a result of largely divergent economic policies, the period between 1983 and 1987 was one of significant nominal convergence of unit labor costs, inflation rates and monetary policies. [131] This picture describes in figures the underlying political debate that divided leaders at the beginning of the 1980s, in particular the French President, Francois Mitterrand and the German Chancellor Helmut Kohl, which later, from 1983, where at the core of the relaunch of the integration process.

Why a stalemate? The integration process stalemate in the early 1980s was in part due to the change in leadership in all the most influential European nations. This change represented more than a mere turnover of leaders and acted as a powerful factor in transforming the EC balances, resulting in a new phase of European monetary integration. This is what can be deduced ex post. The perceptions of contemporaries were different, such that there seemed to be divergent positions that were impossible to bring together. In 1981 Francois Mitterrand was elected as President of the Republic with a distinctly socialist-inspired electoral program and became the first socialist head of state chosen by direct election in European history. [132] His program included a return to strongly expansionist, neo-Keynesian-inspired policies - il contrast to dominant neoliberal thinking and Reaganomics - and was greeted with unprecedented spontaneous celebrations. [133] Indeed, the new president's election

[131] E. Apel, European Monetary Integration, Routldege, 2013, p. 89
[132] T. Judt, Postwar, Laterza, 2017, p. 681
[133] The *grand soir* celebrations, as Judt recalls in Postwar, p. 682

campaign had raised high expectations that he attempted to turn into reality in the very early days of his first term. Mitterrand's first term began under the banner of an ambitious and radical program: wages were raised, the retirement age lowered, and working hours reduced, but the central point lay in an unprecedented nationalization campaign. [134] The purpose of this massive nationalization of the French economy was to symbolize the anti-capitalist intentions of the new government and to confirm that the 1981 elections had indeed effected a radical transformation. [135]
But these promises shattered against the wall of a completely changed European and international context. Within months of the launch of these policies, which had disastrous effects on the French economy, Mitterrand, was forced into the famous "U-turn," that is, an abrupt swerve in a completely different direction from the one he had undertaken. Such policies were also untenable from the point of view of European integration: a turn of this magnitude, which had made the French economy pseudo-autarkic, would have entailed separation and even exit from the EEC whose agreements on tariffs, markets and currency alignment-not to mention single market projects-restricted the options available. When compared to what was happening in neighboring West Germany, it is easy to see what hinted at an irreconcilability and fundamental divergence between European countries, which resulted in the 1979-1983 stalemate. Under the leadership of Chancellor Helmut Kohl, elected in 1982, the Federal Republic of Germany embarked on the opposite path, oriented toward anti-inflationary policies, directed toward price stabilization and restrained government spending. In addition to the divergence in economic policy ideas and actions between France and the Federal Republic of Germany, a factor affecting German interest in the European question was the complex domestic political events [136], in regard to which the fate of the EC assumed a secondary function. [137]
Finally, complicit in the stalemate was the essentially obstructionist policy of the Prime Minister of the United Kingdom, Margaret Thatcher, who vehemently opposed the idea of a European budget reform. Eloquent in this regard, the famous expression "I want my money back".

2.3 Italian diplomatic and parliamentary initiatives

In this phase of substantial immobility at the European level, however, there was no shortage of attempts to set a course for the future of the European Community. Italy, together with the Federal

[134] The government took control of 36 banks, 2 big financial entities, and 5 of the most important industrial groups of the country, among which the Thomson-Brandt, Usinor and Sacilor.
[135] The new regime swaggeringly tried to present a radical facade to France and the world at large. At first it seemed convincing-Jacques Attali. Mitterrand's closest adviser, recounted how American officials, always suspicious of possible leftward deviations, claimed to see little difference between French economic policy and that of the USSR.
[136] Namely the SPD and FDP political fracture, the sharpening of East and West tensions bringing the European continent back to the center in the events of the "new" Cold War, with the German Rep at the center of concerns.
[137] A. Varsori, 2017, p. 130

Republic of Germany, tried to champion this counter-trend effort through the Colombo-Genscher Declaration. This project originated between 1980 and 1981 by Italian Foreign Minister Emilio Colombo and his German counterpart, Hans-Dietrich Genscher, who contacted Colombo, who was known for his commitment to European integration. The Italian politician, considered an *enfant prodige*, a minister at only 35 years old, had participated as a protagonist[138] in the most important stages for European integration, starting with the negotiations for the Treaties of Rome. [139]

A sentence from a speech he delivered on the 40th anniversary of the Treaties explains his understanding of European integration:

"*The lesson that history delivers is that there are no economic facts, monetary emergencies,or financial interests that alone can propel entire cycles of civilization. It is always politics and its design vein that moves history.*"

As can be seen from these words, Colombo was particularly attentive to the political developments that he saw as the real driving force behind European integration. The stalemate on these issues in the early 1980s were therefore a source of great concern. Against this backdrop of fatigue, Colombo, in a speech he made in Florence to the Association of European Municipalities, put forward the idea of Europe on an institutional footing, proposing to do something to stir European politics. He noticed shortly afterwards that a similar speech was being made in Germany by his counterpart, who was Hans Dietrich Genscher; then there were contacts between them that led them to jointly draft a proposal, which was presented to the European Parliament on November 18, 1981.

From Bonn's perspective, interest in a partnership with Rome was largely due to political developments in Paris, and distrust of President Mitterrand grappling with his radical - and short-lived - program to transform the French economy and state. German interest in Italy as a possible key ally was short-lived and took a back seat to the Franco-German rapprochement a year later. The outcome of this diplomatic activity was summarized in the consolidated text of the Italo-German project, the Single European Act, and the declaration on issues of economic integration. The declaration was a kind of joint appeal, made known first in a speech in Stuttgart, then in a public speech in Florence, in which the two foreign ministers expressed the need to create a "European

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[138] He was *inter alia* President of the Council of the European Community (1970-71), President of the Commission for foreign affairs of the European Parliament (1979-80), President of the European Parliament (1977- 79), Ministry of Foreign Affairs (1980-83)

[139] M. G. Melchionni, *Emilio Colombo: aspetti del pensiero e momenti dell'azione politica europea*, in Rivista di Studi Politici Internazionali, Vol. 78, No. 3, 2011, pp. 331-343

union" that would be able to express itself in a common way especially in foreign policy matters. On the institutional level, the Italian side proposed the hypothesis of overcoming the principle of unanimity of consensus born with the Luxembourg Compromise in 1966 as a solution to the crisis of the *chaise vide* [140], thus reforming the voting procedures in the Council of Ministers, strengthening the role of the European Parliament and the European Council, and developing political cooperation through strengthening the role of the EU Presidency. The annex to the draft declaration emphasized the completion of economic integration, and stressed the need to proceed with the enlargement of the Community to include Spain and Portugal. After submission to Parliament, the text was submitted to the European Council in London, which accepted the German-Italian proposal, merely taking note of the proposals contained therein, and mandated foreign ministers to examine the documents and prepare a report for submission to the next European Council. The most difficult knots to untie during the negotiations concerned the powers to be given to the European Parliament and how to vote in the Council, as Great Britain and Denmark were particularly opposed to overcoming the Luxembourg compromise. The United Kingdom also opposed the name "Act" for the document because it did not want it to go through parliamentary ratification, which is why the document took the name "Solemn Declaration." The Solemn Declaration on the European Union was signed at the 1983 Stuttgart European Council.

Although much of the literature on the subject looks at the Genscher-Colombo Declaration merely as a symbolic act, a declaration of intent rather than a true programmatic statement, some sources point out how, although indirectly, the declaration went all the way to the Single European Act of 1985. Despite the limited scope and non-binding nature of the innovations introduced, the Stuttgart Declaration helped to restart the debate regarding Community reform that three years later led to the passage of the European Single Act. [141]

Parallel to this initiative, another very important Italian actor in European construction was carrying on his action within the European Parliament. Altiero Spinelli, a parliamentarian elected in 1979, the first electoral round in the history of the European Parliament, was a promoter not only of institutional reforms for the European Community, but of an ambitious draft treaty on the European Union. Spinelli's parliamentary initiative came, paradoxically, into conflict with that conducted at the diplomatic and governmental level by Colombo. While the parliamentarian was wary of what was

[140] The expression "crisis of the *chaise vide",* the empty chair, refers to the actual seats in the Council of Ministers of the European Community of the French ministers left empty in the early '60s as a sign of protest against President Hallstein's proposal of autonomous financing of the Common Agricultural Policy.
[141] D. Vignati, *Dichiarazione di Stoccarda*, in Dizionario dell'integrazione europea, 2008

taking place at the diplomatic level, the foreign minister tended to favor government action over the parliamentary initiative. The two actions neither elided nor merged, but proceeded on two opposite tracks.

These two examples of Italian dynamism in the European forum carried out at two different levels, one diplomatic and the other in parliament, testify to the renewed enthusiasm and capacity for action of Italian foreign policy in the 1980s.

3. From foot dragging to pace setter: Italy takes the lead in the EMU

It was again the newfound Franco-German entente that decisively relaunched the process of European integration, through the volant of economic and monetary integration. After the adventures of his first years in the presidency, Mitterrand became convinced of the need to turn his attention to Europe, traditionally considered a privileged sphere of Parisian foreign policy, and found favor with Kohl, who saw France as a traditional, and in some ways unavoidable, ally in European integration. The Chancellor also was reassured by the exit of the French Communist Party from the government and the moderate turn in economic policy, for which France again became a reliable partner, especially in the area of public spending restraint. Both President François Mitterrand and Chancellor Helmut Kohl had realised that only through a renewed European commitment the “old continent” could face the challenges posed by a rapidly changing international context and by the early symptoms of a globalised economy. [142]
How did Italy fit into this process of rapprochement and what role did it play in the "relaunch" of European integration?

3.1 The relaunching of Europe and the role of Italy: the Italian Presidency’s legacy of 1985

Located in the midst of the dense 1980s, the Milan Council of June 28-29, 1985 was laden with not a few expectations from the governments. The common desire was for a message of confidence about the future of Europe to depart from Milan. [143] For Italy, and particularly for the Craxi government, the 1985 Council presidency represented a unique opportunity to seal the

[142] A. Varsori, Italy's European Policy, 2011, p. 59
[143] P. Calamia, *Il Consiglio Europeo di Milano (28-29 giugno 1985)*, in Rivista di Studi Politici Internazionali, Vol. 59, No.3, 2012, pp. 353-360

government's domestic popularity, and to consolidate the image of an Italy capable of being a protagonist in the process of European integration. Thanks to the 1985 Council, the country was able to associate the success of the 1986 Single Act with the role of its presidency, in a deft politico-diplomatic move that allowed it not to remain entirely marginal to the Franco-German couple. The June 28-29 Milan Council came at the conclusion of a highly successful presidency. The major achievements for the semester coincided with the two main goals of the Italian delegation: the entry of Spain and Portugal into the European Community; the convening of an Intergovernmental Conference (IGC) to discuss the reform of the Treaties of Rome.

The conclusion of the negotiations for the entry of Portugal and Spain, with the signing in Lisbon and Madrid on June 12, 1985 was the most significant achievement for the Italian presidency. The political part of the negotiations was chaired by Craxi and closed at the Brussels European Council on March 30, prepared by a veritable marathon of foreign ministers, chaired by Andreotti. Negotiations at the "substitute" level to settle outstanding issues and finalize the texts of the accession treaties lasted until early June, that is, until the eve of the signing. [144] From the Italian point of view, the entry of Spain and Portugal could have rebalanced the Community's political center of gravity toward southern Europe.

However, this achievement could not suffice to consecrate the success of the Italian presidency. The desire for a clear diplomatic success in the European arena became a reality with the decision at the Milan Council to convene an intergovernmental conference to discuss political integration and institutional reforms. This issue was the most divisive among the members of the Community, but Italian diplomacy managed to keep the point. The draft of the mandate of the Italian presidency to convene the conference was drawn up following the exploratory operation in the capitals of the Community by Mauro Ferri, assisted by diplomat Roberto Nigido, later blessed by the Foreign Ministry, and in particular by Renato Ruggiero. [145] The project took into account many proposals on the table regarding institutional reforms: the Genscher-Colombo solemn declaration; the Dooge report; the Adonnino report; the Spinelli project.

Among them, the Italian delegation particularly welcomed the results of the Committee established *ad hoc* to define institutional issues, the Dooge Committee and those of the Adonnino report on the “Europe of Citizens”. Both in fact strengthened Italy's positions. The Dooge Committee had been

[144] P. Calamia, *L’Italia e la costruzione europea dal Consiglio Europeo di Milano all’Atto Unico*, in Quaderno di politica internazionale, No. 21, 2015, pp. 2-6
[145] P. Calamia, Il Consiglio Europeo di Milano (28-29 giugno 1985), 2012, p. 354

established in 1984 at the conclusion of the Fontainebleau summit and had a mandate formulated in fairly general terms. Therefore, as Mauro Ferri, who participated in the work of the Committee, recounts, a political interpretation of the mandate prevailed. The Italian politician was especially committed to the issue of institutions and to the issue of strengthening the powers of the European Parliament [146], a traditional battle of Italy's European diplomacy, as it had chaired the Institutional Commission of the European Parliament that had drafted the draft Union Treaty known as the Spinelli Project. The work of the Dooge Committee concluded with a text approved on March 15, 1985, in which it stated the need to make "a qualitative leap forward" by creating "a true political entity among the member states, that is to say, a European Union". The priority objectives stated were a homogeneous economic space (an European Economic Area), through the realization of a fully integrated internal market; the strengthening of the European Monetary System (EMS); additional financial resources to cope with the new tasks assigned to the EU institutions; the promotion of common values of civilization, such as the protection of the environment; and the gradual implementation of a European social space and a homogeneous legal space. Most relevant to the Italian position is that the report defined that in order to achieve these goals, efficient and democratic institutions were necessary. As for the Adonnino report,[147] this proposed a series of instruments designed to bring the citizens of the member states closer to the Community, such as actions to be addressed to young people, initiatives in the areas of culture and education, the establishment of "European symbols" such as a common flag and anthem, and the facilitation of movement for European citizens within the Community. These aspects of European integration would prove to be particularly prominent in later years. [148]

The draft of the Italian mandate for the IGC, presented to the Council on May 20 and 21, was largely based on the results of these two reports. These in fact were extensively examined and taken into consideration by the Secretary General of the Farnesina, Renato Ruggiero, the Prime Minister Bettino Craxi and the Minister of Foreign Affairs, Giulio Andreotti. The project was resubmitted by Andreotti to the informal Stresa Council on June 8 and 9, 1985, presenting the basis for the mandate of the Intergovernmental Conference to be convened at the Milan Council. However, at these two venues, the project was not pursued in depth. As anticipated, the topic of the IGC was the most divisive among the delegations of Community members, and it was surrounded by uncertainty until the time of the June 28-29 Council. While the French expressed a wait-and-see, "we are reflecting" position, for

[146] M. Ferri, *Da Fontainebleu a Milano,* in Affari Esteri, 2012, pp. 2-8
[147] See the report in Comitato ad hoc per i problemi istituzionali, Relazione al Consiglio europeo (Bruxelles, 29-30 marzo 1985), Ufficio delle pubblicazioni ufficiali delle Comunità europee, Lussemburgo 1985
[148] A. Varsori, Italy's European Policy, 2011, p. 61

other delegations, such as the British delegation represented by Geoffrey Howe, it was necessary to prevent the issue from being discussed at the Milan Council. [149] Genscher himself expressed doubts about the Conference, while Ministers Poos and Tindemans explicitly advocated it, with Poos declared his acceptance of the Italian draft mandate at the Brussels Council meeting on May 20-21.[150] With these premises, the Milan meeting looked open and uncertain.

