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FOREWORD

I am especially grateful to Roberto Di Quirico for having accepted to analyse for us the perspectives of the Italian Presidency of the European Union and their determining factors as it is a particularly difficult task. As far as politics is concerned, whether national or European, the Italian response is never easy to predict, and indeed this is one of its many charms. This is also true of the subject we wish to treat here, the political orientations of its Presidency. It becomes even more difficult given the attitude of the Italian authorities which combines an unusual discretion over their intentions, an often puzzling style of international relations and a cooler and more hesitant European commitment than in the past, on the surface at least.

Roberto Di Quirico explains that this new positioning and the difficulty in explaining it derives from a tense internal situation where divisions are exacerbated, the political system which followed the 'First Republic' is unstable and there is a fear of an economic, social and moral 'decline' in the country. The European theme, which has always been at the centre of the Italian debate, finds itself eclipsed by internal concerns and used in response to these concerns. Even if experience has taught us that Italy generally copes with this type of situation, without the anticipated dramatic consequences, the current scenario appears more serious than usual. This explains why our author has found himself compelled to depart from the usual academic neutrality and has provided us with a study which is more 'committed' than the others in this series have tended to be.

The legacy which each Presidency leaves for the history of European integration relates less to its intentions and more to the constraints of its agenda. The second semester of 2003, between enlargement, deepening and the planning of budgetary resources and policies, will be particularly demanding for the Italian Presidency. This will be in some senses a hazardous period, as the Union will have to resolve questions which are vital for its future, while it is currently more divided than ever. In such a context, the role of the Presidency will be less that of proposing initiatives than that of forging consensus. Among other advantages it possesses which should aid in this task, Italy also holds the functions of the Presidency of the European Council, the Presidency of the Commission and the Vice-Presidency of the Convention, which is not too bad for a country supposedly on the verge of decline. It is up to Italy to add up these potential strengths rather than using them as a further instrument of division. They will be necessary to meet the strict deadlines that the calendar has laid down.

Jacques Delors

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INTRODUCTION

On July 1st 2003, Italy will assume the Presidency of the European Union, following Greece. During its Presidency, Greece had to cope with a number of serious incidents linked to the war in Iraq, which seriously damaged the cohesion of the Union. Member States were split between those which supported and those which opposed the military intervention in Iraq. Moreover, many of the accession countries clearly demonstrated their pro-NATO and therefore pro-intervention stance, which placed them in opposition with some of the current Member States which opposed the intervention.

An already difficult situation was further aggravated by the failure of key countries, such as France and Germany, to stick to some parameters of the Stability Pact which binds the euro-zone countries. This development, while apparently less dramatic than tensions over the Middle Eastern conflict, is nonetheless likely to have dangerous repercussions on stability within the European Union. This first breach of financial discipline risks undermining the willingness of other countries to maintain their commitments, and to encourage the adoption of less stringent budgetary policies by countries which have so far succeeded in respecting the Stability Pact by adopting one-off measures which are inadequate to the task of providing structural solutions to the internal economic problems.

Another aspect of concern is the process of drafting the European "Constitution", which is a crucial step if the existing institutions of the Union are to be adapted to the new circumstances arising from the forthcoming accession of new Member States from among the former Communist countries. At present the Convention on the Future of Europe responsible for drafting this Constitution is in danger of getting bogged down in declarations of principle which are more appropriate for describing an ideal Europe than for proposing an institutional structure capable of meeting the challenges of enlargement and redefining the philosophy behind the European integration process. The hypothesis of an international confederation, which would allow national states to seize back some of the powers previous delegated to the European institutions, poses the question of the role which the different Member States would adopt in the new European Union, and the kind of relationships which would develop with the Franco-German axis which is now central, and perhaps dominant vis-à-vis the other Members. Problems of this kind have already arisen over the Iraq issue, and the Member States find themselves facing a growing divergence between Franco-German foreign policy and an "Atlantic" or NATO policy.

The Greek Presidency found itself in an awkward position with regards to Italy, the country which was to succeed it as the next President of the Union, with whom a joint programme for 2003 had already been agreed. The Italian government was one of the

sponsors of the famous letter to the US President in which some Member States and various applicant countries declared their support for the American policy on Iraq, to the vexation of Member States opposing the policy, and particularly Greece, the current holder of the Presidency, which saw itself pushed aside and marginalized from an initiative in which it should have played a leading role. Italy has thus been very exposed recently, assuming sometimes extreme positions which are inappropriate for a country due to take up such an important role in the European Union as the Presidency. This has certainly encouraged speculation as to the part which the forthcoming Italian Presidency will play in areas as crucial as relations with the United States, internal cohesion and the institutional reorganisation of the Union. Simultaneously, fears are starting to be expressed in Italy that the six months' Italian Presidency could be a failure, fears which are stoked by the obvious isolation of Prime Minister Berlusconi on some occasions, and the clear limits which have emerged as to his ability to act internationally.

The Italian position and its recent European policy choices may perhaps be explained by the historical development of relations between Italy and the European Union, and some particular features of the existing government coalition in Italy. Italy was one of the founder members of the original European institutions, but over time it has appeared increasingly unable to keep pace with other Member States and the country has been increasingly marginalized. This was dramatically demonstrated during the period from 1992 to 1998, when the ability of Italy to take part from the start in the final stages of monetary union was in doubt, both in Italy and in the other Member States. The remarkable effort by the Italian government during those years, supported – albeit in a lukewarm fashion – by the opposition parties, enabled Italy to enter monetary union from the outset, but it also played its part in strengthening the opposing political groups which see the relationship with Europe differently. For one side of the divide, European integration offered a way of forcing Italy to accept a modernisation process which would have been difficult to impose solely on the basis of internal reasons; for the other, it created highly restrictive constraints on national policy which hindered the reintroduction of the system of patronage traditionally underlying the relationship between political parties and the electorate. It is thus clear that the Italian attitude to Europe cannot be divorced from the nature of the ruling coalition government, and the way in which the parties in government regard the effect of the country's European commitments on their margin for manoeuvre in national politics.

Nor could Italy and its government ignore the long-term development trends in the Union and the consequences which this would have for Italy. The emerging impression of a Europe centred on a close Franco-German partnership, in which the needs of French international policy and the German economy take precedence over those of countries on the margins of this "heart of Europe", prompted Italy to strengthen its links with other Member States such as Spain and the United Kingdom, and especially with its traditional

ally, the United States, to ensure that it could continue to play a part in international affairs. The manifest weakness of the process of consolidating and strengthening the European political institutions might be another factor in encouraging Italy to adopt a policy more focused on foreseeable short-term internal problems, for which it could not rely on Union support to solve. Italy has already complained of the scant support from its European partners in stemming the flow of illegal immigrants arriving in the country. In a possible future scenario characterised by disputes between the European Union and the United States, and with no reliable European defence system, Italy could find itself alone with the problem of defending the central and eastern Mediterranean, and thus forced to cope with huge and currently unavailable military expenditure.

Finally, there have been clear signs of economic and cultural decline in Italian society, as well as a prevailing political culture diverging from the typical model in other Member States. This is not a new experience for Italy, which underwent something similar during the final years of the European Monetary System. Its roots lie in the difficulty of adapting the economic system and political representation in Italy to European models, and in the conditions arising from the acceptance of the constraints imposed by participation in the economic and political integration process. This has provoked unappeased ambitions to by-pass some of these constraints, particularly those relating to the budget, to enable national political forces to seize back their traditional room for manoeuvre in the economic field and in their relationships with the electoral base. These ambitions will certainly be encouraged by the recently opened cracks in the Stability Pact, and it may reasonably be supposed that the current Italian government will try to formalise such opportunities to deviate from the constraints of the Stability Pact, or to make them more flexible. At the same time, it is essential for Italy to exploit to the maximum the possible advantages of economic integration to improve conditions in its own economy and to regain lost ground in sectors such as research, where the signs of decline are now all too evident.

There is thus an obvious internal lobby which brings much influence to bear on the attitude of various sections of society and the Italian political world vis-à-vis the European Union. Similarly, we may suppose that these internal priorities will also influence the way in which the country acts on the European stage during the period of its Presidency, encouraging or at least supporting more wholeheartedly those initiatives which correspond to the aspirations and needs not just of the country but also of the ruling coalition.

To shed light on the origins and basis of the current Italian position, we shall look back at the history of Italy's attitude to Europe and the relationship between the internal situation and the Italian position in Europe. We will then analyse the different positions adopted towards Europe by the main government and opposition parties, some minor parties and

movements, and the main pressure groups. We shall also closely examine the topics which now appear as the most important for the forthcoming European Presidency, illustrating the ways in which the internal Italian situation may influence the attitude of the Italian Presidency in these areas. Finally, we shall examine the Greco-Italian programme, in an attempt to identify the areas in which the Italian Presidency's actions may be more incisive or more problematic.

Written during the period from the eve of the attack on Iraq to the end of May 2003, this paper cannot but reflect the uncertainties and the bitter internal and international controversy of the time. Inter alia, the events preceding the outbreak of war and during the period immediately after the end of hostilities have contributed to rendering both the programme for the Italian Presidency, and the aims it had put forward, obsolete. All this makes it very difficult to hazard any forecasts for the immediate future, and thus for the possible developments during the Italian Presidency, though the underlying reasons which are likely to inform the Italian action remain valid. These reasons will be explored exhaustively in this paper.

I - THE HISTORICAL DEVELOPMENT OF RELATIONS BETWEEN ITALY AND THE EUROPEAN INSTITUTIONS

One of the most obvious features of the relations between Italy and the European institutions is the gradual marginalisation of the country during the course of European integration. Until this process was resolved in proposals and diplomatic moves directed at policies for integration, Italy and its political leaders were able to play a leading and constructive role. However, when the constraints involved in participation in the initiatives for European integration and coordination became more stringent, shifting from declarations of support to ongoing policies, the limits of Italy's European commitment and its political and economic structure became very clear. From 1970s, in a period of deep economic crisis and while the European partners' initiatives were focused on the creation of defensive institutions in the economic field, such as the monetary snake and later the European Monetary System (EMS), Italy appeared increasing less fit to "stay in Europe", unable to sustain the efforts demanded by coordinated economic policies of this kind or even to adapt its own internal structure to a more "European" model, in the sense of a system more able to withstand the adoption of policies coordinated at the European level and the sustained presence of the country in the new institutions created to tackle the crisis. In other words, the Italy of the 1970s showed itself incapable of "becoming European" and became increasingly marginalised, because of its obvious inability to respect precise undertakings like those of the EMS, and the consequent damage to its reputation in the eyes of its European partners.

In the period between the second half of the 1980s and 1992, attempts at internal reform made it clear that the link with Europe was an essential element, both in restoring international credibility and, in particular, for imposing internally the reforms which had been obstructed by the crisis, now irreversible (though this had not yet been recognised), in the Christian Democrat power system. The relationship between internal reform and the link with Europe, described as an "external constraint" inasmuch as there was an attempt to impose internal reforms while presenting them as an obligation deriving from European commitments, was taken up again energetically in the mid-1990s, concurrently with the efforts to meet the conditions for entry into the third phase of monetary union and, in consequence, for "entering the euro". This catch-up policy vis-à-vis Europe seemed to have run its course, or at least to have weakened significantly, with the completion of monetary union.[1] It greatly resembles other typically Italian stop-go policies, particularly in the economic field, which tend to alternate very dynamic periods

[1] V. Dyson, Kenneth – Featherstone, Kevin, *The Road to Maastricht. Negotiating Economic and Monetary Union*, Oxford, Oxford University Press, 1999, pp. 452-533.

with long pauses to recover from the effort expended to achieve aims which habitually end by being challenged during the pause following their achievement.

1 – Italy as founder member, 1950-73

The first stage of Italy's participation in the European integration process and the part played by the country and its political leaders in supporting and encouraging the process must be considered and analysed in its historical context, the "rescue of the nation-state"[2] and the economic and political reconstruction of post-war Europe. Italy, like several other European countries, had a desperate need to integrate into the European framework in order to take part in a process of rebuilding and consolidation, both political and economic, which it could never have achieved as a single State. In that period, involvement in European initiatives such as the European Payments Union or the European Coal and Steel Community entailed compliance with rules and agreements, but strengthened the economic situation in Italy, which in turn made such compliance possible. Furthermore, the internal political system in the youthful republic, though destined to deteriorate rapidly because of the flaws inherited from earlier times, the structural limitations of the economy and the political culture established over centuries of history, was still sufficiently flexible for the requirements of membership of the first European institutions.

