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**Italy in the European Monetary Union
The 1998 Edmund D. Pellegrino Lectures
On Contemporary Italy**

Edited by
Paolo Janni

The Council for Research in Values and Philosophy

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Preface

George F. McLean

Dramatic changes are taking place in Italy.

Long in history and culture, this peninsula people dominated first the Mediterranean and then most of Europe, first by military might, then by legal genius, trade and the arts. It is hardly a newcomer to the challenges of national and international life.

It is also the last of the modern European powers, still working at its own national integration. Its political and economic recreation since the Resorgimento, and even since World War II, is recurrently referred to as miraculous.

It is then both fascinating and instructive to follow this young yet ancient nation as it faces the problems of contemporary change in Europe. To the present challenges it brings not power but prestige, not wealth but vision and creativity. When others waiver it constantly points the way and where it alone cannot solve a problem it thereby creates new reasons for union.

The present collection of studies is the work of Paolo Janni, long a diplomatic representative of Italy in various parts of the world. In dedication to his people and admiration of their valiant effort to play an integral role of the recreation of Europe for the 21st century, he has gathered together a set of non-Italian specialists on Italy to study the combination of challenge and response that constitutes the present drama of Italy.

Within, it is the continuing challenge of economic integration of the South which in the end becomes an issue of the cultural integration of Italy as a whole. Toward the Mediterranean it is a transformation of opportunity into challenge, which becomes a matter for all of Europe. Toward the North it is a matter of financial solvency which imposed the achievement of restraint and responsibility so daunting as to constitute a national triumph when achieved. For the North Atlantic and the United States, the prospect is that Italy will avoid needing to choose between Europe and America, and instead will continue to play a creative bridging role between Europe and America.

This second volume in the Edmund D. Pellegrino Lectures on Contemporary Italian Politics continues the work of its predecessor in following the political life of this classically small/great nation as partner and inspiration in the great project of contemporary reconstruction.

Introduction

Paolo Janni

Italy in Transition: The Long Road from the First to the Second Republic, the first "Edmund D. Pellegrino Series of Lectures of Contemporary Italian Politics," initiated in 1997, was well received by the faculty and students of The Catholic University of America, as well as by the larger audience in America and throughout the world for which they were intended. Those lectures were published for the Department of Politics of the University and by The Council for Research in Values and Philosophy.

Three major, non-routine events took place in 1998. The first, was the Prodi Government's success in complying with the strict Maastricht Treaty's criteria and in ensuring — against the expectations of almost all of Italy's European partners — Italy's inclusion from the beginning in the launching of the European Monetary Union and its Single Currency. This spectacular result was brought about through a clever balance between higher taxation and spending cuts, as well as by the combination of two positive factors: a slowdown in the growth of Italian public debt and the expansion of the Italian economy.

The second event was the swearing in as Italian Prime Minister in, for the first time in Italy's history, of a young and charismatic former Communist, Massimo D'Alema. He replaced Romano Prodi, who had chaired the second most long-lasting government in post-World War II Italy, which later was defeated 313-312 in a conference vote, following the Communist Refoundation Party's parliamentary desertion.

The third event, which was very negative indeed, was the failure of the 70 members of the "Two Chamber Commission" (*Commissione Bicamerale*) to reform Italy's 1948 Constitution. When the reform draft proposal agreed upon by the *Bicamerale* was introduced to the floor in Parliament for approval, the leader of the right-wing opposition withdrew the support of his group for reasons which were not fully understood.

This volume records the September-November 1998 lectures. As those of last year, this year's lectures were directed to a broad ranging audience which included faculty and undergraduate students at The Catholic University of America as well as interested laymen. Their publication here is intended to share these with a yet broader public.

The lectures do not offer solutions to the problems they deal with, but rather try to explain them.

In Chapter I, "Rolling up the Fourth Shore: Italy and the Mediterranean," James Miller argues that the old Italian approach to the southern littoral of the Mediterranean is undergoing a radical change. That "Fourth Shore" had been seen as a promised land that would permit the newly unified Italian state to overcome its economic development problems through trade, investments and colonization.

Now from a land of putative colonial opportunity, the Mediterranean has become increasingly a source of multiple threats to Italy's security, identity and well being. No European state has developed an ideology that sees migrants as a force for positive social changes, such as exists in the United States. Suddenly, Italy and its fellow EU states face a future in which the fundamental characteristics of their societies seem subject to dramatic and unwanted transformation.

Security, whether defined as political, economic or cultural cannot be achieved solely by employment of traditional means. A military response to migration is not only beyond Italy's

capacity; it is nonsense. nor can existing police authorities cope with the influx of individuals seeking a better life.

The "Fourth Shore" cannot be rolled up. Rather Italy will try to control the flow of migration seeking peaceful resolution of regional problems through a meaningful and long term dialogue, providing development assistance, and seeking peaceful resolution of regional problems through a meaningful and long term dialogue, providing development assistance, and seeking a greater level of EU involvement in the area.

Finally, Miller says, Italians can be expected to seek to educate the United States on their view of Mediterranean, its problems, and its likely solutions.

In Chapter II, "The Interaction between Italy and United States in a Changing World," Michael Callingaert explains the four main changes that affect the US-Italian relations of today and of tomorrow. First, the remarkable shift in the last two to three decades of the millennium in American views of Italy and Italians. Second, the political upheaval that has taken place in Italy. Third, the acceleration of European integration and Italy's success in qualifying for membership in EMU, which increasingly binds its freedom to pursue national policies. Fourth, the end of the Cold War.

Against this background, Callingaert reviews the interaction between Italy and United States in four broad areas: Italian domestic politics, economics, security and foreign policy.

In Chapter III, "The Mezzogiorno at the Millennium: The Outlook for Southern Italy in the Year 2000," Clark N. Ellis argues that the Mezzogiorno — which will remain part of united Italy, despite what the Northern League might say — is a region of promise as well as of problems. It is not clear which will dominate in the years ahead.

While political corruption in Italy is a national and by no means an exclusively Southern Italian problem, he sees the organized crime in the Camorra in Campania, the "Ndrangheta in Calabria and the Mafia in Sicily — as well as the bureaucratic ineffectiveness of the local administrations as the most serious problems facing the South of Italy.

Moreover, the partial decentralization of the government under the 1970 law, granting limited authority to regional governments, has not worked very well in practice. He believes that further administrative and fiscal decentralization, without an improved civic culture, could provide the opportunity for more corruption in the Mezzogiorno. For it would increase the risk that municipal and even regional governments would come under the influence or even control of organized crime. Therefore, he concludes, education and cultural renewal are the real keys for positive change.

In Chapter IV, "The European Monetary Union and the Single Currency as a Gateway for the Political Modernization of Italy," I review the process of balancing the Italian public budget — from Amato's Government to the present Prodi's Government — as one of the crucial requirements in order for Italy to be part of the EMU from the beginning.

The European Monetary Union is a cultural revolution of both mind and behavior, both at the EU and the individual member state level. This places Italy at the most challenges, Italy must update its Constitution, reform the welfare state, fill the economic and cultural gap between the Mezzogiorno and the rest of the country, improve its educational system, and shake up the old culture of enterprises and Labor Unions.

EMU membership now offers an historic opportunity (*l'occasione storica*) for Italian modernization. The main reason for optimism is the EMU factor. Like all other European partners,

Italy has simply lost national control over the gimmicks and the tools which allowed in the past political parties, labor unions, and enterprises to destabilize the public finances. The cost of breaking away from Europe would be much higher than any effort to stay in. This factor could play the same unifying role to stay in the EMU as it played in mobilizing popular support to enter.

I wish to express my warm appreciation to Dr. Stephen Schneck, Chairman of the Department of Politics at The Catholic University of America for his support of this enterprise. Of course, my main thanks go to the lecturers: James Miller, Chairman of Italy Area Studies Seminar at the Foreign Service Institute of US Department of State, Michael Callingaert, Guest Scholar at the Brookings Institution and Executive Director of the "Council of United States and Italy" and Clarke N. Ellis, Adjunct Professor of Political Economy at The Catholic University of America.

My very special gratitude goes to George F. McLean, Professor Emeritus of Philosophy and Executive Secretary of The Council for Research in Values and Philosophy for his unconditional support and personal involvement in this program since the beginning, without which the "Edmund D. Pellegrino Series of Lectures" would not be published.

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Chapter I

Rolling up the Fourth Shore? Italy and the Mediterranean

James E. Miller

A few years ago, during a Fulbright Professorship at the University of Naples, I found myself engaged in a rather lengthy conversation with my dean about the school and students. Suddenly, departing from the subject of our conversation, he launched into a jeremiad about Italy's future, particularly its difficulties in dealing with the vexing question of migration: "We Italians have no answer to the fundamental questions posed by migration, 'he told me,' and, moreover, show no particular interest in trying to resolve them."

As a historian, I was immediately struck by the ironies of this outburst. For nearly a century after national unification the southern littoral of the Mediterranean constituted Italy's "Fourth Shore," a sort of promised land that would permit the new Italian state to overcome its economic development problems through trade, investment and colonization. Not incidentally, supporters of colonial expansion claimed that possession of territory on the southern littoral would validate Italy's great power pretensions as well.¹ As a teacher of contemporary Italy's politics, I was equally fascinated by my colleague's distress. Clearly, migration from the Fourth Shore into Italy calls up a whole series of fundamental issues of national identity for Italians, and, indeed, for Europeans in general. The question of whether Italy, a society whose roots are deeply intertwined with the Christian faith, can accommodate a largely Muslim population and still retain its unique national culture is an issue that strikes deep in the collective psyche. In spite of the fact that most European states have long been migration states, they lack the ideological underpinnings that provide psychological reassurance in the face of an influx of migrants who for demographic reasons are necessary to the future strength of the European economy, but also profoundly — one could almost say frighteningly — different in culture. In the last decade of the 20th century -- and for a long time to come — migration will be not simply an issue of culture and economics but also a primary problem of national security for Italy and all its European neighbors.²

The Historical Italian Focus upon the Mediterranean

The Mediterranean has always been a primary focus for Italians. The civilization we call Western was born in the Mediterranean and carried into Europe on the lances of the Roman army. Even after the fall of the Western Empire, the Mediterranean remained the cockpit of international trade and politics until the late Renaissance. Only in the later part of the 16th century, as the imperial ambitions of Spain and the Ottoman Empire ran aground and the full effects of the colonization of the new world were felt, and as new economic and political models of development spurred by the Protestant Reformation took hold, did Northern Europe emerge as the dominant center of Western culture. The re-emergence of the Italian states as major players in the cultural and economic affairs of Europe during the Enlightenment, redirected the focus of its governing elites northward. After 1700, and particularly after national unification in 1861, modernization on the North European model became the primary objective of the nation's leadership. Italy acquired a "European identity" and the reinforcement of these ties with the North have tended to dominate the nation's political agenda ever since. Italian determination to make the first cut of Maastricht states was the latest, successful demonstration of the power of its European identity.

Nevertheless, the Mediterranean retains a particularly important role in united Italy's history. Until 1943, the Mediterranean was critical to the Italian state's great power status. Trade, colonization and migration were critical elements in Italy's approach to the Mediterranean. The acquisition of colonies — or at least their attempted acquisition — was in the first place an expression of Italian national claims to equality among the major states of Europe. Thus, between 1880 and 1920, Italy sought to plant its flag in Tunisia, Eritrea, Ethiopia, Libya the Dodecanese islands, Albania and parts of Yugoslavia and Anatolia. Colonial empire was the visible sip of Italian power. It also offered — in varying degrees — the chance for Italy's nascent industries to enjoy a secure market for their products. Population export was a key element of national policy after 1880, but many Italian nationalists felt that the nation would avoid the long term loss of its surplus agrarian labor, and, in fact, profit from an over supply of this natural resource, by placing these families in territory securely under Italy's control.

The Italian colonial adventure was not one of the happier nation experiences. Military disasters in Ethiopia, a protracted and bloody war in Libya, the 1934-1936 conquest of Ethiopia, seizure of Albania, and in a certain sense the catastrophic 1940 war against Greece revealed the weaknesses of Italy's imperial pretensions, particularly its economic inability to support costly adventures abroad. Nevertheless, the ideology of colonialism was strongly rooted among Italians and in the post-World War II era, the United States had to act forcefully to disabuse Italian democrats of their dreams of retaining a foothold in Africa.

Mediterranean colonialism, in fact, was a primary contributor that led Italy first into Fascism and then into national disaster in 1940-1945. The hypernationalism that fed on colonial adventure helped to end Giovanni Giolitti's hopeful pre-World War I experiment in reformist politics. Colonial ambition was a driving force launching Italy into its divisive and costly World War I experience. The inability of Italy to attain the colonial objectives set out in the 1915 Treaty of London set the stage for Mussolini. Fascism in its turn nurtured an exaggerated view of Italy's Mediterranean role, probably best stated by Mussolini's repeated claims that the sea was "*Mare Nostrum*." The effort to establish Italian hegemony in the Mediterranean region placed Italy on a collision course with two more powerful rivals, Britain and France, and as a result of adventures in Ethiopia and Spain, led Mussolini into an ultimately disastrous alliance with Hitler.

Ironically, but fortunately, Hitler, too was a victim of Mussolini's Mediterranean ambitions. Once in alliance with Germany, Mussolini continued to pursue his great power ambitions in the Mediterranean. Gradually, he pulled the German partner into the region. Although it supplied the majority of manpower for these adventures, Italy quickly became the junior partner in a vast war along the North African littoral. By pulling the military power of Great Britain and later the United States into the Mediterranean, Fascism laid the groundwork for Italy's military defeat and occupation and for a destructive two year long campaign in which the Anglo-Americans fought the Germans for control of the Italian peninsula.

Defeat in World War II revealed the weakness of Italy's political and economic base. The country's new leadership, Catholics and Marxists alike, were agreed that Italy would have to abandon its great power pretensions and seek its security and prosperity in closer ties with Europe. They disagreed profoundly, however, on the choice of international alignments with a result that the first decade of the postwar era was marked by a deep internal polarization. Centrist forces, guided by the Christian Democratic party, imposed a series of fundamental policy choices on the nation that in retrospect appear correct. The most important of these was Italy's decision to involve itself in the process of European economic integration. The nation's powerful economic growth and prosperity were based in the first place on this choice. The prosperity created by economic

growth in an increasingly European framework, in turn, provided Italy was a large measure of security. That security, in its turn, was powerfully reinforced by alliance through the North Atlantic Treaty Organization (NATO) with the United States, whose sixth Fleet has for a half century constituted Italy's (and Europe's) first line of Mediterranean defense. The United States played an equally critical role in prodding postwar European leaders into their first steps on the road to integration and toward defense cooperation.