3.2 The Milan Council

The absence of consensus among Community Members on the subject of the Intergovernmental Conference resulted in a lack of comprehensive preparation for the Milan Council within the Community. This created an opportunity for bilateral diplomacy.
Two opposing positions emerged: on the one hand, the Franco-German initiative proposed by Mitterand and Kohl's collaborators, Attali and Telchnik, who advocated for a political treaty separate from the Treaties of Rome to be finalized by the heads of state or government in Milan; on the other hand, the Italian position based on the Dooge and Adonnino report. Italy was informed of the Franco-German project through Ruggero. The anticipation of the Franco-German initiative by Chancellor Kohl provoked irritation in Rome[151] and Italian authorities decided to maintain a distance by maintaining their mandate text for an Intergovernmental Conference. [152]

The negotiations took place in the Castello Sforzesco on June 28 and 29. Gradually over the two days a conclusion based on the Italian draft mandate versus the Franco-German suggestions began to take hold. As Ambassador Calamia recalls, the decisive moment came on the morning of June 29, when the knot of a majority vote was untied. Some competent diplomat, with the help of the Council's Legal Service, pointed out to the Italian Presidency that, according to the Treaty of Rome, the decision to convene the Intergovernmental Conference could be made by a simple majority vote: this was the trump card for Craxi and Andreotti. The Council's conclusions then expressed the decision to convene an IGC, which would be chaired by the Luxembourg presidency in the next six months, in which a treaty on a common foreign policy and a common security policy would be drawn up on the basis of the Franco-German and British plans; and the amendments to the EEC Treaty, under Article 236 of the Treaty, necessary for the implementation of the institutional adjustments with regard to the

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[149] P. Calamia, Il Consiglio Europeo di Milano (28-29 giugno 1985), 2012, p. 355
[150] P. Caraffini, *Il comitato Dooge,* in Dizionario storico dell'integrazione europea, eds. M.E. Cavallaro, F.M Giordano, Rubbettino, 2018
[151] A. Varsori, Storia della costruzione europea. Dal 1947 ad oggi , il Mulino, 2023, p. 216
[152] P. Calamia, L'Italia e la costruzione europea dal Consiglio Europeo di Milano all'Atto Unico, 2015, p. 356

Council's decision-making process, the Commission's executive power, and the powers of the European Parliament would be discussed.

A series of important conclusions that consecrated the success of Milan and projected positively on the future of Europe. But there is no doubt that the decision that made the meeting go down in history was the convening of the Intergovernmental Conference, under the conditions mentioned.
It was the decision that created the event and opened new scenarios for the revival of European Integration. [153]

The Council's success in Italy was not only a confirmation of the country's role as a European power and as a country capable of asserting itself on the international stage. It was also a decisive step for the Community. In fact, the White Book, prepared by the Delors Committee, which charted the course for the realization of an effective single European market, was discussed. The White Book was a decisive factor in charting a turning point in European integration, the result of the initiative of Commission President Jacques Delors. An advocate of European integration at home, as the architect of the change in the economic policy choices of the Mitterrand presidency to prevent the franc from leaving the EMS [154], having come to the presidency of the Commission in 1985, Delors directed the Commission's action in the conviction that it should play an eminently political role, becoming the engine of European integration. In other words, he was an advocate of a supranational approach, within which the central function would be performed by a "technocratic" elite. Even before taking on the new function Delors had a series of contacts in the various European capitals to ascertain where the greatest progress in integration would be made. He understood how once again the economic environment was the one that would offer the least resistance from national authorities. Once he assumed the full duties of chairman of a Commission, consisting of twelve members, to be joined from 1986 by a representative for Spain and one for Portugal, the French exponent launched the initiative to draw up a report on the full implementation of the internal market. In drafting the document, the British commissioner, Arthur Cockfield, an influential member of the Conservative Party and a proponent of neo-liberal theories, played a leading role. The final report, the "White Book," identified all the remaining obstacles to the realization of a true single European market, thus calling for full mobility of goods, services, capital and people and identifying a path that would end in 1992. It was a proposal whose character was basically consistent with the emerging "neo-liberal turn" and which represented the European response to the thrusts coming from overseas and across

[153] P. Calamia, Il Consiglio Europeo di Milano (28-29 giugno 1985), 2012, p. 360
[154] G. Ross, Jacques Delors and European Integration, Cambridge, Polity Press, 1995

the Channel, choices on which even Thatcher's Britain could have agreed. The White Book proposals, accepted by the Italian delegation at the Milan Council, were discussed during the IGC held in Luxembourg in the following months. Here, on the Italian side, an attempt was made to include in the negotiations the political issues related to a strengthening of the powers of the European Parliament. [155]

1985 represented a pivotal year for the European Community, marking the convergence of events that led to a process of greater integration and radical transformations. In the wake of the enthusiasm, growth, and ambition in foreign policy, Italy managed to play an important role in this phase, pursuing its traditional approach in the European sphere, that is, support for political integration, but also taking important steps in the direction of economic integration, the stream favored by other actors, especially during the Delors presidency. In the years that followed, European economic integration took a significant leap forward. The following chapter will analyze these developments and Italy's role as we approach the Maastricht negotiations.

[155] A. Varsori, Storia della costruzione europea. Dal 1947 ad oggi , 2023, p. 220

Chapter three

On September 9, 1985, the first Intergovernmental Conference was opened. Its convening of which had been strongly desired by Italy during its six-month presidency of the European Council. A few months later, in 1986 the Single European Act was signed in two rounds, one in Luxembourg on February 17 and a second in The Hague on February 28 (where the 9 and later Denmark, Italy and Greece signed respectively). The negotiations, which proved to be very challenging, were the result of five meetings of the IGC at the level of foreign ministers under Luxembourg's presidency that ended at the Luxembourg European Council on December 2 and 3, 1986, remembered as one of the longest in the history of European integration (as many as 28 hours of negotiations). [156] In light of the subjects under discussion, this should come as no surprise. The issues before the ministers were of existential importance to the Community and the most traditionally debated among European countries such as the realization of an internal market; the transition from unanimity to qualified majority voting in the Council; and cooperation in foreign policy. The adoption of the Act was greeted with great enthusiasm by European Community leaders, who regarded it as a decisive moment in the history of Community integration. They had a point: in the following years, the Community would witness a rapid and steady advancement of integration, both politically and economically. The decade, the "long eighties," would end with momentous upheavals at the international level (the collapse of the Berlin Wall, the reunification of Germany, the collapse of the USSR, and the end of the Cold War) that would definitively seal the willingness of European leaders to move forward together and *united,* enshrined in the signing of the Maastricht Treaty in 1992.

Were they aware of the magnitude of the changes taking place? Were they fully aware of the consequences implicit in the adoption of the Single European Act? These questions were of particular interest to the Italian authorities. As we have seen, the 1980s were years of great enthusiasm and ambition for Italy, whose improvement of the economy and modernization of society were reflected in the willingness of political actors to revive the country's role at the European level. However, despite the successes of the 1985 Milan Council - the accession of Spain and Portugal and the decision to convene two IGCs to amend the Treaties of Rome - Italian authorities were disappointed by the approach taken at the Luxembourg Council of September 9, 1986, and later, by the adoption of the Single Act. The Italian government made a negative evaluation of the SEA, regarded as a mere administrative and bureaucratic exercise.

[156] A.R Cangelosi, *Atto Unico Europeo,* in Dizionario storico dell'integrazione europea, eds. M.E Cavallaro & F.M Giordano, Rubbettino, 2018, p. 150

As a consequence, Italy was the last country to ratify the treaty [157], ratified only at the end of the year with the Law Dec. 23, 1986, n.909.[158] Italian authorities were waiting for the favorable opinion of the European Parliament to proceed with the ratification.[159] The Italian authorities' reluctance to ratify the Act concealed a more significant underlying issue: a certain degree of blindness and shortsightedness. The real problem was that the Italian political authorities did not fully realize that there was a true revolution undergoing in the European community, triggered by the SEA. In fact, with the adoption of the Single Act and the five-year Delors presidency, European construction took on the connotations of a predominantly economic phenomenon. [160] Moreover, the SEA shifted the core of the exercise of decision-making power at the European level in favor of the Commission, as it offered the European Commission the opportunity to exert a stronger influence on the Community's policies. The economic and operational nature of the Single European Act brought out Italy's fragility in translating the directions prescribed at the Community level into national policies.

In fact, the Italian authorities had always been convinced that European issues were largely the domain of *high politics,* where Italy, especially the "authoritative" Italy of the Craxi’s years, would have been able to make its voice heard, thanks in part to the ability of a series of diplomats who had gained profound experience of European affairs and dynamics, which, for example, had been put in action during the Italian six-month presidency in the first half of 1985. [161] But they had not fully grasped the important strategic value of the Single Act, a tool for the realization of a broader economic process under way, and the growing regulatory and policy building activity that would ensue. To have a measure of the regulatory effort required, the measures to be put in place by 1992 amounted to 282 (including directives, regulations, decisions, recommendations, establishment of funds, organizational measures etc.). [162] The adoption of the Single Act and the objectives presented in it, represented the answer to an important question that European leaders and in particular Commission President Jacques Delors were asking themselves in reference to the evolving international context: how could the European Community safeguard the founding features of its identity without losing the challenge of economic globalization? The question arose following the emergence of the new

[157] A. Varsori, *The Andreotti government and the Maastricht Treaty: between European hopes and domestic constraint*, in Journal of European Integration History, 2013, pp. 22-43
[158] Art. 1, L. 23 December 1986, n. 909
[159] A.R. Cangelosi, *Atto Unico Europeo,* in Dizionario Storico dell’integrazione europea, eds. M.E. Cavallaro & F.M. Giordano, 2018, p. 152
[160] A. Varsori, *The Andreotti government and the Maastricht Treaty: between European hopes and domestic constraint*, in Journal of European Integration History, 2013, p. 25
[161] A. Varsori, *Il Trattato di Maastricht e la fine della Prima Repubblica*, in L’Italia e la fine della guerra fredda, ed. Antonio Varsori, il Mulino, 2013, p. 189
[162] Corte dei Conti, *Decisione e relazione della Corte dei conti sul rendiconto generale dello Stato per l’esercizio finanziario 1990*, presented to the Italian Parliament on the 12th July 1991, (Doc. XIV, n.5 volume I, p. 339 e segg 337 e segg. e p. 341 e seg)

capitalism based on economic globalization, whose basic features were described in the previous chapter. The triumph of neoliberalism accentuated competition among global economic powers, and some enlightened European leaders wanted Europe not only to survive, but to respond to that challenge by proving itself to be an important and solid economic player on a global scale. The realization of this goal required major efforts to make the Community an area of free movement of goods, services, capital and people. The need had arisen for European leaders to reflect deeply about the economic position of Community Europe, which had led to the maturation of European leadership groups of a turn in a neo-liberal direction, which, already since the 1970s, had gone through a phase of neo-mercantilist experiments. [163]

The initiative of the Commission chaired by Delors was oriented in this direction. The preparation of a strategy in this direction was entrusted to the Delors Committee, consisting of 12 members who would be joined in 1986 by representatives from Spain and Portugal, with the task of identifying all remaining obstacles to the realization of a true single European market. It is not surprising, then, that the White Paper was largely the work of British Commissioner Arthur Cockfield, an influential member of the Conservative Party and advocate of neoliberal theories, [164] who secured Margaret Thatcher's endorsement of the paper's predictions. The report proposed a recipe that juxtaposed liberalist policies with the preservation of certain founding features of Community integration and political reality, the European version of the neoliberal turn. In other words, it did not lack ambition and vision. Was Italy ready for this challenge?

These years brought to light the country's structural shortcomings in terms of compliance with criteria of economic stability and regulatory production adequate to the commitments set by the Community for the goal of achieving the single market by 1992. [165] This chapter will present the difficulties encountered by Italian economic and political authorities in addressing the issue of external constraint and the existential implications for Italy's membership in the European Community. It will also examine the advancements of integration at the European level and their complex intertwining with international affairs, particularly the German question and Italy's position in it. The Italian debate and difficulties in adjusting to Brussels policies will be further elucidated by the presentation of the Italian presidency at the 1990 Council. Having presented Italy's situation, the chapter will conclude with an examination of the negotiations for the Maastricht Treaty in 1991-1992.