The historic victory of De Gasperi's Christian Democrats in the 1948 elections, structural under-employment due to a combination of a large population and a level of industrialisation which failed to match it, the repressive tradition inherited from the preceding regimes - particularly from Fascism - and finally the military presence and influence of the United States on internal politics, all allowed the Italian government to pursue an active policy of European integration. Indeed, once the difficult immediate post-war period was past, when the Communist Party's actual aims were unclear, and particularly in view of the balance of power internally, De Gasperi's Christian Democratic-dominated governments were able to consolidate their power, countering the parties on the left by suppressing street demonstrations, leading to some deaths among working-class demonstrators, or by relying on the business classes who viewed structural unemployment as a valuable tool for containing wage demands and imposing work-place

[2] V. Alan, S. Milward, *The European Rescue of the Nation State*, London, Routledge, 2000

discipline,[3] as well as a means of applying pressure to obtain favours and help from the government through the so-called "employment blackmail"[4].

The stabilisation of society and the consolidation of a manufacturing structure based on low wages,[5] enabled Italy to enter the first stages of European economic integration as the supplier of some industrial products and foodstuffs and also of labour, which was abundant in Italy but scarce in countries such as Belgium and Germany and in certain key economic sectors such as mining. Furthermore, the particular situation of Italy and the opportunity to impose deflationary policies unpopular with the labouring classes precisely because they were excluded from government through the marginalisation of the parties which represented them made it possible to implement a process of financial stabilisation through a deflationary policy, in contrast to what was happening in other European countries. Italy was thus in a position to increase its monetary reserves and to regain margins of manoeuvre and international credibility, in part due to the stability of the lira. The conditions were thus set for active Italian participation in the economic and political European integration process; and in these difficult times Italy was able to play a constructive part.

At the same time, the need for economic reconstruction made European integration something of a forced choice. In reality, the choice - suggested by some - between opening up the economy to export trade, or maintain a strongly protected internal market on which to focus for economic recovery simply did not exist. Only a collective solution, at the European level, could satisfy the Italian economy's crucial needs, such as the guaranteed access to moderately priced industrial scrap on which the Italian steel production was based, or the mass emigration of labourers unable to find work at home and whose presence constituted a potential source of internal political instability. Many of the available opportunities for growth in national industry also consisted of entering industrial sectors, such as light engineering, with internal European trade based on the mutual exchange of manufactured goods. Finally, Italian agriculture could find opportunities to expand the markets for its own produce mainly in internal European trade. Just as some industrial products were welcomed in the rest of western Europe, agricultural produce could be marketed because, particularly after the creation of the

[3]On the repression of demonstrations, the deaths and arrests of workers and trade unionists, and the dismissal policy adopted after 1948 see Camillo Daneo, *La politica economica della ricostruzione 1945-1949*, Torino, Einaudi, 1975, pp. 282-92.

[4]"Employment blackmail" had been a widespread practice in Italy since before WWI , and consisted of threatening to close down plants and dismiss large numbers of workers unless entrepreneurs received various kinds of State aid. This system allowed uncompetitive businesses to survive for long periods, and was abandoned only on the introduction of European regulations on state aid.

[5]For the "low-consumption equilibrium" and the importance of this strategy in Italian development, see Franco Bonelli, “Il capitalismo italiano. Linee generali d’interpretazione”, in *Storia d’Italia, Annali*, vol. 1, *Dal feudalesimo al capitalismo*, Torino, Einaudi, 1978, pp. 1195-1255.

European Payments Union, it was unnecessary to pay for such goods in dollars, as would have been the case if industrial and agricultural products were imported outside continental Europe.

On the other hand. other politically important reasons existed alongside the economic motives. As one of the countries defeated in WWII, Italy had every reason to support a policy of European integration which would lead to its own re-integration into the European context. Furthermore, Italian foreign policy at that time was closely monitored by the Americans, who were the main promoters of the first phase of European integration, at least until the failure of the European Defence Community (EDC). So the enthusiasm for Europe shown by Italy's political leaders in the years before the late 1960s should come as no surprise; and nor should the important role of Italian diplomacy in the negotiations which led to the Treaty of Rome and the creation of the European Economic Community. Against this historical background, there was no conflict between Atlantic loyalties and European commitments, nor were these commitments such as to prejudice the consolidation in Italy of Christian Democrat power and an economic model under strong State control and patronage which would become problematic at later stages in the European integration process.

With the creation of the Common Market, and the failure of the federalist political integration process, followed in the 1960s by the confrontation between De Gaulle's France and the United States, the European integration process appeared to have come to a halt, except in some very specific sectors such as agriculture, where the launch of the Common Agricultural Policy (CAP) confirmed the protectionist approach already present in outline in the creation of the European Common Market. Such developments were a foreseeable result when the reasons which had induced the major European countries to go along with US pressure for European integration ceased to apply. Now the nation states were safe, growing internal prosperity had appeased the revolutionary threat of the immediate post-war period, and the return to convertible currencies under the Bretton Woods agreement guaranteed relatively stable conditions in the internal economic system. At such a time there did not seem to be any need for "more Europe"; what there was, was enough, and there were no reasons to surrender any more national sovereignty.

In Italy, the early 1960s saw an economic boom which ended around 1963-4, leading to a crisis which required the injection of foreign capital. At the same time, Italy was committed to pursuing a coordinated policy in foreign relations, including monetary policy, where it seemed clear that the US position and the status of the dollar as the key currency in the entire international payments system were weakening.[6] In this area too, Italian activism concealed the country's strong interest in maintaining a situation of

[6]V. Charles A. Coombs, *The Arena of International Finance*, New York, John Wiley & Sons, 1967

relative stability, which was of great value to a country dependent on international collaboration for the resources to create the internal stability which would otherwise have been unachievable, as became evident when the 1970s crisis erupted, bringing catastrophic repercussions in Italy.

2 – Birth and consolidation of the post-war patronage system in Italy.

During the years between the founding of the Republic of Italy and the crisis of the 1970s, the Italian socio-political structure and its particular economy gave rise to a development model which was quite specific and unlike those which appeared in other countries in the European Community. During and immediately after the war, the sole credible mediator in Italy vis-à-vis the Americans appeared to be the Vatican, and, in consequence, its associated political party which, having disappeared during the fascist period, had been reformed after the war under the name Christian Democracy. This party therefore became the political referent for the Americans in a State which, as has often and rightly been pointed out, held only "limited sovereignty" in many fields. Further, the electoral strength and popular support for the parties with a Marxist tradition (the Partito Socialista Italiano or PSI and the Partito Comunista Italiano or PCI) and their revolutionary stance which excluded them de facto from the democratic sphere made Christian Democrat predominance inevitable. The Christian Democracy party thus came to constitute the nucleus of Italian democracy, in the sense that it commanded the consent of a large majority of voters who identified themselves with very general values such as Catholicism and anti-communism, but who also had particular interests and demands to mediate within the party and the emerging power system. In this way, Christian Democracy offered itself mainly as a party of government which identified with no ideology, social class or particular political project (like other Italian parties in the post-war years) but which aimed to create approval by adapting itself to different local needs and situations and drawing from this the electoral support necessary to control the government and the management of the system of patronage on which the consensus depended. The powerful State presence in the national economy was one of the foundations of the patronage system created in Italy by the coalition governments led by the Christian Democrats. This presence, a survivor from the fascist period,[7] was used in the Republic first as a tool for reconstruction and support for economic growth, and then as the main means of attaining and maintaining the consensus, via policies for planned (and sometime ephemeral) industrialisation in electorally significant regions where those in power wanted to reward voters for their support with jobs and opportunities for social and economic advancement.

[7]The Institute for Industrial Reconstruction (IRI), the main State holding organisation for the control of industrial shares, was established in 1933 to cope with the effects of the international crisis on Italy.

Italian structural unemployment, together with the traditional divide between the industrialised North and the depressed South, meant that jobs and career prospects were identified as the main currency for buying electoral support. This kind of policy, made possible by the fact that the State controlled around one third of major industries, went hand in hand with a similar policy of over-manning in the public administration, in this case pursued impartially by both government and opposition parties where they happened to hold local authority control. Finally, there developed a curious Italian-style welfare state system, which aimed at alleviating economic disadvantage and structural unemployment through mechanisms which maintained the logic of privilege linked to electoral support and party affiliation. That was how many of the long-term unemployed in Italy claimed to be disabled and claimed a State pension granted not because of their unemployed status and irrespective of their political affiliation (as ought to be the case) but on the basis of an overtly illegal allocation procedure. This process began rather gradually, and then appeared more openly with the rise in unemployment due to the international crisis. In short, the creation of the Christian Democrat consensus system ended by seriously compromising the efficiency of the State and publicly owned industry, undermining the financial basis of the first and the competitiveness of the second. In addition to policies of this kind, there was a benign neglect of the fight against tax evasion which enabled government coalitions to obtain the support of traders and businessmen who benefited, at least in the medium term, from a taxation system which weighed solely on employees - through deductions at source - and consumers through taxes on consumption. In the long term such policies proved counter-productive even for the initial beneficiaries. Heavy taxation on the wages of employees were countered-balanced until the end of the 1960s by low wage levels. However, when the trade union struggle, erupting violently in 1968-9 and worsening in the 1970s partly in response to growing inflation, achieved a widespread and continuous increase in wages, the heavy tax deductions on employees' income began to have a damaging impact on the competitiveness of Italian goods.

In the Italian government the Christian Democrats were allied with some minor parties such as the Partito Socialista Democratico Italiano, the liberals and republicans. From 1963, the Christian Democrats were also supported by the Italian Socialist Party, who had broken with the communists but were gradually weakening, and who had little option but to integrate into the Christian Democrat power system and, in time, reproduce its mechanisms for gaining consensus. The entry of the socialists in the government accentuated State control of the economy, and thus also increased the scope for patronage-based negotiation. Further, the pervasive nature of the State's presence in the Italian economic system was highlighted by the almost complete control of some crucial sectors, such as the banking system and the electricity sector, which was nationalised

when the socialists entered government.[8] The system of relationships developed between the State and major private groups placed the State and its financial support at the heart of the Italian economic system and directed its choices, encouraging large groups in the internal market through subsidies and incentives and by development strategies and economic policies which fostered the activities of major private groups, which were vital to ensuring employment and well aware of the power they derived from "employment blackmail".[9] A clear demonstration of the close relationship between the interests of major industries and national policies came with the gradual abandonment, during the 1960s, of the public transport policy in favour of private transport which increased the market for the Italian motor industry. Unfortunately the cars ran on petrol, and Italy was wholly dependent on oil imports which had to be paid for in valuable currency. This fact, which was originally not considered to be a serious problem, had a dramatic impact after 1973.

3 – Italy on the margins, 1973-92

The particular nature of the Christian Democrats' system of mediating interests and the structural weakness of the Italian economy were such as to bring about a crisis sooner or later even without the external shocks of the early 1970s. In any event, the suspension of dollar convertibility and, above all, the impact of the oil shock and the dizzying rise in the price of crude exaggerated the crisis conditions existing in Italy in the mid-1970s, setting in train a process of restructuring the Italian economy which undermined the foundations of the Christian Democrats' consensus system until it ultimately collapsed in the early 1990s.