The Return to the South

The prosperity created by Italy's fundamental choice of a Western European alignment and the security that arose from it freed Italian policy makers to begin a cautious reentry into the Mediterranean politics. General European decolonization meant that new states were emerging along the Mediterranean littoral. They offered Italy's dynamic economy new opportunities to export its products and technological knowhow. Conversion from coal to petroleum as the primary source of power for Italy's growing industries, a process that began in the 1950s, simultaneously increased Italian dependence on the Arab states of the Near East for its oil. In an effort to secure its ties with an increasingly important Arab world, Italy's state petroleum company, ENI, led by its aggressive and clever chairman, Enrico Mattei, began cutting favorable deals with a number of oil producing states, including the Soviet Union. These deals disrupted the hegemony and the profit margins of the Anglo-American oil companies, and also raised the specter (at least for the United States) of serious Italian dependency on the Communist great power.

Meanwhile, major changes were taking place within Italian politics. In 1956 the Soviet Union began to shed the aura that had surrounded it since its triumphant role in the Second World War. Soviet Party Secretary Nikita Khrushchev's "secret speech" on the crimes of Stalinism, a speech that quickly became public, led to the first serious reevaluation of the Communist myth by large segments of Italian Communist Party (PCI) intellectuals. In the fall of that year, the brutal Soviet invasion of Hungary and destruction of its effort to break with Communism, placed the PCI on a path that led gradually to a profound reevaluation of its foreign and domestic policy goals. Meanwhile, the simultaneous last gasp of European colonialism, the Anglo-French invasion of Egypt and seizure of the Suez Canal, and heightened Arab-Israeli tensions, offered Italy the chance to play a more active role in the Mediterranean region.

Between the 1950s and late 1970s, Italy's policy toward the region was a form of mercantilism, that stressed trade as a means of promoting both economic and political advantages in the Mediterranean. Italy established a lively trade with the oil producing states of the region. Its industrial products, including a growing volume of high tech military equipment, flowed into the Middle East in exchange for petroleum. Italian knowhow helped to build and expand the oil industry of Libya.

Growing Italian economic ties with the region and its dependence on Arab oil, a dependency highlighted by the 1973 and 1979 oil embargoes, naturally increased Italian political involvement. The desire to curry favor with the oil producers was a primary factor in Italian support for the objectives of the Palestine Liberation Organization, and for recurrent Italian difficulties with Israel, the Eastern Mediterranean's most military powerful state. Concerns about the balance between Israel and its Arab neighbors and about too close U.S. ties with Israel, led Italy to offer itself as a mediator in a series of crises that began with Amintore Fanfani's 1958 efforts to serve as go between for the United States and certain radical Arab regimes during the crises in Lebanon and Jordan. These efforts were largely frustrated. The United States had both the power and the

intention to deal directly with all the states in the region. Arab states, in general, saw no need for the mediation offers, and Israel mistrusted Italian bona fides. Nevertheless, the efforts were significant as they laid the groundwork for Italian efforts to build a European Mediterranean policy through EC political consultative processes.

By 1980, Italy's role in the Mediterranean had a larger political dimension. The 1980 Venice summit declaration on Arab-Israeli relations was a victory for Italian efforts to create a community-wide approach to the region. At the same time, Italy provided, for the first time in the post World War II era, a political/military guarantee to Malta, as that nation faced off in a confrontation over oil drilling rights with its belligerent Libyan neighbor. Italian political and security involvement in the region has expanded since 1980, always as part of a larger international effort. In 1982 Italian forces acquitted themselves well in the international peacekeeping effort in Lebanon. Other peacekeeping operations followed. In 1991, as the Cold War evaporated, Italy, somewhat reluctantly, participated in the international force that drove Iraq from occupied Kuwait. In 1997, Italy took the leadership role in an international peacekeeping operation in Albania. Despite some embarrassing start-up problems, Italian leadership was widely praised by the coalition member states.

The Problem of Immigration from the South

A second area of intense Italian involvement has been in international fora designed to pursue or create conditions for dialogue and cooperation among the states of the region. Italy was active in the Mediterranean fora promoted by the Conference for Security and Cooperation in Europe (CSCE) from the 1970s onward. These efforts focused on issues like cultural preservation, ecology, energy exchange and other non-security issues. However, the Italian desire to expand beyond important but non-controversial issues was demonstrated by the efforts of Foreign Minister Gianni De Michelis to promote a broad-based Conference on Security and Cooperation in the Mediterranean. The CSCM idea never took off, but other more restricted projects including a security element have been promoted by Italy and other EU states as they attempt to maintain peace in the region.

The end of the Cold War in 1989-1991 has, in the Italian view, only increased the difficulties of the Mediterranean region. Yugoslavia has collapsed into chronic ethnic conflict. Albania's communist regime crumbled unleashing a massive outflow of peoples seeking economic improvement. Meanwhile, the Islamic world has produced a new wave of refugees. Overpopulation and political turmoil in states like Algeria and Tunisia and ethnic unrest among the Kurdish population of Eastern Turkey have led to large scale migration toward that new Eldorado, the European Union. Added to this is a continuing flow of migrants from former sub-Saharan Italian colonies of Somalia, Eritrea, and Ethiopia. With its extraordinarily long borders, weak police capacity and history of tolerance, Italy is an inviting port of call for many of these refugees. In the case of Albanians, this attraction is increased by a fairly widespread familiarity with both the Italian people and their language (largely created by television broadcasts that commenced in the early years of the Cold War.)

While a large number of illegals simply use Italy as the springboard toward their eventual goal of a life in northern Europe, others stay. Italy's declining birthrate makes them a factor of great importance for the nation's future. A growing demographic gap of young people will have to be replaced if an aging Italian society is to enjoy a secure retirement. Meanwhile, cheap labor is

needed by industries such as agriculture, that no longer can find Italians willing to do hard manual labor.

Throughout Europe, the specter of a large Islamic population gaining citizen rights and playing a larger role in politics, economics and culture has produced considerable fear. Although most European states have long absorbed large scale migration, it has been primarily from the same cultural pool: other Christian and European nations. None has developed an ideology that sees migrants as a force for positive social change, such as exists in the United States. Suddenly, Italy and its fellow EU states face a future in which the fundamental characteristics of their society seem subject to dramatic and unwanted change. European fear of Islam is deeply rooted. It is inculcated in a view of history that sees the rise of European civilization as a centuries long struggle with the forces of an expansive, culturally alien and fundamentally destructive Islam.

At the same time, Italy and its EU partners need to maintain good working relations with the states of the Islamic world: they are heavily dependent on oil and natural gas produced in that area and have major investment and trading relations with the states of the region. As a result, Italy's has developed a Mediterranean policy to improve state-to-state cooperation, to encourage the types of investment that will encourage the youthful populations of the North African and Balkan states to remain at home, and to improve its ability to apprehend and repatriate illegal migrants both with better policing of its borders and by creating cooperative relationships with local authorities in states like Morocco, Algeria and Tunisia.

The summer and fall of 1998 witnessed a stronger Italian response to the problem of illegal migration that won plaudits from worried politicians in Germany and the negotiation of new agreements on migration and repatriation with several of Italy's North African neighbors. The difficulties of managing migration and its related political and social consequences was graphically demonstrated when Italian authorities arrested the leader of a major Kurdish political faction, Abdullah Ocalan, on a West German arrest warrant in November 1998. Italy's unwillingness to extradite Ocalan to Turkey resulted in a serious rupture in its relations with a NATO partner, criticism from its most important ally and effective abandonment by EU partner Germany. It also offered the EU the opportunity to forge a common policy toward the settlement of the lengthy struggle between Turkey and the Kurds. Migration problems have become a major security issue and the EU, as yet, as been unable to fashion an adequate response.³

Conclusion

The Italian approach to the Fourth Shore is undergoing a radical change. From the putative land of colonial opportunity, the Mediterranean is increasingly a source of multiple threats to Italy's security, identity and well-being. Fashioning a policy for the region is difficult because of the multitude of states that Italy has to confront and the diversity of their interests. Moreover, security, whether defined as political, economic or cultural cannot be achieved solely by employment of traditional means. A military response to migration, for example, is not only beyond Italy's capacity; it is non-sense. Nor can existing police authorities cope with the influx of individuals seeking a better life. Efforts to create a common European response to the problems of the Mediterranean are likely to be drawn out, but Italy cannot proceed to meet its own requirements without European support. Nor can Northern Europeans expect to deal with their migration problems without an Italian contribution.⁴

As always, Italy needs to consider the requirements of its most powerful ally, the United States. While American leaders will doubtless listen with sympathy to Italian explanations, the

threats in the region, particularly those caused by migration movements, may seem less dramatic from the perspective of a state with a long and relatively successful history of absorbing diverse races, ethnic groups and religions, including Islam. (The Ocalan case was proof of the divergence of viewpoint. While Italians had to deal with a multiplicity of issues, including the reaction of Kurdish nationals in Italy and Europe, the United States insisted that terrorism was the primary question and that extradition to Turkey to face justice was the best solution.)

Certain elements of Italian policy are already clear. It will seek to control the flow of migration and when possible limit, the inflows of culturally diverse groups. It will continue to seek peaceful resolution of the regions problems through the encouragement of diverse fora where the states of the region can develop a meaningful, long-term dialogue. Italy will provide developmental assistance and will seek to coordinate these efforts with other European states. At the same time, Italy will seek a greater level of EU involvement in the region, particularly in the form of further funding for the states of the littoral. Finally, the Italians can be expected to seek to educate the United States to their view of the region, its problems and likely solutions.

The Fourth Shore cannot be rolled up. Italy, and its European partners, cannot escape the effects of massive social and economic disruption to the south. However, they may be able to moderate its impact. Moreover, the culture that stands at the basis of Europe's success will probably prove resilient enough to absorb this latest challenge and to profit from the many opportunities migration offers. In the end, if carefully managed, Europe's newest confrontation with Islam may benefit both cultures.

Notes

1. For a general discussion of historical issues related to Italy's approach to the Mediterranean and a bibliography, see James Miller, *La politica estera di una media potenza* (Bari, 1992).

2. For example, see the survey of public opinion, "L'Italia invecchia e ha paura" *La Stampa*, Nov. 18, 1998.

3. The Ocalan case raised almost all the issues related to Italy's migration policy and its Mediterranean objectives. See, for example, the editorial "Giochi senza frontiere", *La Repubblica*, Nov. 18, 1998, also the comments of Giovanni Sartori, *Corriere della Sera*, Nov. 27, 1998.

4. See, for example, the comments of Foreign Minister Umberto Dini, *Il Messaggero*, Nov. 17, 1998.

Chapter II

Interaction between the United States and Italy in a Changing World

Michael Callingaert

The task I have set out for myself here is to offer a description and assessment of the nature and scope of interaction between the United States and Italy — not covering all facets of the very broad-ranging interaction between two societies, but rather focusing on interaction between the two governments on political, economic, and security issues.

This is not a historical review, but looks to the present and future. However, in doing so, it must, of necessity, take into account the past. While I do not propose to review history from the beginning of time — or the end of the Second World War, even though that is an obvious starting point — I consider it essential to begin with some thoughts on the last four words of my title, "in a changing world," in other words, what has changed that affects the US-Italian interaction of today and tomorrow? There have been, I believe, four main changes.

What Has Changed

First, popular conceptions in the United States concerning Italy have changed. Of the four, this is the most difficult to quantify, and the link between it and government-to-government interaction is the most tenuous. Nonetheless, I consider it significant in influencing US government attitudes about Italy. Simply put, there has been a remarkable shift over the past two or three decades in American views about Italy and the Italians. Previously, Italians were far more likely to be associated in the American mind with poor, unskilled immigrants, Italian food with the common fare of spaghetti and meatballs, and Italy with political instability, corruption and economic underdevelopment. Today, the perception is dramatically different. Obviously, a 180 degree change has not taken place for stereotypes die hard, the news about change invariably takes time to sink in, and, of course, some of the negative perceptions remain valid. However, the position of Italian-Americans in American society — measured by their increasing prominence in business and politics — has improved sharply; Italian food has swept the country — from the ubiquitous pizza establishments to the nation's top restaurants; Italy has displaced France as the arbiter of fashion as witness the almost uninterrupted line of Italian stores along New York's Madison Avenue; and, finally, the educated public is becoming aware of the economic and political strides Italy has made in recent years. All of that has produced a climate in which Americans view Italy and the Italians more favorably. Accordingly, they are more disposed than in the past to take it seriously, and this disposition is reflected in attitudes and policies of their government.

Second, the political upheaval that has taken place in Italy. The Italian political landscape at the end of the 1990s is far different from the one prevailing at the beginning of the decade, to say nothing of earlier decades. This upheaval has resulted in the nearly total revamping of the domestic political scene: the disappearance of the two dominant postwar governing parties — the Christian Democrats and the Socialists; the near decimation of the political class that had run Italy throughout much of the postwar era and its replacement by an army of new faces; the transformation of the Communist Party from a nominally Marxist "outsider" party into a "democratic left" governing party; the rise of an entirely new center-right party; and the emergence

of a strong separatist movement in northern Italy. With some help from a modest change in Italy's electoral laws, Italy has seen the beginnings of a system of center-right/center-left alternation of political power. Finally, the upheaval has brought about a measure of de-politicization of the Italian economy — state enterprises are no longer the private fiefdoms of political parties (and, in any case privatization is moving at a fast pace) — and of society in general.

Third, the acceleration of European integration. The process of economic and, to a lesser extent, political integration began in the early 1950s. While it has weathered ups and downs, a major impetus was given, first, by the effort to "complete" the single market in 1992 and, subsequently, by the decision to form an Economic and Monetary Union (EMU) with a single currency. These two steps have substantially increased the degree of economic integration among the countries of Western Europe — Italy, of course, included — and have contributed to the admittedly much slower process of political integration. In particular, Italy's success in qualifying for membership in EMU — against all odds — both signifies that Italy has made enormous progress in bringing discipline to its economic policies and ensures that Italy will remain a "major league" player in the European Union (EU). By its very nature, this European integration increasingly binds Italy to its EU partners and diminishes its freedom to pursue national policies.

Finally, the end of the Cold War and the collapse of the Soviet Union, the seminal event of the postwar era, has had effects both internal and external: the disappearance of the threat to the security of Europe — Italy, of course, included — eliminated the major rationale for Italian governments to be dominated by the Christian Democrats and for the exclusion of the Communists; it freed the former satellite countries from the Soviet embrace, thus enabling them to "join" or "re-join" the West; it transformed a bi-polar world into a multi-polar world (albeit with one remaining superpower); and it unleashed a series of challenges to the West to develop policies to address the altered economic, political and security situation and imperatives.

Four Interactions

With this as introduction, let me turn to a consideration of interaction between the United States and Italy in four broad — and sometimes overlapping — areas: Italian domestic politics, economics, security, and foreign policy.

Domestic Politics

In many respects, Italian domestic politics dominated US policy toward Italy during the period from the early postwar era until the early 1990s. The central element of US policy — which remained unchanged from one Administration to the next, irrespective of political party — was the determination to prevent the Italian Communist Party from sharing power at the national level. The origin of that policy — in the late 1940s — was fear that Communism would spread, potentially enabling the Soviet Union to extend its domination over parts of Western Europe. Although that particular threat disappeared, the United States nonetheless considered it important that Italy be governed by a party or coalitions firmly supportive of the Western alliance, a situation that would have been brought into question had the Communists entered the government.