[163] See L. Warlouzet, Governing Europe in a globalizing world. Neoliberalism and its alternatives following the 1973 oil crisis, 2018
[164] See A. Varsori, Giulio Andreotti, Margaret Thatcher e le relazioni italo-britanniche negli anni Ottanta, in Ventunesimo Secolo, Franco Angeli, 2020, pp. 41-58
[165] Single European Act, Section II, Art. 13

1. The Single European Act enforcement in a changing international system: Italy's stress-test

1.1 The hard reality of the Italian state

The Single European Act divided those who saw it as an efficient instrument for institutional and economic revival in Europe and those who, in contrast, dismissed it as a mere consensus text, which was less progressive than the proposals set out in previous drafts such as the report of the Dooge Committee, or the Draft Treaty establishing the European Union, which was adopted on February 14, 1984 by the European Parliament, on the initiative of Altiero Spinelli. Italy definitely belonged to the second category. During the Luxembourg negotiations, which led to the draft of the SEA, the Italian delegation expressed its critics toward the document, mainly for two reasons. The first one has to do with the role of the European Parliament. While the Act introduced the universal suffrage vote to replace the electoral model of second-degree elections [166], which allows the direct investiture of the Parliament by the electoral body, this change was not followed by a *de facto* increase in the power of the Parliament. In fact, the Italian delegation failed to prevail in its intent to have the Parliament endowed with real power of co-decision within those powers that the Community already possessed among its institutional competencies. However, thanks to Italy's efforts, the principle of cooperation with the Council in the legislative process and the second reading procedure were introduced. [167] Despite these achievements, the Italian authorities lamented the lack of a real leap forward in the area of political integration, that is the second reason of discontent of the Italian authorities toward the Single European Act.

Why did Italy care so much about the issue of political integration? One reason is the influence exerted by the federalist tradition on the country's political culture within almost all parties, and which was reinforced by the action carried out for more than thirty years by Altiero Spinelli [168], who, although he passed away in 1986, still inspired with his thought and initiatives the stances taken by many Italian politicians and intellectuals. [169] But it was not only about that. Behind the favor that the authorities in Rome had always shown toward a supranational approach to European unity were concrete political motivations. Indeed, this approach served to conceal and circumvent the country's elements of weakness, which aspired to a leading role in the Community. Not without a certain

[166] As stated in the introduction of the SEA "the European Parliament, elect by universal suffrage"
[167] Single European Act, Section I, Art.7.2
[168] On Altiero Spinelli see P. Graglia, Altiero Spinelli, il Mulino, 2008
[169] On the legacy of the federalist movement see A. Landuyt & D. Preda, I movimenti per l'unità europea (1970-1986, il Mulino, 2000

malice, it can be seen that commitments made at the political level do not require a quantitative measurement of the actions taken to carry them out. In other words, the Italian authorities' preference for a deepening of the European integration through political *volets* is also due to the lesser concreteness of this aspect, which thus allows them to evade commitments with lesser consequences and at the same time use it to hide the country's fragilities in other areas. Related to this motivation is the impatience of the Italian authorities toward the SEA and the consequences of its implementation.

As stated in Art 13 of the SEA:

"*The Community shall adopt measures with the aim of progressively establishing the internal market over a period expiring on 31 December 1992"*. [170]

As it follows in Art. 18 of the Act:

"*The Council shall, acting by a qualified majority on a proposal from the Commission in co-operation with the European Parliament and after consulting the Economic and Social Committee, adopt the measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States which have as their object the establishment and functioning of the internal market*". [171]

This was the direction in which the regulatory and policy efforts of the Member States were to be directed, in anticipation of the 1992 deadline when

"*the Commission shall, together with each Member State, draw up an inventory of national laws, regulations and administrative provisions which fall under Article 100a and which have not been harmonized pursuant to that Article.*" [172]

The reconstruction from a legislative point of view serves to put black on white the implications of the adoption of the Single European Act for member states and to highlight the difficulties encountered by Italy. These predictions shone a blinding light on the shortcomings and structural defects of the Italian state machinery. Moreover, they brought to light the contradictions underlying the economic growth of the 1980s and made the reckoning with the massive public debt increasingly inevitable.

[170] Single European Act, Section II, Art. 13
[171] Single European Act, Section II, Art. 18
[172] Single European Act, Section II, Art. 19

In terms of adapting standards, the Italian state still seemed unable to meet this challenge. The increasing regulatory activity borne by the European Commission had to find implementation in the legislative frameworks of the member states. Here Italy's limitations and shortcomings emerged such as the traditional ineffectiveness of the bureaucracy, the inefficiency of most local authorities and the slowness of the government and parliament in converting EU directives into law, [173] characteristics of the "archipelago" system of the Italian state. [174] As a result, in the second half of the 1980s Italy was not only unable to take advantage of a substantial part of the EC funds granted to the peninsula[175] but it also became the most fined country by the Commission for its failure to comply with EC regulations and the inability to comply with those regulations. [176] According to data provided by the EC Commission, in 1990 the picture of infringement proceedings brought against Italy presented: 110 letters of formal notice; 8 reasoned opinions; 24 appeals to the Court of Justice; 9 condemnation judgments; 32 condemnation judgments not yet executed (there were 37 in 1987 and 48 in 1988). [177] These figures as of 1990 did not yet take into account Law No. 428 of December 29, 1990, known as the "1990 Community Law," in operation since 1991, which delegated the government to issue legislative decrees containing the rules necessary to implement European Economic Community directives. [178] The law was within the framework of the system established by Law No. 86 of March 9, 1989, the so-called La Pergola Law from the name of the Minister for European policies, Antonio La Pergola, which set up an *ad hoc* parliamentary session in order to approve the implementation of the Community's directives, designed to deal with this unreassuring situation in view of the goal set 1992. As can be seen from these figures, the convinced pro-European attitude of the Italian authorities corresponded at this stage with weak implementation efforts, a *dimidiatio* of the country's communitarian soul. [179]

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[173] On this aspect see L. Mechi, *Abilità diplomatica, insuccessi economici, progressi amministrativi. Appunti per una storia dell'Italia e i fondi strutturali*, in L'Italia nella costruzione europea. Un bilancio storico (1957-2007), eds P. Craveri e A. Varsori, Milano, Franco Angeli, 2009, pp. 200-203

[174] For a description of the archipelago structure see Amato's quote "I have the sensation of moving in an archipelago …"in P. Ginsborg, Storia d'Italia dal dopoguerra ad oggi, 2014

[175] M.G Melchionni, *L'Italia e l'attuazione del sistema comunitario*, in Rivista distudi politici internazionali, Vol. 58, no. 4, pp. 583-591

[176] L. Mechi, *Abilità diplomatica, insuccessi economici, progressi amministrativi. Appunti per una storia dell'Italia e i fondi strutturali*, in L'Italia nella costruzione europea. Un bilancio storico (1957-2007), eds P. Craveri e A. Varsori, Milano, Franco Angeli, 2009, pp. 200-203, 2009

[177] M. G Melchionni, L'Italia e l'attuazione del sistema comunitario, in Rivista distudi politici internazionali, Vol. 58, no. 4, pp. 583-591

[178] Law no. 428 of December 29, 1990, Art.1,

[179]M. G Melchionni, *L'Italia e l'attuazione del sistema comunitario*, in Rivista distudi politici internazionali, Vol. 58, no. 4, pp. 583-591

1.2 The *vincolo europeo* in action: the season of privatizations

Among the measures Italy managed to pass to be in line with EU directives were those in the areas of privatization, stock market reform and restructuring of public banks. In 1990, the Law for the Protection of Competition and the Market was passed, which established the Antitrust Authority, filling a legislative gap that had made Italy the laggard country among industrial countries in this area. The most positive results are seen in the reform of the banking system. As far as the financial system is concerned, a series of legislative interventions are implemented to reform the stock market, through the strengthening of Consob's regulatory activity and stimulus as the body that controls market functionality, in order to increase the transparency and effectiveness of the Italian financial market. [180] The transformation process presents not a few difficulties that will hinder the other ongoing process, the privatization of public enterprises, in the following years.

This process deserves in-depth treatment for two reasons: the particular composition of the Italian economy, characterized by the deep interpenetration of the public and private sectors; and the direct connection between this process and that of European economic integration, which makes that of privatization one of the clearest examples of the concept of *vincolo esterno.* [181]The late 1980s and early 1990s saw the beginning of the privatization season, which began with the passage of a law regulating the corporate transformation of state holdings. Privatization has been subjected to a hotly ideological debate. [182] However, the *raison d'étre* had to do with very practical motivations such as restructuring national economies at a time of technological change and growing globalization. As we have seen, the response to these changes was precisely in the intentions underlying the White Book and the Single Market. This approach was to be consolidated more strongly with the elaboration from 1988 onward of the project for the realization of Economic and Monetary Union, promoted by the Delors Commission, which we shall see in detail later. As the process of privatization in the European MS was largely affected by the political, economic, and institutional context of the Single Market, privatization should be assessed as the outcome of national policies, framed in the common logic of deregulation in the Single market as "a condition for international competition". [183] In this process, Italy showed some significant peculiarities due to the extent of the public sector and its traditional

[180] S. Rossi, 2020, p. 240

[181] For an interesting interpretation of the *vincolo esterno* see D. Pasquinucci, Il frutto avvelenato. Il vincolo europeo e la critica all'Europa, Le Monnier, 2022

[182] B. Curli, *The vincolo europeo, Italian privatization and the European Commission in the 1990s*, in Journal of European Integration History, 2012, pp. 285-302

[183] Judith Clifton, Francisco Comín & Daniel Díaz Fuentes, *Privatizing public enterprises in the European Union 1960–2002: ideological, pragmatic, inevitable?* in Journal of European Public Policy, 2006, pp. 736-756

strong mingling with the political system. [184] In this context the launching of the Single Market represented a decisive challenge for Italy, as it required a choice in terms of industrial reorganization and the opening up to international competition. It was a multi-faceted challenge, that raised the question of the public sector's ability to modernize the infrastructure of national growth and it imposed a substantial reduction of the intervention tools, such as custom protections or unilateral modifications of exchange rates. [185]

The first impulse to privatization came in the late 1980s, but these were only isolated cases of early privatization, such as the sale of Alfa Romeo to FIAT and the sale of Lanerossi to Marzotto, that were not part of a coherent plan to reduce the weight of state-ownership in the Italian economy. [186] This was also due to the growing political opposition to the process: the Italian political system would strongly oppose the transformation of the economic structure on which a large part of its own power had been built. The process of privatization and denationalisation of Italian state-owned enterprises re-gained momentum in the first years of 1990s. This change is attributable to the combination of the collapse of the party system [187]and to the external pressure exerted by the European Community, which in this case served a catalyst for change in Italy.

1.3 The burden of public debt

In addition to those already mentioned of an administrative nature, the other problems Italy encountered in preparing the conditions for the realization of the 1992 single market were economic in nature and concerned the state of the country's budget. In the previous chapter we saw how the distorting and disruptive use of increased public spending was also behind the sustained rates of growth. In the years examined in this chapter, that is, between 1987 and 1992, the perverse trends in the circuit between savings and investment, the basis of debt growth, reached their most dangerous.[188] Indeed, the traditional saving virtues of Italian households were weakened, partly because of the relative abundance of public provision, financed by the public operator not from revenues such as taxes and grants, but by borrowing savings from foreign creditors. The result is that alongside the weed of public debt, which is flourishing, another bad plant sprouts, that of debt to foreign countries. This consolidates the phenomenon of "twin debts," an expression coined a few years earlier for the similar situation determined in the U.S. in the first Regan administration, which refers to a two-

[184] B. Curli, *The vincolo europeo, Italian privatization and the European Commission in the 1990s*, in Journal of European Integration History, 2012, pp. 285-302
[185] IRI, Report on IRI, Rome, 1991
[186] B. Curli, The vincolo europeo, 2012, p. 290
[187] On this see G. Acquaviva & L. Covatta, Il crollo. Il PSI nella crisi della prima Repubblica, Marsilio, 2012
[188] S. Rossi, 2020, p. 246

pronged debt generated by the strength of the domestic currency and the high domestic interest rates. These two elements, strong exchange rate and high interest rates, are, both in the U.S. and in the Italian case the result of monetary policy choices aimed at eradicating inflation. [189] At the same time, these parameters should be constraints on fiscal policy. However, governments prone to resolve political conflicts with the illusions of debt and inflation do not care about the state of the budget until it is too late. [190] This judgment was adapted to the case of Italy. In the years between 1986 and 1992, a change of pace in the conduct of public finance became absolutely necessary, and successive governments (Craxi, Fanfani, Goria, De Mita, Andreotti) tried to take steps in this direction. The custom was introduced of announcing plans each year in the spring, when the Economic and Financial Planning Document (Dpef) was presented, to drastically reduce the public deficit over the next three years. However, the plans presented were often drafted on the basis of macroeconomic scenarios that were unrealistic, flawed by internal inconsistencies, based on either unspoken or politically unrealistic correction measures. What was expected from the announced plans was regularly belied by the facts. The regularity of the failure of these plans, the distance between reality and programmatic commitments, precipitates the reputation of Italy and its system of government in the eyes of international financial markets. For this reason, too, other member countries will begin to increasingly doubt whether Italy will be able to adjust its economy in view of the implementation of the single market. The Community's concern about the Italian situation will escalate to its peak between 1991 and 1992, as we shall see below.

To sum up, the adoption of the SEA forced Italy to confront an unflattering and complex reality and to come to terms with a European integration that was increasingly advancing through the *volet* of economic integration. The Italian authorities seemed to have underestimated, or perhaps not well understood, the magnitude of the changes taking place and showed no signs of wanting to undertake a significant change of course, despite continuing to declare themselves strongly pro-European.

1.4 Domestic political context and international challenges

The transformation of the Italian economy in the run-up to the 1992 deadline was made even more critical by a political context, domestic and international, characterized by uncertainty and instability. The Italian political system was jeopardized by internal rivalries in the *pentapartito* and between 1987 and 1989 the country experienced the appointment and fall of three different cabinets and a general election. In 1987, the growing tensions between the Socialists and the Christian

[189] Indeed, in the case of Italy inflation was greatly reduced in the late 1980s, thanks to the policy pursued by the *pentapartito*, see G. Acquaviva, La politica economica italiana negli anni ottanta, Marsilio, 2005
[190] S. Rossi, 2020, p. 150

Democrats, in particular the clash between Craxi and De Mita, which became a reason for deep political division over the goals of Italian modernization, led Craxi to resign. [191] Only in the summer of 1989, an agreement between Craxi and the moderate sectors of the Christian Democrats and Arnaldo Forlani made it possible the survival of the five-party coalition and the appointment of a new government. The government was led by Andreotti, which formed its 6th cabinet, and was replaced by Gianni de Micheli as Foreign Minister (Andreotti has held the post since 1983), a leading member of the Socialist Party.