The crisis in the 1970s also introduced a new phase in European integration, as the countries of western Europe found themselves faced by an international crisis of unforeseeable proportions which had the effect of accentuating the economic divergence and differences between strong and weak countries. This was the starting point for a re-launch of the European integration process, which subsequently led to monetary union. In this new phase Italy could no longer play a role in championing integration as it had in the 1950s. This was in part because of the economic crisis which prevented it from keeping pace with other European countries, and from complying with stringent requirements such as maintaining exchange rate stability, and partly because to play a full part in Europe it would have had to dismantle or reorganise a political and economic system on which Christian Democrat power, and subsequently that of the other

[8]V. Eugenio Scalfari,– Giuseppe Turani, *Razza padrona. Storia della borghesia di stato e del capitalismo italiano 1962-1974*, Milano, Feltrinelli, 1974

[9]V. Augusto Graziani, , *Lo sviluppo dell'economia italiana. Dalla ricostruzione alla moneta unica*, Torino, Bollati Boringhieri, 2000

government parties, was based. Dismantling the system of patronage and public intervention was probably unthinkable for the political leaders of the time, and was in any event not a solution which could be achieved rapidly. The only available solution was to deal with the crisis in state finances and the economy, accepting high levels of inflation incompatible with exchange rate stability and, as a result, using competitive devaluation to recover the export ground lost through the inflation differential vis-à-vis other European countries. Italy thus became an unreliable partner with little credibility in Europe, and finished by depending on the economic support of Germany, from whom it obtained significant loans.[10]

The crucial role of the German economy and finance in supporting Italy finally found concrete expression with Italy's entry into the European Monetary System and the de facto acceptance of a European economic policy based on the economic policy of Germany and the role of the Deutschmark. This relationship made it possible to regain ground internally, where the aim was to contain the effects of the crisis while shoring up the patronage-based consensus which had by now been widely adopted by other parties in the ruling coalition. The patronage triangle linking the private sector with the parties and the State, through which the parties acted as intermediaries in the allocation of major State commissions to a narrow circle of private companies, was actually strengthened to meet the financial needs of the parties, which were expanding their bureaucracy while their revenues were shrinking during the 1980s as external sources of funding dried up and the crisis hit traditional internal sources of finance.

The 1970s were characterised by clear signs of an internal crisis, of which the terrorist phenomenon, and the dramatic events which led to the abduction and murder of the Christian Democrat leader Aldo Moro were only the most prominent aspects. The first major political corruption scandals, the collapse of local finance, the electoral advances made by the Italian Communist party and the new political direction introduced in the Socialist party with the arrival of Craxi all flowed from a multiplicity of circumstances in which the common denominator was the crisis in the Christian Democrat power system created during the 1950s. Against this background there emerged the first dramatic disputes within the Italian ruling elite, with politicians trying to rescue the patronage system and some elements in the technocratic elite (in particular the Banca d'Italia) pushing for a drastic restructuring of the entire system and for an end to the collusive relationship between the powers of the State and certain unreliable individuals in the narrow but powerful private banking sector.[11] This clash was to be repeated at other

[10]V. M. Guglielmina Tenaglia Ambrosini, *La moneta e l'Europa da Bretton Woods a Maastricht e oltre*, Torino, Giappichelli, 1996; Paul Ginsborg, , *L'Italia del tempo presente. Famiglia, società civile, Stato 1980-1996*, Torino, Einaudi, 1998.

[11]The conflict between the Banca d'Italia and the group which gravitated around the financier Michele Sindona and his private bank remains one of the most obscure episodes in the history of the Italian

stages of Italian political and economic history and played a crucial part in the successive developments in Italy's relationship with Europe, particularly through the critical role played by men such as Carli and Ciampi in the various phases of negotiation and membership of the European Monetary Union. It seemed possible to force the restructuring process through a policy of "tying one's hands" (or "external constraints"), which had remained in the memory of some of the key players as the most effective method for bypassing the insurmountable obstacles to the modernisation of the country erected by the political class. This modernisation would entail the dismantling of the State economic structures set up under fascism during the 1930s and transformed by post-war governments into a tool for political mediation which met their own electoral needs, but also the pursuit of a policy of partnership with trade unions and the Communist Party which based its consensus on the existence of a large and organised working class. Such a system had represented one of the many ad hoc solutions in Italy's history, which nevertheless had led the Italian economy in a different direction from that chosen by the other continental economies with which it had to integrate and towards which it would be vital to converge.

The attempt to stabilise the internal situation in Italy during the 1980s took the form of short-term support policies which made it possible to maintain the existing structure whilst further eroding its basis by attempting to remain coupled to the European integration process in the hope that it would once again salvage the Italian national State (in the sense of rescuing the nation-state as proposed by Milward for the first stage of European integration). The aim was to recover competitiveness through a process of industrial restructuring which would increase the technological level of Italian business while exploiting to the full the resulting rise in unemployment to keep real wages low (even for highly specialised workers) and to reduce the bargaining power of trade unions and parties on the left. A policy of growing internal debt was adopted at the same time, based on the marked tendency of Italian families to save and an increase in the pressure of indirect taxation. A series of attempts to restructure the system of State holdings and to reorganise the tax system failed completely. This option would have seriously impaired both the party funding system and the system for attracting and maintaining consensus, alienating from the ruling cliques those classes and groups which had kept them in power in exchange for continuing privileges.
Meanwhile in Europe great progress had been made in relaunching the integration project, particularly in the economic field. The Single European Act and the decision to move towards the creation of a single, integrated and competitive Europe-wide market by 1992 signed the death warrant for the Italian model of a mixed State and private economy

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Republic. Political factions anxious to support Sindona took action against the directors of the Banca d'Italia, leading to the arrest of Governor Baffi and the Director General Sarcinelli. Subsequently Sindona and his ally Calvi of the Banco Ambrosiano both died under mysterious circumstances (they were almost certainly murdered).

which was totally incompatible with the regulations governing the emerging single market. De-coupling from the economic integration process was not an option because of the role and magnitude of capital flows and inter-European trading relations in sustaining the Italian economy. Remaining in the European Monetary System and taking part in the single market and monetary union was thus a forced choice for Italy, despite the growing opposition from major sectors in the Italian economic world. This opposition grew substantially in the early 1990s when internal stagnation came together with the effects of the German high interest rate policy necessary to fund reunification. This also forced other countries in the EMS to gradually adapt their interest rates to German levels to avoid an outflow of capital and exchange rate crises, with the obvious result that the deflationary effects of German monetary policy were felt by all the countries in the European Monetary System.

The mix of internal developments and the changing situation in the European Community proved lethal, and brought about the collapse of the First Republic. The different sections of Italian society which had supported the Christian Democrat power system throughout the First Republic now gradually dissociated themselves from it as the system became increasingly unable to guarantee the protection and equilibrium which it had built up. Small traders, the traditional electoral base of Christian Democracy, were hard hit by the widespread economic crisis and the diminished purchasing power of part of the population caused by high unemployment and rising indirect taxation. Furthermore, the government, to try to control inflation and to implement European legislation, had had to abandon its traditionally hostile policy towards the retailing and distribution industry. Supermarkets and huge shopping centres thus arrived very belatedly but emphatically in the Italian distribution sector, causing the collapse of many small traders and the closure of large numbers of businesses. At the same time the impact of taxation on the cost of labour, which could no longer be compensated by the flow of subsidies and State aid which had de facto reduced the burden, became increasingly intolerable for employers. In northern Italy they began to turn away from the Christian Democrats or its traditional allies towards alternative forms of political representation, and were attracted in particular to the Lega Nord. This party also drew the votes of large sections of the working class in the north, which regarded the now blatant corruption of the "Roman" political class and the disorderly influx of immigrants (many illegal) as the main causes of their troubles and the problems of the state.

Meanwhile European monetary policy played its part in the worsening Italian crisis. While convergence towards the single market restricted State aid for business, the rise in interest rates following German reunification had a damaging impact on the Italian national budget which was now dependent on borrowing. This could not but increase the budget deficit and worsen the problem of the availability of resources. In fact the impracticality and the political unsustainability of adapting the tax system (with particular

reference to the system of controls and sanctions) and of reshaping the bureaucracy made it impossible to carry out the only reforms which could have had any immediate effect in checking a situation which was coming to a head.
Into this already disturbing situation there now erupted a series of corruption scandals in which all the government parties and their leaders were gradually implicated and which are usually collectively referred to as "Tangentopoli". At the same time a series of very serious terrorist attacks organised by the Sicilian mafia but which extended to the rest of Italy aggravated social tensions, and a spontaneous movement of revolt spread across broad sections of the population, overcoming traditional class and party divisions and preventing the weak and disjointed efforts of the government class to tackle what was now clearly an unstoppable political collapse. The sequence of investigations opened on prominent Italian political figures which sometimes led to arrests and remarkable convictions but above all the clear evidence of rampant corruption emerging from the investigations and in the media totally discredited the government coalition and brought about the fragmentation or dissolution of the main Italian ruling parties, the Christian Democrats and the Socialist Party, while strengthening the Lega Nord and the traditional opposition parties on both left and right.

4 – Resisting marginalisation: Italy and the adoption of the Euro

The crisis in the European Monetary System which began in September 1992 gave a further blow to the moribund First Republic when the Italian lira and the pound sterling crashed out of the exchange rate agreement. In actual fact this crisis provided the conditions for a rapid lessening of the Italian economic crisis and facilitated the re-entry policy of the governments which followed. Initially, however, it was rightly seen as yet one more aspect of the political, economic and social collapse of the First Republic.

The collapse of the First Republic had two direct consequences. Firstly, it brought about the rising importance of the technocracy and its leading figures, who began to play a crucial role in putting together policies to rescue the State and to assume significant positions in the political and institutional fields. The most symbolic example of this is the case of Ciampi, who left his position as Governor of the Banca d'Italia to lead a government which remained in power from April 1993 to May 1994, and under which the historic agreement between the government and social partners was signed in July 1993. The agreement brought to an end the sliding scale system and indexation of wages and introduced planned inflation rates as a benchmark for the renewal of contracts. This innovation proved to be of vital importance in implementing the anti-inflationary policies which made it possible for the Italian economy to move once more towards convergence with its European partners, but it was also the first tangible result of the alliance which had been established between the centre-left parties and the modernising technocracy.

The July 1993 agreement was possible only thanks to the backing of the PDS (the former Communist Party) which was the party associated with the main trade union confederation, the CGIL. This alliance gave modernising technocracy the power to introduce those reforms which where necessary for economic recovery while the left acquired the legitimacy to assume the government of the country, as in fact happened in 1996 under Prodi.

Secondly, the old political system and the old parties were now replaced by new ones which tried to occupy the ground left open by the disappearance of the historical parties and to rebuild a system of social alliances no longer based on ideological or class differences but on the type of policies and reforms to be effected to strengthen the State and overcome the crisis of the system. The Christian Democrats and the Italian Socialist Party disappeared, while the old Communist Party, which had already split into the PDS and the Rifondazione Comunista, continued to move closer to the government attracting elements from the abolished parties and in particular creating a solid link with the so-called Christian Democrat left, which subsequently merged with the PDS to form the DS. The Christian Democrat right was drawn instead towards the Movimento Sociale Italiano, now in the process of transformation into the Alleanza Nazionale. In time the Lega Lombarda merged with other regional movements to form the Lega Nord. Finally, there appeared Berlusconi's party, Forza Italia.

During this period the old idea of "external constraints", now impracticable given the crisis and the failure of policies designed to keep Italy in the EMS, was replaced by the idea of "staying in Europe" as a way of resolving the dramatic internal crisis and thus launching a modernisation process throughout the Italian system. This development, seemingly superficial, in fact hid a crucial change in the entire Italian political system and in the approach of the different political forces. Whereas during the 1980s the "external constraint" strategy had had its champions in men such as Guido Carli and Giulio Andreotti, men deeply rooted in the Christian Democrat establishment who sought to use this strategy to consolidate and revitalise the existing state of affairs, after the crisis of the early 1990s and the collapse of the First Republic the need to "stay in Europe" and the Europeanising ideology in general representing the point of convergence between the modernising technocracy linked to the Banca d'Italia and the rising centre-left which was preparing to rule the country. "Staying in Europe" thus became the slogan of the former opposition forces, those which had challenged the Christian Democrat system and who wanted to build a new and different order. For this reason, and because of the strong emotional impact which the obvious marginalisation of Italy in Europe had on the population,[12] Europeanism and membership of the European Monetary Union in particular became a symbol of renewal and a goal to be achieved at any cost. This

[12]V. Federico Rampini, "L'Italia svalutata" in *Il Mulino Europa,* XLIV, 1, 1995, pp.92-102

objective was achieved by the centre-left government under Romano Prodi, who was able to make Italians accept a rigorous policy of economic restraint and increased tax pressure, both by new forms of taxation and by a determined attack on tax evasion which was staunchly resisted but which significantly increased the tax take and improved the budget of the State, lowering the cost of servicing the debt. However, this success was to a great extent conditioned by the economic situation of Italy in the second half of the 1990s. The advantages of the devaluation of the lira came at a particularly favourable moment for Italy due to the coexistence of a weak dollar and a strong Deutschmark. This was of great benefit to Italian industry, which imported in dollars and sold in what was then a Deutschmark area. The favourable economic circumstances, together with the relaxation of the strict convergence criteria set by the Maastricht Treaty, made it possible to achieve what even in 1993-4 had seemed unthinkable: the entry of Italy into the European Monetary System from its inception. This genuine miracle was made possible mainly by economic circumstances backed up by a rigorous internal policy. This policy has not introduced and consolidated structural reforms such as to guarantee Italy's position in the European scene, or even respect for the Stability Pact criteria and the ability to adapt the Italian economic structure to the requirements of the Union. As in the past, Italy has once again made a great leap forward in Europe during a fleeting moment of favourable conditions, but there are reasons to doubt its ability to keep pace with its European partners.