US opposition to the Communist Party was unambiguous and often direct, particularly in the early years, and most notably in the 1948 election. Thereafter, it was a given of Italian politics that, quite apart from internal dynamics and considerations, Italy's relationship with the United States and its position in the Western alliance dictated that the Communist Party would not be included

in any Italian government. The United States did not hesitate to make its policy explicit when it felt the situation warranted, and it was severely criticized in Italian opposition circles for what they considered interference in Italy's internal affairs. Irrespective of its welcome, or lack of it, the threat of US displeasure clearly contributed to the Communists' exclusion from power throughout the period of the Cold War.

But times have changed. The former object of US concern, to all intents and purposes, has disappeared. While the minority hardline Communists remain as the Communist Renewal — even they have now split in two — the bulk of the former Italian Communist Party has reconstituted itself as the Democratic Party of the Left, whose policies and positions parallel those of other European center-left parties and governments. On the other side of the ledger, the threat of Soviet influence — or mischief — in Western Europe no longer exists.

This process of transformation of the Italian political landscape occurred over an extended period, and parallel with that the US response to political developments evolved. Without fanfare, and indeed without formal policy declarations, the United States gradually discarded its obsession with the composition of the Italian government, and the US attitude toward the Italian political parties came to be based on an assessment of the extent to which their policies and actions coincided with US positions and interests. This attitude — "we will judge you by what you say and what you do" — was expressed privately, then publicly. The US Government has reached out and established contacts with parties of the left and right which had been either "excluded" or at least shunned, with a view to engaging in a useful dialogue. That process was signaled when the US ambassador, in consecutive years, invited leaders of the Democratic Party of the Left, the National Alliance and the Communist Renewal to the July 4 party. It is an interesting sidelight that whereas the ambassador was not criticized in political circles for his action, the Communist Renewal leader was sharply attacked from within his party for consorting with the enemy.

As a result of this policy shift, Italy, at long last, is treated as a "normal," democratic, Western country in American eyes. The United States now treats the Italian political constellation in the same manner as it does that of the other democracies of Western Europe; in other words, it recognizes that virtually all Italian parties accept and operate within the democratic system. While there may be, and often is, a US preference for one particular party or group, the United States stays clear of expressing or indicating that preference. That policy now applies to Italy no differently than to, say, France or Greece.

At the same time, it should be emphasized that the United States nonetheless remains interested in Italian domestic political developments. Quite naturally, it continues to press its views upon, and seek to influence, the government of the day on policy matters of interest to it. Its concern does not relate to the composition of the government, but rather that there be a reasonable degree of stability and predictability, and particularly that whatever government is in power can meet its domestic requirements (for example, passage of a "sensible" budget) and international obligations (for example, ratification of the enlargement of NATO).

Economics

The economic relationship has two aspects — bilateral and multilateral. Before considering how the two governments interact, a review of bilateral trade and investment is in order. The main elements of bilateral trade are its substantial volume, a relatively large and growing Italian trade surplus, and the small size of the Italian market for US exporters in relation to its share of the GDP of the EU. According to US Department of Commerce statistics, bilateral trade amounted to almost

\$16 billion in the first half of 1998. However, US imports (\$10.2 billion) were more than twice the level of exports (\$4.6 billion). That resulted in a US bilateral deficit of \$5.7 billion — a level more than 50 percent above the deficit registered in 1995 — placing Italy in eighth position among countries with which the United States runs a trade deficit.

Not surprisingly, the United States is a more important market for Italy than vice-versa. Italy ships eight percent of its exports to the United States, placing the United States as Italy's third-largest market (1997 figures, ISTAT), whereas Italy is the United States's 19th largest export destination, receiving a fraction over one percent of US exports (first half of 1998, US Department of Commerce). On the import side, the United States is Italy's fifth largest supplier, accounting for five percent of the total, while Italy provides 2.3 percent of US imports, making it the 11th largest supplier to the United States. Viewed also within the context of the EU, Italy is a less important partner for the United States than its overall economic strength would suggest. Despite having the EU's third largest economy, accounting for 16 percent of the EU's GDP (OECD, *Economic Indicators*, April 1998), Italy ranked only seventh in the first half of 1998 as a destination for US exports to the EU, accounting for a mere six percent of the total, though it holds a more important position among the EU member states as a supplier: it ranks fifth, accounting for 12 percent of US imports from the EU.

Another important measure of economic interaction is sales by US affiliates abroad, whose volume dwarfs US export figures in most parts of the world. In the case of Italy, US affiliates' sales totaled \$68.6 billion in 1995 (the latest period for which figures are available), the fifth largest in Europe. Even so, that was only about one-sixth the volume of sales in the United Kingdom (\$363 billion). Similarly, US exports to US affiliates, which normally account for about a third of total exports, were relatively low in Italy — \$2.2 billion, or about 25 percent of US exports to Italy and about four percent of the total US exports to affiliates in the EU.

On the investment side, the situation is even more marked. Italy is a relatively modest investor in the United States, and US investment, while a significant share of inward investment in Italy, is small relative to levels elsewhere in Europe. According to US figures, Italy is the destination of two percent of US direct investment worldwide and five percent in the EU. Italy holds the fifth position among destinations in the EU, and US investments there are about equal to those in Belgium, half in France and only a quarter in the Netherlands (*Survey of Current Business*, July 1998). On the other side of the ledger, the level of Italian investment in the United States is extremely low relative to that of other EU countries. According to US figures (from which, remarkably, Italian figures diverge sharply), Italian direct investment in the United States is half a percent of total foreign investment and less than one percent of that of the EU. Italian investment is half of that of Luxembourg and only 2.5 percent of that of the United Kingdom (whose GDP, incidentally, is less than that of Italy) (*Survey of Current Business*, September 1998).

Government-to-government interaction between the two countries on trade and other economic issues takes place largely in an EU context because competence for trade resides in the Union, rather than the member states. Nonetheless, there is an important bilateral aspect, as there is with other EU member states. In fact, the nature and extent of trade disputes between the United States and Italy are not strikingly different from those encountered with other major trading partners. As with other countries, there have been cases of US countervailing duties imposed on imports from Italy, often engendering hard feelings from the Italian side. That was particularly so with pasta, which is, after all, a sort of national symbol. However, settlements have been reached — or Italian exporters have become resigned to the penalties applied.

The most comprehensive list of US economic concerns with Italy is contained in the *Foreign Trade Barriers* report, a listing issued annually by the US Trade Representative of all foreign government measures that protect domestic products or stimulate exports. The report is somewhat misleading in that it lists every barrier, real or potential, without providing a sense of priority and importance. The chapter on the European Union focuses on EU-wide issues. However, it also includes some country-specific information. In the 1998 report, Italy is cited for problems "caused or threatened" in its interpretation of EU sanitary and phytosanitary requirements, and obstacles to participation by US firms in Italian government procurement through Italy's fragmented and often non-transparent policies, as well as its failure to implement various EU and World Trade Organization rules and regulations.

The report also covers other areas that relate to Italy. One is the EU legislation on broadcasting, which reserves a majority of entertainment broadcasting time to European-origin programs. Under the framework of this legislation, member states have passed their own legislation, Italy included. Reflecting the interests of its film industry, the US Government has objected to the restrictions placed under this framework on the broadcasting of non-European programs. Italy is among those countries imposing the most stringent restrictions. In fact, the European Commission has taken Italy to the European Court of Justice, charging that its national legislation is unduly restrictive. While the Commission did so primarily to protect the interests of the other member states, third countries, particularly the United States, are adversely affected as well, and, in fact, the United States has remained concerned about the Italian legislation.

Finally, and most importantly, the report describes the one area where Italy is seen as the major "offender" in the EU: protection of intellectual property rights. The extent of piracy is staggering. US industry estimates its losses from illegal taping and resale of videos, compact discs and computer software at about \$2 billion over the 1995-97 period, of which about \$580 million in 1997 (*Financial Times*, 10 June 1998). Although the level of piracy has been declining, copyright piracy nonetheless remains at high levels: for computer software for business applications (industry estimates 43 percent of sales are pirated), videos (an estimated 30 percent of sales), and musical recordings (accounting for an estimated 20 percent of the market) (1998 *Foreign Trade Barriers*, p. 115).

Traditionally, Italy has provided relatively weak intellectual property protection — and here one remembers the wholesale copying of pharmaceutical products in earlier decades. However, it has moved progressively to establish a legal regime of protection that is now roughly equivalent to that of other developed countries. Enforcement, however, remains the primary area of weakness. Because of that, Italy has remained since 1989 on the so-called "watch list" of Special Section 301 (under the Omnibus Trade Act) of countries providing inadequate intellectual property protection. Nonetheless, the situation has improved significantly in recent years, and legislation working its way through the Italian Parliament — albeit slowly — will substantially increase the penalties for piracy of intellectual property.

In interacting with Italy on economic issues, US officials report that a satisfactory dialogue takes place. Terming Italian officials "good listeners," they identify no particular problems inherent in the settlement of bilateral disputes, for example ones arising from the Italian administrative or legislative systems. Obviously, differences of policy and opinion exist, but controversies have been sorted out without undue difficulty.

To a considerable extent, the US-Italy economic relationship is a part of the broader US-EU relationship. In other words, many issues — primarily but not exclusively trade — fall within the competence of the EU, not the member states, or at least are dealt with in an EU framework. One

might have expected substantial policy differences between the United States and Italy on economic issues in view of Italy's historical tendencies toward protection and state *dirigismo*; that would have placed Italy basically in the French camp on US-EU economic policy issues. However, US officials credit Italian policies as being largely in consonance with those of the United States. Italy is considered essentially on the US side on most US-EU issues. As one official put it, "Italy is not pro-US, but it certainly is not anti-US," or, in the words of another, "on a continuum of views, Italy is rather on our side." Unlike France, which is widely perceived in US government circles as reacting negatively to US proposals as a matter of principle, Italy is viewed as arriving at positions on the basis of determining its own national interests, though with a bias toward transatlantic cooperation (about which more later).

For example, Italy has strongly supported the Transatlantic Economic Partnership, which was proposed at the US-EU summit 1998, as well as earlier versions of that proposal. Similarly, it took the initiative in pressing the EU to support the US effort to gain agreement for the adoption of zero tariffs in a number of industrial sectors in the Asia Pacific Economic Cooperation area. While most other member states feared such action would diminish the prospects for agreement on launching a "millennium round" of global trade negotiations, Italy recognized that the American proposal served the interests of European industry, since EU tariffs on many of the sectors in question were already low or zero.

Despite Italy's "US-friendly" posture within the EU, Italy does not rank high among US interlocutors in the Union. In the eyes of US officials, the "big players" remain France, Germany and the United Kingdom. That does not mean, of course, that Italy is in any way neglected. Rather, it reflects the perception that Italy does not play a strong role in the determination of EU policy — in other words, that Italy's voice is not heard loudly within the EU councils (and Councils). To invert the phrase of a British Foreign Secretary, Italy has traditionally "punched below its weight" in the EU. One example is that despite its warm support for the Transatlantic Economic Partnership, Italy did not press hard for its acceptance by the EU. US officials ascribe this situation to a combination of factors: national temperament (a diplomatic tradition of maintaining a "low posture" internationally), a certain reticence arising from Italy's status until recently as a major beneficiary of EU funding, an unwillingness to press issues other than ones where important national interests are at stake (as it certainly did when faced with the prospect of substantial penalties over violation of EU dairy quotas), and a degree of ignorance of "how to play the game." It remains to be seen to what extent Italy will adopt a more aggressive stance in the future in promoting its interests in the EU.

Security

Turning to the security relationship, Italy has played an important, if not crucial, role — one which has become increasingly prominent in recent years with the progressive political disintegration of the Balkans. From the outset of the Cold War, Italy has been a mainstay of NATO, a function of both geography and policy. Positioned on NATO's southern flank, Italy has made available a number of military facilities to the United States and NATO. *Inter alia*, NATO's southern command is based in Naples; the US Sixth Fleet's home-port is in near-by Gaeta (the largest US naval asset in Europe); US Air Force operations over Bosnia were conducted mainly out of Aviano; the Southern European Task Force is headquartered at Vicenza; and the base at La Maddalena in Sardinia supplies and repairs submarines.

From the outset of the Cold War, Italy has firmly supported the Atlantic Alliance. Examples are legion: in the early 1980s it accepted the installation of cruise missiles despite strong opposition by the Communist Party; later it accepted the basing of the air units expelled from Spain; more recently it broke ranks with France and Germany in opposing the appointment of a European as Deputy Commander of the NATO AFSOUTH force; and it was the first European country to support the expansion of NATO to the East. Thus, during the entire Cold War period, Italy was viewed — quite correctly — by the United States as a staunch ally and a cooperative member of the Alliance. Interaction between the United States and Italy in the security area was intense and cordial. Differences were kept to a minimum. Rather, the problem, in Italian eyes, was that Italy was taken for granted by the United States, a charge not without substance, although Italian unhappiness was essentially over a general lack of attention rather than specific actions.

This relationship was put to the test in the tragic accident in February at Calavese, when a US military jet, flying on a training mission, but at an altitude well below the permissible level, severed a ski lift cable, killing all 20 occupants. Despite understandably enflamed feelings in Italy — including calls for a cessation of training flights, and worse — the two governments worked closely to deal with the problem and contain harmful fallout. Although it exercised legal jurisdiction for the case under NATO agreements, the United States cooperated fully with the Italian Government in its investigation, expressed profound regret to Italy and the victims' families, and took a number of steps to assuage Italian anger. The relationship weathered this potentially debilitating storm, as is clear in the response by Prime Minister Prodi to a question during his joint press conference with President Clinton, when he visited Washington in May. Prodi welcomed the "warm and prompt response" of the President and the "deep involvement of the American political authorities."

As Yugoslavia disintegrated into civil war, with its attendant horror, and new, independent states appeared in its place, Italy acquired enhanced status as a "frontline" state. Its position was unique: historically it had maintained close ties with the area, it would be directly affected by whatever transpired there, and it constituted potentially a major destination for refugees. Nonetheless, in the early stages of the NATO response to the Bosnian crisis, the Contact Group, which in large measure established Western policy, did not include Italy, despite the crucial role played by NATO bases in Italy. Its members were the United States, France and the United Kingdom (the major suppliers of troops), Russia (the other permanent member of the UN Security Council and a major power with important interests and ties in the Balkans), and Germany (which was deemed to have significant influence over Croatia). Opposition to the addition of Italy came primarily from France and the UK, and, earlier on, the United States. It was only when Italy was called upon to provide for the basing and transit of US military assets as part of the Western efforts to forge a peaceful settlement in Bosnia that its entry into the Contact Group was assured, largely because of US pressure.