In addition to internal divisions, the cabinet was faced with radical changes in the international system and especially in Europe [192] such as the crisis of the communist system and the reunification of Germany. Regarding the former, although not forgetting Italy's foreign policy pillars (the European Community, NATO and the Mediterranean) De Michelis saw in the crisis of the communist system the re-opening of a window of opportunity for Italy to relaunch a traditional ambition of its foreign policy, [193]i.e., to exert political and economic influence in Central and South Eastern Europe. To this end he launched two initiatives such as the "Quadrangolare," a form of political, economic and cultural cooperation among Italy, Austria, Yugoslavia and Hungary (that later became the "Esagonale" with also Czechoslovakia and Poland as members) and the "Adriatic initiative," which aimed at enhancing cooperation with Yugoslavia and Albania. Italy's ambition went as far as hoping that these initiatives could build a bridge between the EC and Eastern Europe and that these could serve as instruments to stabilize the Balkans area. [194] But Italy's ambitions did not survive the series of events that occurred shortly thereafter, destined to change the course of History and end the political system that had governed the international system since the end of World War II. These plans were superseded by the sudden dramatic change brought to the European continent by the fall of the Berlin wall, the "velvet revolutions" in Easter and Central Europe, and, above all, the perspective of a rapid German reunification. [195]

The fall of the Berlin Wall came as a sudden thunderbolt to Italian political leadership. Andreotti himself was particularly worried by the change in equilibrium that a unified - meaning a more vast, more populated and more powerful - Germany, would have brought to the European soil. The Italian President of the Council was not alone in his worrisome status. His feelings about Germany's future

[191] G.Pasquino, *La crisi del governo De Mita e i poteri del presidente della Repubblica, ovvero quale forma di governo?* in R. Catanzaro, F. Sabetti, Politica in Italia. I fatti dell'anno e le interpretazioni, Bologna, il Mulino, 1991, pp. 51-68
[192] (Varsori, Italy's Attempt at Integrating East-Central Europe in a New Continental Balance: An Early Response to the Crisis of the Communist Block (1989-1991))
[193] See G. De Michelis, La lunga ombra di Yalta. La specificità della politica italiana, Marsilio, 2003
[194] A. Varsori & B. Zaccaria, Italy in the International System from Détente to the End of Cold War, Palgrave, 2017
[195] ivi

were close to those nurtured by Mitterrand and Thatcher. Their concerns stemmed from the shared experience of the Second war world and its legacy and, although not putting in question Germany's democratic basis, the leaders shared the view that the Cold War balance, of which the partition of Germany the utmost expression, had guaranteed peace and stability in the old continent for forty years. [196] For this reason, as a form of safeguard from a German *sonderweg,* they advocated for a solution that envisioned its reunification in the framework of a deepened European political integration. In this context, both Andreotti and De Michelis were compelled to reassess Italy's policy toward German reunification as bound to two conditions: the safeguarding of NATO, meaning the U.S. commitment to security in Europe, and the significant progress in European integration, which implied a reunified Germany committed to European ideal. These constraints were intended as a counterbalance to the emergence of a powerful Germany. In fact, German reunification, in addition to the challenges of both a procedural nature for the Community's arrangement, i.e., how to assimilate without disrupting the existing infrastructure of the underdeveloped German Democratic Republic, presented important challenges of a political nature, i.e., how to prevent a resurgent and reunified Germany from overthrowing the institutional balance of the Community and subverting its order.

If the premises were shared, the approach to unification varied among European leaders. On the one hand, the British premier, Margaret Thatcher, vehemently opposed this prospect, fearing that a more united Community with a united Germany as its member would promote its domination over the other European states, and proposing as an alternative an eastward enlargement and less stringent ties between states, along the lines of a confederation. At the opposite extreme was the approach of Commission President Jacques Delors, persuaded that a federal Europe was "*the only satisfactory and acceptable answer to the German question*". [197] In between stood a wary but resolute Mitterrand, who within a week of the events in Berlin convened an extraordinary summit in Paris. The French president was uncomfortable with the prospect of German reunification, but he made himself willing to accept the inevitable, on the sole condition of ensuring that Germany's fate would be inextricably linked to that of the Community through the rapid realization of EMU. The Paris summit served precisely to communicate this message to Kohl and other community leaders. As soon as an intense diplomatic process began, Italy tried to be involved and to play an important part. However, Italy's ambition ran up against the wall of the "two-plus-four"[198] formula of the Atlantic Council in Ottawa

[196] A. Varsori & B. Zaccaria, Italy in the International System from Détente to the End of Cold War, 2017
[197] As in an article in The Economist, August 1989
[198] The United States and West Germany argued for this particular description as opposed to "Four- plus-Two" or "the Six" because we wanted to stress that Germany's unification was the key issue, and that the four allied powers would be supporting and adjusting to that unity. On this aspect see R. B. Zoellick, *Two Plus Four: The Lessons of German Unification,* in The National Interest, 2000, Vol. 61, pp. 17–28

on Feb. 13, 1990. On that occasion, Italy was excluded from the negotiations, which involved the two German governments and the four victorious powers of the Second world war, the US, United Kingdom, the Soviet Union and France. As the German Foreign Minister Hans-Dietrich Genscher put it by recurring to a rather rough expression Italy "was not part of the game". [199]

The opportunity for Italy to have a say was offered by the upcoming Italian presidency of the European Community starting from the second semester of 1990. Italian authorities wanted to take the opportunity to reaffirm Europe's political integration on a supra-national basis as a *condition sine qua non* for German unification while at the same time bringing political issues back to the center of European integration. In this regard, De Michelis envisioned Italy as the promoter of an intergovernmental conference on the European Union, in the wake of the progress made in the first half of 1990, when in response to the rapid progress of the unification process of the two Germanies the intense contacts between Bonn and Paris had led Kohl and Mitterrand to agree on the need for the European integration process to proceed simultaneously on two tracks: that of economic and monetary union and that of political integration. This two-faceted process on the one hand allowed Germany to show its willingness to remain anchored in Europe and to deepen its ties with it, warding off the possibility that it would drift away from it by turning its gaze eastward; on the other hand, it reassured France about the prospect of a united but European Germany, thus being able to focus on the emergence of an economic and monetary union that would not neglect Paris' economic interests.[200]

Italy, therefore, welcomed these developments, with the aim of directing the negotiations toward the political *volet*, also because of the situation analyzed above, proposing the traditional warhorse, that is, the strengthening of the powers of the European Parliament, the institutional place where the Italian authorities identified the most suitable for supporting Italy's interests (i.e. political and social goals). Given the large number of Italian representatives in the Strasbourg Assembly, where Italy could rely on a strong parliamentary group equal to those of other major member - states, Italy sought to counterbalance the French - German directorate, which had the European Council as its instrument.

[199] On the episode see M. Vaisse & C. Wenkel, La diplomatie française face à l'unification allemande, 2011, Tallainder, Paris
[200] C. Mazzucelli, France and Germany at Maastricht: Politics and Negotiations to Create a European Union, Garland, 1997

But the Italian authorities could not forget that alongside this process, another crucial unfolding for European integration and for the member states was taking place, that of building an economic monetary union. We now delve into this and the complex internal debate that it opened in Italy.

2. Technocrats, politicians, and the EMU: the timeless debate

In this context, the eternal debate between Italian authorities returned to the surface, in that configuration in which they are divided between economic actors, the "technocrats," and political and foreign policy actors. In the past chapters we have observed two phenomena in their making in history: on the one hand, the strengthening of the instances of economic actors, such as the Bank of Italy and the Treasury, considered promoters and first receptors of economic policy changes at the international and Community level, which, through institutional reforms and of the instruments of economic and monetary policy, have been able to interpret the indications coming from the Community, supporting their *rationale* and cause; on the other hand, the contradictory approach of the political authorities who, despite being by tradition and conviction pro-European and "devoted" to the process of European integration, imagining for Italy a role if not as a front-runner certainly of great importance, for logics dictated by the needs of internal political balance, increasingly resorted to macroeconomic policies in countertendency to the Community indications. Thus, the gap between the two souls of the Italian state had deepened more and more, which, though united by the same tendentially pro-European *ethos*, were promoting very different approaches on how to prove these convictions. With the pressure exerted by the obligations arising from the adoption of the Single Act and the increasingly concrete prospect of the Economic and Monetary Union project, the latent debate between the two forces in the field resurfaced with vigor. This debate comes at a pivotal moment for Italy and the Community and questions existential aspects for the country's history. In a rapid succession of events, between the late 1990s and their beginnings will take place the end of the so called First Republic, that is, the end of the system of partitocracy that had constituted the backbone of the Italian system of government since the Second World War, and Italy will be preparing to join what from 1992 will become the European Union. These were thus crucial years against the backdrop of which the internal debate on European monetary integration was animated.

2.1 Italy and the Delors Committee

The Economic and Monetary Union project was finally affirmed in 1988 at the conclusion of the Hanover Council on June 27 and 28, with the statement in item 5 "Monetary Union" of the final communiqué that:

"(...) *in adopting the Single Act, the Member States confirmed the objective of progressive realization of economic and monetary union. They therefore decided to examine at the European Council meeting in Madrid in June 1989 the means of achieving this union. To that end they decided to entrust to a Committee the task of studying and proposing concrete stages leading towards this union*" [201]

The text indicated an unambiguous mandate for the working group: the committee was not being asked to give an opinion on the desirability of EMU, but to make proposals on its implementation.[202] The working group became known as the "Delors Committee," named after Commission President Jacques Delors, who was charged with chairing and directing the committee's work. [203] The Delors Committee fulfilled its mandate by drafting the Report on Economic and Monetary Union in the European Community, circulated in April 1989 and presented to the Madrid Council held in June of that year. The report, which among other proposals suggested three stages for the realization of Economic and Monetary Union, contributed to the development of the process of monetary and economic unification. As for its composition, this was the subject of many disagreements, which reflected the fundamental disagreements on EMU among EC members. The compromise reached was to place Delors' political leadership alongside the governors of the Central Banks of the 12 member countries. [204] The composition of the Committee is an important element because its architecture plastically represented the power relations existing between the different personalities within the Community. Moreover, it was decisive in orienting the Committee's action toward an approach that favored technocrats rather than ministers.

This element is important in understanding Italy's role in the Delors Committee. If on one hand Italian politicians made relatively little input at the EC level into the setting of the EMU agenda, on the other hand the Committee gave senior officials and academics the possibility to provide support during its early gestion. [205]As Dyson and Featherstone puts it, technocracy filled the void left by the

[201] Conclusions of the Hanover Council, reproduced from the Bulletin of the European Communities, No. 6/1988
[202] E. Apel, European Monetary Integraion, Routledge, 2013, p. 111
[203] Specified in the Communiqué text,
[204] who, as the Communiqué specified, would act in their personal capacity and not as representatives of their institutions
[205] K. Dyson & D. Featherstone, The Road to Maastricht, 2003, p. 486

predominant passivity on the part of ministers in policy making. The Committee was attended for Italy by the governor of the Bank of Italy Carlo Azeglio Ciampi and Tommaso Padoa-Schioppa as co-rapporteur along with Gunter Baer. Padoa-Schioppa was very close to Delors himself, closer than any other Italian figure [206] and had already established a reputation at the EC level, being one of the most prominent actors of the history of the EMU process. As a former Director-General for Economic and Financial Affairs in the EC Commission (1979-83), he had an insider's knowledge of the EC and was a strong advocate of European unity. [207] At first, he was designated as the sole rapporteur. The appointment of a second one, announced during the first meeting of the Committee held in July 1988, [208] was the result of the Bundesbank opposition to Padoa-Schioppa's convictions over EMU. The long-standing intolerance of the German Central Bank toward the Italian economist can be dated to 1979, when while being at the EC Commission as Director General, he was a supporter the second phase of the EMS, thus clashing with the stance adopted by the Germans. The irritation inflated in 1987, after the publication of the Padoa-Schioppa report, which further raised the sensitivities of the Bundesbank, as he advocated for a review of the institutional arrangements for monetary policy coordination. His "institutionalist" leanings stemmed from the argument that the combination of capital liberalization and the commitment to stable exchange rate under the ERM left no room for independent monetary policies, something that didn't resonate well with the economic authorities in Bonn. Notwithstanding these clashes, Padoa-Schioppa was to play a very prominent role in the Delors Committee.

How did Italian actors contribute to the EMU among the Delors Committee? As it emerges from the composition of the Delors Committee, the route followed by the EMU initiative in 1988-90 privileged the role of officials, rather than ministers. This framework was fully consistent with Italian technocrats' logic of the *external constraint.* For this reason, the establishment of the Delors Committee represented a significant turning point for Italian authorities, and especially to the Banca d'Italia. A clear mandate had been given at Hanover for the realization of EMU, not just a reform of the existing EMS. Ciampi was at the driving seat and as the adherent of the utility of external discipline, he looked forward to the design of policies that went in this direction for Italy. With a focus on the final goal ahead and how to achieve it, the governor played an important role in the Committee, where a number of accumulated beliefs on EMU came into play.

