

Ad impossibilia nemo tenetur.

Notes on Giulio Andreotti and Europe

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The authors of the book considered here¹ have drawn, in part, on the 120 file binders on Europe in the Giulio Andreotti Papers deposited with Istituto Luigi Sturzo in Rome. Although there is considerable fascination in the variety and importance of the topics treated in this collection, in these notes I focus on the theme closest to my own professional training and experience: namely the successive steps taken by Italy in monetary affairs up to the 1992 decision to create the single European currency, the adoption of the euro six years later, and the subsequent two decades of experience with it. I will concentrate in particular on the essays by Daniela Preda and Francesco Lefebvre D'Ovidio but will also draw on my own personal knowledge of events.²

The title I have chosen for this brief essay of mine is Andreotti's hand-written marginal note to the draft resolution on the European Monetary System, which he discussed at the European Council meeting in Brussels in December 1978 and which I have elected as indicator of the way in which, ever since then, Italy has adhered

¹ Francesco Lefebvre D'Ovidio and Luca Micheletta (eds.), *Giulio Andreotti e l'Europa*, Rome, Edizioni Storia della Letteratura, 2017.

² Daniela Prada, "Il ruolo di Giulio Andreotti nella nascita del Sistema Monetario Europeo", in Lefebvre D'Ovidio and Micheletta, pp. 197-229; Francesco Lefebvre D'Ovidio, "Il Trattato di Maastricht e l'Unione economica e monetaria", in Lefebvre D'Ovidio and Micheletta, pp. 231-264.

to decisions on the matters assigned to the competence of the European Union.³ “Choices” characterized by the “impossibility of saying no”. But *impossibilia* was just one side of the coin; the other can be described by Andreotti’s words following Italy’s adhesion to the EMS: “an act of faith in ourselves”. This same concept was repeated on television by Guido Carli immediately after the signing of the Treaty of Maastricht in 1992. The question, then, is whether this *impossibilia* really existed and whether the act of faith was well founded.

Italy’s position with respect to the new monetary arrangement that the EEC intended to institute was always perfectly clear, from as far back as the Hague Conference in 1969, with the emergence of the opposition between the group of Member States – France among them – that wanted to proceed only towards monetary unification, in order to complete the proper functioning of the single market, and another group – including Italy – that wanted to achieve this goal together with the harmonization of economic policy (though the proper term would have been “fiscal policy”). Italy judged that European monetary unification had to be accompanied, step by step, with the design of a fiscal policy which, taking account of dualism (structural disparities in productivity), could result in convergence in the rates of growth of output and employment and thus pave the way to political unification – the guiding concept of the proponents of a united Europe, which along the way has been lost.

The first monetary experiment was decided on in 1972, with the joint float of European currencies (the “monetary snake”). Legend has it that Carli – negotiating, as Governor of the Bank of Italy, the lira’s entry into the EMS just as the Liberal Giovanni Malagodi was taking office as Treasury Minister in one of Italy’s many changes of Government – asked for a suspension of the session in order to make a telephone call to the minister; he then returned to the talks without having consulted Malagodi but told his interlocutors he had been

³ Ibid., p. 221.

authorized not to sign on to the agreement. The Bank of Italy under Carli and Paolo Baffi was against constraints on the power to intervene on the exchange rate, which was the principal instrument for correcting the competitive imbalances of the Italian economy. Malagodi then ratified the agreement nonetheless, but as we know, after just two years it failed.

Italy's position that monetary union needed to coincide with economic harmonization was reiterated by Andreotti in every forum in which the common monetary policy was discussed until, under pressure from Giuseppe Petrilli and Filippo Mario Pandolfi, he decided in 1979 to waive this precondition when the second phase of the EMS was initiated. He justified his change of position citing Italy's need to combat galloping inflation in the wake of the oil crisis and the desire to increase economic growth through monetary stability. This was a political concept that ultimately brought the prevalence of Europe in the framing of economic policy, becoming, to say it à la Giuseppe Guarino, the single leg of the "lame" biojuridical creature that was forming. At Baffi's insistence, Italy asked for, and obtained, a wider fluctuation band of 6% within the EMS. It was agreed that the other requests for economic harmonization, including those of Italy, would be examined subsequently – which, as we know, did not happen.