Italy assumed an even more prominent position when the Albanian government collapsed in mid-1997 and insurrection (and repression) broke out in the Kosovo province of former Yugoslavia. Long cut off from the rest of Europe (and the world, for that matter), Albania looked to Italy, with which it had long-standing relations, as its bridge to the West. When the crisis occurred in Albania, Italy failed to secure agreement from its allies on common action — either in the Western European Union or the Organization for Security and Cooperation in Europe (OSCE) — to bring order to chaos and, more specifically, to assist in the establishment of an effective, elected government there. Accordingly, Italy, experiencing an influx of unwanted Albanians, then uncharacteristically took the initiative. It organized and led a European coalition, which brought a

measure of order and oversaw the OSCE-organized national election. The success of these operations clearly raised Italian confidence and its reputation as an important, effective player, thereby thrusting Italy closer to the "first league" on these issues.

Events near Italy, and the Italian response to them, have resulted in a more active and visible Italian role, thereby contributing significantly to Western efforts to bring some measure of stability and tranquility to the Balkans, a development that has been increasingly recognized and welcomed by the United States and other members of the Atlantic Alliance. Remarks by President Clinton at the 1997 Denver G-7 summit attest to that: He thanked Italy for "the extraordinary leadership" it had shown in the Balkans and referred to its "almost unprecedented effort to lead a multinational force in Albania," which, he predicted, would be seen as "a real watershed in European leadership for promoting security" in that part of the world. The result in terms of US-Italy interaction will, thus, undoubtedly be a more intense — and, one hopes, more productive — relationship.

Foreign Policy

During the postwar era Italy has not been a major foreign policy player, even though it claims special expertise — through historical relations, proximity and experience — in the Balkans, the Mediterranean, and the Middle East. Italy's involvement has been largely economic rather than political — and in much of the area quite actively so. However, it would be an exaggeration to credit it with a particular influence in these countries and regions (though Libya, because of special circumstances, is the exception). Rather, it has operated at the margin of foreign policy.

That marginalization was a function of a number of factors. One of these was the politicization of foreign policy — as with so much of Italian life — where a "division of labor" gave each of the main political parties a role in determining policies for specified regions (especially ones involving money). Another was a narrow definition of national interests, focussed largely on nearby countries and dominated by the concern to secure energy supplies. Thirdly, the Italian political class has been domestically focused: relatively few Italian politicians are interested in international affairs, speak foreign languages, and/or have spent significant time abroad.

Thus, talk of a "special Italian role" in the Mediterranean is overstated. In the first place, the countries bordering on that body of water have at least as many uncommon factors as common ones, hence one should be circumspect in referring to the existence of a "Mediterranean policy." Italy and Spain have been in the forefront in pressing the EU to pay greater attention and devote greater resources to the Mediterranean countries. However, the EU's "Mediterranean policy" has achieved only modest success, and Italy has played a supporting role to that of Spain.

Italy's role in the Middle East is analogous. At issue has been EU, rather than Italian, policy. Over the years, the EU has sought periodically to inject itself into negotiations to bring peace between the Arab states and Israel. Those efforts invariably elicited a sharp US rebuff — until the beginning of the peace process initiated by the Bush Administration. The reason for the US change in heart was that the EU could now provide an essential ingredient that the US could not — a substantial level of economic assistance — and thus the EU has now taken a seat at the table, or at least near the table. In this process it is difficult to distinguish a purely Italian role.

However, despite all the above, Italy is now emerging from its foreign policy shell to play a more activist role. That is the result of two factors. One is the lifting of the dead hand of the old political system, which has enabled — and given greater confidence to — Italy to identify its interests abroad and seek to further them in ways commensurate with its economic and political position. The other — more direct — factor is the outbreak of instability in the Balkans, a

development that directly affects Italian well-being and interests, which has forced Italy to become actively involved in efforts to contain the bloodshed and dislocation in that area bordering on its territory. Thus, Italy has increasingly become not only an identifiable player among the Western countries, but one contributing significantly to policy counsels and action. That has resulted in considerably greater consultation and cooperation between the United States and Italy on many more specific issues than characterized the relationship in the past.

There is, however, another area of foreign policy interaction between the United States and Italy, which is characterized by increasing friction. It is policy toward the so-called rogue-states, those countries whose actions and activities, particularly terrorism, are deemed to be beyond acceptable international norms — particularly Iran, Iraq and Libya. This contentious issue has developed into a major irritant between the United States and the EU. On the one hand, the United States maintains that these countries should be isolated, economically and politically, from normal international intercourse and seeks, through sanctions, to force other countries to adopt a similar policy. On the other hand, the countries of Europe — Italy included — believe that such a policy of exclusion will not produce good results, whereas a "constructive dialogue" offers a greater possibility for eventually bringing about change in these countries.

US-Italy differences over rogue state policy center in particular on Libya. The United States views Libya as a funder of terrorism that must be isolated from the rest of the world, while Italy has maintained close relations with Libya for decades, the result of historical links and dependence on that country for one-quarter of its oil supplies (a conscious policy to lessen its dependence on Middle East suppliers). That has been the source of considerable US unease over the years, though there have been few occasions of specific US displeasure. The most recent occasion of unease was the discussions by the mixed Italian-Libyan commission in July on a package of measures to improve relations — US unease being directed to what the contents of the package might be. However, viewed from the other side, Italy has felt, with some justification, that the United States was not sufficiently sensitive to Italy's dependence on Libya for oil and, more generally, to Italy's important markets in the "rogue states."

While the United States has remained concerned over Italy's Libya policy, Iran — occasionally an area of contention in the past — has recently been the site of new cooperation between the United States and Italy. The occasion was the visit in May of Prime Minister Prodi to Iran. The circumstances were unusual. The United States has sought ways of engaging with — and encouraging — the government of President Khatami, following his election in 1997. That has proven very difficult because of suspicion and domestic political constraints on the US side and parallel suspicion on the Iranian side, coupled with the danger that a forthcoming posture by Khatami would weaken his domestic position at the hands of the militant factions.

Thus, as it turned out, Prodi's visit provided an excellent opportunity for furthering US objectives. In itself the timing of the visit was remarkable: it was most unusual that the first European leader to visit Iran in over five years — and, indeed, one of the highest level leaders to visit since the 1979 revolution — would be an Italian. Typically, Italy would hold back until other countries had tested the waters. Thus, the visit was indicative of a more activist Italian foreign policy. However, it should be understood that Prodi in no way visited Iran as a US messenger; his was clearly an Italian visit to promote Italian interests, both economic and political. Nonetheless, his visit clearly promoted US interests as well. Prodi was careful to consult with the United States (the President, in fact) before the visit and afterwards (in addition to the EU member states), and the messages he gave Iran were clearly consonant with the views of the United States. These were views which could not have been delivered directly by the United States, and ones that no other

European leader could have delivered as "comfortably" from the US or Iranian perspective. The United States would have worried that the agenda of a French or German leader would differ from its own, and Iran would have dismissed a British initiative as representing a front for the United States.

This increased activity and visibility of Italian foreign policy has not, however, always pleased the United States. There have been some differences over whether and how to work for reconciliation between the government and the Islamic movement in Algeria. Cuba is an area of some contention where the US hardline anti-Castro policy contrasts with an Italian preference for engagement. A case in point was statements by Foreign Minister Dini during a recent visit to Cuba that appeared to undermine US Administration efforts to obtain support in Congress for the agreement reached in May with the EU over sanctions legislation against Cuba.

Before leaving the subject of foreign policy, there is a particular — little publicized — area of intense, highly productive bilateral interaction: cooperation on law enforcement. Agencies of the US government, especially the Federal Bureau of Investigation and the Drug Enforcement Agency, have worked closely with Italian counterpart organizations for many years in their mutual efforts to combat the Mafia, drugs trafficking and, more generally, terrorism. An extensive web of interchange has developed into what US government officials refer to as a model of bilateral cooperation. One indication of the closeness of the relationship is the fact that every year the Director of the FBI attends the memorial service in Palermo for Giovanni Falcone, the public prosecutor who was killed by the Mafia.

Implications

Expanded and more intense interaction between the United States and Italy will depend largely on Italy — in other words, on the extent to which Italy plays an active role, economically and especially politically, in Europe and beyond. As described above, there has been a significant and noticeable increase in Italian activity during the 1990s. The key question is whether that will be maintained — and increased — or whether Italy will revert to its former "low posture." To the extent the latter obtains, Italy cannot expect the United States to treat it on a par with the other major powers of Western Europe in terms of the attention paid to it and the efforts to cultivate its support.

Over the postwar period, Italy has sought assurances of its importance and has sought to be "present" on the world stage, with presence often taking precedence over substantive participation. That was certainly the case with the Economic Summit. What began as a G-5 was expanded into the G-7 because of intense pressure placed on the members — particularly the United States — by Canada and Italy. The other European members resisted letting Italy join because they did not consider it a political equal, but ultimately they relented because of Italy's economic weight and US support of Italy's cause (given largely on political grounds).

The debate over possible enlargement of the UN Security Council is somewhat analogous. Italy is desperate to avoid a situation where Germany would be given a permanent seat, but not Italy. In terms of economic and political power, Germany far outweighs Italy. However, Italy would consider it a demotion to second-class status if France, Germany and the UK (three of the EU's "Big Four") were all permanent members and it were not. At issue is national psychology and pride. However, fortuitously, this is a non-issue. Even though the United States was the first to raise the possibility of altering the 50-year-old — and now obsolete — lineup of the world's

"great powers," it recognizes the impossibility of devising a change in the structure of the Security Council that will achieve a consensus among UN members and accord with US interests.

One example of Italy's growing international role and its ability to "play the system" relates to the nomination of heads of international organizations. In 1979 it sought, unsuccessfully, the position of Secretary General of the Organization for Economic Cooperation and Development for an Italian, Filippo Maria Pandolfi. Pandolfi was one of the "new faces" of the Christian Democrats; he had been Minister of Finance; and he was an able and intelligent man. His candidacy met with total indifference in the United States, where the unstated presumption was that no Italian could be qualified. Furthermore, he was almost completely unknown to the government officials who would determine the US position. Whether out of disinterest or ignorance of how the system operated (or both), the Italian government did little beyond sending a diplomatic note providing a curriculum of Pandolfi and requesting support for his candidacy. Pandolfi never visited the United States to seek support, and his name was never seriously taken into consideration.

In 1993 Italy nominated Renato Ruggiero to become Director General of the General Agreement on Tariffs and Trade. Ruggiero was well known in international circles, first as a senior Italian diplomat and then as Minister of Foreign Trade, after which he moved to Fiat as its "foreign minister." The Italian government sought and obtained the support of the EU — a key determinant — which then pressed a somewhat reluctant United States into grudging acquiescence.

Second, the existing intensity and "high quality" of the relationship is the result — in part — of the unique quadrumvirate of Italian leaders in Italy's first government led by the former Communist Party (1996-98): Prime Minister Prodi, Foreign Minister Dini, Treasury Minister Ciampi, and Defense Minister Andreatta. Their intellectual capacities and achievements are impressive — certainly on a par with those of any other European government leadership. Three of the four have studied or taught in the United States or United Kingdom, all speak English fluently, and all are clearly internationalists. On all counts, that contrasts with the situation in Christian Democratic governments: hardly any had studied in the United States (or elsewhere outside of Italy), few spoke English (or any other foreign language), and — as described earlier — almost all were consumed with domestic politics. While each member of the present quadrumvirate was politically involved to varying degrees during a distinguished pre-political career, each (with the possible exception of Andreatta) began his political career as a "technician" and none can be considered a professional politician. Three of the four have served as prime minister, two as foreign minister. In sum, an enormous qualitative improvement has taken place in Italian political leadership, one which engenders far greater confidence by US leadership. Each member is considered a valid interlocutor, a firm and reliable ally. That represents a vast change.

A related development was the longevity of the government and the prospect for increasingly stable Italian governments. Prime Minister Prodi's appearance at three consecutive economic summits contrasts with the earlier tradition of nearly annual change of leadership, with the attendant difficulty of building up a serious bilateral relationship.

But what comes next? What happens now that Prodi has been replaced by D'Alema, who fits the domestically-oriented mold of traditional Italian politicians and can hardly be considered an internationalist? Was the Prodi government an aberration? Although Andreatta has been replaced, Ciampi and Dini have kept their portfolios — to what extent will that make a difference? A new political class is developing in Italy. To what extent will they share the internationalist perspective of today's leadership? Will they bring sufficient knowledge and experience of the world outside Italy's borders to enable Italy to play a role commensurate with its power? Those are questions that merit pondering.

Third, strong Italian support for the United States and its policies has been a constant of the entire postwar period. Thus, from De Gaspari to Craxi and on to the new faces of the 1990s, Italy's leaders — despite their preoccupation with domestic politics and irrespective of their degree of competence — staunchly supported the United States on issues of major importance for the United States, particularly in the security area. Whether it was missile deployment or NATO enlargement, Italy has been among those countries the United States could almost invariably count on for support. It may be easier to converse with Prodi in English than it was with Moro in Italian, but under both prime ministers Italy has undeniably been a reliable ally, while not, of course, acting exclusively in ways that have met the approval of the United States.

The question for the future is whether Italy's pro-US stance could change one day. If so, how and under what circumstance? Does Italy have a viable alternative?

One possibility is that Italy will find it necessary to choose between the United States and the EU, particularly as European economic — and possibly political — integration proceeds. Some US Government officials fear that may occur. However, it is not clear how such a choice might be presented. In what areas might the United States and the EU be at loggerheads, requiring member states to pick one side or the other? In fact, Italy has maintained its credentials as a member in good standing of both the transatlantic community and the European communities. The more likely choice facing Italy will be whether to follow a more outward- or inward-looking policy. The increasing globalization of today's world makes an inward-looking policy ever less viable.

In sum, the two countries share a rich intertwining of interests and people. The challenge to both sides will be to deepen and broaden that relationship to their mutual benefit.

Chapter III

The Mezzogiorno at the Millennium: The Outlook for Southern Italy in the Year 2000

Clark N. Ellis

"Italy ends at the Garigliano," said Francesco Forti¹ in the middle of the 19th century, and this small river still marks the boundary between Lazio and central Italy, Campania and southern Italy today. Carlo Levi went even further in the title of his famous book, *Cristo si è fermato ad Eboli* (*Christ Stopped at Eboli*). Christ stopped, not in the sense of staying there awhile, but rather that Eboli, in the Province of Salerno southeast of Naples was far enough for Him and He did not want to go further.

If Italy stops at the Garigliano, what begins there? What is its past? And most importantly, where is it going as we approach the third millennium of the Christian era? These are the questions I will try to address here.

Mezzogiorno

The first question is easy. Southern Italy or "the *Mezzo-giorno*" is usually defined as continental southern Italy from the Abruzzo south to the tip of the "boot", plus Sicily and Sardinia (although some exclude the two south-central regions, Abruzzo and Molise). It is an area that comprises about 40 percent of Italy's land area and 33 percent of Italy's population. But, as we shall see, it represents a much lower percentage of Italy's principal macroeconomic indices, except, unfortunately, unemployment.