[206] The two had been close friends since 1979. For more on this aspect see C. Grant, Biographie de Jacques Delors, accessed in JD-1578, Historical Archives of the European Union (HAEU)
[207] K Dyson & D. Featherstone, 2003, p. 489
[208] DELC 2.1, Archive of the European Central Bank, The Delors Committee 1988-89

The negotiating demands of Italian representatives for the EMU design were the following. First of all, they pursued the institutionalist approach, which fully emerged in the discussion among the Committee. The institutional emphasis was not new in the Italian authorities' belief, as it was part of the cultural inheritance according to which institutions helps overcome human fallibility, and discretion. Following this approach, institutions are needed to provide for rules-based behavior, predictability and discipline. Moreover, it was part of a long-established pattern already followed by Italian governments over the course of the history of the European integration, that saw it, both in the economic and political sphere, as requiring a strong, supranational institutions, also able to direct and reshape behavior. [209] Italian institutionalist approach was put forward in Ciampi's paper "*An operational framework for an integrated monetary policy in Europe*," prepared within the Bank of Italy by Fabrizio Saccomanni and Francesco Papadia. Its approach can be resumed in one of the main arguments of the paper, where, referring to the indications of the Werner Plan, to which Italian authorities were not very favorable [210] he noted that:

"*the theoretical possibility of achieving "perfect coordination" of monetary policies trough informal arrangements cannot be excluded, but the probability of this occurring in practice is very low*". [211]

In other words, Italian authorities supported the idea that full monetary coordination required an institutional mechanism and thus a central monetary institution. On the same page was Padoa-Schioppa, who had pressed strongly, and successfully, for the Committee's report to commit itself to a treaty rather than to sanction EMU rather than an intergovernmental agreement. As in his words

"*A monetary union is not an exchange rate system, nor is it a reinforcement of the EMS rules; it is an institutional change in the formulation and organization of monetary policy*"[212]

This first requirement placed Italian representatives in the francophone camp inside the Committee, while distancing themselves from the British, the Danes, the Dutch and the Germans. However, while agreeing with the French view on *how* to arrive at this destination, they agreed with the Germans on the *what of* the EMU: monetary stability supported by central bank independence. Given the BI

[209] For example, this point was expressed by Alcide De Gasperi in the negotiations for a European Political Community in 1952
[210] for more on the Werner Plan see L. Magnusson & B. Strath, From the Plan Werner to the EMU: in search for a political economy for Europe, Peter Lang, 2001
[211] C.A Ciampi, *An operational framework for an integrated monetary policy in Europe*, Rome, 1989
[212] T. Padoa-Schioppa, La lunga via per l'euro, il Mulino, 2004, p. 140

strength, central bank independence at home or at the European level caused no problem in Rome. Therefore, it can be stated that Italy entered the EMU debate with a foot in both camps. [213]

The second Italian negotiating demand was that EMU should be designed in order to create a binding commitment. Moreover, the transition to a single European currency should follow a linked, stage-by-stage process that had to be irreversible and to unfold following a set timetable. These demands by Italy are usually referred to a "maximalist" position, meaning the conceiving of single currency together with a single monetary policy, not a common currency circulating jointly with national currencies in a strengthened monetary zone. [214] This approach was the result of major policy shift that happened in the previous decade and reflected Italy's demand on the non-reversibility of the process, the institutional framework and the willingness of a binding commitment toward EMU.

The Delors Report was decisive in keeping the flame of the EMU alive and in making it closer to a reality rather than a utopia. It had considerable impact on further developments and it helped to create a momentum that made possible the conclusion of the Maastricht Treaty. [215] Moreover, its content resembled for most elements what the Italian representative sought as a design for a single currency i.e., the prevision of a three-stage process, the binding nature of the commitment to the process,[216] (despite the division into stages, the decision of a state to be involved in the first stage was to be considered as the decision to venture into the whole process) the creation of a supranational institution[217] and the provision of a treaty. The Report remained Italy's guiding document for the pending negotiations and it was key also in shaping Italian presidency of the European Council in 1990. Finally, as Ciampi's contribution to the Delors Committee had shown, there was a firm consensus in Rome on core elements to be part of EMU.

2.2. Domestic debate: the convergence of divergent positions

How was this consensus built internally? The answer to this question is another answer to another question. How did a small Italian technocratic group exert policy leadership over the EMU? The combination of internal political immobility, distractions due to major international upheavals and the type of negotiations at the European Community level resulted in reopening a window of opportunity for those seeking for greater discipline for Italy, namely the economic authorities such as the Bank of Italy. This situation resulted in the creation of a well-coordinated policy making core

[213] K. Dyson & D. Featherstone, 2003, p. 500
[214] T. Padoa-Schioppa, 2004, p. 142
[215] A. Szasz, The Road to European Monetary Union, Palgrave, 2000, p. 130
[216] Delors Report, Chapter III section 4
[217] Delors Report, Chapter II section 2

group which was able to project Italian negotiating demand. But this consensus was not easy to find. On the contrary, it has been the result of intense domestic debate which eventually was solved for a combination of the political class underestimation of EMU commitments and a small group of technocrats willing to seize the momentum that surrounded the EMU process in Italy.

As we have seen, the very nature of the Economic and Monetary Union negotiations, and the preponderant role of cooperation among European banks in its realization, had the effect of strengthening the positions of technical and economic actors over political ones. In the year of the gestation of the EMU, between 1988 and 1989, the year of the formation of the sixth Andreotti government, a number of economic figures began to raise with increasing insistence the question of whether Italy would be able to meet the challenges posed by the EU projects related to the creation of the single market and the EMU. [218] The language of the dialogue between the two sides was built on these terms.

Among the voices emphasizing the discrepancy between EU commitments and the state of the Italian economy was that of Guido Carli, who in 1989 held the position of minister of the Treasury, [219] appointed by Andreotti, who had full confidence in him. Carli in fact had held since the postwar period fundamental positions in the management of the country's economic choices: as architect of the European Payments Union, then governor of the Bank of Italy from 1960 to 1975, president of Confindustria and Senator in the lists of the Christian Democrats since 1983. [220] His appointment had been welcomed even by circles generally hostile to the *pentapartito*, as evidenced by an article by the editor of the newspaper *La Repubblica* which stated that

> "*Carli thus represents the final test of appeal. If he were also missing, Italy would not be able to be present at the rites of European economic unification in '92; indeed, just as the other members of the Community would be executing the Hanover Pacts, we would have to step out of the procession and shelter behind a nefarious barrier of monetary and financial isolation.*" [221]

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[218] A. Varsori, Il Trattato di Maastricht e la crisi della prima Repubblica, 2013, p. 190

[219] See S. Tabacchi, *Il sesto governo Andreotti*, in Federalismi.it, 2013, pp. 1-12 and E. Bernardi, *La DC e la crisi del sistema politico. Temi e personaggi (1989-1994)*, in L'Italia contemporanea dagli anni Ottanta ad oggi, eds. S: Colarizi, A. Giovagnoli, P. Pombeni, Carocci, 2014

[220] For more on Carli see G. Craveri, Guido Carli senatore e ministro del Tesoro 1983-1992, Milano, Bollati Boringhieri, 2009

[221] E. Scalfari, *Ma Carli è l'ultima prova d'appello,* in La Repubblica, 5th August 1989

As for the other players in the economic government's cabinet, the other two ministries, Budget and Finance, had been entrusted to Paolo Cirino Pomicini (Christian Democracy) and Rino Formica (PSI).[222]

In assuming ministerial office, Carli had set himself the goal of remedying the country's economic deficiencies and ills, in particular the growth of public spending, fostering the modernization of the economic and financial system, a policy of debt reduction and the initiation of privatizations. All this would have allowed the Italian economy to adapt to the growing needs that were manifesting themselves in the EU context - and in the broader world sphere - and of which the "large single market" and EMU projects were the most visible aspects. Carli in fact supported the belief that the growth of debt (forty points in the last decade) was dangerous and that public debt was turning into a form of servitude of Italy to other countries. [223]

Between late 1989 and early 1990, Carli and "technicians" from the Bank of Italy and the Treasury Ministry had taken an active part in the work of the various bodies that had begun to map out the features of the future EMU. While the drafting of the Delors Report had given preeminence to the governors and thus to the Bank of Italy, after it was published, EMU entered the sphere of the ECOFIN and the European Council. As a consequence, the Treasury, the Prime Minister's Office and the Ministry of Foreign Affairs became involved.

From the part of the Treasury, when the Guigou group [224] was formed the Director General Mario Sarcinelli was brought into the project. He led the Italian delegation formed by Rocco Cangelosi of the Ministry of Foreign Affairs, and a representative of the BI. Sarcinelli was the most prominent figure in the process as he was already Chair of the EC monetary committee (1989-90) and an experienced monetary diplomat. On the part of the Ministry of Foreign Affairs, the opportunity for a leadership role in the EMU was provided by the Italian EC presidency in the second half of 1990. Some efforts from the part of Farnesina were done in this regard. The Minister Gianni De Michelis convened a small steering group of officials early in 1990 to handle EMU in the EC presidency. It was conceived as an informal, *ad hoc* mechanism which survived until the end of the EMU's negotiating process in 1991, though not able to lead Italian representatives in negotiating the EMU. The Foreign Ministry tried but was not able - nor did it seek to - to dominate Italy's negotiating position: the policy content well-fitted with the competences of the BI and the Treasury. The

[222] S. Tabacchi, 2013, p. 5
[223] L. Tedoldi, Il conto degli errori. Stato e debito pubblico in Italia dagli anni Settanta al Duemila , 2015, p. 130
[224] For a detailed assessment of the Guigou group see Transcription of the interview with Elisabeth Guigou, Paris, 7th February, 2007

exception to this rule was the role played by Umberto Vattani, Andreotti's diplomatic counsellor from 1989-92, who sought to take an active role in the EC negotiations to compensate for the Farnesina's inability to establish a stable and effective structure to coordinate EC policy. Vattani's role was concerned with diplomacy and strategy and his goal was avoiding Italian relegation to Europe's second division, something shared by Andreotti. In that sense he was an exponent of the most basic policy belief of the foreign-policy establishment in Italy. [225] Being Andreotti's sherpa for G7 international meeting he had also established relations with many leading monetary-policy figures in the EC and he was able to use its wider foreign-affairs network to play a key role on the political stage of EMU, where he entered with tactics and guile when required. Alongside him was Vanni d'Archirafi, Director General for Economic Affairs at the Farnesina until July 1991, then replaced by Giovanni Jannuzzi, who established a coordinator exclusively for EC affairs, his deputy Roberto Nigido.

To sum up, in 1990 Italian EMU steering group comprised: Sarcinelli as Director General of the Treasury and Carli as Minister; Umberto Vattani and Vanni d'Archirafi from the side of the Ministry of Foreign Affairs; Tommaso Padoa-Schioppa for the Banca d'Italia together with Ciampi. The list of *dramatis personae* serves to underline the relatively small number of core executive personnel involved in coordinating Italy's negotiating position. This group represented the "hard shell" making and negotiating EC policies for Italy. The emergence of a cohesive group was possible because consensus was found on one core concept: Italy needed to be involved in the process as an actor *di primo rango*. This was the point that put together the group. Moreover, the policy momentum behind disinflation, stable exchange rates, central bank independence and financial market liberalization resulted in a collective and positive assessment by technocrats over EMU, that proved to be more united that they have been on the EMS. As a result, those who argued for the *protezionismo interno* were now perishing confronted with the louder chorus of the *vincolo esterno.*

However, the reality of the Italian economy and government's action seemed to go in the opposite direction. In the first half of 1990, the issue of economic policy choices was at the center of bitter controversy among the government forces, as well as disagreements between Cirino Pomicino and Formica on the one hand and the Bank of Italy on the other, which was accused of interference in government choices. [226] The clash had extended around the Economic and Financial Planning Document. The knots of the Italian economy were coming to the boil, and the more economic actors warned the political class about the risks of such a management of public finances, the more they

[225] K. Dyson & D. Featherstone, 2003, p. 496
[226] A. Varsori, Il Trattato di Maastricht e la crisi della prima Repubblica, 2013, p. 179

seemed to go in the opposite direction. The governments at the end of the decade failed to impose an adequate debt policy, that was in tune with the political conjuncture. [227] In July 1990, the debate on the government's economic policies led to the resignation of left-wing CD members, who were opposed to the direction that seemed to have been taken of a greater orientation toward choices advocated by the Bank of Italy of reducing public spending. Instead, a number of measures were approved that increased it.

Political aspects were taking precedence over government economic policy directions and the needs dictated by the European market unification and single currency process. Under these conditions of political impasse there was a surge in public debt, which reached and exceeded 100 percent of domestic product at the dawn of the decade and continued to grow over the next four years. It was now clear that the consolidation of the public accounts would have to pass through modes of intervention, such as lowering interest expenditure involving the parties and institutions. Although Andreotti showed himself to be fully aware of the dangers posed by the choices made by part of the political world and parliament, [228] as well as of the close link that had been created between decisions on economic policy and progress on the EMU negotiations, his governments failed to implement an effective strategy that would enable them to deal with these serious problems of the Italian economy. it is important to note, therefore, that although a consensus had been reached on the Italian stance toward EMU, which had agreed technocrats and politicians, and a good degree of policy coordination, the reality of the Italian economy was a dramatic source of fracture between the two sides and a problematic factor of fragility for the Italian negotiating position.

These elements began to cast doubt on internal and external observers as to whether Italy could meet its EU obligations to stay on track on the agenda dictated by the SEA and EMU. Was the Italian economy and state ready to embrace these changes? Was there awareness of the implications inherent in the EMU project? In light of these questions, we will now look at the 1990 Italian presidency of the EC.

3. Italy’s EC presidency of 1990: the last chance?

The Italian presidency of the 1990 European Council took place at a crucial moment in the history of European integration. Placed at the dawn of the new decade and at the turn of the previous one, it

[227] L. Tedoldi, Il conto degli errori. Stato e debito pubblico in Italia dagli anni Settanta al Duemila , 2015, p. 132
[228] As shown by Andreotti’s speech at a meeting of the Council of Minister where he stated that Italy’s unattendance of European directives were no more acceptable. See Asils, Aga, Governi, Consiglio dei Ministri, b. 962, verbale del Consiglio dei Ministri del 9.10.1989.

represented the caesura between the upheavals of 1989 and the momentous changes that the new decade would bring. There converged expectations and hopes on the Italian side to be able to direct the steps of the EC according to the key themes of the Italian approach, but above all the will to exercise the role of a key, first-class country for European integration. The presidency represented the acme of a period of activism on Italy's part in foreign policy, in the wake of economic growth, and coincided with the beginning of the end of this period of dynamic optimism. With the end of the presidency and the beginning of preparations for the negotiations that would lead to the signing of the Maastricht Treaty, Italy would have to reckon with profound changes and the gradual eroding of Italy's influence on the European scene, in light of the serious internal crisis that would convulse the country.

3.1 The international context: erosion of Italy's international stance

The Italian presidency agenda was crowded, not only because of the density of the EC negotiating content, but also in light of what was happening at the international level. In fact, from the point of view of the international scenario, it was situated in the difficult situation that had arisen in the Middle East following Saddam Hussein's Iraq invasion of Kuwait (August 1990), which created a serious international crisis. [229] The events related to the crisis in the Gulf had a strong impact both internationally, contributing to the uncertain situation of the economy, and for Italy, whose international position was negatively affected.