A glance backward at history will serve to understand the development of intra-Community relations in the field of exchange rates and monetary policy. In 1957 Italy signed the Treaty of Rome, instituting the European Economic Community, despite the broad opposition of the productive economy, accustomed as its protagonists were to protectionism. The decisive factor was the impetus imparted by far-sighted political leaders (such as Ugo La Malfa), a few civil servants like Carli, and forward-looking businessmen, like Giovanni Agnelli. With the Treaty, Italy expanded the outlet markets for its industrial products and major construction projects but retained control over the money supply and the exchange rate.

Discussion on the creation of a common monetary system got under way immediately after the signing of the Treaty, but the con-

crete impetus for action came with President Nixon's decision to abandon the Bretton Woods Agreement centering on the convertibility of the dollar into gold, thus ushering in the "dollar standard." The idea was to prevent a possible devaluation of the dollar from causing the revaluation of the European currencies to the detriment of foreign sales of Community products, which were crucial to the export-led economic growth that characterized nearly all the EEC members.

These two experiments were certainly not successes, yet the vehicle of negotiations, once set in motion, continued to advance towards a "common" currency (or "unit of account," the ECU), which would subsequently become "single" (the euro). The countries adopting it would not get the benefits of a European policy of economic harmonization, but they agreed to comply with the fiscal parameters setting limits on deficit spending and sovereign debt in proportion to GDP. Membership in the single currency was an act whose consequences were not sufficiently thought through.

It is hard to maintain that at that time Italy was subject to an *impossibilia* such that it could not but accept the terms of the Maastricht agreement. And that the decision was an act of faith in the country should be ruled out by the reasons that led the protagonists, Carli and Andreotti, to sign the pact and their successors to elect to adopt the single currency from its inception.

The essay by Lefebvre D'Ovidio offers a laudable account of the stages by which Italy came to this decision. The choice divided Italy's governing class between those who wanted to join the European Union at all costs, transferring the sovereign power to regulate the market and manage monetary policy, and those who preferred instead to make this choice conditional on agreements that would ensure the convergence of economic growth and social welfare as a preliminary to political union on democratic foundations. There was protracted discussion of the need for "parallel measures" to guarantee the convergence of real economic growth rates, which a non-optimal monetary area would impede. The greatest concession obtained in these negotiations was agreement on instruments to attenuate the

structural imbalances, such as the European Agricultural Guidance and Guarantee Fund or the social cohesion policy, funded with mere fractions of the 1% of the European GDP assigned to the Union's budget, completely insufficient for objectives that would have required quite a different boost both quantitatively and qualitatively.

The mandate given to the European System of Central Banks, headed by the European Central Bank, was to guarantee price stability. Actually, the mandate was to cooperate for the attainment of the Union's objectives, without prejudice to the stability of the monetary yardstick. But the Treaty and the predominant interpretation of it, notwithstanding the explicit indication of the aims of full employment and social well-being in Article 2 of the Maastricht accords, did not accord proper emphasis to this aspect. When the crisis of 2008 made change unavoidable, the policy action of the ECB was extended to embrace financial stability, which was indispensable, but at the same time control over the growth of sovereign debts acquired additional importance.

The transition from the EMS to the EEMU, or European Economic and Monetary Union (shortened to just EMU, given the insufficiency of the economic "parallel measures" referred to above) received the decisive, final impetus at the European Council in Rome in October 1990, where Andreotti, as the authors indicate, "made feasible what had until then appeared virtually impracticable". However, Andreotti was conscious of the broader consequences of the decision, insofar as it would entail a shift from a Community regime, i.e. a system governed by rules decided by all as in the previous open market arrangements, to an intergovernmental regime that would end up under the influence of the strongest countries. And at the time the EU had only 12 member countries, certainly much more manageable than today's 27 (after Brexit). Yet that was what was decided.

I personally witnessed how these negotiations were conducted and have described them in other works of mine. In a memo I drafted for Guido Carli I argued that we were creating a "Europe

with feet of putty”⁴ by entrusting the management of the single currency to a set of fiscal parameters and not to independent and flexible policy-making. Carli had lost all faith in the ability of Italian governments to control public spending or borrowing and considered that the external European constraint was a suitable instrument to that end. He didn’t realize that this time the constraint would not be imposed by the market, as in the Bretton Woods agreement, but by the bureaucracy in Brussels and Frankfurt, which was inclined to take account of the relative weight of the main EU countries. I asked that Italy exercise the opting-out clause that Britain had demanded and obtained for the euro, in order to prepare our political system to comply with the constraints laid down in the accord. As President Francesco Cossiga was preparing his message to Parliament in June 1991, just months before the signing of the Maastricht Treaty and the explosion of the “clean hands” corruption investigations, I convinced him that Italy was not ready to comply with the limits, even while sharing the spirit of European unity. Cossiga consulted Carli, who was Treasury Minister, and Carlo Azeglio Ciampi, the Governor of the Bank of Italy, both of whom assured him that Italy could make it. It being impossible for him to simply ignore the country’s weaknesses, he said in the message that these were to be found more than anywhere in the public administration.⁵