II -THE INTERNAL DEBATE ON EUROPE

With the collapse of the First Republic the old system of party and electoral identification based on social class and post-war ideologies also came to an end. This system entailed the contrast between communists on the one hand and the liberal-democratic parties, which were also split on mainly ideological lines between Christian Democrat and socialist or liberal lay parties, on the other. With the birth of the Second Republic, the relationship with Europe became a critical factor in defining the reconstruction model for the Italian political system, and one of the main contrasts was that between the Euro-enthusiasts of the centre-left coalition and the Euro-scepticism of the rival centre-right coalition. This contrast was, and continues to be, based on reasons of internal politics and concerning the political and economic model to be adopted in Italy. In other words, it was a matter of deciding whether to reintroduce a patronage-style system based on the role of public spending and state support to stimulate the internal economy, or to model the Italian system on the basis of European rules and dictates, relying on development based on competitiveness. In the first case, however, the Christian Democrat systems could not be rebuilt as it had been before the crisis, because the scarcity of resources and the still-high public deficit would, for long periods, prevent the recovery of the old system based on the evasion or avoidance of tax pressure and support for economic activities through state spending. It would therefore be necessary to find a way to cut other types of expenditure to direct more resources to funding State spending. In the second case, it would be necessary to dismantle the remains of the old system and adapt the Italian economic structure to European models very quickly, a difficult and painful exercise in view of the accumulated development lag and the structural limitations of the economy.

These imperatives obviously contributed to determining the type of support which went to one coalition or the other, depending on the position of the electors who might be benefited or disadvantaged by the kind of economic policy adopted. Since 1994 the two centre-right and centre-left coalitions have alternated in government, with alternating fortunes. After the victory of the centre-right (also known as the Polo delle Libertà or Polo del buon governo, the coalition of freedom or sound government) in the 1994 election there followed the collapse of the coalition and the fall of the first Berlusconi government. In 1996 the victory of the "Ulivo" centre-left coalition opened the way for the governments of first Romano Prodi, then Massimo dAlema, and finally Giuliano Amato who succeeded in dragging the now battered coalition to the end of its term. Finally, in 2001 the centre-right won a decisive electoral victory which enabled Berlusconi to establish his second government, which remains in power today.[13]

[13] see. Gianfranco Pasquino (ed.), *Dall'Ulivo al governo Berlusconi : le elezioni del 13 maggio 2001 e il sistema politico italiano*, Bologna, Il Mulino, 2002

1 – The position of government parties

The current government coalition, which will certainly steer Italy through its six months holding the Presidency of the European Union, consists of three main parties and the Biancofiore, a federation of small parties and movements which are Catholic in their outlook and which developed out of the fragmentation of the old Christian Democracy party. The present government coalition is practically the same as that which supported the first Berlusconi government in 1994, but there have been significant internal changes in both party structures and the aims and importance of its various components. The Euroscepticism which characterised a part of the coalition during the period in power and immediately after was subsequently tempered during the period of strongest enthusiasm for entry into European Monetary Union, when some of the parties in the current government coalition, then in opposition, recognised the need for Italy not to be marginalised in Europe and supported the Prodi government through some important periods when it risked losing the external support of the neo-communists which enabled the government to remain in power.

The position of Berlusconi's two main allies has also changed, contributing to a more stable and reliable picture. The composition of the coalition which supported the first Berlusconi government caused the prime minister serious embarrassment. One of his main allies was the MSI (Movimento Sociale Italiano), an avowedly neo-fascist party which, though it was in the process of modernisation thanks to a generation of leaders who were not directly compromised by the fascist regime, had not broken the ideological link with fascism and Mussolini. This fact exposed the Berlusconi government to the hostility of all the antifascist fringes in the other groupings, as well as the unusual coldness of the European partners. Further, the presence of neo-fascists in the coalition precluded the possibility of forming broader alliances with moderate forces which were determined not to be compromised. This persuaded the leaders of the MSI to abandon the weighty neo-fascist heritage and transform the MSI into a conservative party of a neo-Gaullist and democratic stamp, named the Alleanza Nazionale. This operation succeeded thanks to the breakaway of the most extremist and avowedly fascist wing of the old MSI which formed a movement called Fiamma Tricolore, but mainly because of the presence in the party of a young leadership attracted to the possibility of coming to power.

The other main party allied to Berlusconi is the Lega Nord. This party represents one of the most widely discussed peculiarities of the Italian political system and played a major role in the transition between the First and Second republics, proposing an entirely new model, at least in the Italian republican system, of electoral relationships based not on class but on the cross-class community of interests emerging in the North of the country and cemented by the widespread hostility to the government methods of the Christian Democrat system. Born from the merger of the powerful Lega Lombarda and the various

other minor regional parties linked by a marked local dimension, the Lega Nord represented, and continues to represent, a crucial factor in the Italian political scene. Its electoral base, which is made up of small businessmen and workers in the North, makes it a somewhat unlikely element in a firmly anti-populist centre-right coalition. Furthermore, the secessionist ambitions of the Lega, which has openly called for the North to break away from the rest of Italy, has created much embarrassment both to the Berlusconi government and in relations with the other government allies. Among the coalition parties the Lega is the one which has expressed the strongest European sympathies, although these sympathies have now given way to hostility towards "interference from Brussels". While Forza Italia sees Europe as an obstacle to restoring the Christian Democrat economic model, and the MSI - later the Alleanza Nazionale or AN - was led by traditional nationalism and hostility to the European partners to keep its distance from the European project, the Lega had developed a rather interesting vision of a Europe of the regions, in which nation states (including the Italian state) would dissolve, leaving the task of local administration to European macro-regions. This interpretation, developed after the end of the experience of government in 1994 and at a time when the Lega was looking for openings to develop its own secessionist policy, came up against the reality of European relations and caused the leadership to change its position drastically in the direction of anti-Europeanism. However, there remains a strong perception of a possible link between reducing dependency on Rome and a reform of the European institutional structure which would extend regional independence. Representatives of the regions in Italy and other European countries also applied pressure for such reforms at the European Convention. In any event, the Lega's withdrawal of its enthusiasm for Europe was followed by a temporary abandonment of the secession project. During the Ulivo governments the government established an ambiguous relationship with the Lega, satisfying its aspirations to independence through a federalist reform of the Italian State which seems in reality to have mainly been a political operation to strengthen local autonomy through a model favoured by the left rather than the Lega. Recently the secessionist project which contributed to isolating and weakening the Lega has given way to “devolution” which implies the transfer of important powers from the central State to local administrations. The introduction of devolution is likely, however, to weaken the central State considerably, and to widen the gap between the rich regions of the North and the more disadvantaged regions ion the South. The idea of devolution seems to have been the key to the renewed alliance between Forza Italia and the Lega which subsequently led to the electoral victory of 2001.[14] What devolution means for the country and whether it will ever really happen remains, at present, one of the most disquieting questions for Italy and for the stability of the ruling coalition.

[14]V. Luciano Vandelli, *Devolution e altre storie. Paradossi, ambiguità e rischi di un progetto politico*, Bologna, Il Mulino, 2002

The main government party is now Forza Italia, which is the party of the President of the Council, Silvio Berlusconi. This party, formed in 1994 immediately after the elections of that year, initially attracted to its ranks many “new men”, in the sense of figures not directly involved in the old system of government or the old parties. Many of these new men nevertheless had a clear political identity which could be traced back to Christian Democracy and the socialist parties of the First Republic (the Partito Socialista Italiano and the Partito Socialista Democratico Italiano). Forza Italia erupted on the Italian political stage with an ultra-liberal programme, very hostile to the then-existing social security system and social services. The tone of the party propaganda was characterised by a ferocious and now out-of-date anti-communism, and by the attempt to present Forza Italia as a kind of new Christian Democracy which could defend freedom in Italy against the rise of the left. In the economic field, the recipe proposed by Forza Italia consisted of the liberalisation of business and the labour market, and tax reductions to increase consumption and reduce the tax burden on business. Berlusconi's electoral promise to create a million new jobs was famous. The Thatcherite liberalism offered by Forza Italia and its leader was however mainly directed against certain social classes and against a series of guarantees and services which these classes enjoyed at public expense, but it avoided tackling thorny questions such as the reform of the bureaucracy or the fight against tax evasion, which were obviously crucial problems for the country. Berlusconi thus attracted very strong hostility from the trade unions and the working class, who succeeded in setting up a series of major demonstrations such as had probably never been seen in Italy, and which played their part in accelerating the fall of his government.

The failure of the first experience of Forza Italia in power, the strongly centralising character of it leader and the legal problems which dogged it during its first period in office persuaded some of the major figures in the party to distance themselves, while others re-considered the party's approach to its electors and allies. In fact it was the collapse of the difficult balance created by Berlusconi in building a system of alliances which precipitated the fall of his government. However, there were significant changes in terms of electoral support too, particularly in relations with industrialists and in the regionalisation of the vote. The system of alliances which supported the first Berlusconi government represented an extremely hazardous political balance. Forza Italia operated on a vision not of a single alliance, but of a dual alliance linking it in the North with the Lega Nord (the "Polo delle libertà") and in the South with the MSI ("Polo del buon governo" or coalition for sound government). This was because the Lega Nord was very unpopular with electors in the south for its anti-southern programme, while the MSI could not be promoted in the North which had lived through the fight for liberation against Nazi and fascist troops. Forza Italia thus ran alongside the MSI in the South, while in the North it presented itself together with the Lega Nord. In this way the two alliances, separate but both based on Forza Italia, obtained barely enough deputies to form a parliamentary majority, provided that they could cooperate, which appeared to be

impossible after a first brief period. Relations with industrialists and other category associations which could provide electoral support was initially based on Berlusconi's past experience as an entrepreneur and on general support for liberal ideas from businessmen. In reality, while Berlusconi's party received enthusiastic consent from small and medium entrepreneurs whose business strategy was often based on containing labour costs, leading figures from major industries and finance were much more lukewarm towards Berlusconi's political programme which did not resolve the structural problems and which risked reducing Italian credibility still further in the financial markets. Other category associations which traditionally supported the Christian democrat system, such as traders, also could not help but notice that a policy aimed at squeezing salaries and reducing services would have drastic consequences on the willingness of families to consume. The first Berlusconi government thus failed in its most ambitious aim, which was to put itself forward as the heir to Christian Democracy and to re-incorporate the different segments of the electorate which had formed the basis of the previous system of power.

During its years in opposition the political programme of Forza Italia underwent some important changes. Some are the result of the legal problems of its leader, who has been investigated in a number of trials which could result in guilty verdicts so serious as to make his status incompatible with the role he has now resumed if not actually such as to finish his political career entirely. This has made justice one of the main themes of the current ruling coalition's programme. Plans to reform the judiciary have been put forward which restrict its independence and a series of laws have been proposed which seem to have raised further barriers to the operation of the already problematic Italian system of justice. In the view of the opposition and of many observers outside the political contest, these laws seem to be specifically designed to slow or block the legal proceedings in which Berlusconi and his close collaborator and former defence minister Cesare Previti are involved. Recent differences with the European partners on the coordination of justice and the so-called European arrest warrant appear to share this motivation. Even more obvious is the abandonment of the unchecked liberalism of 1994 and the attention now focused on the "major projects" (such as the bridge over the Medina Straits) with which Berlusconi aims to relaunch the economy, and which must have appeared very credible to the Sicilian electorate and those who have always played an important part in dominating this electorate, given that in the 2001 elections the coalition under Berlusconi had unprecedented success in Sicily.