Italy's reaction was one of open condemnation of Saddam's aggression in concert with the position expressed by the international community, the EC and the UN, which was followed by the support by Andreotti's government to the "Desert Shield" initiative by the US. This decision gave rise to protests by the pacifist movement and by the Italian Left (represented no longer by the PCI but by the new Partito Democratico di Sinistra), which was engaged in a campaign against the U.S. war in Iraq. As a result, the cabinet opted for a low-profile involvement in the operation and in the support to diplomatic effort to solve the crisis. The rapid victory by the Western coalition led by the US and the disregard by Washington given to the Soviet diplomatic initiative, supported by Italy, sealed the minor role played by the Italian authorities in the first post-Cold War conflict. The crisis had the effect of deteriorate Italy's relationship with the US as well as dramatically reducing the country's

[229] For an evaluation in the international context see E. Di Nolfo, Storia delle relazioni internazionali. Dalla fine della guerra fredda a oggi, Laterza, 2016; for the Italian position see L. Riccardi, L'ultima politica estera : l'Italia e il Medio Oriente alla fine della prima Repubblica, Rubbettino, 2014

position in the whole Middle East area, on which the efforts of Italian foreign policy actors in the 1980s had focused in the search for a diplomatic solution to the Israeli-Palestinian conflict. [230]

Moreover, while Italian public opinion was focusing on the Gulf War, the situation in the Balkans worsened considerably.[231] The situation was very worrying to the Italian government as it feared the outbreak of a civil war along its north-eastern border and the Italian Foreign Ministry made huge effort, both bilaterally and multilaterally, and especially with the EC, to avoid this possibility. Although in the early unfolding of the crisis Italian effort seemed to be successful, as time passed Italy was no longer able to sustain its position vis à vis that of other states [232] and Italian authorities were deprived of the possibility to play a relevant diplomatic role in the Yugoslav crisis.

These two post-Cold War crises, and Italy's inability to play a decisive role in neither of them, did not improve foreign evaluation of the Italian authorities' capacity to face the challenges posed by the developments of the international system and significantly eroded the success, although limited, that Italian foreign policy had given proof of during the 1980s.

3.2 From Madrid to Rome

These concerns did not prevent the Italian authorities from trying to take the initiative at the EC level. From the point of view of European integration *per se* had Italy the *onere* and the *onore* of carrying forward what had been decided at the Madrid Council in June 1989, later confirmed at the Dublin Council in the spring of 1990. In these crucial months for EMU and European integration, two important and fundamental decisions were taken: to convene an Intergovernmental Conference on EMU; to convene another, parallel one on political union, which foreseen the creation of the European Union. Within the two IGCs the work on the drafting of the Maastricht Treaty would be carried on. In light of this, 1990 can be seen as the apex in the transformation and rebirth of the Community since its revival in the 1980s, also considering that the economy was showing positive signs, the single market was successful, that the role of the Community as an anchor of stability in the new Europe and as a pole of attraction for the newly independent eastern states was unquestionable, and the unification of Germany in the context of greater European integration was now imminent.

[230] See E. Di Nolfo, La politica estera italiana negli anni Ottanta, Marsilio, 2003
[231] For the crisis in Yugoslavia see J. Pirjevec, Le guerre jugo slave 1991-1999, Einaudi, 2001; for the EC role see L. Gori, L'Unione Europea e i Balcani occidentali: la prospettiva europea della regione (1996-2007), Rubbettino, 2017 and M. Leann Brown, Regional Economic Organizations and Conventional Security Challenges, Plagrave, 2017
[232] In particular Germany and Austria which supported the independence of Slovenia and Croatia

At the European Council meeting in Madrid in June two decisions had to be taken. One concerned the Delors Report, and specifically whether to adopt it or not as the basis for further negotiations. A compromise was reached on the opposition raised by the British [233] and the Report was adopted unanimously. [234] The second one had to do with the procedure to be followed and the timing of the negotiations. Here, member states differed: France, supported by the Commission and by the Mediterranean countries, sought for an acceleration of the process. Mitterrand wanted the Intergovernmental Conference, prescribed for Treaty amendments, to start as soon as possible. Italy supported the French president's position on this matter. As Padoa-Schioppa commented to Andreotti during the Madrid Council "it is dangerous to leave an ice cream out of the fridge for too long" meaning that momentum had to be seized. Italy too looked forward to an IGC. [235] On the other hand, the German government dragged its feet and Chancellor Kohl, also in view of the upcoming election campaign, preferred the delay of the start of the Intergovernmental conference. However, as dramatic events started to unfold soon after, the German position changed and one week before the fall of the Berlin Wall in November 1989, Kohl agreed to start the IGC before the end of 1990.

Italy played an important role at this juncture, promoting the convening of an extraordinary meeting of the European Council in Rome on October 27 and 28, 1990. De Michelis, with the full support of Andreotti, had pushed for the convening of this Council, making the case for it directly with Delors, whom the Foreign Minister met confidentially at Argentario in September of that year to explain to him Italy's intentions. [236] At the October meeting an important decision of substance was made. Agreement was reached on the third stage of the EMU, as well as the date on which the second stage would start: 1 January 1994. [237] Moreover, it was confirmed that both IGCs would start on 14 December 1990. The agreement on the start of phase 2 succeeded to overcame the differences of view within Germany on the matter, and it circumvented the entrenched opposition of Britain and Denmark to such a commitment. Such achievement was possible thanks to the combined effort of Andreotti, Cossiga, Vattani and De Michelis, who eventually succeeded in hollowing out Britain's position, which opposed to this date, and to find a compromise between the other delegations.

For Italy, a desired situation was emerging that fit well with its position about the whole progress of European integration, namely the expectation that the process would continue on two parallel tracks, both political and economic. Once again, the Italian authorities started from the assumption that a

[233] Which had concerns over the wording, see A. Szasz, 2000, p. 120
[234] A. Szasz, 2000, p. 141
[235] K. Dyson & D. Featherstone, 2003, p. 560
[236] For more on this episode see G. De Michelis, La lunga ombra di Yalta. La specificità della politica italiana, Venezia, Marsilio, 2003
[237] Conclusions of the presidency, Council of Rome, Rome, 27 and 28 October 1990

political project could strengthen the country's negotiating position. In addition, the Italian government's position, expressed in a letter sent by Andreotti to Delors on the eve of the summit [238] that the two IGCs would be pursued simultaneously, was accepted.

Looking at these results, it can be said that the Rome Council was a success for the Italian presidency, contrary to the harsh criticism that had been levelled at Italy's handling of the proceedings by the international press on the eve of the European summit. Indeed, the decision to convene an extraordinary Council had been commented on by the Economist, which, drawing a comparison between Spain and Italy, criticized the organization of the work and the logistics of the meetings, which were considered too dense and ill-prepared,[239] but also by the Financial Times and the Wall Street Journal, which emphasized the futility of convening another summit. Finally, it was echoed by the Irish Times, which painted Italy as the only country that actually wanted the Council.

These comments, however, must necessarily be read in the light of the political climate that characterized the country of origin of these newspapers, namely Margaret Thatcher's United Kingdom, which had always been hostile to the Italian position of greater European political integration, until her departure from Downing Street on the very eve of the start of the two IGCs.[240] Emblematic in this regard was the coincidence of his departure with the rise of Commission President Jacques Delors, who reached the acme of his career in that year. The opposing dynamic of the fall of one and the rise of the other symbolically sums up the now irrevocable direction that the Community had taken at the turn of 1990.

In addition to the commitments from the political point of view, the economic and monetary *volet of* integration emerged in all its centrality at the Rome meeting. In previous months, two important Italian pen documents had been presented, that covered some important issues at stake during the October Rome Council. These were the Sarcinelli report, submitted in July to the ECOFIN and Carli's one presented to the Rome Council on behalf of ECOFIN. The first one was valuable in identifying objective principles for convergence, while both provided important contribution in dealing with the issue of transitioning to phase 2. [241] Carli's document in particular was largely appreciated and considered as very relevant. Some definite goals had been outlined, such as the creation of a single European currency, some important issues such as setting-up of a "European central banks system,"

[238] Asils, Aga, Europa – Consiglio Europeo di Roma 27-28 ottobre 1990, b. 383, lettera, G. De Michelis a G. Andreotti, 23.10.1990

[239] *When in Rome, in* The Economist, 20th October 1990

[240] On Margaret Thatcher see S. Wall, *Margaret Thatcher and the Single European Act*, in Global Policy, 2022, vol.13, pp. 30-38.

[241] K. Dyson & D. Featherstone, 2003, p. 506

the need for the member states' economies to comply with some fundamental rules, which mainly dealt with limits to state deficit, rate of inflation and interest rates. In this regard, Carli and his advisers had played a leading role in the advancement toward the creation of the EMU.[242] These documents were positively evaluated by the 12 head of states reunited in Rome and were fundamental to solve some negotiating knots still obstructing the way forward.

From Italy's point of view, its representatives had already made up their minds on their negotiating requests. Italian core negotiating priorities were clear already in the 1988-90 period, shaped on the "institutionalist" (or monetarist) approach as we have seen in the previous section, and advocated for: a transition to a single currency to be managed from stage 2 onwards by a central monetary institution possessing supranational powers; a transition that followed a linked, stage-by-stage process; a transition that had to be irreversible and according to a set timetable. The final stage would be modeled on the Bundesbank system; which was, in turn, not so distant from the self-image of the Banca d'Italia. Finally, another crucial assumption on which the position of the Italian negotiators was based was that the choice of the states that should move to the third stage should be made by a majority vote and not unanimously. The Italian representatives wanted to be sure that the possibility of Italy being excluded by even one vote from the group of economically stronger countries would be averted. This step-by-step and supranationally inspired program implied for Italy the application of the "external constraint," which was considered necessary for economic authorities in order for the country to pass the second phase of the EMU and be part of the group of nations that would give birth to a single currency. [243] In other words, given the reality of the Italian state and the increasingly imminent appointments with EU commitments, the economic authorities believed that it was necessary for changes to be imposed from the outside in order for them to be received and implemented by the government and its political authorities. This narrative was the result of a long process and found greater fulfillment in these years so decisive for European integration and Italy's future within it.

Between 1988 and 1990 the Italian stance was clear, coherent, and would prove to be consistent. Given the strong policy coordination that characterized Italian position on EMU, Italian actors approached the opening of the first IGC in December 1990 with a very positive spirit. The conference opened under the Carli presidency, and on that occasion a new European Council was held in Rome on December 14 and 15. On this occasion, no further significant progress had been achieved by the

[242] (Varsori, The Andreotti Governments and the Maastricht Treaty: Between European Hopes and Domestic Constraints)
[243] A. Varsori, Per un'interpretazione storica del processo di integrazione europea, in Ventunesimo Secolo, Vol. 12, No. 32, 2013, pp. 9-34

Italian presidency. However, the Italian authorities seemed to be satisfied with the main results that characterized the whole semester at large: the decisions on the convening of two intergovernmental conferences, and the early discussions about the EMU and the EU. In the Council's conclusions, what had been established at the meeting two months earlier was reaffirmed and the way was cleared for the launch of the two IGCs. [244]

To sum up, the unfolding of the EMU negotiating during 1988 and 1990 were a success in terms of Italy's achievements. This was the result of a good policy coordination among technocrats and the consensus that cemented economic with political actors: Italy had to be and to remain a determinant actor in the EC and in the future of European integration. The results obtained during the Italian presidency, both at the October and December Rome Council seemed to confirm this perception and the Italian approached the first IGC with a very optimistic outlook. However, many things were about to change in 1991.

4. 1991-1992: final negotiations stages between disenchantment and optimism

Italy’s policy toward the process that will lead to Maastricht can be singled out in two periods. The first one has been just analyzed in the previous section. Between 1988-90, notwithstanding some long-standing problem experienced by the country, Italy was able to develop and to promote a effective European policy aimed at progress on a dual-track integration process: one political, to ensure a more stable Cold-War European framework trough the launching of an intergovernmental conference and the creation of a European Union with supranational features; and one economic, that would have the effect for Italy to guarantee the enactment of external discipline on Italian economic and monetary policies. The second period can be identified as starting in 1991 and culminating in 1992. [245]During this time span the situation dramatically worsened for Italy, whose capacity to influence the negotiations was significantly reduced, to the extent that by the middle of 1991 fear was growing in Rome that Italy might be excluded from EMU.

The onset of the IGC negotiations in 1991 were indeed characterized by a weakening of the Italian influence over the content of the EMU agreement. In questo anno emersero alcune contraddizioni fondamentali per la posizione italiana. The *vincolo esterno* thesis implied a tight policy straight jacketing, but it also presupposed a loose initial fitting. [246] How could Italy claim membership of the

[244] Conclusion of the European Council, Rome, 14-15 December 1990
[245] (Varsori, The Andreotti Governments and the Maastricht Treaty: Between European Hopes and Domestic Constraints)
[246] K. Dyson & D. Featherstone, 2003, p. 509

first division', while insisting on the standards of the lower leagues? In other words, what Italy claimed as a negotiating content did not fit the policies enacted at home to meet the EC criteria. Before the IGC began, the Italian position had been maximalist, even grandiose. But as soon as the works started, it was clear that Italy was negotiating from a very different, and less strong, position. The high ambitions set for EMU needed to be rebalanced in light of the erosion of the bargaining power and strategy in the IGC.

The weakening of the country's ability to influence the content of the EMU agreement was the result of the intertwining of different factor of instability and difficulty, which converged in a complex picture of instability for Italy. This contraction of bargaining power had both a political and economic dimension. We now delve into the analysis of these dimensions to explain how Italy's position changed and with which consequences by assessing at the failure and successes of Italian representatives during the last stages of EMU negotiations.