Even though the institutional arrangement suffered from “lame-ness” (the term is Ciampi’s) – a different conception from that mentioned earlier in that the reference here is to the lack of the necessary political union – the euro succeeded in establishing itself as a currency of exchange, even at global level. However, convergence of the participating economies was not achieved, and European political union moved still further away.

While there was no true debate on the matter, the reason for accepting a lamed monetary institution had its logical roots, as I have

⁴ The memo was published under that title by Scheiwiller in 1995.

⁵ Pasquale Chessa and Paolo Savona (eds.), *La grande riforma mancata. Il messaggio alle Camere del 1991 di Francesco Cossiga*, Soveria Mannelli, Rubbettino, 2014, pp. 139-142.

reiterated again and again, in the necessity for a market operating on a competitive basis to have a single currency; otherwise competition could be distorted via currency devaluations. The practical roots, instead, were those indicated above, namely the thesis that an external constraint would compel Italians to accept a budgetary and public debt discipline for which the country was not prepared, as is attested by the fact that since the introduction of the euro the debt/GDP ratio has risen from 104 to 132 per cent.

The twenty years of experience since Italy's decision to join the euro from the outset, then, provide a negative answer as regards the effective *impossibilia* facing the country and the possibility that it was ready to handle the constraints that would be imposed. On the *impossibilia* Lefebvre D'Ovidio offers a different interpretation, namely that Andreotti accepted the idea that the euro was a way of constraining the strength of the Deutschmark within a common European framework. I have not examined the papers personally, but statements made outside the official meetings suggest that he was not completely persuaded by that thesis, and subsequent events in fact bore this out. German unification was achieved in flagrant violation of every single fiscal parameter contemplated by the Treaty, and the euro was constructed according to the Germans' neo-classical conception, still predominant today. This goes to show the validity of the saying attributed to Giovanni Giolitti: for enemies laws are applied, for friends they are interpreted. Any Italian recrimination can only concern the failure to invoke the opting-out clause, above all if such failure is ascribed to the fairly common argument that if we hadn't joined immediately, we never would have, which only shows once again that Italy's leaders were well aware of the country's unpreparedness. An additional consideration is that right up to the day before that fateful 10 May 1998, when Italy was admitted to the initial group adopting the euro, Germany had been opposed, agreeing with the judgment of the few that the country was not prepared to comply with the rules of a non-optimal monetary area where convergence in productivity was Italy's own responsibility, but to be achieved under the constraint of compulsory reduc-

tion of excessive public debt. The explanation, well known enough, is that German export industries saw that if Italy remained outside the single currency area it would neutralize their competitive advantage by devaluing the lira. Adopting the euro, instead, Italy would be disadvantaged, as the weight of the strong mark would make the euro permanently overvalued – as has in fact been the case – to offset the weaknesses of the other countries, including, obviously, Italy. Paolo Baffi had been perfectly right when he strongly recommended not freezing the exchange rate.⁶

If these considerations had some underlying political purpose at the time of the events, by now reality has rendered them obsolete. So it is hard to understand why still today the operation of the mechanism is not taken properly into account by Italy's ruling groups, which continue to hold European institutional arrangements and policies as irreversible, unquestionable and to make the poorer classes and the country as a whole pay the price for their ideas. As I have noted before, this political situation brings to power reactions rather than actions.

Given this problem, Italy finds itself faced with *aporia* or *antinomy*, i.e. a problem that cannot be resolved but is impossible to avoid. To escape this situation, what is needed is a stroke of fantasy and vitality, which Italy possesses in abundance but is unable to point in the right direction.

⁶ This position is recalled and documented in a writing of mine (co-authored with Paolo Panerai), "Il Trattato di Maastricht. Quando a Carli tremò la mano. Perché firmò se sapeva che l'Italia era impreparata?", in *Milano Finanza and Italia Oggi*, Milan, 23 May 2018.