Berlusconi's return to power has also been marked by a series of conflicts and misunderstandings with other Member States of the European Union. The regulations introduced by the Berlusconi just before the final introduction of the euro for the re-importation of illegally exported capital created bad feeling because of the risk that the European underworld would take advantage of an opportunity to launder capital from

doubtful sources. Similarly, the conflicts regarding the European arrest warrant, which the Italian government attempted to restrict to a few crimes excluding exactly those which might cause serious embarrassment to the Italian prime minister, and the withdrawal from the Airbus A 400 programme have contributed to isolating Italy in Europe. Finally, the recent Italian blocking of some important decisions relating to tax harmonisation in exchange for which Italy demanded the maintenance of the relief for Italian carriers and concessions regarding the fines imposed on some Italian producers for exceeding milk production quotas in recent years, have raised once more the problem of the manner in which the Berlusconi government handles its relations with Europe. These events clearly reveal the close link which exists between internal problems and the European policy of the current Italian government, and the amateurishness with which these issues are handled in a difficult area such as European negotiations. The Airbus problems are most probably due to the fact that the Italian aeronautical industry has ties with the Americans, and is not keen to become involved with the European consortium, while in the milk quota case there is an obvious connection between the electoral support which the Lega derives from the producers in ferment and the desperate attempt to find them a way out of payment of the fines. There remains, however, the problem of the total subordination of major European decisions to minor national interests by a government which is preparing to play a crucial part in the coordination of European policy.

That the ruling coalition and the prime minister himself lack sufficient experience and professionalism in international relations in general, and European relations in particular, was obvious even before the repeated disputes and gaffes on the international stage posed the problem. This must have been why, when the second Berlusconi administration was initially formed, it included Mr Ruggiero, a figure of great experience and international stature, as Minister for Foreign Affairs. However, he resigned when the extent to which the actions of the remaining members of the government and the prime minister would restrict his scope for action and, in particular, his credibility, became clear.

2 –The position of the opposition parties

The current opposition is mainly composed of the parties which supported Romano Prodi's coalition government. The Ulivo made "staying in Europe" the symbolic aim of its political programme. Behind this objective there lay an attempt to modernise Italy, which remained largely uncompleted, in terms of both solutions to the structural problems and real renewal and convergence with European models. This relative failure, only partly obscured by the striking but temporary success of entry in Monetary Union, may be ascribed in part to the conflicts and fragility of the coalition which supported the Prodi government, a coalition based on the Partito Democratico della Sinistra (PDS), the direct heir of the powerful Italian communist party, with a series of minor lay/socialist

parties and the so-called Christian Democrat Left. In practice the government was able to stay in power only with the external support of the neo-communists (Rifondazione comunista), and when this party withdrew its support the government fell. Following various disagreements regarding the attitude to adopt to the centre-left government, a section of Rifondazione Comunista formed an independent party called the Partito dei Comunisti Italiani (PdCI), offering a model of neo-communism more alive to the internal political situation and less influenced by extreme leftist movements and leanings.

Today, the main opposition parties are the Democratici di Sinistra (DS), a merger between the old PDS and some minor parties from the old Christian Democrat left and the disbanded Partito Socialista Italiano, and the Margherita, a federation of parties with non-marxist origins which has acquired a degree of importance in recent elections, partly due to the fact that their leader, Rutelli, was also the centre-left coalition's candidate for the post of Prime Minister. The Margherita, which also includes the Democratic movement which linked with Romano Prodi during the successful election campaign of 1996, and on which the Ulivo coalition hinged, has acquired strong European associations, making the "European dimension", seen as the future level of government, one of the main planks of its political programme. In the Margherita programme, structural reform of Italian institutions is linked to changes in the structure of the Union itself, focusing on enhancing the role of local authorities by applying the subsidiarity principle, and thus via interaction with the European level of government. The programme also makes room for subjects such as the creation of a federal Europe, and the reform of the universities with a view to "Europeanising" the Italian system by involvement in European university networks.

The image projected by the main opposition coalition (which is still formally identified with the Ulivo) to the Berlusconi government, however, remains that of the last centre-left government in the previous parliament: a divided coalition with an ill-defined programme, big on ideals but lacking practicality. Further, one of the main sources of division came from the role of the main coalition party, the DS. Its partners were fearful of its domination, while sections of the party or elements and associations traditionally close to it denounced the crisis of ideals and policies. In any event, Europe represents one of those big ideas often used by coalition party leaders as a substitute for a political programme which they seem unable to define. There remains the essential notion of the link to Europe as a vital tool for modernisation, and for bringing normality to an abnormal country.[15]

[15] "Un paese normale" was the title of a book published by the former prime minister Massimo D'Alema, in which the author sets out the political objective of making Italy a modern country, free of the many anomalies which characterise it.

Other parties and movements, outside the Ulivo but converging with it, can be found on the margins of this coalition. These include the Di Pietro list [16] and the Partito dei Comunisti Italiani, the PdCI. These two organisations are at one with the main opposition coalition in denouncing the dangers and limits of the Berlusconi administration, in which they detect the representation of patronage interests on the margins of legality, and potential threats to the stability and progress of the country. Some form of cooperation between these groupings and the Ulivo is therefore likely in conducting opposition to the government in power. Less clear is the relationship with the Rifondazione Comunista, which, while fiercely opposed to the current ruling coalition, seems unable to find enough points of contact with the Ulivo to be able to guarantee an electoral alliance or the launch of joint initiatives.

At the moment, a change in the ruling parties seems unlikely in the near future. However, the opposition coalition is preparing for the 2006 elections, trying to regroup and to find an authoritative leader able to stand against Berlusconi. It is thought that this leader might once again be Romano Prodi, and this hypothesis has been strengthened recently by rumours that he will not stand for re-election at the end of his term as President of the European Commission. In this event the pro-European leanings of the coalition, already considerable, will receive a further boost. This pro-European position is emerging in the programmes and documents of a large proportion of the opposition parties in the Ulivo camp, and has recently enabled the Partito dei Comunisti Italiani come to an agreement with European Federalist Movement to campaign for Convention on the Future of Europe to draft a constitution to be submitted to a European referendum. This would make it possible to remove the authority to approve the constitution from the Intergovernmental Conference, which, in the absence of agreement, could bury the entire constituent process. In any event, the PdCI (together with the Movimento Federalista Europeo) and Margherita seem to have found a benchmark shared value in the "European social model", that is, the system of protection from the major life risks (illness, accident, old age and unemployment) which is a feature of social legislation in most of the Member States of the European Union. The idea of incorporating the European social model in the future constitutional treaty, and to extend this system of guarantees to the newly admitted countries, seems to be the common feature which unites the European policy of the Ulivo, the Italian parties of the left and the main trade union confederations.

Recently the opposition has also been drawing attention to Europe and the responsibility of the Berlusconi government in the recent arguments and splits caused in Europe by the Anglo-American intervention in Iraq. Here again, hostility to the Berlusconi government and its policies, and the firmly pacifist stance of the Italian left and the Catholic

[16] Antonio Di Pietro, Milanese judge and leading figure in the Tangentopoli investigations, entered politics after resigning from the judiciary, served very briefly as a minister, and subsequently founded a movement known as Italia dei Valori.

groupings come together to identify with the European Union position, particularly that of the Franco-German axis. This convergence between Catholic and leftist voters could become the key to the electoral policy pursued by the centre-left, which tends to identify pacifism with Europeanism, and will certainly force the Berlusconi government to move more cautiously, particularly in respect of the pacifist movement and the European Union.

3 – Minor parties, movements and pressure groups

Opposition to the Berlusconi government is not restricted to the centre-left coalition, but also involves other minor parties such as the extreme left represented by Rifondazione Comunista and the extreme right of the Fiamma Tricolore, which hold different positions vis-à-vis Europe and the relationship to be established between internal and European policies. The Movimento Fiamma Tricolore states that it is favour of "strengthening the geopolitical role of Europe and Italy" and "European geostrategic independence" in the sense of European political and military coordination capable of safeguarding vital interests (in energy, economics, security and military terms) and of freeing Europe from dependence on NATO. However, this particular interpretation of European policy is balanced by a complete rejection of economic and financial integration or the relocation of industries outside national boundaries. For the Movimento Fiamma Tricolore Europe appears mainly to represent a military alliance, rather than State or supranational body. Rifondazione Comunista, on the other hand, appears to take a critical but constructive line on a united Europe which it regards as a potential method of upholding the ideals of social justice which the party holds dear.

A separate case is the so-called Pannella-Bonino List (in practice, the old Partito Radicale), with its links with the former Radical leader Marco Pannella and the former Commissioner Emma Bonino. This list, which has benefited electorally from Bonino's popularity during her term in Brussels, has included a series of proposals for Europe in its electoral programme, focusing on a federalist Europe with strengthened institutions. The Bonino-Pannella list suggests a revision of the institutional shape of the European Union, including the direct election of the President of the Commission, a clear-cut division between the Commission's executive powers and the legislative powers of the European Parliament, a transparent allocation of powers between national States and European institutions, and the transformation of the Council into a Federal Senate.

As well as the Italian political parties, there are also movements such as the pacifist movement, and the "girotondo" or "ring-o-roses" movement, both of which are critical or openly hostile to the Berlusconi government and its decisions, particularly in European and foreign policy. The Girotondi per la Democrazia movement has emerged recently,

not least due to the efforts of the film director Nanni Moretti and a group of university professors. The movement is avowedly anti-Berlusconi, and has taken the lead in organising pacifist demonstrations in the form of round dances ("girotondi") to defend those institutions which most often come under attack from Council President Berlusconi, including the courts and the State television network. However, it also represents an element of friction within the centre-left coalition itself because of its very critical attitude towards the DS leadership and the emerging convergence with the internal opposition within the DS (the "correntone" movement).

It is more difficult to interpret the position of the various interest or pressure groups which can be identified in the economic field and in the public administration. It nevertheless seems clear that both employers' groups and trade unions have a positive attitude to the European Union. Trade unions see Europe as a body which can offer them opportunities and solutions which cannot be realised at national level, whether for encouraging economic growth or for the defence and consolidation of the social achievements of workers and the welfare system. Employers' groups, on the other hand, regard Europe as a coordinating and rationalising force in nation economic policy. Recently Confindustria, the organising representing Italian industrialists, has focused much attention on the infrastructure problems of the transport sector and the possible impact of the backward, over-burdened Italian transport system, particularly the railway network, on relations with the new markets in eastern Europe. It seems no accident that this subject has recurred insistently in the Italian Presidency programme for the second half of 2003.

III - THE INTERNAL DETERMINING FACTORS FOR ITALY'S EUROPEAN POLICY

As has been shown by the brief historical reconstruction of relations between Italy and the European institutions in the first part of this paper, the Italian internal situation and internal political considerations have always had a significant influence on Italian activities in Europe and the way in which Italian representatives have acted (or have avoided acting). It thus seems plausible to suppose that the major themes which will attract the attention of the Italian presidency in the second half of 2003 will be those with the closest links with internal matters and Italian national interests. Prominent among these are the consolidation of relationships between EU Member States following the recent tensions over the war in Iraq and developments in the reform process for the European institutions in connection with the enlargement process and the preparation of a European constitution. To these will probably be added the matter of the failure on the part of certain countries to respect the parameters of the stability pact and the risk (or opportunity) that other countries may be able to ignore such restrictions in the future. All three of these matters are interwoven with issues in Italian politics and may have a significant impact in terms of determining the current government's room for manoeuvre in internal policy making. There are also a number of other themes which, despite appearing less significant, are of great importance for the future of the Italian economy, where the activities of the Italian presidency will certainly not lack dynamism.