4.1 The "boot" and its Achille's heel(s)

The first factor concerns the domestic political instability that affected the country. Andreotti's government, also as a consequence of the international crisis prompted by the unrest in the Middle East region, analyzed previously in the chapter, was losing credibility at home. Just after the conclusion of the Gulf War, in April there was government crisis, catalyzed by the PRI withdrawal from Andreotti's five-party coalition government, whose irritation had been caused by an allocation of posts which according to the party did not respect what had been promised. These internal dissensions among the party coalition compelled Andreotti to resign. However, within few days, on the 12th April 1991, Andreotti was able to form another government, his 7th cabinet, averting the possibility of going to elections, a prospect that neither the CD nor the PSI liked. Indeed, other non-traditional parties, such as the *Lega Nord*, were growing in popularity, [247] and the governing parties did not want to face the polls and expose themselves to the new threat coming from outside the traditional *partitocrazia* milieu. In this circumstance, Andreotti survived and was able to guide a new government, which featured not many differences with the previous one, but this rescue was short-sighted. His position was definitely vulnerable and this governmental crisis stood as the symbol of something deeper that was eroding the system from inside. In this period, a big challenge was posed by the increasing public disaffection with the existing regime due to the disillusionment by voters

[247] On the growing influence of such parties see M. Piermattei, *Più lontani da Roma e più vicini all'Europa': la Lega Nord e l'integrazione europea (1988-1998)*, in Europa vicina e lontana. Idee e percorsi dell'integrazione europea, eds. F. Di Sarcina, L. Grazi, L. Scichilone, Florence, Centro Editoriale Toscano, pp. 113-124

toward the party system that has been ruling the country throughout the whole postwar period, which was perceived as corrupted and ineffective. [248]

Another internal sign of weakness of the system had to do with the relationship between the President of the Republic, Cossiga, and the Prime Minister, which was *ex abrupto* damaged by the scandal that emerged around the President. When the existence of a stay-behind secret services structure was revealed - the so called Gladio apparatus [249]- Cossiga took responsibility for its existence and activities, which led him to being charged with an impeachment procedure promoted by the PDS. Andreotti did not stand in defense of the President, as he decided to opt for a transparency strategy, which led to the final rupture between the two.

Finally, an exogenous factor of unrest, such as the mass migration from Albania to Italy, contributed to the already complicated situation the country was facing at the beginning of the decade. The government had to face a sudden wave of mass emigration from Albania which culminated in August when images of the cargo ship “Vlora” in the harbour of Bari were broadcasted all over Europe, projecting the image of Italy and its structures as inefficient and unfit for unexpected challenges. [250]

All this corroborated the concerns among EC members states that were looking at the Italian situation with increasing suspicion about the state of its economy. Italy’s economic policy was the target of harsh criticism from various financial and governmental milieus, especially those in Germany and the Netherlands, which regarded the country’s position as dangerous. This warning, had come as early as the fall of 1990, when an International Monetary Fund delegation had made a mission to Italy for the purpose of an assessment of the country's economy. The delegation was led by Patrick de Fontenay, who at the conclusion of the mission had delivered a very critical report to Carli. The report highlighted the great danger that the continued expansion of public spending posed to the country, and sharply criticized the government choices that had contributed to its expansion. The most serious element was that the situation described in the document, led to the conclusion that Italy's ability to cope with the consequences of the birth of the single market and the single currency appeared to be inadequate for the purpose. One passage in the report clearly encapsulates this concern:

"Italy has little time to cope with the needs arising from European economic and monetary union. It seems inconceivable that a country which has so actively supported the EMU and taken part

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[248] For more on this perception see G. Acquaviva & L. Covatta, Il crollo. Il PSI nella crisi della prima Repubblica, Marsilio, Venice, 2012

[249] L. Nuti, *The Italian ‘Stay-Behind’ network – The origins of operation ‘Gladio’*, Journal of Strategic Studies, 2007, pp. 955-980

[250] See A. Varsori, *Italy and the End of Communism in Albania, 1989-1991*, in Cold War History, 2012, pp.615-635

in all the most important stages of European construction could be excluded from the group of nations that will advance to the next stage of the EMU or that it could find itself accused of delaying monetary union. The coming year will be crucial. If progress in the two key areas of public finance and wage and price restraint is too slow, it will be difficult to meet the 1994 deadline". [251]

These words were also echoed by President Cossiga, who in a letter to Andreotti in March 1991 stressed that only a consolidation of public finances would enable Italy to meet its European commitments.

In this context, one of the most fervent advocates of the need for these measures continued to be Carli, who was reappointed Treasury Minister in the 7th Andreotti's cabinet. He was in the difficult position of fighting on two fronts at the same time: the European and domestic one. The latter proven to be even harder in certain regards. Carli sought to reassure European partners of Italy's reliability and its capacity to implement economic reforms while at the same time tried to convince members of his cabinet at home to effectively do so. The political milieu seemed not ready yet to accept the fact that Italy had to face serious sacrifice by implementing bold and dramatic economic reforms. When the new government was formed, the hypothesis of a 20 billion spending reduction maneuver arose, which found the unsatisfaction by the Treasury Minister. Carli thought that structural intervention on the pensions systema and on public officers' wages was needed, but this possibility was opposed by some influential members of the cabinet. In May he presented his resignations to Andreotti, who refused to let him go. The President of the Council was well aware of the dramatic situation of the country and of the link that his had with the economic policy decisions at home and the EMU negotiation at the EC level. Notwithstanding these warnings, no truly effective measures were being passed by the government, and Carli's words about rebalancing public finance as "*an indispensable condition for allowing our country full rights in participating in European economic integration*" continued to fall on deaf ears.

The performance of the Italian economy, accompanied by the growing impression of domestic and foreign political weakness, did not go unnoticed at the European level. Italy was being depicted and perceived as an unreliable country, which could put in question the whole structure of the future European common currency. This situation was largely reflected in the alliances between member states, from which Italy found itself increasingly isolated. As in every negotiation process, Italy's has sought to strengthen its EMU bargaining position by attempting to build coalitions and this resulted

[251] Asils, Aga, Carli Guido, b. 995, rapporto P. de Fontenay a G. Carli, 20.11.1990

in a set of alliances. In the course of the negotiations before the IGC, Italian representatives' position was closest to French's one. [252]Rome and Paris shared a set of policy belief for what concerns the European economic and monetary union. They both advocated for the need of setting a clear timetable for the path toward a single currency and intended it as an irreversible one. They also shared beliefs on practical features as they considered the degree of convergence achieved between the economies of the participating member states as one but not the primary and only criteria to taken in consideration. Finally, both Italy and France wanted a strong monetary institution to guide the transition in stage 2, namely a European Central Bank. While agreeing with Paris on economic and monetary issue, Italy was closer to Germany for what concerned political union. Their proximity on this matter was confirmed, for example, by the joint declaration of De Michelis and Genscher, which agreed about the early convening of the IGC in October 1989 and on other institutional reforms in April 1991. In this regard, Italy's and Germany's vision for the future of the EC were close. [253]But as close as the countries may be in political terms, for what concerns the economic and monetary content of the negotiations, there was an abyss between them. On one hand Italian were institutionalist, or monetarist, while on the other the Germans were on "economist" and behavouralist positions. This difference proved to be very profound and difficult to conciliate, also in light of Germany's often intransigent stance toward Italy's economic profligacy at home.

This set of alliances had allowed Italy to have support for its positions, although from different sides on the two different matters. However, as the IGC wore on, the Italian actors became more and more isolated. The isolation was caused by France shift toward Germany as the IGC proceed, and the *rapprochement* between the two meant marginalization for Italy. Paris steps in Berlin's direction was due to the conviction that compromise with Germany was an indispensable prerequisite for an EMU agreement. Both parties worked bilaterally to gradually reduce their distance and to find compromise, mainly on two points: central bank independence and fiscal adjustment. In this regard, Italy was left alone by France, which had before sustained its position. Eventually, Italian authorities understood that compromising with Germany was a *conditio sine qua non* and were obliged to come to terms with this reality.

The picture of both Italy's economic and political situation by the end of 1990 and the beginning of 1991 was a rather gloomy one. We have seen how this influenced its stance and negotiating position

[252] K. Dyson & D. Featherstone, 2003, pp. 528
[253] ivi

at the eve of the first IGC and we now delve into the description of the negotiations in detail to assess to what extent these were a failure and a success for Italian authorities.

4.2 Effects on negotiations: the first semester of 1991

The first IGC was inaugurated on December 14 and 15 under the Italian presidency. On January 1, 1991 the handover took place and the presidency of the Community was given to Luxembourg. Throughout the following year, under the presidency of Luxembourg and then the Netherlands, there was a period of intense negotiations that decisively marked the future of the Community, which was about to become the European Union within a year. This span of time can be periodized by making a distinction between a first half, during which no substantive decisions were made about the ways and means of implementing the EMU, and the second half, during which significant steps were taken and the contours of the future of the European Economic and Monetary Union were precisely delineated.

The IGC for Economic and Monetary Union had two main objectives: to define as precisely as possible how the transition to a single authority on economic policy would take place in the final phase; and to clarify how and according to what criteria to consider the second phase completed in order to move on to the third. [254] With regard to the first objective, the starting point was the Delors Report, in which there was agreement from broad consensus on the basic features for the European System of Central Banks and the European Central Bank. This would have a federal structure, independent status, albeit balanced by accountability to Parliament and the Council, and price stability as a primary objective. Left open was the question of what tasks and powers this institution would have in the second phase. In this sense the compromise that was found significantly departed from what had been envisioned in the Delors Report and also from what had been envisaged at the Rome Council in December 1989. According to the provisions of the Report, the transition was to take place according to the Community method of supranationality, having the institution as the driving force behind the transition. It thus provided for the creation of a European Central Bank as early as the beginning of phase two and for it to be given significant responsibilities from the outset.[255]The turn toward a different direction was made by the German, Dutch and British delegations, which advocated that the creation of the European Centra Bank would only happen later, and surely not before the transition to stage 3. The reason behind this position was the "empty shell" argument propelled by the Germans: since the ultimate responsibility for the conduct of monetary

[254] A. Szasz, 2000, p. 164
[255] T. Padoa-Schioppa, 2004, p. 296

policy in stage two would remain with the national central banks, the existence of a European Central Bank would only confuse the markets about the locus of that responsibility.

If we keep in mind the fundamental role that Italian authorities had played in the drafting of the Delors report and recall the Italian position on this point, we can guess how the negotiations were being put for Italian representatives, whose approach to the institution-building required for EMU was dominated by the beliefs of the Banca d'Italia on EC monetary co-operation and was built on the request of a strong central monetary authority to be created in stage 2. The design of the institutions for the transition was perhaps the greatest failure for Italy. [256] While it seemed that during the Rome Council Italian authorities had scored a notable victory on this point, by introducing this formulation "*the creation of a new institution comprising Member States' central banks and a central organ, exercising full responsibility for monetary policy . . . At the start of the second phase, the new Community institution will be established*" [257]this success proved to be short-lived.

By the end of April 1991, the Italians were the only one supporting this stance, left alone by the French, and when the point was discussed in October under the Netherlands presidency, there was no room of maneuvre left for Italy, which eventually accepted the willingness others members states.

For what concerns the second point, the modalities, both voting and timing, for moving from one stage to the other, again there was a discrepancy between what was previously agreed at the Rome Council and the final outcome. According to what was decided at the Council, the decision to move to the final stage would have rested with the European Council and implemented by the Council of Ministers by qualified majority. This would also have decided which countries, while not having achieved the required economic convergence, would be granted a derogation. This provision was opposed by the German delegation, which demanded that for the transition to the third stage the decision be made by unanimity, in effect leaving the states with a veto over who would or would not be able to enter the next stage. Despite disregarding what was agreed in Rome, which better suited the Italian position, thanks to a key role played by Tommaso Padoa-Schioppa, Italy managed to have half a success on this point. Italy's aim was that the possibility that one country could block the progress of the majority to EMU, that is, have veto power, was eliminated and therefore advocated for majority decision-making to pass from stage 2 to 3. The final agreement on this point was a compromise formula that combined dates with a complex procedure: a qualified majority in the European Council before the end of 1996 could set a date for stage 3; if no date has been set by the

[256] K. Dyson & D. Featherstone, 2003, p. 519
[257] Final communiqué, Council of Rome, Rome, 27-28 October 1990

end of 1997, Stage 3 would begin on January 1, 1999. [258] This agreement was found thanks to an Italian initiative, brought forward by Padoa-Schioppa, which succeeded in having the "automaticity" formula accepted in a last-minute settlement.

On the other hand, for what concerns the criteria to the transition from one phase to another, the Italian registered the harshest failure of all the EMU negotiations. Italy hoped for a convergence criteria that avoid a strict and numeric convergence to enter phase 3 but this hope vanished as the IGC unfolded. This element of the negotiations, which took on increasingly defined contours during the Dutch presidency, was the one with the most direct implications and effects for the country.

To sum up, by the time the Luxembourg presidency ended, Rome's successes seemed a long way off: the Italian hypothesis of a European bank before the third phase had disappeared, which had been replaced by that of a weaker institution that would not come into being until the middle of the second phase and would be more like the Committee of Central Bank Governors than a true issuing institution. Italy was about to face a particularly thorny issue, perhaps the most complicated for the country, in a state of internal fragility and isolation at the EU level.

4.3 The second semester of 1991: the Netherlands presidency and the final steps toward Maastricht

In the second half of 1991, the Netherlands assumed the presidency of the European Community (EC), facilitating its participation in the Intergovernmental Conferences (IGCs) and leading the negotiations on December 9 and 10, 1991. These negotiations culminated in the drafting of the Maastricht Treaty, which integrated the previous years' efforts into a comprehensive framework for the EC. The assumption of the presidency of the Community by the Netherlands created further difficulties for Italy. The six-month period can be regarded as the final stage in the removal of the building blocks that the Italian authorities had established between 1988 and 1990 by exerting their influence at the EC level.

Compared to the Italian stance of 1990, the final package at Maastricht was found to be markedly different in content. The most significant challenge for Italy was the convergence criteria, which were to be adopted in accordance with strict and numeric reference values. The issue arose from the discrepancy between the Maastricht criteria and the country's capacity to align with them. Initially, the Italian delegation attempted to persuade other members to adopt a more lenient stance by

[258] Treaty on European Union, Article 109j

advocating for the fiscal criteria for entry, which included references to national debts and deficits, to be specified in secondary EC legislation. This, as they argued at the IGC meeting of 10 September and of 22 October, would have made it easier to alter the criteria in the light of subsequent events, thus allowing for some flexibility. By late November, however, the Italians had accepted a Dutch text on this issue, indicating a willingness to compromise. At this juncture, the Twelve had reached a general consensus on the various matters pertaining to both the EU and the EMU. The European Council, which would culminate in the signing of the new treaty, was scheduled to take place in Maastricht on the 9th and 10th of December.