Despite the stereotypes that come to us through television and the movies, Southern Italy is rich and varied both geographically and culturally. Everybody knows Capri and the Amalfi coast, but the coastline of the Gargano Peninsula in Puglia, the Costa Viola in Calabria and the Aeolian Islands off Sicily should be equally famous. Everyone knows Vesuvius and Mt. Etna, but impressive mountain scenery is also to be found in the Apennine mountains in the Abruzzo and in the wild and little developed Pollino and Sila ranges in Basilicata and Calabria.

Culturally, southern Italians are proud of their rich heritage: The ruins of the Roman city of Pompeii are universally known, but fewer visit the National Archeological Museum in Naples which contains most of the finest treasures from Pompeii, or the incomparable Roman mosaics of Piazza America in Sicily? How many know that one gets a better picture of ancient Greece by visiting the archeological sites of Magna Grecia in Paestum, Agrigento, Segesta, Selinunte and Syracuse and the museums in Syracuse, Taranto and Reggio Calabria than by visiting Greece itself?

The Norman civilization in Sicily gave us the magnificent cathedrals at Monreale and Cefal with their breathtaking Byzantine mosaics. In the South the Norman/German empire of Frederick the Second (*Stupor Mundi*) was in many respects the most modern state of its time. Even the much maligned regimes of the Spanish Viceroy and the Bourbons contributed a great deal culturally from the baroque city of Lecce in Puglia to the magnificent palaces (and art collections) of Capodimonte in Naples and Caserta to achievements in industry and transportation. One of the earliest planned industrial towns was San Leucio for the silk industry, and continental Europe's first railroad ran from Naples to Portici.²

Finally, in music the South has given us Cimarosa and Bellini, the San Carlo Opera in Naples, Enrico Caruso and in the modern era, Peppino di Capri. More recently, "the Three Tenors," Cecilia Bartoli or Andrea Bocelli, give a great deal of attention in addition to famous operatic arias, to haunting, passionate and lyrical Neapolitan songs.

The History of the Problem of Development

With all this in the *Mezzogiorno*, why is there a "Southern Question" in Italy, what are the aspects of the problem, and what has been done and is being done about it? There has been a "Southern Question" ever since the deposing of the Bourbons and the unification of Italy in 1860. Although Garibaldi's legions were greeted joyfully by many Southerners, to many others the northern regime of Victor Emanuel II seemed like a hostile invasion which looted the treasury of the Kingdom of the Two Sicilies, devastated the heavily protected local industries, and reduced Naples from the fourth largest city in Europe and the capital of a kingdom to a provincial town.³ True, the South was poor, largely agricultural, with a semi-feudal society, and infested with crime and corruption, but the immediate effects of unification did little to improve the situation for the average citizen. It is not surprising that the mass emigration from southern Italy started after unification and lasted until the 1920s. The socio-economic situation in the South did not change in a major way under Fascism. Mussolini's regime did make some progress in combating the Mafia in Sicily, but American forces strengthened it again during World War II.⁴

After World War II, however, and the return of democracy, the Italian government and intellectuals began for the first time looking at the "Southern Question" in a systematic way. In accordance with economic development theory at the time, it was felt that endogenous factors were insufficient to get self-sustaining economic development underway in southern Italy. Only through the introduction of exogenous resources, through government spending and infrastructure projects could economic development get underway.

The most well-known effort to promote economic development in the South was the Cassa per il *Mezzogiorno* established in 1950. The Cassa provided public sector infrastructure investments such as roads, water projects, etc. In addition, the government promoted investments in the South through credit subsidies and tax advantages.

The results were very mixed. Certainly, some of the investments brought rural villages in the South into the modern world for the first time. The Naples-Reggio Calabria autostrada was certainly one such project. On the other hand, much of the money was misallocated for political reasons such as dams which were not connected to irrigation projects or municipal water systems. "Cathedrals in the desert" such as the planned but never built Gioia Tauro steel mill became notorious. Noted historian Denis Mack Smith, writing in the late 1960s quoted estimates that "a good third" of the Cassa's funds were completely wasted.⁵ Industrial development was not very successful. On the whole it was state-controlled firms which moved south. It was also capital-intensive rather than labor-intensive industries which located there because skilled labor was lacking, while at the same time officially sponsored credit made capital cheap. The result was to leave southern unemployment little improved.

This situation led to another period of emigration from the South. This time it was internal migration to the North of Italy, about two million people in the late 1950s and early 1960s.⁶ (There was also a significant emigration to the other member countries of the European Common Market and Switzerland.) The emigration did reduce unemployment in the *Mezzogiorno*, but created social

problems in the North, "Rocco and his Brothers." By leaving behind the young, the old and women, a whole new set of social problems was created in the South.

Despite these difficulties, the 1950s and 1960s were a positive period for the *Mezzogiorno* and for all Italy. A rising tide, as the saying goes, lifts all boats. During this period, the gap in income levels between the Center-North and the South narrowed.

Things changed for the worse, however, in the 1970s and 1980s. Money continued to be poured into the South, but with less positive results. Corruption increased, organized crime grew stronger and public funds were increasingly used for political purposes, rather than for economic development. The weakness of the productive system in the South combined with a political system in which votes could be exchanged for favors meant that there was an incentive to seek a redistributive income, such as a public sector job, a pension, a subsidy or a government construction contract.⁷ This situation reinforced the power of established interest groups, which opposed social change and institutional reform. The interconnected networks of clientelism, welfare dependency, corporatism and organized crime combined with the growing inefficiency of public administration. The result, according to a recent study by Italian economist Silvio Goglio, has been, "a vicious cycle in that weak local communities and institutions (that is a weak civil society) constitute an institutional and organizational vacuum that has been filled by the system of values and incentives for redistributive behavior dominated by the business-politics-crime network, which inevitably generates distorted economic forms."⁸

While all this was widely known in Italy, it was not until the *tangentopoli* (bribesville) scandals broke in the early 1990s that the extent of the problem was disclosed. (It should be noted, however, that the scandals, which destroyed the Christian Democrat and Socialist Parties and eliminated a whole political class, were first uncovered in Milan, not in Naples or Palermo. In short, political corruption in Italy is a national and by no means an exclusively southern Italian problem.)

The Situation Today and the Outlook for the Start of the New Millennium

The *tangentopoli* scandals have had a significant impact on the *Mezzogiorno*. One result has been a reduction in government resource flows to the South: fewer government jobs, fewer subsidies and a large cutback in government-funded construction projects which in some provinces were a principal source of economic activity. In part the reduced spending was a response to the outcry, especially by the Northern League and northern Italians generally, against wasting more public funds in southern Italy. In part it was also due to the budgetary stringency required of the Berlusconi, Dini and Prodi governments to meet the deficit targets of the Maastricht Treaty on European Monetary Union.

As a result *Mezzogiorno* has fallen further behind the North economically, as can be seen by the latest statistics reported in *Il Sole 24 Ore*:⁹

While at least temporarily the link between voters and corrupt politicians has been for the most part broken, public administration, particularly in the South, is proving resistant to reform. Government civil servants, having become accustomed to receiving favors (bribes) for doing their work, feel that they have little incentive to make any decisions or take any actions. Since it is almost impossible to fire them, many civil servants feel that the safest action is to take no action. They are aided in this stance by a complex and inefficient legal system (some 150,000 laws and regulations to follow) and an overlapping bureaucratic structure. Catania's center-left reform mayor, Enzo Bianco, cited 14 separate permissions needed merely to move a bus stop.

The North-South Divide (Part I)

Comparison of Principal Macroeconomic Indicators

<i>Cumulative Percentage Growth 1992-97</i>	<i>Mezzogiorno</i>	Center-North
Gross Domestic Product	1.7	8.5
Family Consumption	3.5	5.8
Gross Fixed Investment	-23.9	-0.5
Employment	-7.4	-0.9
Underground Employment (as a Percentage of Total Employment in 1997)	31.3	12.6

The North-South Divide (Part II)

Comparison of Principal Macroeconomic Indicators	1992	1997
Per Capita Gross Domestic Product (<i>Mezzogiorno</i> as a % of the Center-North)	58	54.5
Unemployment Rate <i>Mezzogiorno</i>	16.3	22.6
Center-North	6.2	7.4
Exports (billions of Lire)		
<i>Mezzogiorno</i>	19,100	38,900
% of Italian Exports	8.9	9.6
% of Gross Domestic Product	5	8.2
Center-North (% of Gross Domestic Product)	17.5	24.8

A concrete example of the inefficiency of Italian bureaucracy might help: in 1996 the U.S. Navy needed approval from the town of Castel Volturno near Naples to put up a temporary building for a year to house the Headstart Program on a piece of land already containing the dependent elementary school. The mayor indicated that he wanted to help but said that he had to get the approval of the Ministry of Foreign Affairs in Rome since it involved NATO. The Ministry of Foreign Affairs took the view that it was an educational rather than a diplomatic matter and forwarded the file to the Ministry of

Education. The Education Ministry opined that since it involved construction rather than didactics, the question should be referred to the Ministry of Public Works. That ministry, too, declined to get involved and sent the file back to the Mayor with the comment that it was the city administration's responsibility to make the decision. But was it? The Mayor then stated that by law he still needed clearance from a number of national government agencies including the

Ministry of Cultural Assets (because ancient artifacts might be encountered on the property), the Port Authority (because Castel Volturno is a port) and the Forest Service (because coastal pine forest land, which this had once been although it now was without trees, is under their jurisdiction). More than a year transpired, no action was taken: the Navy gave up and made other arrangements.

The partial decentralization of the government under the 1970 law granting limited authority to regional governments has not worked very well in practice. As Goglio has pointed out, it has given rise to "a proliferation of bureaucratic apparatuses without introducing robust autonomy or political participation."¹⁰ This can be seen in the overlapping roles of municipality, province and region. When the different levels are controlled by opposing political groupings, deadlock is often the result. For example, the center-left administration of the city of Naples and the center-right administration of the regional government of Campania have disagreed on plans for a major urban renewal program for the Bagnoli district of Naples, the site of a closed steel mill. As a result after several years, the whole project is still under discussion. In general, southern Italian local and regional governments also have a very poor record in coming up with development projects. In 1996, Italy managed to spend only 30 percent of its entitlement to European Union money to help disadvantaged regions (mostly the *Mezzogiorno*). Bureaucratic ineffectiveness and a lack of technical project-planning skills in addition to political rivalries are the causes of this inability even to collect handouts.

The Northern League, and indeed many in the North of Italy want to move to genuine federalism, including removing control over much of government spending from the national government (*Roma ladrona* — Rome the big thief). This type of decentralization would require nothing less than a complete overhaul of the structure of the state. For example, who would be responsible for law and order in a federal Italy? The *Polizia di Stato* whose responsibilities already overlap with the *Carabinieri*? New regional police forces? Special police forces such as the Finance Police? Unfortunately, given current practice, the answer would probably be all of the above, and only a new layer of bureaucracy would be added. Moreover, an expert on the *Mezzogiorno*, economist Alfredo Del Monte, has concluded that the administrative reform of the 1970s, which gave additional powers to regional governments led to increased corruption in nearly all of Italy (not just in the South) by increasing the margin for autonomous decision making by bureaucrats and politicians.¹¹ Thus, further administrative and fiscal decentralization without an improved civic culture would provide the opportunity for more corruption in the *Mezzogiorno* and increase the risk that municipal and even regional, governments would come under the influence or even control of organized crime.

The most serious problem facing the *Mezzogiorno* is crime. It is not petty crime — although that is a problem, as it is in most large cities — but organized crime which has such a stultifying grip on much of the *Mezzogiorno*, especially the *Camorra* in Campania, the *'Ndrangheta* in Calabria and the *Mafia* in Sicily. Some progress has been made in putting the crime bosses behind bars, but the ensuing violence between rival gang lieutenants seeking to gain control of territory has resulted in a record number of murders in Naples and other cities. In 1997, after an innocent woman walking her child home from school in a Naples middle class neighborhood was killed in the crossfire of a *Camorra* shoot-out, Mayor Antonio Bassolino asked for 500 army troops to guard temporarily public buildings and consulates to free up more national police and *Carabinieri* to perform patrols and investigative work. Organized crime shakedowns of merchants and industrialists in the South are a major deterrent to domestic and foreign investment. In addition, the weakness of the financial sector -- four of the largest banks in the South posted combined losses of \$4 billion in 1994-96 — encourages loansharking, much of which is controlled by organized

crime. Finally, the poor economic situation and the dearth of legal employment opportunities give organized crime powerful tools for recruiting new adherents to the gangs.

On the brighter side, the removal of the old corrupt political class in the wake of the *tangentopoli* scandals has led to the election of a new group of dynamic, and thus far apparently honest local officials, especially in the large cities. Among them I would note Naples's twice elected PDS major, Antonio Bassolino; Palermo's anti-Mafia mayor of La Rete party, Leoluca Orlando; and Catania's center-left mayor, Enzo Bianco. At times, Bassolino and Bianco, perhaps rhetorically, have called for a "partitio dei sindaci," (a mayors' party), to call attention to the special needs of Italy's big cities north and south. Bassolino and Orlando have the potential to play a role on the national political stage, and indeed, Bassolino was appointed Minister of Labor in the new government of PDS leader Massimo D'Alema. The challenge is to be at the same time a national spokesman for the *Mezzogiorno* and the mayor of Naples.

What did the government of Romano Prodi do to deal with the problem of the *Mezzogiorno* and what are the first steps of the D'Alema government? Prodi launched two initiatives, "territorial pacts" and "area contracts." Both of these vehicles were intended to stimulate economic activity in the South by increasing involvement and coordination among regional, provincial, and municipal officials, unions, and the business community. The first was to encourage new private sector initiatives with limited government assistance and funding. The second was to permit limited local departures from nationally-negotiated wage rates.

The results to date have been disappointing. The territorial pacts have lacked sufficient funding and/or have been paralyzed by local political infighting. The area contracts have not been popular with the unions which have generally resisted attempts at increasing labor market flexibility — despite the fact that over 30 percent of workers in the *Mezzogiorno* are employed in the underground economy where there is total flexibility in wage rates and there are no benefits. The Governor of the Bank of Italy, Antonio Fazio noted in October 1998 that of the 412 initiatives launched under the territorial pacts/area contracts umbrella, 68 had been abandoned and only 18 had reached the point of being able to disburse funds.¹² Fazio also repeated the call for greater labor market flexibility. The Prodi administration also provided funds to local governments in the South for "socially useful work." This program, similar to the Works Progress Administration (WPA) in the United States during the Depression, provides minimum wage public sector jobs to workers who have lost their positions.