1 – The government and the restrictions deriving from EU rules

The issue of the limits set by the stability pact on the Italian government's economic policy has become particularly pressing as a result of the concomitant policy of lightening tax burdens and the difficulties in containing spending encountered by the Berlusconi government soon after it took office.

The measures taken by the government to tackle the budgetary problem and respect the stability pact criteria have largely been defined as non-structural measures which are likely to provide only a temporary respite from the problem. Indeed, being based on one-off operations such as amnesties for outstanding taxes, these solutions may at best allow the government to meet the stability pact targets for next year, but certainly do not constitute the basis for a suitable longer term stability plan. Furthermore the electoral support for the current coalition government owes a great deal to promises and expectations of reductions in the tax burden and an increase in public investment as a flywheel of the economy. In certain cases these investments are required to ensure the operation of structures and infrastructure which are vital to the country and for which

maintenance and upgrading has too long been held back in order to tackle the budgetary requirements of the previous governments. In other cases public spending serves to revitalise electoral support mechanisms which have fallen into disuse as investigations progressed during the Tangentopoli era and during the periods of crisis and budgetary restraint which followed between the mid-1990s and the adoption of the euro.

This model of relationships with the electorate has many echoes of that used by the Christian Democrats and goes hand in hand with a policy of softening tax pressures via various amnesties and simplifications which seem to encourage evasion and avoidance just as happened during the first republic. The growth of Forza Italia in terms of electoral support, inter alia at the expense of its own allies, seems to bear witness how a part of the Italian electorate has welcomed a return to the Christian Democrat model, which may allow Berlusconi's party to succeed where it had failed previously, i.e. in establishing itself as the direct heirs to the Christian Democrats, reproducing their methods of government and recapturing its electoral support.

Unlike 1994, the state of the national budget would now make it possible to implement a more sustained spending policy, at least for brief periods, via increased debt and holding down tax pressures. The main obstacle comes from Europe itself and from the stability pact, which sets drastic limits on the government's room for manoeuvre and thus threatens to prevent the implementation of the project for a Christian Democrat restoration on which the real pact between Berlusconi and his electors relies. Only an easing of the stability pact or the acceptance of broad exemptions to it in favour of Italy will make it possible to combine the policy of reducing the tax burden as well as funding major projects (and hence the large contracts used to distribute money and work to its own electoral base). It does not thus seem a matter of chance that Economy Minister Tremonto should at the end of 2002 have proposed to reinterpret the stability pact by excluding funds intended for infrastructure, defence, structural reform and foreign aid from the calculation of the budget deficit. This type of reinterpretation, which is wholly at variance with the spirit of the stability pact, would make it possible for the Berlusconi government to implement its promised policy for major projects without contravening the agreements entered into at European level.

2 - Internal problems and Atlanticism

At present the most problematic aspect of the forthcoming term of the Italian presidency is, at it has been during the current Greek term, the profound confrontation which emerged within the EU between the countries that supported the Anglo-American intervention in Iraq and those that opposed it. Clearly the main front here is relations between the UK and France, the former being committed alongside the USA in Iraq in

open contrast to the Franco-German position and somewhat isolated within the EU, although some other Member States, most prominently Spain and Italy, and several of the accession countries came out in favour of the American operation and provided support for it in various ways.

Italy, and prime minister Berlusconi, have so far played a part of some importance as regards the crisis in the EU, fuelling it by taking a stand very firmly in support of the UK and the USA and providing direct military support, albeit with a much lower profile than that of the UK. The Italian government sent a contingent of its best troops to Afghanistan, allowing the Americans to free up an equivalent force to send to the Gulf. This contingent is now operating under American command in an area which can be considered to all intends and purposes as a war zone and thus constitutes military support for the whole operation of political and military restructuring in central and western Asia which was launched by the Bush administration with the invasion of Afghanistan. Indeed, should operations in the Middle East extend to other countries or turn out to be longer and more difficult than anticipated, it cannot be ruled out that the Italian contingent in Afghanistan may be strengthened, freeing up more British and American troops for the Iraqi front. While the Italian constitution represents an almost insurmountable obstacle to direct intervention in the Gulf, particularly in the absence of a UN resolution, the operation in Afghanistan can be represented as an operation with humanitarian ends and, should British or American troops need to be replaced, the sending of Italian forces can be justified as vital to the maintenance of peace or for the safety of the contingent already present. The Italian army and government are thus providing active support for the intervention in the Middle East via a policy of replacing the British and American forces in less problematic theatres of operations. Latterly, soon after the fall of Baghdad the Italian Parliament approved the dispatch of around 3000 men to Iraq to maintain public order and to allow the transport of aid which the British and Americans would have found it difficult to escort because of the lack of manpower. This contingent will be operating under British and American command and it is not clear what will happen in the event of attacks or a guerrilla situation involving the area in which Italian troops are deployed.

Clearly this operation has its economic and political costs. Any attack on Italian troops or a substantial reinforcement of the contingent would have major repercussions at home where the departure of the first contingent for Afghanistan led to sharp dissent and part of the opposition voting against it in parliament. It would thus be of primary interest to the Italian government to soften the opposition from other European countries to the British and American initiative and to involve them in the policy of indirect support and replacement on other fronts. In various recent interviews the prime minister has on several occasions reaffirmed the need to strengthen military cooperation at European level and criticised the position taken by France, who by threatening to use their veto prevented the approval of the UN resolution that would have authorised intervention in

Iraq. Had that happened, it would have provided Italy with a constitutional basis (inter alia thanks to the earlier participation in the first Gulf War) for sending troops and equipment directly to fight alongside the British and American forces.

3 – The stirrings of Italian federalism and the European Constitution

A pivotal issue for the future of the Italian government and its relations with the European institutions is the institutional reform of the European Union and the adoption of a European constitution redefining not just the powers of the EU but also those of the nation states and, indirectly, of sub-national entities. The specific link between this process and the internal dynamics of Italian politics lies in the fact that a redefinition of the powers of various levels of government that returns powers and spending capacity to nation states or delegates them to the regions could simultaneously resolve both the internal problems of the coalition, by encouraging the devolution which the Lega Nord is seeking and the specific problems of electoral support for the entire coalition and Forza Italia in particular. Were the government to reacquire room for initiative in certain sectors of economic policy or to recover resources previously managed by Community institutions, it would be able to go ahead with the expansion in governmental spending with which it attracted the attention and the votes of a broad swathe of its electorate, without necessarily needing to circumvent the restrictions imposed by the stability pact. It would also be able to extend the powers and the autonomy of the regions, thus meeting the aspirations of the Lega Nord.
This fact could be one of the aspects which has led the Italian delegate to the European Convention, Gianfranco Fini, to a somewhat flamboyant opposition to the creation of a federal Europe, as can be seen from the amendments proposed to various articles of the first draft of the constitutional treaty proposed by the European convention. Fini, deputy prime minister, leader of the Alleanza Nazionale and main ally of Berlusconi and his party, introduced a series of amendments which can be considered as a clear expression of the approach taken by the Italian government to the future of the European political integration process. These amendments aim at safeguarding the sovereignty of national states both by avoiding the use of the word "federal" and by limiting the number of cases and ways in which the European institutions could impose their decisions on nation states. This type of approach springs from the fundamentally anti-European nature of the governing coalition where the Lega already sees Europe as an obstacle to its ambitions for independence for the north of the country, the Alleanza Nazionale is reverting to its nationalist traditions and Forza Italia is seeking to expand its room for manoeuvre in order to be able to fulfil its electoral promises and establish a new consensus. Fini's amendment to Article 11 is also worthy of note; he proposes restricting the freedom of movement in Europe by replacing the references to the free movement "of persons" with the phrase "of citizens of the Union". This would establish a constitutional basis for

limiting the right of movement within the EU for citizens of other countries, particularly migrants and refugees, who are already subject to severe restrictions in Italy under the "Bossi-Fini" law. Furthermore in an amendment to article 10 Fini, in line with Berlusconi's repeated statements following the outbreak of the war in Iraq, strengthens a proposal which speaks of "the progressive definition of a common defence policy", giving a clear impression that it favours accelerating efforts towards integration in this area. Lastly the Italian representative lines up with those who wish to see a clear reference to the Christian roots of the values which inspire the European Union inserted into the European constitutional charter, consistent with the clear nationalist principles which have inspired trhe other amendments but in a way which conflicts with the fervent pro-Atlanticism and the emphasis on the question of common defence, since the Christian-centric position taken by the amendment would represent an obstacle to the admission of Turkey into the EU. The echoes of recent events and the Italian government's aims for a more aggressive European foreign policy emerge once again from the amendment presented, again, by Fini to article 3 in which the entire point which sets one of the objectives of the EU as "promoting peace, its values and the well-being of its peoples" would be replaced by a passage proposing "the rigorous observance of international law as a basis for peace between States and peoples". Here again the proposal seems consistent with the pressure from the Italian government for Europe to take on a more active international role, inter alia in military terms alongside the USA, but runs counter to the principle of safeguarding and respecting the institutions and political orders of the nation states proposed in other amendments, since the Italian constitution itself sets out that "Italy repudiates war as an instrument of offence against the liberty of other peoples and as a means of resolving international disputes; accepts, on the condition of equality with the other States, the limitations on sovereignty required for an order which ensures peace and justice between Nations; promotes and encourages the international organisations established with that end".[17] In this sense the Fini amendment would be less consistent with the Italian Constitution insofar as that was not the text amended. It could however be hypothesised that the pressure from the Italian government for the establishment of a common defence policy is intended to create the conditions to bypass the limits set by the Italian constitution and allow greater Italian involvement (inter alia military) at international level.

The strong divergence between the Government positions set out by Fini and those of other delegates such as Spini and Paciotti, who we can assume to be the closest to those of the opposition in Italy, should come as no surprise. In the amendments proposed jointly or individually by Spini and Paciotti, there is in fact a tendency to increase the powers of the EU, putting it in a stronger position vis-à-vis the nation states and broadening the range of areas in which the EU would have sole jurisdiction (foreign and

[17] Article 11 of the Constitution of the Republic of Italy

security policy in the proposed amendment to article 11) or in which it should have a role (social protection and quality of work, the fight against poverty and social exclusion). There is in addition an explicit proposal that the EU should adopt the federal model. In the field of immigration policies and the right of asylum the Paciotti-Spini amendments introduce the possibility of granting European citizenship to citizens of countries which are not members of the Union and stateless people "who have lived legally within the EU for more than five years and share its values". Their position on the role of the EU in keeping the peace is in total contrast with Fini's amendment. Here Paciotti and Spini propose taking up almost in full the opening passage of article 11 of the Italian constitution in an amendment to article 3 of the draft Convention to which they propose adding the passage "The Union shall repudiate war as an instrument of offence against the liberty of other peoples and as a means of resolving international disputes" with the addition of a clear reference to respect for the United Nations charter. The differing visions of Europe that characterise the opposing coalitions in Italy are this clearly demonstrated within the Convention.

4 – The problem of the economic and social decline of Italy and the consequences for the country's attitudes to Europe

There has of late been much discussion on the problem of Italy's industrial, and more generally, socio-economic, decline. The signs of a decline are very clear in some sectors and comparisons with other Member States seem to highlight still further the crisis which Italy is undergoing. The most striking event has undoubtedly been the recent serious difficulties which have struck the country's leading car manufacturer, FIAT, which has had to suspend production at some plants and temporarily lay off a large number of staff. The severity of the crisis at FIAT lies not merely in the danger that the flagship company for Italian industrial capitalism may collapse, but also in the repercussions in the secondary sector, all those small industries which operate primarily or exclusively to supply parts or services to FIAT and which have thus automatically been dragged into the car manufacturer's problems. Even for those unaffected by the FIAT crisis, the problems of large-scale industry in Turin have created an image of an Italian industrial system, and more generally a capitalist system, that is of a low standard and unable to withstand the competition from more advanced and better structured capitalist systems. Long-standing and never silenced accusations against the Italian entrepreneurial class - that they are able to survive only by virtue of state aid, reluctant to modernise or invest in research and that their only industrial strategy is to put pressure on pay, have once again surfaced in the light of the experience of recent years. Indeed, the crisis at FIAT has been merely the latest in a series of industrial restructurings and downsizings which have stripped Italy of large-scale companies capable of leading the way in their sectors. From the 1970s onwards the major industries - steel, construction, chemicals, electronics and now

mechanical engineering - have one by one gone into crisis and shown themselves incapable of handling international competition and competing in foreign markets, or even local ones when they are opened up to foreign competition. There is this a clear perception that Italy is in industrial decline which seems as though it could be connected with the contemporary social decline shown by the illegal relationships between companies and politics which emerged during the Tangentopoli enquiries, and by the decline in university education and above all scientific research. Recent governments have taken steps to stem the "brain drain" of researchers who move to the USA or other European countries in order to be able to make use of skills which they are unable to do in Italy, because of the shortage of infrastructure but also and primarily because of the lack of investment in the research sector and the patronage-based and completely incoherent handling of assessments of scientific ability in the allocation of university posts.