In order to assess the progress of the negotiations as the final stage approached, the Foreign Ministry sent two memoranda which provided a summary of the outcomes of the two IGCs. While the Italian authorities were relatively satisfied with the progress made on political union, apart from a few issues concerning the powers of the European Parliament, many more concerns and critical issues emerged on economic and monetary union. Nevertheless, upon their return from Maastricht, Italian representatives expressed a positive assessment of the conclusions reached. The report by Umberto Vattani, Andreotti's diplomatic advisor and a member of the Italian delegation for the negotiations, reflects an optimistic tone. In his words, the Treaty was regarded as a success that had laid the foundation for the "new Europe". Italy's role was validated, and the country's achievements included the modalities for determining the transition to the third stage, namely qualified majority voting and the number of seven states meeting the convergence criteria; and the inclusion of the opting out clause in favor of Great Britain, which was included in an annex to the treaty. From the perspective of economic and monetary union, the Italian representatives had accepted the convergence criteria namely: price stability; sound and sustainable public finance; durability and convergence; exchange rate stability. In particular, concerning public finance, art. 126 set out the excessive deficit procedure according to which European Commission prepares a report if an EU Member State does not fulfill the requirements for fiscal discipline. The aforementioned requirements were determined to be 3% for the deficit-to-GDP ratio and 60% for the government debt-to-GDP ratio. In light of the Italian government's fiscal status, the necessity for restrictive economic policies was evident. Nevertheless, despite the awareness of the choices Italy had to make, the actions taken did not align with the announced intentions.

One might inquire as to the rationale behind the Italian authorities' acceptance of such rigorous criteria pertaining to deficits and national debts. A number of factors contributed to this decision. First and foremost, the Italian position was significantly influenced by a multitude of internal discrepancies. In fact, there was little coordination between the Treasury's positions, as expressed by Carli and the new Director General Mario Draghi, and those of Padoa-Schioppa at this stage. Secondly, the country's own circumstances presented a significant challenge. The Italian authorities were constrained by the increasingly challenging domestic situation, both economically and politically. This was particularly evident in the context of the Italian government's ambiguous stance on economic policy, which was well-known to European countries and caused considerable embarrassment for the country's representatives. Furthermore, external pressure to accept the criteria was also a significant factor. The French and Germans, in particular, exerted political pressure on Andreotti's government to accept a degree of toughness, while its own bargaining power was already weakening at home. This pressure was particularly effective, as the Italian government was also facing parliamentary elections, which were expected to be very difficult ones. Consequently, the government would be able to retain its political capital by returning from Maastricht with a deal, which would also provide voters with the outcome they were seeking. Finally, and most importantly, the reason why Italian authorities accepted a compromise on convergence criteria, later known as the "Maastricht criteria" which were evidently leaning in their disadvantage, has to do with *the* main goal of Italian authorities, both the political and economic one: entered the soon-to-be European Union as a "first division" country. The roots of this desire can be traced to a traditional aspiration nurtured by Italian actors, according to which Italy was to recover its role as a middle-ranking power capable of exerting its influence in the two traditional areas of Italian foreign policy: the European continent and an "enlarged Mediterranean." But this element also gave rise to a profound contradiction. If the EMU were to serve as an external constraint on Italian governments in adopting austerity measures and more virtuous fiscal policies, then the conditions would be conducive to the scope. Nevertheless, the more onerous the conditions, the more challenging it would be for Italy to maintain its position within the "first division".

Throughout this chapter we have analyzed the role played by Italy at the EC level in a crucial phase of the European integration: from the adoption of the Single European Act, to the workings of the two IGCs on EMU and on the EU, to the signing of the Maastricht treaty. We have seen how, while showing discontent with the content of the SEA and experimenting some difficulties in carrying its implementation, Italian authorities were able to exercise a relatively strong and cohesive influence on the EMU content until the beginning of 1991. In light of these developments, the elements of contradiction are further reinforced, suggesting that while they may lend support to the theory of external constraint, they also pose a challenge to the Italian authorities in fulfilling the commitments made at the EU level. The inability of Italian governments in the late 1980s to implement economic policies capable of restoring the country's public finances, the end of the Cold War and Italy's consequent loss of international influence, as well as the shaking of the foundation of Italian democracy and party system, will result in the last year of EMU negotiations in an erosion of Italy's bargaining power toward other European countries. This intensifies the divide between the country's technocratic elite and the political class, as well as the discrepancy between EU commitments and the capacity to fulfill them.

Thus ends the parabola that since the 1970s had seen the continuing dialogue between internal protectionism and external constraint evolve, in which the policy leadership of the technocratic elite had increasingly taken space, as the period between 1988-91 shows, but which had not been matched by an effective adjustment of the country to these guidelines. Ideas about economic and monetary policy choices for the country had not been implemented in the measures of successive governments since then. Now it was up to external discipline to impose its harsh lessons on Italy, with all the negative consequences that would follow.

Conclusion

At the time of this writing, the ongoing debate surrounding the approval of the most recent version of the Stability and Growth Pact (SGP), which has set the criteria that member states must meet with regard to their fiscal and debt policy since 1997, has recently concluded with the adoption of a new Stability and Growth Pact. The Pact, which has been reformed several times (2008, 2012, 2015, 2020, 2022), had been exceptionally suspended during the COVID-19 pandemic period, when the emergence of an unexpected and emergency situation had necessitated a fiscal truce that would allow member states to breach the Pact's thresholds, and the European Union has decided to equip itself common financing instrument for the first time, i.e., the Next Generation EU. The vote in the European Parliament on April 23, 2024, during which the reformed Stability and Growth Pact was approved with 359 votes in favor, 166 against, and 61 abstentions, reignited the latent debate between Italy and the institutions in Brussels and the internal debate between political forces and economic authorities. In the April 23 voting session, Italian political parties drew attention and received both praise and criticism for abstaining. The abstention of Italian political parties in the European Parliament was used as a means of concealing a partial disagreement, prompting the irony of European Economy Commissioner Paolo Gentiloni, who commented that the Pact had succeeded in "uniting Italian politics." On a similar note, but with a different tone of voice, the Minister of Economy and Finance, Giancarlo Giorgetti, commented the episode, saying that the new Pact "*does not satisfy those who believe that growth depends on the Lsd model: laxity, subsidies and debt"*.

The Pact and agreements of the mid-1990s are not the subject of this thesis work. However, much of today's situation is reminiscent of that of the years covered in this analysis. The warnings about the need for more growth and the call for greater virtuosity in the management of public spending echo today as they did yesterday in the dialogue between the institutions of the European Union and the Italian governments; the internal debate within Italian authorities largely reflects the dichotomy between those who sweep the country's fragilities under the rug, ignoring the country's economic vulnerabilities and confronting them with a rather short-sighted approach, and those who bring their gaze back to some less than comforting elements about the state of the country's economy. Just as the lines of fracture resemble each other, those of cohesion also bear similarities to the past. The Italian political class remains, despite some Eurosceptic outbursts and some clumsy and misplaced hints of an *Italexit*, inherently pro-European.

The observation of contemporary events has led to a desire and curiosity to investigate the character of Italy's relationship with European integration, particularly economic and monetary integration, which has been a source of contention for the country. Looking at the recurrence and the centrality that certain issues still hold in today's political debate, a number of questions have arisen to which an attempt has been made to provide answers by looking back, in the knowledge that answers can often be found by retracing the road already traveled, returning to steps already trodden in the soil, with the good fortune of being able to do so in the light of the events of the present. In other words, it is a posteriori "*sine ira et studio*" historical analysis that can provide insights into contemporary issues. This study therefore attempts to provide answers to the questions posed by examining the historical context in which the issues arose. In order to gain insight into the evolution of the subject matter, the years comprised between 1971 and 1992 were examined, inscribed in an end date (1971), that of the Bretton Woods system sanctioned by the interruption of the gold convertibility of the dollar, and a beginning date (1992), that of the European Union as we know it today, with its rules, ambitions and limitations.

The long 1970s were examined with an emphasis on the internal formation of the Italian position on the emerging monetary snake and the European Monetary System, which came into force in 1979. To this end, the rift between the country's two main positions, which Carli refers to as the two "Faust souls," was presented. These positions represent the advocates of internal protectionism and the supporters of external constraint, respectively. During the 1970s, a series of shocks—including the end of the Bretton Woods system, the first and second oil crises, and the end of the early postwar economic growth period—led to a shift in the balance of power within Italian politics. Domestic political instability and changes in the international system contributed to the decline of the advocates of the *protezionismo interno*, prompting a policy shift that facilitated a gradual rapprochement between Italian economic authorities and those at the EC level. The pivotal moment in this process was the introduction of the *lira* into the European Monetary System (EMS) in 1979. This required a significant shift in Italian monetary policy and had a profound impact on the future of Italian participation in European monetary integration. In fact, during the initial stages of integration, the Italian position was significantly influenced by internal weaknesses. Indeed, the 1970s were among the most challenging decades in the history of the Italian Republic, known as the *anni di piombo* (the years of lead) due to the significant destabilizing impact of Red Brigades terrorism, which culminated in the kidnapping and murder of the Christian Democracy's leader Aldo Moro. This was reflected in a marginal role played by Italy in the EMS negotiations. Thus, the accession process occurred within a context of significant political fragmentation and division. On one side, the economic authorities (Rinaldo Ossola, Guido Carli, and Paolo Baffi) asserted that there were no necessary conditions for the Italian lira to join the narrow fluctuation band of the ERM. On the other side, the political class, and in particular Giulio Andreotti, argued for the need for Italy to remain a full player in the

Community. This approach prevailed and resulted in Italy staying in a game that it will no longer leave since then. The changes that occurred in the 1970s enabled Italy to experience a period of economic growth, which in turn led to a more assertive foreign policy stance. This, ultimately, allowed Italy to play a more influential role in the European integration process.

Following a brief period of initial low growth and high inflation during the 1980s, Italy experienced a renewed period of economic prosperity, which led to discussions about the "new economic miracle." The dynamism of a new political class and the enthusiasm derived from growth and an apparent modernization of customs and society will also be reflected in the country's ability to shape the content of the negotiations at the European level. This capacity is evaluated by examining Italy's achievements during its six-month tenure as President of the Council in 1985. This period saw the successful accession of three new member states—Greece, Spain, and Portugal—and the opening of two IGCs designed to advance the negotiation of the Single European Act. Despite this initial optimism, however, the outlook was clouded by a growing concern among economic authorities (Bank of Italy and Treasury) regarding the mounting public debt, which was poised to reach alarming proportions as the 1980s drew to a close and the 1990s commenced. The trajectory of the Community in this period, which had gained momentum after the economic stagnation of the early 1980s, under the presidency of Jacques Delors, was nonetheless unfavorable to Italy's interests. This was due to the Community's alignment with neoliberal economic and monetary principles, which were increasingly influencing international economic policy. The adoption of the Single European Act and the necessity to adjust the national structures of member states in order to accommodate the directives necessary to achieve the goal of establishing a single market by 1992, revealed the country's difficulties in coping with structural deficiencies and inefficiencies. In part due to these circumstances and the traditional Italian approach to European integration, the Italian authorities began to advocate for political integration, setting aside the more technical issues related to economic integration.

However, the Community's path toward greater integration was now proceeding according to other logics, and references by Italian representatives to the need to strengthen European institutions and enhance political integration could no longer suffice. Italy's economic authorities were able to interpret this direction taken at the European level and seized the opportunity to take the lead in the EMU negotiations. Some prominent figures from the economic sector, including Carlo Azeglio Ciampi, Tommaso Padoa Schioppa, Guido Carli (subsequently replaced by Mario Draghi), along with select political figures such as Andreotti and prominent diplomats such as Ambassador Vattani, were able to coordinate and articulate a clear stance for Italy during a pivotal period between 1990 and the early months of 1991.

As a consequence of this effective coordination, Italy was able to exert a degree of influence on the content of the EMU at this stage. This was achieved by promoting its own demands, which included the necessity for flexibility, convergence criteria that were not strictly quantitative, and a process towards a single currency coordinated by a common institution (i.e., a European central bank).

In spite of the good results obtained in the six-month Italian presidency of the second semester of 1990, during which Italy had also tried to show diplomatic coordination skills for a resolution of the issue of Germany, by then close to reunification, 1991 marked the demise of the Italian delegation's aspirations and hopes. These years can in fact be divided into two phases: a first phase in which good coordination between political and economic authorities will enable Italy to present a solid negotiating position and revive its role in European construction, culminating in the 1990 Rome Council; a second one, in which the country's structural deficiencies, the inability to cope with them through economic policy choices aimed at a consolidation of public finances, the slowdown in growth and the crisis of the *lira*, will erode cohesion among the authorities engaged in the negotiations, divided between a political class that is “pro-European” but limited to political objectives and a group of economic authorities determined to bring in from the outside obligations that would otherwise not be fulfilled internally. This would result in the limited ability to influence the contents of the Treaty, and in a downsizing of Italy's ambitions for economic and monetary union. When the delegation returned from Maastricht, a Treaty was presented that was supposed to represent a great success for the country and for the future of the European Community, now Union. This portrayal was far from the real state of affairs for Italy, which was faced with ambitious - and stringent - convergence criteria if it wanted to enter the second stage for the process toward the single currency while confronting a huge political crisis at home, which would result in the end of the party system that had governed until that moment, and at the same time the emergence of all the economic fragilities, with the *lira* having to exit the EMS due to speculative pressures in the summer of 1992.

This reconstruction highlights the contradictions of a country that sees Europe as a privileged, and perhaps to date the only, sphere for exercising its foreign policy influence, and that sees itself - rightfully - at the center of its construction, claiming a place in the control booth, while at the same time failing to follow up these ambitions with policies that actually reflect what has been decided at the European level. In the 20 years under review, a major political shift and the belief of the economic authorities in the need for an external constraint, something that forces the domestic authorities to take decisions that would otherwise be impossible to enforce, enabled Italy to play a certain role in the progress of European integration. While these factors have allowed the country to stay in the game, albeit at different stages and with varying degrees of intensity, they have proved not up to the task compared to Italian ambitions. What seems to emerge from this analysis is a lack of awareness on the part of the authorities involved in the Maastricht negotiations of the real implications of the content of the treaty, and a tendency to consider the commitments made as something to be postponed and flexible over time. This approach can still be seen today in the way some political forces interpret relations with the European Union institutions, an approach that, we believe, is inadequate to the ambitions and capabilities of a country such as Italy.

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