Massimo D'Alema has indicated that the two priorities for his administration will be to tackle the national unemployment crisis and the problems of the *Mezzogiorno*.¹³ For the South D'Alema will move forward with the "Sviluppo Italia" agency, also called Agensud. The Agensud is a holding company with two roles: (1) territorial marketing: a promotional agency to attract northern Italian and foreign investment, and (2) support for local authorities in developing projects for European Union funding.

The Agensud is not to be a contracting office nor will it carry out infrastructure projects. Infrastructure funding and project monitoring will be the function of the Treasury's Department of Development and Cohesion. The Industry Ministry continues to disburse the financial incentives for private investment in the *Mezzogiorno*. Press reports indicate that the labor Minister will be given some oversight responsibility for the Agensud and the interagency "Employment Taskforce". In the latter capacity he will be responsible for the administration of the area labor contracts in the South. How will this new team work together? Will the D'Alema initiatives be "deja vu" as some cynics are commenting? We will have to wait and see.

Prospects

There are some encouraging developments which show that successful change can take place in the *Mezzogiorno* when circumstances are favorable:

- New investments: The American hi-tech firm EDS has made a major investment near Caserta. Mission Energy from California has made an investment in Sicily. The University of Pittsburgh has initiated a joint venture in Palermo to establish a state of the art cardiac treatment facility. American and Italian entrepreneurs using Danish equipment and Japanese financing have launched a wind power project in Avellino Province. Fiat's new automobile plant in Basilifata is at the cutting edge of technology and employs significant numbers of local workers although its linkages with local suppliers are still weak. BAA, the British Airport Authority, has made a majority investment in the Naples Airport, and German investors have turned the once-abandoned Gioia Tauro industrial site into a thriving container port.

- Petroleum: Significant oil strikes have been made in the Province of Potenza in Basilicata. Although energy prices are currently very low, some analysts are predicting a new energy shortage in the first decade of the next century. Such a development could bring considerable revenue and potential development to this part of the South.

- Tourism: This holds great promise for the *Mezzogiorno*. At the outset I mentioned just a few of the natural and cultural attractions that the South possesses. Much needs to be done to develop them, but a start has been made. In Naples, for example, a considerable effort has been made to restore historic churches and monuments and to develop user-friendly tourist itineraries. The newly refurbished Capodimonte Palace Art Museum, the National Archeological Museum in Naples and the archeological museum in Syracuse are now world class facilities — except for their still primitive museum shops. In a real sense, the *Mezzogiorno*'s future is its past. The Smithsonian Institution and other groups have started offering cultural tours in southern Italy. With millions of pilgrims coming to Italy for the great Christian Jubilee Year of 2000, the *Mezzogiorno* should be able to attract a good number of them. Additional lodging will be needed, however, to accommodate the expected influx.

- Education: This is the real key to positive change in the *Mezzogiorno*. A long-term educational investment to promote civic and moral responsibility will be just as essential to changing mentalities and breaking the hold of organized crime as are increased police and a more effective judicial system. This was also the view of Benedetto Croce — one of the *Mezzogiorno*'s most celebrated philosophers. In his 1924 work, *History of the Kingdom of Naples*, Croce concluded:¹⁴

Since history is a spiritual action, every political and practical problem has a spiritual and moral character. Every problem must be seen in this framework and be solved as best it may; there is no specific, complete remedy. The job is up to educators, by whom I do not mean schoolteachers or schoolteachers alone; we must all strive to be educators, each in his own circle, and educators, in the first place, of ourselves. In the face of such a task the individual has a humbling sense of his own limitations and of his need for help and support; he spontaneously turns to what I can only call prayer. . . . In searching for a political tradition in southern Italy I have found that the only thing in which it can fully take pride is its teachers and thinkers. It was they — the soul of the country — who accomplished whatever good was done in this country, whatever endowed it with decency and nobility, whatever gave it the vision and laid the groundwork of a better future and joined it to Italy.

The *Mezzogiorno* will remain part of a united Italy despite what the Northern League might say. It is a region of promise as well as of problems, and it is not clear which will dominate in the years ahead. We can only hope, as did Croce, that a new generation of southern Italians, educated both civically and spiritually, will lead the *Mezzogiorno* in the new millennium.

Notes

1. Quoted in Benedetto Croce, *History of the Kingdom of Naples* (Chicago: University of Chicago Press, 1970), p. 232.

2. For Information on San Leucio and the first railroad in the Kingdom of the two Sicilies see Antonio Ciano, *I Savoia e il Massacro del Sud* (Rome, Italy: Grandmelo' s.r.l., 1996), pp. 65-71.

3. For a discussion of the immediate negative economic impact of unification on the *Mezzogiorno* see Denis Mack Smith, *Italy: A Modern History* (Ann Arbor: The University of Michigan Press, 1969), pp. 49-51. The noted Neapolitan historian Vittorio Gleijeses is quoted by Ciano *in op.cit.*, 0. 62 with regard to the use of the treasury of the Kingdom of the Two Sicilies to restore the shaky finances of the new Kingdom of Italy.

4. Mack Smith, *op.cit.*, p. 505.

5. *Ibid.*, p. 506.

6. *Ibid.*, p. 507.

7. Silvio Goglio, "The Crisis of the Italian Unitary State: An Economic Analysis," *Mediterranean Quarterly* (Summer, 1998), p. 85.

8. *Ibid.*, p. 85. All of Italy is considered to have a weak civic culture, at least relative to that of the Anglo-Saxon democracies [See: Gabriel A. Almond and Sidney Verba, *The Civic Culture* (Princeton, NJ: Princeton University Press, 1963). Nevertheless, there is a considerable tradition of local self-government in parts of central and northern Italy that is generally lacking in the *Mezzogiorno*.

9. "Sviluppo e *Mezzogiorno*," *II Sole 24 Ore*, internet site, www.ilsolc24ore.it, October 20, 1998.

10. Goglio, *op. cit.*, p. 82.

11. Alfredo Del Monte, "Fallimenti del mercato e fallimenti del governo: quale politica per il *Mezzogiorno*?", *Meridiana*, (n. 11-12, 1991), p. 142.

12. Rossella Lama, "Fazio: il Sud e' ancora piu' lontano," *II Messaggero*, internet site, www.ilmessaggero.it, October 20, 1998.

13. "Lavoro e *Mezzogiorno* nell'accordo programmatico del nuovo Governo D'Alema," *II Sole 24 Ore*, internet sit www.ilsole.24ore.it, October 20, 1998.

14. Croce, *op. cit.*, p. 248.

Chapter IV
The European Monetary Union and the Single Currency
A Gateway for the Political Modernization of Italy

Paolo Janni

The Background

Eleven of the fifteen member States of the European Union have irrevocably locked their exchange rates to the Euro, Europe's new single currency from January 1999. Additionally, they set the value at which the Euro will be traded and surrendered their control over monetary policy to the new European Central Bank. Although banks and stock exchanges will carry out all the non-cash transactions in the new single currency as of January 1999, national currencies, like the Italian lira, the French franc or the German DM will not be fully replaced by the Euro until July 2002. But banks and stock exchanges began to carry out all the non-cash transactions in the new single currency as of January 1999.

The event represented a turning point of epic proportions in the history of the continent and a bold leap forward of the ambitious political experiment initiated almost fifty years ago of achieving an ever closer union among the people of Europe. Jean Monnet's prophetic vision expressed in the Preamble of the 1951 Treaty establishing the European Coal and Steel Community has once again proven true. Europe can be built *only* through *practical achievements* which *first* of all create *real solidarity*, and through the establishment of common bases for economic development.

To anyone who can still remember the intra-European ravages left by World War II, the fact itself that eleven European nations — divided by centuries of reciprocal fears, like Germany and France, or culturally distant one from another, like Italy and Finland — begin paying all their transactions with the same currency amounts to a near miracle.

The criteria to be met by each European country in order to be part of the European Monetary Union and the Single Currency by January 1st 1999 were:

- to achieve an inflation rate no more 1.5 percent higher than the three lowest national rates in the EU
- to set long-term interest rates at no more than three percent higher than the three lowest EU rates.
- to reduce the budget deficit to less than three per cent of the GDP, and
- to have avoided, in the previous two years, devaluing the national currency against other European currencies.

The gap between the reality of the Italian economy and the criteria set for by the Maastricht Treaty just three years ago (1995) was so wide that few would have gambled on Italy's ability to meet such criteria. All the economic indicators regarding European convergence were against Italy. The annual rate of inflation was at 5.6 percent while the average European rate was at 3.5 percent. The long-term rate of interest was 12.4 percent. The public debt was near 120 percent of GDP while the average European ratio was 70 percent. Only in two previous occasions had the ratio in Italy reached such a peak: in 1920, after World War I (125 percent) and in 1943, after World War II (118 percent).

Additionally, the public deficit was 7.9 percent of GDP, three times that of the German deficit. The outlays by the State to pay the interests on its debts, which were only 1.5 percent of the GDP in the 60s, reached 10.8 percent in the middle of the 90s.

This cumbersome and very dangerous situation had been made possible over the previous twenty years by the Italian party system as a whole, which sought the popular consensus through the free run of public expenditure without regard to a sustainable budgetary policy in the longer term. The Government was often seen as the employer of last resort.

The populist nature of the Italian parties had produced a system of widespread free handouts where the citizens never paid for the true cost of the services they received. The beneficiaries were a large class of people of independent means (*rentiers*) who shared responsibility in squandering the public finances. "The political class and *rentiers*," says Alberto Quadrio Curzio, "clung to each other in a treacherous commitment: to consume credit and to send the bill to future generations."

In the middle of the 90s the Italian economic boat would have sunk were it not for private savings, which remained among the highest in Europe and, indeed, in the world; for an increase in exports, helped also by the devaluation of the lira; and, finally, for the reform of the *scala mobile*, the automatic indexation of the wages to the rate of inflation. This made it possible to lower the expectations for wage increases while introducing some form of flexibility in the labor market.

The first real departure from the disorder of the previous decades was brought about by Giuliano Amato's government (June 1993). Amato — a graduate of the University of Pisa and Columbia University in New York and a former deputy Socialist leader — kept warning that Italy was on the edge of an economic abyss. He was able to get the Parliament's approval for deep cuts in public expenditure and a raise of revenues in order to save 75 billion dollars.

Most important, he was able to tackle for the first time the old problem of the reform of Italy's Pension System. Under Amato's scheme, pensions were computed as a fixed percentage (two percent) of lifetime average earnings, adjusted by the number of years of contributions. The retirement age was raised from 60 to 65 for men and from 55 to 60 for women, despite huge street protests on the "one-way sacrifices" which, according to the demonstrators, were at the core of his reform policy.

Weakened by the loss of seven of his ministers to judicial enquires by *Mani Pulite* ("Clean Hands") — an investigation against politicians, industrialists, judges — Amato resigned in April 1994. He was replaced as caretaker by Carlo Azeglio Ciampi, former Governor of the Bank of Italy, who pursued much of Amato's policy.

The elections of April 1994 brought to power Silvio Berlusconi. A TV tycoon, owner of Fininvest Holding Company — a vast conglomerate which grew to control more than 150 business — and the AC Milan soccer team, Berlusconi entered politics with his hastily founded *Forza Italia*. Its intent was to fill, with a clear mercantile perception, the electoral and political vacuum left by *Mani Pulite*'s destruction of a large part of the political class. His electoral campaign was centered on the need to thoroughly change the political class and to give new impetus to the governmental activity. Actually the content of FI's program reflected continuity more than a real break of the previous administrations.

His government was pulled down only seven months later by the defection of one component of the coalition, the northern separatist *Lega*. It did not have enough time to try any serious policy, although it included two very qualified "experts" such as Lamberto Dini, Treasury Minister and Giulio Tremonti, Finance Minister. Arguably, Berlusconi, with his strong inclination for populism, did not have the political consistency required to define a credible strategy in the Italian political

minefield of vested interests, including his own vast financial interests which many believe to have been in conflict with his own political ambitions.

The process of balancing the Italian public budget took a steady step forward with Prime Minister Lamberto Dini. A former director general of the Bank of Italy and an international economist, he had spent almost twenty years of his professional life with the International Monetary Fund in Washington. His government was controversial in origin, being explicitly designed to defuse the deterioration of the political climate, and not tied to any electoral mandate or to any identifiable parliamentary majority. Nevertheless, Dini enacted a fundamental reform of Italy's pension system (Law 335, 1995), adopting the same calendar as the previous Amato's scheme, which was never fully in place.

Dini's reform replaced an income-based system with a contribution-based system. The two main changes in the area of retirement benefits were: (i) the introduction of a link between the benefits and lifetime contributions, and (ii) the abolition of the system of seniority pensions that allowed early retirement without penalties.

Dini also planned for the public sector deficit to be reduced through spending cuts and by additional revenues through a clampdown on tax evasion.

The 1996 general election brought to the power the center-left coalition "Ulivo" (Olive Tree) led by Romano Prodi with the Democratic Party of the left as the largest party of the coalition. A post-graduate student at the London School of Economics and a centrist economist of the University of Bologna who once headed the Institute for the Industrial Reconstruction - a large State holding company-Prodi also held a visiting post at Harvard University.

The victory of the "Ulivo" did not reflect a meaningful shift of the electoral vote to the left or a realignment of the party system, but rather the vagaries of the electoral system and the division of the opposing center-right coalition. Actually the overall portion of the electoral vote going to the center-right coalition was greater in 1996 than it had been in 1994. But both Prodi's strong reputation for honesty and his down to earth personality proved to be an important asset in the new political environment.

To govern, Prodi needed the Senate support of "*Rifondazione Comunista*" Party, the more radical and antagonistic force of the former PCI, which had struck an electoral alliance with Ulivo. Despite the frequent threats to the stability of governmental action from Rifondazione- whose veto power gave external support to the government — the Prodi coalition was able to build on the previously policies of the Amato, Ciampi and Dini Governments. A major role in the Prodi government was played by Italy's Treasury Minister, Carlo Azeglio Ciampi, as the guarantor of the Italian fiscal responsibility and international monetary credibility. A Germanophile with a strong passion for Goethe and no political affiliation, Ciampi was able to persuade Italy's European partners that it would stick to its debt reduction programs.

It was the time when the corporate world and some European governments believed that the compliance with the timetable set by the Maastricht Treaty was beyond Italy's reach.

- Giovanni Agnelli, Chairman of Fiat and the leading player of the Italian economy, said that "only a miracle would permit Italy to join EMU in 1999".

- The chairman of the Bundesbank, Hans Tietmeyer, warned the so-called "Club Med" EU Mediterranean member states (Italy, Spain, Portugal and Greece) not to try to meet the Maastricht criteria through "breathless short-term efforts".

- French President Chirac also expressed serious concerns on Italy's ability to meet the challenge. France had a political interest in having both Italy and Spain in the Euro-zone in order to avoid the EMU being overwhelmingly dominated by Germany.

- Spanish Prime Minister, Aznar, told Prodi that Spain would not be prepared to join Italy in an effort to postpone the Maastricht deadline, should Italy need more time to put its house in order.