Industrial decline and the decline of research and university structures thus represent an important aspect of today's Italian society and lead Europe to be seen as an element in reform and modernisation which many now despair of finding within the country. As Diamanti quite correctly underlines, Italians look to Europe and support it not so much because of deep-rooted pro-Europeanism, but out of mistrust of the State and the Italian political system.[18] It is also true, however, that everyone supports "their own Europe", and that thus the Europe which they would like or which they believe they see is not Europe as it really is. This goes for individuals and political parties alike. In Italy no party has declared itself as anti-European, but all are in favour of a Europe which privileges and supports certain values and certain policies which are in turn those proposed by the party in question. In the same way, the industry confederations and the trade unions are in favour of Europe, but the Europe they want is not that desired by their adversaries.

[18]V. Ilvo Diamanti, *Gli italiani di fronte all'Unione Europea: il governo cambia, la fiducia resta*, Paris, Notre Europe, 2002, p.5.

IV - THE FUTURE ITALIAN PRESIDENCY

At the end of 2002 Greece and Italy presented a joint programme for their respective presidencies in the first and second halves of 2003, setting out the main objectives and events of major importance which would take place during the year. Obviously, at the time when the programme was drafted it was not possible to predict the international developments caused by the Iraq crisis or the repercussions this would have on political cohesion within the European Union. Probably this programme will be laboriously incorporated in the field of political coordination between Member States and some of its main themes will be demoted to make space for more urgent necessities.[19]

In any event, the Greco-Italian programme remains the principal policy document for analysis if we are to understand the main focus of Italian action during the Presidency, or at least to understand how such action was planned and what were regarded as the priority questions before recent international developments introduced other variables.

1 – The Greco-Italian programme and crucial events during the Italian Presidency.

The programme for the two Presidencies puts the emphasis on some major themes such as the enlargement and reform of the European Union and simultaneously indicates other areas of focus for the coordinating role played by the rotating Presidency. The programme makes no clear distinction between the activities of the two Presidencies in the sense that in general it does not allocate precise tasks to one Presidency or the other. Such a division may, however, emerge from the timetabling of the various aims and the main events to be organised which, depending under which Presidency they fall, end up becoming the responsibility of either the Greek or the Italian Presidency.

The main theme in the programme is the enlargement of the European Union and structural reform. The two Presidencies proposed to prepare the accession treaty for future Member States, which was in fact signed within the proposed time; to move ahead with the accession negotiations with Bulgaria and Romania; and to strengthen cooperation with countries in the western Balkan region and Turkey. It will fall to the Italian Presidency to organise the Intergovernmental Conference which will consider the draft constitutional treaty under preparation by the European Convention

[19] In a televised interview on 23 March, the Foreign Minister Frattini explicitly stated that the resolution of conflicts within the Union and the consolidation of relations with the US would be of key importance for Italy during the period of the Italian presidency.

Another important area will be the coordination of economic and employment policies. The two Presidencies proposed to redefine the employment strategy and the rules for the coordination of social security systems. In particular, it was planned to select a particular topic for in-depth analysis during the second half of the year, focusing on pensions systems and the requirements for the minimum pension age. This is an especially important subject in Italy, where labour market and pension scheme reforms have been and remain an area of bitter political conflict. The allocation of this topic during the Italian Presidency, and its prominence, do not seem to be a matter of chance, given that for the current government a Europe-wide redrafting of pensions schemes criteria could provide the key to implementing a historic internal reform which has never previously succeeded because of very strong popular opposition and the united veto of various social groups and their representatives. It thus seems plausible that the government is attempting to use the "external constraint" strategy during the Italian Presidency to introduce pensions reforms which it would not be strong enough to impose alone.

Still on the subject of economic coordination, the Greco-Italian programme also proposes to simplify the regulatory environment for business, to prepare a Green Paper on the entrepreneurial culture and to draft a European Charter for small businesses. By the end of the year the Erasmus-World programme should also be running. This is a support programme for post-university preparation via the creation of European Masters courses with financial support to attract students from countries outside the European Union to universities in the Member States. The programme also mentions the debate on the proposed review of the "Television without frontiers" Directive and the boosting of measures intended to improve the quality of interactive media, measures which will be promoted by the Italian Presidency and which will probably re-formulate at European level the issue - much discussed in Italy - of prime minister Berlusconi's conflict of interests, since as well as being head of the government he is also a leading entrepreneur in the Italian media industry and one of the most important in Europe as a whole.

The programme also tackles the subject of sustainable transport and the creation of efficient infrastructure connecting the Union with the Mediterranean area, the accession states and the Balkans. The transport question, while it is of undoubted relevance for the economy throughout the Union, is of particular importance in Italy. The relatively peripheral position of the Italian peninsula brings with it the risk of remaining excluded from the major trade developing or which will in future develop in the areas about to join the Union. In fact the weakness of Italian infrastructure, and the disputes with Switzerland and Austria regarding the regulation of road transport from Italy ,are likely to greatly limit access to the new markets opening in the east, both because of the high costs facing Italians, and because of the traffic restrictions which may be imposed in the absence of European regulation. The problem of transport to the east is of historical significance for the Italian economy; it arose in the immediate post-war years, but lost its

importance with the relative closure of central and eastern markets following Soviet expansion. The accession of the former communist countries to the European Union re-opens the question of international transport in the same terms as in the past. What attracts the interest of western European industries is not just possible new markets but, above all, the opportunity to relocate some manufacturing activities, particularly those using significant amounts of unskilled labour which is abundant and cheap in most parts of eastern Europe. It therefore becomes necessary to be able to despatch semi-finished goods east for finishing, or to be returned to Italy for more complex processing, at reasonable cost. Only an efficient transport system can keep costs down and increase the competitiveness of Italian products in the European market. There is also the risk that the French and Germans will take control of transport routes to eastern Europe and the Balkans, which would marginalise Italian exports in that direction, to the benefit of ports in the south of France and Spain for trading between Mediterranean countries and the Balkan-Danube regions.

Equally important for the economic future of Europe is the question of energy exchanges with Russia, which is given considerable attention in the detailed explanations in the programme. Here again, the creation of the proposed trans-European energy networks and the linking of Italian structures to these networks could usher in a new era in resolving the tradition problems of the Italian economy, even though in this case the presence of strong competition between Member States is less obvious, and their common interest in developing an efficient energy distribution network in Europe is more pronounced.

A third major theme in the programme for the two Presidencies is the "European area of freedom, security and justice". Two particular subjects fall under this heading, the coordination of the fight against crime and terrorism, and asylum and immigration policies. After the 11 September attacks, and given the current situation in the Gulf, the importance of an effective coordinated security policy is obvious, and represents an aspiration in the common interest of all the Member States. In the case of immigration policy, its particular interest for Italy has been further strengthened by two important internal factors. Firstly, the geography of Italy and the length of the coastline to be controlled make the country particularly exposed to influxes of illegal immigrants and refugees, some coming from very distant parts of Africa and Asia. For this reason the need for a European immigration policy is felt particularly acutely in Italy. Such a policy should encourage opposition to illegal immigration and coordinated diplomatic measures vis-à-vis the countries of origin, particularly countries on the Mediterranean coast of Africa, to persuade them to block illegal emigration or to accept back illegal immigrants expelled from the Union. Secondly, the political programme of the Lega Nord, one of the main ruling coalition parties, has historically focused on the fight against illegal immigration as a key aspect of ensuring internal security. This is without doubt the main

area of agreement between the Lega and Berlusconi's other main ally, the Alleanza Nazionale, which projects itself as the party of public order; and in fact the new immigration law introduced by the present government bears the name of the leaders of the two parties, Bossi and Fini. There are therefore convergent interests in the ruling coalition which are encouraging Italy to focus on the Europeanisation of immigration and asylum policies, with particular emphasis on the fight against illegal immigration.

The final major topic tackled by the Greco-Italian programme is probably the one likely to receive most attention in the wake of recent international events. This is the question of the European Union's external relations. In this case the main focus is firstly the consolidation and strengthening of relations with the Balkan countries, Russia and the Mediterranean region, and secondly the development of a defence and security policy aimed at providing Europe with its own independent military capacity, but integrated into NATO structures. In the days before and after the attack on Iraq prime minister Berlusconi frequently returned to two subjects which are evidently close to his heart: the creation of a European military force, primarily conceived as a support for American military policy, and the desirability of enlarging the European Union to include Russia which, above all, would make it possible to include Russian military strength in the proposed European military force. There are, therefore, significant indications that this last point in the Greco-Italian programme, European military policy and relations with Russia, will assume priority during the Italian Presidency. These issues are closely linked to what under normal conditions would have been the most important event of the Italian Presidency, namely discussion of the draft constitutional treaty at the Intergovernmental Conference.

2 – The aims of the Italian Presidency

The analysis of the programme document presented by Greece and Italy for 2003 is certainly not enough to enable us to understand what will be the main aims of the Italian Presidency, for two reasons. The first is that, leaving aside declarations of principle, it is very likely that the attention of the Italian presidency will focus on areas of particular interest to Italy itself, given that the six months' Presidency may help to direct the Union's decisions towards the solutions which would be most welcome to the Italian government. The second reason is that the changing international situation has overtaken the background against which the Greco-Italian programme was planned. This will probably have a profound influence on the priorities and time scales for achieving the objectives set out in the programme, and particular attention may well be paid to other subjects which were either little highlighted or left out entirely.

What is certain is that the review of pension and employment policies, the issue of goods and energy transport infrastructure, and immigration policy all have considerable importance for the internal situation in Italy, its economy and the prospects for the ruling coalition to consolidate its own position, gaining consensus and, above all, room to manoeuvre to acquire or recover financial resources and electoral approval. A fresh and restrictive approach to European immigration policy would strengthen the Italian ruling coalition, because it would enable it to implement more effectively one of the main expectations of the electorate, i.e. a policy for fighting illegal immigration and controlling the immigrants who are generally blamed for the rise in illegal activities and petty crime which have become endemic in Italy during the last decade. These expectations derive directly from the programmes and electoral promises of the Lega and the Alleanza Nazionale. In the same way, the framing of a European model for pensions policy would enable the government to use the external constraint method once again to introduce that reform of the social security system which is greatly desired by the government coalition but which aroused such opposition in 1994 that it contributed to the fall of the first Berlusconi government. A favourable approach to transport policy and infrastructure at the European level would enable the Berlusconi government to sustain the policy of public works on which it has based part of its electoral campaign. Further, the transport infrastructure policy is of great concern in industrial circles because of its obvious impact on the competitiveness of Italian industry.

3 – Italian action during the Presidency: some hypotheses

Formulating a well-founded hypothesis about what the Italian Presidency may do is certainly a very risky exercise, but it is also the main expectation of readers of this paper We shall therefore try to set out what actions might reasonably be expected of the Italian Presidency, based on some elements which may give us some indications, and on a number of hypotheses. These elements are the experience of previous occasions on which Italy has held the Presidency, the most recent statements from main government spokesmen, and the background to the internal and international relations of the European Union and its Member States, a background which, however, is constantly changing. Among the hypotheses, the most important are the assumption that the Italian government's behaviour in Europe will be predominantly influenced by the interests of the country, that aspects of internal politics will play an important part in setting priorities, and that the needs of the ruling coalition will carry significant weight in directing the actions of the Italian Presidency.