Prodi's goal was to have Italy join the EMU from the beginning, without "running people over," but rather through his government dialogue with the institutions and the representatives of collective interests, e.g., unions and Confindustria. Good governance would motivate public opinion. The biggest revolution in Italian politics, he said, would constitute the restoration of "normality".

The general government deficit was cut by four percentage points to 2.7 percent of GDP in 1997, one of the largest annual retrenchments recorded in the OECD area. This resulted from a mix of additional taxation and spending cuts (more taxes than cuts) as well from the postponement of some infrastructure investments. Moreover, a once only "Eurotax" was inserted in the 1997 budget which provided additional revenues of about eight billion dollars. The tax was to be reimbursable later, and a partial reimbursement of it is already underway. The overall consequence of the government's measures, including the Eurotax gimmick, was that the 1998 Italian budget deficit stood at 2.7 percent of the GDP, well within the three percent required by Maastricht.

The sharp budget deficit reduction helped to improve the conditions for non-inflationary economic growth. However, the outstanding public debt burden, although on a downward path to 121 percent from 124.9 percent of GDP, remains a source of instability. Its substantial reduction will be a serious challenge facing economy policy.

The Euro was seen by the Italians as worth the sacrifices, e. g. higher taxes, greater unemployment and lower benefits in the short run. The perspective of similar sacrifices defeated France center-right government headed by Alain Juppe and brought to power Lionel Jospin's left coalition, which included the Communists: *la gauche plurielle*.

The Italian social agreement with Prodi's austerity policy was also a reflection of the Guadalupe syndrome. The French President Giscard d'Estaing had invited US, UK, Germany and France — but not Italy — to the meeting he convened in the 70s in the Caribbean Islands "to think together on the state of the world". That exclusion, which was seen as an insult by the Italian public opinion, gave new impetus to Italy's historic quest for the recognition of its European status at the same level as Great Britain, Germany or France. After Guadalupe, its presence in international fora as a co-player with its European partners has become the primary objective of Italy's foreign policy, largely backed by the Italian people.

On May 2nd 1998 the European Council convened to select the countries eligible for EMU and the single currency, recognized that Italy's rate of inflation, its interest, the lira's stable exchange rate, its public debt, as well as the "trend" towards its reduction, were all consistent with Maastricht Treaty criteria.

Italy was eligible for participation in EMU from the beginning, together with Austria, Belgium, Finland, France, Germany, Ireland, Luxembourg, the Netherlands, Portugal and Spain. Denmark and Sweden chose to opt out, the United Kingdom reserved its right to opt in at a later stage, while Greece had not yet met the criteria.

The European Council's decision was met with relief (*sollievo*) by the Italian government as well as by the general public. In Europe, Italy's membership in EMU was generally perceived as

a great, even miraculous feat of Prodi government and as "Italy=s coming of age as a modern nation."

What Now at the European Level?

The January 1999 step tied irrevocably the rate of conversion of each national currency vis-a-vis all other national currencies, reducing thereby the room for maneuvering of the eleven member states of the EMU. This is a significant loss of their sovereignty over one of its very symbols: money. Moreover, the "Stability and Growth Pact" requires that the member states submit programs with medium term budget deficit targets close to balance or to a maximum of three percent of the national GDP.

Sanctions will be imposed on countries which fail to take remedial actions to correct the imbalances. Non-interest bearing deposits with the European Central Banks by the member states could be converted to fines if excessive deficits are not corrected.

National governments will be left powerless in the monetary field. The sole responsibility for monetary policy will be entrusted to the Frankfurt-based European Central Bank (ECB) and to the European System of Central Banks (ESCB), which include the ECB and the governors of the eleven countries' central banks.

The ECB's main responsibility is price stability, not economic growth, which instead is the main concern of the politicians. The chairman of the ECB, Wim Duisenberg of Holland with no experience in monetary dialogue in his own country, where members of the Central Bank are legally barred from Parliament, said that the politicians were free to say what they liked, but that "it would be abnormal if they were listened to".

Duisenberg was wrong. France and Italy are more concerned with economic slowdown than with a rebound of inflation. For the Germans, who have shown an almost totemic trust in their beloved "deutch mark", inflation has been the primary concern of the last fifty years. "Not all Germans believe in God," once said Jacques Delors, the most assertive, productive, strong willed and controversial of all EU Commission presidents, "but they all believe in the Bundesbank" as the stern guarantor of the price stability.

An effective EMU will also require convergent fiscal and social policies in the member states as well as real political solidarity. Therefore, ECB policy needs public acceptance and, as a last resort, some forms of democratic oversight.

Positive consequences are expected from the EMU for the EU as a whole, but the advantages may not be equally distributed among the member states. Should a crisis arise at national or regional levels — the so-called "asymmetric shock" — the affected government will have no remedial macroeconomics weapons to counteract. (An asymmetric shock is an exceptional situation created by an exceptional national or local event, like the German reunification. It touched only Germany, although its fallout was largely transmitted to the rest of Europe by the policy of the Bundesbank. A sharp increase in oil prices would not produce an "asymmetric" shock, because it would affect not one but all the oil importing industrialized countries.) National governments will be left with very little leeway in fiscal policy, which is governed by the constraints of the "Stability Pact".

The New European Political and Economic Landscape

Two major circumstances have changed the European political and economic landscape since the signing of the Maastricht Treaty of 1991.

The first, is that in ten out of the eleven members' of the Euroclub — as the member states of the EMU are currently known — center left coalitions have replaced the center right governments in the early 90s, including Italy. Their main objective is cutting the unemployment through lower interest rates and/or interpreting in a more flexible way the constraints on national budgets resulting from the single currency. The fight against unemployment will be for most of them the litmus test of their success.

A distinction has been put forward between productive investments and current expenditures: only the latter can be taken into account to calculate the size of the public deficit. This flexible interpretation of the EU's "Growth and Stability Pact" has been echoed by the Italian Treasury Minister, Ciampi, the steward of Italy's public finance reform. There is now room, he said, for a re-definition of the "Pact" that could boost economic growth *and* employment across Europe. Finally, the *communiqué* issued by the European Council at Portschach, Austria, explicitly states that the "Pact" must be "interpreted" before being applied.

It is to be seen whether that means that the gospel of fiscal restraint is losing appeal and that the new center-left governments will allow new waves of public expenditure, push budget deficits up again and return to higher inflation.

The second circumstance is that the rate of economic growth has now slowed and the economic outlook for the next few years has worsened. The forecasts for Euro-zone growth are at two percent for 1999, while inflation should remain at the present low level decrease. Therefore the risk of inflation appears lower than the danger of a further economic downturn. One should not forget, in particular, that Italy's efforts to enter EMU benefited also from the expansionary cycle of the economy during the previous three years, which meant more collected revenues and lower welfare outlays.

Challenges for Italy

To reconcile fiscal responsibility with pro-employment policies, economic growth with monetary restraints and the reform of the welfare state with the preservation of its benefits, will be an exercise in brinkmanship everywhere in Europe, requiring both political leadership and popular consensus in order to succeed.

Italy has to face additional challenges of its own. It has to carry on meaningful reforms in some crucial sectors of its national life and modernize both its political process and its socio-economic structures. These are the following:

Constitutional Reform

Italy has had 56 governments in the last 54 years. The governmental instability of the last 50 years, which remarkably did not lead to political instability, has its roots not only in the dislocation of the political parties but also in the constitutional framework. The "debate" on constitutional reform has taken too long. Unless Italy changes its electoral law in order to establish a true two-party system and unless it introduces some form of federalism in the state's structure, the built-in weakness of the Italian governments will be a major handicap to Italy's membership in the EMU as a full and reliable player.

The present semi-majoritarian electoral system, which provides for too high a percentage (25 percent) of the parliamentary seats to be attributable by a proportional system, has increased the fragmentation of the political parties at the center of the political spectrum. This prevents, or at least alters, the functioning of any substantial two-party system.

The predictability of Italian governments is not, in such conditions, sheltered from the practice of "*inciuci*," that is to say from the practice of reaching cross-party compromises. While preserving the government in Parliament, this ignores what is really going on in the country. Thus, the present government of Prime Minister Massimo D'Alema — which replaced the Prodi government after *Rifondazione Comunista* withdrew its support — was born out of a parliamentarian "*inciucio*", but does not reflect any shift in the popular vote.

Most success stories in constitutional engineering in France, Germany or the United States were the by-products of major national events, which had brought about significant changes at the socio-economic level as well as in the political culture of the elites and the general public.

Vittorio Emanuele Orlando was the Italian Prime Minister when Italy and its allies won World War I. He was still so widely respected in 1946 that he became, despite his age, an influential member of the Special Commission which drafted the new Italian Constitution. Constitutions, he said then, are not ready-made suits one can buy at the Supermarket. They are shaped by the culture of the country and they survive through the practice of the people.

The Italian Constitution was born out of the ashes of World War II, which Italy lost. The task that Italy now faces is not to replace it, but rather to update (*aggiornare*) those parts which relate to the working of the governmental machinery. This, after all, is a rather modest task, but it still requires a consensus which has not yet been achieved on the reforms to be adopted.

The *Bicamerale*, the joint Bicameral Commission made up of the leaders of the parties represented in the Italian parliament, failed to reach such a consensus. All the major players showed a remarkable lack of willingness to compromise, to say nothing about the absence of vision or political leadership. They seemed more worried about the implications of the reforms on their short term interests than concerned with the country's longer term needs.

Twenty amendments have been introduced so far to the two hundred year-old American Constitution — one every ten years — to reflect the evolution and the growth of American society. Why is the process of amending the 50-year old Italian Constitution so difficult?

The Welfare State

Europe has a proud tradition of social solidarity and concern. It is very difficult to think of this being radically overhauled. Yet the reform of the welfare state is a task that Europe and other industrialized countries have to face. Reforms must be seen less as an unacceptable defense of the interests of current beneficiaries and more as an investment for future generations.

The costly, advanced, broad range of welfare programs — one of Italy's proudest post World War II achievements — are still very popular with the voters, and no political party in the past had been committed seriously to reform them. In Italy the need for reform takes on a more dramatic dimension for at least two reasons. First, because the system has gone through deep distortions during the 1980s, the decade that saw the maximum expansion of public expenditure. Its corporate drift was made possible by the behavior of all the political parties, including the Left, and by their mismanagement of public finances.

From 1960 to 1990 total public expenditure went from 32 percent of the GDP to 55 percent; current expenditure went from 27 percent to 40 percent, while capital expenditure — e.g.,

investments to produce new wealth — did not rise much: from 3.9 percent to 5 percent. A huge amount of the public finances is still used to pay interests on Treasury bonds and pensions; very little of it is used to promote research and development or to create new jobs. The accumulated obligations under the Italian pension schemes are a serious drain on the public resources. Current pension payments account for 15 percent of the GDP, a third higher than the already high figures in other EU countries.

The Dini reform of the Italian pension system eventually will lead to a lower ratio of pensions to GDP. Nevertheless it still leaves in place a comparatively generous system of benefits financed by high contribution rates for dependent workers. It does not address the problem posed by the demographic transition expected over the first half of the next century, when the active work force will shrink with the aging of the population. Therefore, the solvency of the pension system will depend on the combined behavior of GDP, labor force and population growth rates.

The second reason for change is that the redistribution mechanism of the Italian welfare system has not altered basic social inequalities, having worked essentially in favor of the "ins" and not also for the "outs," in favor of the employed rather than the unemployed, in other words in favor of people who already enjoyed in one way or another some form of social safety net.

"We are a country which invests nothing in its own future" said D'Alema, the post-Communist charismatic leader of the Democratic Left and one of Italy's shrewdest politician. The Left, he said, must lead towards a "new welfare" even at the price, if necessary, of disappointing its own traditional constituency. The reform should be accomplished not through across the board social expenditure cuts — which in Italy is still four points lower than the European average — but rather through new criteria in allocating financial resources and their more equitable distribution between the different social groups and future generations.

The Democratic Left now in power seems to have opted for a welfare of opportunity instead of the welfare of guarantees it advocated for at least the past forty years. Questioned on how his party could still define itself as being "the left" while repudiating his previous standing in favor of welfare guarantees, D'Alema replied: "What is more left, to defend the rights of a fifty-year old railroad worker who has taken early retirement or those of a young person without a job?"

Moreover, the Democratic Left recognizes that globalization has put an end both to the Keynesian model and to the old welfare state. It sees the "*mondializzazione*" of the economy as a process which, through human sufferings and contradictions, allows for the entry into history of an ever larger number of human beings.

Deregulation and Reform of the Public Administration

Italy is perhaps one of the most highly regulated countries in Europe. More than 100,000 pieces of legislation burden people's daily lives at the national, regional, provincial and communal level. Most of the time their language make them incomprehensible to the ordinary citizen. Yet this happens in the country which gave the world Roman law!

When this year the government tried to liberalize small business by allowing shopkeepers to set their own hours, the 3.4 million Italian shopkeepers reacted angrily to this attempt to interfere with their vested interests. The initiative also shocked the center-right opposition, despite its rhetorical attachment to market deregulation. Their main argument against the government proposals was that the free choice of business hours would threaten the Italian habit of having a family lunch during the traditional midday shop closings, which would be a further step toward the "Americanization" of Italian life.

Similarly, when the Mayor of Rome decided to liberalize taxi services and increase the number of taxis (there is one taxi for every 456 Romans compared with one taxi for every 126 Parisians), the Union reacted, organizing the worst strike in recent years and bringing the city to a standstill for many days. Yet the cost of a taxi ride in Rome is higher than in Manhattan!

The reform and the modernization of public administration cannot wait any longer. The trend towards a convergence of the quality standards of the European public administrations is crucial for the cohesion among the European countries, in order concretely to achieve an European citizenship and guarantee European enterprises equal conditions for competition. Both the reform and the modernization of the Italian public administration are actually long overdue, regardless of the challenges arising from the Monetary Union and the Single Currency.

All the efforts made after World War II to achieve these objectives have failed, mainly because of the Parliament's inability to perceive that the task was political in nature, not technical. The Parliament did not realize that a *real* reform had to be pursued by taking into account the general interest of the country and not the vested interests of the bureaucrats, and that a meaningful reform could be sought *not with* the administration, but *against* it.

Instead the Parliament, through the "leggi delegate," empowered the administration to reform itself. The results have been an appearance of modernization through the reorganization of the organigrams or the renaming of bureaucratic titles and functions. No meaningful changes were introduced in the outdated, complex, useless bureaucratic procedures which, together with the low qualifications of a large part of the staff, and still are at very core of the public administration's inefficiency.

The Prodi government's ambition was that public administration reform be achieved by 2001, reaching the same quality standards of the most advanced European Administrations. Its modernization is a strategic endeavor and a crucial factor in promoting productive investments and to parallel the growth of the enterprises, above all in the Mezzogiorno.

The public administration's current expenditures, both for its functioning and for the salaries, should evolve consistently with its reorganization. Rules set for the private sector have been extended to the public service. The devolution of taxing power to regions has been implemented in step with a reallocation of spending responsibilities. This has brought about a gradual downsizing of the central government.

New policies, known as the Bassanini legislation, try to achieve two very ambitious goals: a reform of the bureaucratic structures and a cultural revolution. Arguably the last one will be tougher to pursue because the problem has social and political roots.

Out of an active population of nineteen million people, four million are employed in one form or in another by Public Administration. By culture, vocation or education the bureaucrats are more inclined towards the "formal" of decisions and less worried about their fallout on the Administration's efficiency as a tool for helping the rapid transformation of the country.

Especially in the South, the formal respect of the rules is more important than the efficiency of the public services the state, regions, provinces or municipalities are supposed to provide. This attitude perhaps explain why the social prestige of Italian public servants, especially in the North, is lower than in other EU countries.

The Bassanini legislation provides for a much needed updating of the way the executives are recruited. But the "Scuola Superiore di Pubblica Amministrazione," established decades ago as a kind of replica of the more prestigious French "Ecole Nationale d'Administration," is still well below its institutional task to prepare the new "*dirigenti*" and to retrain those already employed.

The two crucial issues of the recruitment and permanent re-qualification of executives in the ever-changing technological and cultural environment are indeed at the very heart of the reform in public administration.

All current efforts will fail if the question of the human resources is not dealt with more forcefully. They should be permanently retrained, in a framework which re-establishes the primacy of merit over any other consideration, and they should be paid accordingly. The Public Administration, in other words, should become a magnet for the growing number of well educated Italian young people groomed in Italian and foreign universities and become for them as attractive as the private sector.

The Mezzogiorno

After World War II Italy experienced the fastest period of economic, social and cultural change in its history. The workforce in agriculture shrunk significantly. Millions of southerners migrated to the North for better paying industrial jobs. The Italian lifestyle changed. In a span of a generation Italians went from the bicycles, to Vespas, to Fiat cars.

The pattern of economic and social development has nevertheless been uneven. Despite the huge amount of public resources invested in the South in the last fifty years, the *Mezzogiorno* still lags behind the North. One hundred thirty years after Italy's unification, the "southern question" remains high on the agenda of national priorities.

Clark N. Ellis outlined in his lecture the perspectives of the *Mezzogiorno* on the eve of the new millennium as a region of promise as well as problems. It is still unclear which one will dominate in the future. I agree with him that *education* is the real key to positive change.

The 1993 Robert Putnam's groundbreaking research, "*Making Democracy Work*," saw in the absence of civic traditions the central aspect of the South's inability to reach Northern standards of life. The Southern question, he argues, is not a creation of the last fifteen years, but is rooted in the historically different ways Northern and Southern societies have evolved since Frederick II. His *Constitutions* gave an emphatic endorsement to the privileges of the feudal nobility, with the *barons* providing military strength to the regime. In such an environment any glimmers of communal autonomy were extinguished as soon as they appeared. After Frederick's death the *barons* gained power and autonomy, but the Southern cities did not.

In the meantime, an unprecedented form of self-government was emerging in the cities of the North and the center of Italy as a major alternative to the manor-based, lord-and-serf feudalism of the rest of Italy. It initially allowed the absorption of the rural nobility into the urban patriciate to form a new kind of social elite and, subsequently, the diffusion of political power well beyond the traditional elite. This process finally gave way to a powerful and unparalleled degree of civic commitment.

By the beginning of the 14th century Italy had started producing two different patterns of governance, both innovative. In the North there was a fertile communal republicanism, where *people* were *citizens* and the ideal of *vita civile* persisted in the subsequent centuries of foreign occupation and gloomy economic conditions. In the South feudal autocracy left considerable the distance between rulers and ruled which was exacerbated by the foreign dynasties that controlled it and where *people* were *subjects*.

In the *North*, the experience of communal life gave birth to *horizontal* social and political networks, where compromise was a positive concept and public issues were not dealt with on personalistic or patron-client basis. "We," not "I" came first.

In the *South*, the social and political life remained *hierarchical* and developed in a cultural environment of personal dependence. Compromise had a rather negative tone. Precedence was given to "I" over "We". Public affairs were somebody else's business — the barons, the bosses, the politicians — not my business.

It is no wonder that the *Mafia*, and its albeit historic local variants, like the *n'drangheta* in Calabria and the *camorra* in Campania, found there ideal social and cultural conditions for prospering. This is true despite the fact that individually the vast majority of the southerners were, and remain as honest, as attached to positive family values and as longing for "normality" as other Italians.

Such corrupt and corruptive social phenomena have reached alarming proportions and have spread throughout the country. Their association with organized crime translates now into huge and disruptive burdens on the economy and threatens the very cohesion and the stability of Italian society. They further complicate the national efforts to stay in EMU.

Previous national policies have attacked the symptoms more than the roots of the South's backwardness. They have paid attention to the South's economic, industrial, infrastructural needs. Little attention has been given to the unfavorable cultural environment which still prevails there.

"It is a dangerous illusion to believe that Mezzogiorno can be changed from outside *despite* its existing political-economic-social structure," says Italian economic historian, Vera Zamagni. The political parties have shown in the past that they are not interested in the longer temporal perspective required by a cultural revolution. For survival they rely more on short term results than on the "local" transformation of "local" structures.

The current debate does not show any significant change in the past approach to the Southern question. The new "Agenzia per il Sud" will be more successful than the former "Cassa per il Mezzogiorno" (Fund for the South) only if the *cultural* question also will be addressed.

The patron-client relations together with the absence of civic traditions and trust still adversely affect the South's economic development and pollute its political structures. The persistence of such a political culture threatens the democracy and supports Judith Chubb's assertion that the South has modernized but has not developed (cit. in Frank L. Wilson, *European Policy Today*).

Mezzogiorno does not need a massive new infusion of public money. National economic investments alone did not accomplish the job of modernizing Southern culture. A cultural and educational "Marshall Plan" could do it. The primary goal should be to improve the society (the "we") leaving the thousands and thousands of hardworking, clever Southern Italians to find their own way in the economy.

Education

The quality and the efficiency of the educational system (*pubblica istruzione*) are crucial factors for the general development of any country. Italy's system does not compare favorably with other European states.

The percentage of the Italian population getting a high school degree is higher only than Spain or Portugal in Europe. Because of the poor chances of getting jobs soon after, 68 percent of high school graduates enroll in a university program, but only a third of them pursue the studies to the their end.

Nine million young people were enrolled in 1995-96 in maternal, elementary, middle-high and high schools, 90 percent of them in public schools, where 91 percent of Italy's teachers are employed. 78 universities (83 percent of the total) were public in 1996. The students in private

universities were, in the same year, less than 100,000, compared with more than 1.5 million attending public universities. Curiously, all the Institutes of "educazione fisica" are private, except a few in the Roman area, which seems to indicate that physical health, through the practice of sports, is not really a public concern.

The May '68 revolution had its roots, in Italy and elsewhere, in a widespread, much felt and genuine need to reform the "old order" of relationships between students and teachers as well as many obsolete programs to reflect the changes through which Western democracies were passing. On the Italian campuses the revolution was much less violent than in, say, France, but it lasted much longer in the form of a semi-permanent state of unrest.

The Italian student protest seemed directed more "against" the past and less capable of advancing a realistic alternative project "for" the future. Its built-in weakness at the "vision" level had longer-term and devastating consequences on the willingness of the students to study and on the commitment of the teachers to teach.

The ongoing national debate on the reform of "pubblica istruzione" addresses more the old question of "*parita' scolastica*" — equal access to public financing — between public and private schools, and much less the more fundamental problem of "what kind of education" both systems should offer, in order for graduates successfully to take advantage of the opportunities offered by the modern economy.

The Enterprises and the Labor Unions

The "specificity" of the Italian network of enterprises is a factor which may have a conditioning effect on the competitiveness of the Italian productive system. Two million or 54 percent of the 3.4 million enterprises are made up of small or very small businesses: 700,000 or 19 percent of them have very few employees. Only 2,500 have 250 or more employees. The question whether the high number of small businesses signals some time lag in the structural evolution of the Italian economy still remains unanswered.

The cost of compliance with the bureaucratic and administrative requirements of the Public Administration is a second factor which weighs heavily on their ability to compete. A joint analysis by the Italian Institute of Statistics and the Union of Italian Chambers of Commerce has put such costs at 16 billion dollars in 1996 or one percent of the enterprises' total costs.

Moreover, the economic slowdown of the beginning of the 90s has brought about a reduction of investment in research and development. While in 1995 Italy was fifth among the OECD countries for the volume of its expenditure in research and development, it was only the 20th in terms of its ratio to GDP. This crucial aspect of the competitiveness should be assessed against the chronic deficit of the national technological balance and the heavy dependence of the Italian economic system on high-tech imports as compared to the lower-tech exports.

The enterprises have to adapt themselves to the tough new EMU environment. Their exposure to international competition means that they have to give up the illusion that wage increases higher than productivity or lower than productivity can be offset by the devaluation of the lira. They have also to accept that the past huge amount of public resources transferred to them ("corporate welfare") may not be — and indeed should not be — there in the future. Italy's manufacturing sector received more than eleven billion dollars in state aid between 1995-97, second only to Germany.

Labor unions as well have to change. After World War II they have been the permanent and toughest government counterpart in outlining Italy's domestic policy and a powerful tool in

fostering the national process towards a more equitable society. Now they may face the risk of being perceived as the guarantors of the *status quo*, which exposes them to the same kind of "crisis" in their relations with the government that other industrialized countries have experienced.

The total membership has shrunk in number as well as in its composition. The pensioners have replaced the industrial workers as the leading group both in CGIL and CISL, the two major Italian workers confederations. The balance of power may well now have shifted against the unions.

Although historically and ideologically rooted in the building and the defense of sectarian interests, often contrasting with the requirements of sound economic growth and financial stability, they indeed started changing when they accepted the overhaul of the "scala mobile," the cost-of-living wage escalator that was one of their greatest social conquests of the 70s.

The Left now in power has to deal with the interests put forward by the unions for what they are: sectorial interests which may conflict with public interest. The Left cannot be — and indeed it promises not to be — the political arm of the workers' movement in the same way it has been in the past.

Will Italy Succeed?

Both political blocks have been unable so far to put forward realistic projects for an economic growth which could deal with the stubborn problem of unemployment. They have also been unable to reach agreement on a comprehensive draft of constitutional reforms which could be accepted by a large majority of the Italian Parliament. Both blocks are highly fragmented. Both are grab bags of disparate interests, different political cultures and ideologies which they have been unable to reconcile in view of a longer term political vision of the Italian society.

The Italian parties love to call "*laboratorio*" the long, unfinished national transition; sometimes, they offer it as an example to other European countries. The people in the street would love, instead, to see an end to this endless transition.

The political system shows some signs of being increasingly aware that an electoral consensus cannot be acquired by promising policies against the public interest, which do not pay in the longer term. The political class seems stuck at the debating level of the problems, with few indications if and when it will be able to translate the accumulated debate into practical measures through radical changes in the past pattern of behavior, in order to preserve more sound prospects for Italy's political stability, longer term economic growth and international competitiveness for its enterprises.

Throughout its history Italy has had many opportunities to modernize itself and failed. After its unification (1861), an impressive amount of financial resources was in part used to strengthen the more advanced Northern economy and in part wasted to finance questionable foreign ventures. Millions of Italians, most of them from the South, came to the Americas in search of the better life opportunities their newly united country was unable to provide them.

World War I brought about an unprecedented *national* effort to save the country's independence. Millions of young people from the North and the South fought for four years side by side in the first real national and cultural interchange, but no meaningful breakthrough was achieved on the long quest for Italy's cultural unity ("*fare gli italiani*") after Italy's territorial unity.

After World War II, Italy greatly benefited from its membership in the International Monetary Fund and other Bretton Woods institutions, as well as from being one of the six founding members of the European Economic Community. The expanding, more favorable and open international context helped in Italy's 55 years journey from an essentially agricultural country to an economic

and industrial power, up to membership in the G7. Yet the historical illnesses of Italian society were left mostly unaffected by Italy's surge as one of the world's most vibrant economic powers.

The EMU membership now offers the historical opportunity (la "occasione storica") for Italy's modernization. EMU and the Single Currency place Italy at the most challenging crossroads of its political and economic history. It has to choose between development, higher employment and aggressive competitiveness or the weakening of its industrial apparatus, lower competitiveness and, finally, higher unemployment.

The Monetary Union is a qualitative leap ahead in the European integration process. It will redefine the meaning of the nation-state and the concept of national sovereignty. It will produce longer term consequences impossible to assess in advance. Properly, EMU is about a cultural *revolution* in the *minds* and in the *behaviors*, both at EU and at national levels. This entails a number of questions:

- Will the parties show enough political courage to reform the Italian constitution not for their short term electoral needs, but for longer term national interests?
- Will the Public Administration reach — soon — the same standard of efficiency of the more advanced European public services?
- Will the *Mezzogiorno* finally be brought into Europe, culturally and economically?
- Will Italian society, accustomed to a culture of protection, accept an overall reform of the welfare state in order to preserve the chances of future generations to share in the social safety nets?
- Will Italian public enterprises rely more on market opportunities to expand and less on aid and taxpayer subsidies?
- Will private enterprises give up their past beliefs that wage increases higher than productivity or obsolete productions can be offset by the devaluation of the lira? Will they accept that the billions of dollars in past public resources transferred to them — the "corporate welfare" in American parlance — may not, and indeed should not continue in the future?
- Will the banks in the country where the modern banking system was born finally provide better services for their customers at more competitive costs?
- Will, finally, a less cumbersome and more equitable tax system liberate the resources needed to finance the modernization of Italy's infrastructures and the competitiveness of the Italian economic system as a whole?

There are at least two reasons for optimism. First, because there now exists an unprecedented external factor Italy has neither the power to change nor to ignore, namely, the "EMU factor". Like all other European partners, Italy simply has lost national control over the gimmicks and tools which in the past allowed political parties, labor unions and the enterprises to destabilize public finances. The costs of breaking away from Europe, no matter how high, would be much higher than any effort to stay in. Nobody would dare to propose a re-nationalization of the economic policy. Everybody must reckon with that "factor" and fully comply with it.

Second, because while out of reach for the political parties, the "EMU factor" will play the same powerful unifying role in mobilizing the popular support to *stay in*: the same major role it played when the Prodi government enacted the austerity policy which allowed Italy to *join in*.

Despite Italy's past record of failing to comply with EU directives or policies, Italians are "good Europeans". A 1995 EU poll found that 85 percent of Italians support European unification (the EU average is 70 percent); that 73 percent think that EU is a "good thing" (European average:

35 percent); that 61 percent would regret a dissolution of UE (EU average is 35 percent) and 55 percent of them believe that Italy has benefited from EU's membership (EU average: 46 percent).

Italians seem much more comfortable when the constraints on what they can do come from Brussels the European capital, than from their own national capital, Rome.

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