In the recent past the Italian Presidency has always been characterised by the priority aim of implementing and then directing the process of European monetary union. During the Presidencies of 1985 and 1990, the Italians, backed by France and Germany, supported

the decision-making process which led to Maastricht, and clashed in a rather striking fashion with the United Kingdom, particularly with Prime Minister Thatcher who was opposed to monetary union. In 1985 the then prime minister Bettino Craxi took the initiative of calling a majority vote to convene the Intergovernmental Conference proposed by Kohl which subsequently laid the foundations for the Single Act and the subsequent developments in the economic integration process. Again in 1990 Thatcher found herself completely isolated by Andreotti's initiative which made it possible to set the start of the second phase of monetary union for January 1994 and to call the Intergovernmental Conference which later produced the Maastricht Treaty. [20]In 1996, however, the attention of the Italian Presidency focused mainly on the process of entry into monetary union, and particularly the admission rules which seemed likely to exclude Italy.[21]

The most recent statement by major government figures, and by prime minister Berlusconi in particular, seem to identify the strengthening of the relationship between Europe and the United States and the involvement of Russia in the enlargement process as the fundamental aspects of the Italian policy towards Europe, and this is probably the area in which the Presidency will most concentrate its efforts during the second half of 2003. It might therefore be supposed that the issue of external relations and the European Union's joint defence policy will replace or take equal prominence with the question of institutional reforms, linked to the conclusion of the European Convention, on which it will be very difficult to make any significant progress in view of the marked differences of opinion which have recently emerged between Member States in the European Union. We may therefore imagine an Italian Presidency mainly committed to rebuilding internal relations within the Union with a pro-American bias, and which will either accept a slowdown in the momentum towards constitutional reforms or attempt to exploit the concurrent crisis in relations between France and the United Kingdom, backed up by the United Kingdom and Spain. Berlusconi's emphasis on joint European defence and relations with Russia seems indeed to be extraneous, or at least marginal, to the complex of Italian or coalition interests. A suspicious mind might think that so much attention has been suggested by others with the obvious aim of diluting French influence in the European Union by introducing a new major partner - such as Russia - which would thus be definitively linked to the West, creating the conditions for a rapid economic recovery via the mutual trade in Russian energy and Western manufactured goods. The possibility of Russian membership of the European Union (or even the mere prospect of its inclusion within a reasonable time) would draw Moscow closer to the American and British position on geopolitical alignment in some areas which are crucial for the stabilisation of the world order. The possible establishment of a European army would enable the

[20] V. Dyson – Featherstone, *The Road to Maastricht*, op. cit.;. Ginsborg, *L'Italia del tempo presente.*, op.cit.
[21]V. Luigi Vittorio Ferraris, "Il Semestre italiano di Presidenza dell'Unione Europea" in *La comunità internazionale*, vol. LI, n.2, 1996 pp. 179-215

Americans to rely on those military forces for which they appear to have a desperate need in order to act on more than one front simultaneously at sustainable cost to US taxpayers. Whereas today the military support of European allies depends on internal political considerations and the constraints of different national constitutions, since the military forces concerned are national armies, any European force would have greater freedom of action and, above all, would answer to European institutions in which pro-American elements were numerically better represented.

For its part the Berlusconi government, faced with the problem of Italian marginalisation by the Franco-German axis, may have developed an Atlantic European policy which would enable Italy to assume a constructive role in Europe, not as an ally of France and Germany as happened in 1985 and 1990, but by aligning itself with the United Kingdom and Spain in pursuit of a policy supported externally by the United States and profiting from the delicate international situation to regain a role and the initiative in European politics. The prospects for success for this policy will depend a good deal on the events of the next few weeks, and at the moment it would be most hazardous to make any further predictions about so uncertain a future.

V - CONCLUSIONS

The forthcoming Italian Presidency of the European Union seems destined to be one of the stormiest periods in the history of the Union, and a critical moment for the future of the European integration process. In this context, the plans and programmes formulated just a few months ago are rapidly becoming obsolete and being overtaken by events. Today it seems very unlikely that the bitter confrontations and divisions which opened up in Europe when the Iraq war broke out can be overcome quickly enough to allow the drafting and approval of the European constitutional treaty which should have been the key event in the six months of the Italian Presidency. So demanding a step in such an unstable situation could result in forcing the pace of integration in a way which would be unacceptable for some Member States or, more probably, in eviscerating the treaty in such a way as to rob it of significance and reduce it to a mere statement of general principles.

Against this background, the attitude of the Italian government to the war and its obvious stance in favour of the Anglo-American policy, in opposition to the views of other major Member States such as France and Germany, introduces yet another element of friction which will probable slow down the process of institutional reform just in order to prevent the Italian government from taking the opportunity of the Presidency to direct the integration process in directions which would not be welcomed by some Member States. Further, the fact that the Berlusconi government has taken so decisive a position, scarcely appropriate when the mediating powers of the European Presidency are critically important, may make some Member States reluctant to grant the current Italian leadership the prestige would it would enjoy if a historic treaty founding a united Europe were to be signed in Italy.
Berlusconi appears to be depending a good deal on international prestige to dispel thoughts of the shadows which loom over his government and him personally at home because of the very embarrassing legal proceedings which are now close to reaching their uncertain conclusion. An Atlantic policy, however, seems more likely than a pro-European position to satisfy the current government's need for international prestige because Europe has always been a cause supported by the political adversaries of Berlusconi and his government. Relations with President Ciampi, a convinced European and possible mentor of the government during the Presidency, also seem to be in crisis after recent differences of opinion regarding the Italian position on the Iraq war and President Ciampi's reluctance to swallow legislative reforms which seem rather designed to resolve Berlusconi's legal difficulties than to modernise the Italian judicial system. There is thus the risk that both the sole mediating influence between government and opposition positions on Europe and the link between the Italian government and European institutions will be alienated. For while it is true that the Italians are very well

represented in Europe, with Prodi heading the Commission and Amato as Vice-President of the Convention, it is also true that relations between Prodi and Amato on the one hand and Berlusconi on the other are not good. The fact that the Italian Presidency of the Union and the Commission and Vice-Presidency of the Convention have come at the same time - which under other circumstances could have fostered cooperation and the achievement of objectives of critical importance to the Union - seems instead likely to transfer to the European stage the frosty atmosphere and climate of hatred which exists in Italy between the Berlusconi government and the centre-left coalition with which Prodi and Amato identify themselves, not least with a view to the forthcoming elections.

Finally, Berlusconi appears as skilful in imposing his own particular style of government in an atypical country like Italy as he is inexpert and clumsy in international affairs, where he does not seem to enjoy sufficient authority and prestige to persuade other Member States to accept the major compromises necessary in difficult circumstances and at times of pivotal change. The combination of difficult circumstances (because of the differences over Iraq), pivotal changes (the European Convention) and the weakness of Berlusconi's leadership is therefore likely to paralyse the Union and worsen the existing problems.

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Statistical Appendix

Table 1. Changes in public administration spending (billion lire)

Year	Total expenditure	Including interest payments	% of GDP
1981	214 795	28 583	46.3
1982	264 100	38 857	48.4
1983	316 973	47 320	50.0
1984	363 898	58 113	50.1
1985	416 915	65 069	51.4
1986	460 922	76 370	51.2
1987	498 575	76 197	50.7
1988	554 682	86 550	50.9
1989	617 624	104 404	51.8
1990	705 253	124 143	53.8
1991	769 487	144 978	53.9
1992	842 547	172 622	56.1
1993	896 373	187 800	57.8
1994	898 962	179 927	54.9
1995	950 164	205 991	53.2
1996	1 006 120	218 701	52.9
1997	1 008 019	186 086	50.7
1998	1 023 797	166 541	49.3
1999	1 038 964	144 899	48.4
2000	1 047 311	145 733	46.4
2001	1 113 001	149 308	47.2

SOURCE: CENSIS, *Rapporto sulla situazione sociale del paese*, Milano, Franco Angeli, 1999, p.580 and 2002, p.582

Table 2. Calculation of public debt (billion lire)

	Current values	Constant values (Lire 1995)	% GDP
1990	1 284 403	1 631 608	97.2
1991	1 448 956	1 711 022	100.6
1992	1 633 900	1 845 514	107.7
1993	1 846 453	2 006 769	118.1
1994	2 047 247	2 150 145	123.8
1995	2 212 746	2 212 746	123.8
1996	2 333 964	2 216 841	122.7
1997	2 388 743	2 215 956	120.2
1998	2.417.374	2 183 325	116.4
1999	2 458 276	2 183 440	114.5
2000	2 493 127	2 167 853	110.5
2001	2 576 605	2 183 367	109.4

SOURCE: CENSIS, *Rapporto sulla situazione sociale del paese*, Milano, Franco Angeli, 2000, p.506 and 2002, p.518

Table 3. Summary of the distribution of seats in the 2001 elections

	Chamber of Deputies			**Senate**	
	Seats	***%***		***Seats***	***%***
Casa delle libertà	368	58.4		176	55.9
Ulivo	247	39.2		128	40.6
Rifondazione Comunista	11	1.7		4	1.3
Di Pietro List		0.0		1	0.3
Democrazia Europea		0.0		2	0.6
Pannella-Bonino List		0.0			0.0
Fiamma Tricolore		0,0			0,0
Others	4	0.6		4	1.3
TOTAL	**630**	**100**		**315**	**100**

SOURCE: Compiled by Roberto D'Alimonte – Stefano Bartolini (ed.), *Maggioritario finalmente? La transizione elettorale 1994-2001*, Bologna, Il Mulino, 2002, p.200, 394-6.

Table 4. Results of the 2001 elections, majority votes and seats

	Chamber of Deputies					**Senate**			
	Votes	***%***	***Seats***	***%***		***Votes***	***%***	***Seats***	***%***
Casa delle libertà	16 918 020	45	282	59		14 381 007	43	152	66
Ulivo	16 315 355	44	189	40		13 260 249	39	77	33
Rifondazione Comunista		0				1 705 733	5		0
Di Pietro List	1 496 110	4				1 138 553	3		0
Democrazia Europea	1 314 950	4				1 144 200	3		0
Pannella-Bonino List	462 863	1				676 472	2		0
Fiamma Tricolore	141 298	0				339 911	1		0
Others	635 494	2	4	1		1 172 618	3	3	1
TOTAL	**37 284 090**	**100**	**475**	**100**		**33 818 743**	**100**	**232**	**100**

SOURCE: Roberto D'Alimonte – Stefano Bartolini (a cura di), *Maggioritario finalmente? La transizione elettorale 1994-2001*, Bologna, Il Mulino, 2002, p.200.

Table 5. Results of the 2001 elections, proportional votes and seats

	Chamber of Deputies					**Senate**	
	Votes	***%***	***Seats***	***%***		***Seats***	***%***
Forza Italia	10 923 146	29.4	62	40.0			0.0
Alleanza Nazionale	4 459 397	12.0	24	15.5			0.0
CCD-CDU	1 193 643	3.2		0.0			0.0
Nuovo Partito socialista it.	352 853	1.0		0.0			0.0
Lega Nord	1 461 854	3.9		0.0			0.0
Casa delle libertà total	**18 390 893**	**49.6**	**86**	**55.5**		**24**	**28.9**
Democratici di Sinistra	6 147 624	16.6	31	20.0			0.0
Margherita	5 386 950	14.5	27	17.4			0,0
Girasole	804 488	2.2		0.0			0.0
Partito dei Comunisti Italiani	619 912	1.7		0.0			0.0
Ulivo Total	**12 958 974**	**34.9**	**58**	**37.4**		**51**	**61.4**
Rifondazione Comunista	1 868 113	5.0	11	7.1		4	4.8
Di Pietro List	1 443 271	3.9		0.0		1	1.2
Democrazia Europea	887 037	2 4		0.0		2	2.4
Pannella-Bonino List	831 199	2.2		0.0			0.0
Fiamma Tricolore	142 894	0.4		0.0			0.0
Others	578 443	1.6		0.0		1	1.2
Total	**37 100 824**	**100**	**155**	**100**		**83**	**100**

Source: Roberto D'Alimonte – Stefano Bartolini (ed.), *Maggioritario finalmente?* , cit. pp.394-6.

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