The Tentative Alliance? Britain, Italy and Participation in the European Monetary Syst em

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The partnership between Italy and Britain has been a constant, albeit troubled, topic in the process of European integration. After the United Kingdom had become a member state, a London-Rome axis had been envisioned, to counteract the special relationship between the governments of Paris and Bonn. A peculiar example of potential Anglo-Italian alliance was the series of negotiations which led to the creation of the European Monetary System in 1978. The timing of the Franco-German initiative was extremely unfortunate for both countries, which were struggling with internal problems and the dilemma of joining the EMS or not had profound economic and political implications for Britain and for Italy. The United Kingdom was still recovering from the severe IMF crisis of 1976, while its European commitment had not yet been shown; for Italy, 1978 was an "*annus horribilis*", with the kidnapping of Aldo Moro and Italy's very democratic stance put to the test. Despite differing views and positions in the international scenario, close collaboration between the countries could have helped in attempting to correct the presumed inequities in the Community Budget and the Common Agricultural Policy. This has always seemed more an objective of Italian policy, rather than part of the design of the United Kingdom. The picture which emerges from British documents is in fact more nuanced: in spite of her weaknesses, Italy indeed played an important role in London's European policy, at least as regards certain topics and moments. As we shall see, one element which could jeopardise this relationship was Britain's strategy in concealing her real intentions in joining the EMS.

A hesitant Anglo-Italian axis?

The possibility of creating an "alternative axis" between London and Rome as a counterpart to the Franco-German partnership has emerged on several occasions and with various aspects in the process of European integration. Italy and Britain shared a similar approach towards some Community issues, from social to regional, and both countries had a strong Atlantic commitment to try to contain any French anti-Alliance deviation, which has survived the end of the cold war. They are also the other two large Community powers and their demographic weight makes them able to compete with France and Germany in representing European institutions. Ultimately, "the

building bricks of a Rome-London axis have therefore been in existence throughout much of the last fifty years".[1]

However, the relationship between London and Rome has not always been easy, especially in the aftermath of the Second World War. Britain had built her policy towards Italy on the twofold idea of punishment and de-escalation of Italy's international position, particularly with respect to the Mediterranean and African scenarios.[2] The United Kingdom had opposed Italian participation in the Atlantic Alliance, and the question of Trieste added some bitterness to the relationship, even after colonial disputes had been settled.

Anglo-Italian relations began to improve after the Suez crisis. From London's perspective, Italy was no longer a competitor in the Mediterranean area, but rather a loyal ally within NATO, with unexpectedly fast economic growth. Conversely, Britain was perceived in Italy as a prominent element in the Western system, also due to the "special relationship" with the United States. Many among the centre-left parties also looked to the United Kingdom as a model of democracy and a point of reference, thanks to the economic and social achievements of its Welfare State.[3]

It is therefore not surprising that the Italian government openly endorsed Britain's application for entry into the European Community in 1961, not only as a way to moderate Charles de Gaulle's hegemonic goals, but also in an attempt to please its American ally. The Kennedy administration had openly supported the candidature of the United Kingdom, and Italian politicians hoped that their endorsement could help them move closer to the major goal of Washington's recognition of the centre-left experiment.[4] The Italian delegation, headed by Emilio Colombo, was very active in trying to solve the many problems affecting negotiations in Brussels, and the British government appreciated these initiatives. However, Italy was perceived as a minor actor, incapable of having a vital influence on the political aspects of London's application, and advice from the Italian government was not taken into consideration.[5] In the latter stages of the negotiation, the leader of the Republican Party, Ugo La Malfa, proposed an Anglo-Italian cooperation treaty along the lines of the French-German one which Konrad Adenauer and Charles de Gaulle were negotiating. In London, such an initiative was quickly discarded: in the words of a Foreign Office official,

1. N.P. LUDLOW, *In search of a balance: Italy, Britain and the dream of another European axis?*, in: P. CRAVERI, A. VARSORI (eds), *L'Italia nella costruzione europea. Un bilancio storico (1957-2007)*, FrancoAngeli, Milano, 2009, pp.68-69.
2. See E. PEDALIU, *Britain, Italy and the origins of the Cold War*, Palgrave, New York, 2003.
3. See I. FAVRETTO, *The Long Search for a 'Third Way': the British Labour Party and the Italian Left since 1945*, Palgrave Macmillan, Basingtoke, 2003.
4. L. NUTI, *Gli Stati Uniti e l'apertura a sinistra. Importanza e limiti della presenza americana in Italia*, Laterza, Roma-Bari, 1999.
5. A. VARSORI, *La Cenerentola d'Europa? L'Italia e l'integrazione europea dal 1947 ad oggi*, Rubbettino, Soveria Mannelli, 2010, pp.175-187.

> "we should look rather absurd if we started at this moment to develop a special relationship with Italy. People would think that we had either lost our sense of reality or that we were at our wits ends".[6]

The second British attempt, in 1966-67, was once again supported by the Italian government, but this time Rome seemed to prefer the attitude of a "prudent wait".[7] When Britain eventually joined the European Community in 1972, the Anglo-Italian partnership failed to materialise. Ten years of Italian commitment to the British cause were laconically summarised in a note to "Signor Moro's decisive intervention about New Zealand butter". The Italians were advocates of European political construction and of UK participation within the Community, but they were too "sensible to press the point with much vigour".[8] Apart from the usual British tendency to downgrade Rome's stance in Europe and in the world, this harsh judgement was partially correct: Italy seemed unable to take the opportunity of having a new member inside the Community which shared some of her interests in the social and regional fields. Internal problems prevailed, and the lack of a defined guide in her international policy brought Italy to a certain inactivity within the EEC which was the first symptom of a profound crisis. For the following years, Italy was the great "sick man of Europe", and her very democratic solidity appeared to be challenged. In the meantime, Britain also did not take advantage of her new European role, soon becoming the "awkward partner" among the Nine; the 1975 referendum for re-negotiation of the terms of entry definitely did not help the UK's reputation. In addition, from 1976 onwards, Britain was obliged to face a severe economic and monetary crisis which weakened her international stance. It was in this scenario that the project for a European Monetary System was launched.

6. TNA [The National Archives], FO 371/163718, CJ1051/4, Tomkins minute, 02.01.1963. On La Malfa's initiative, see N.P. LUDLOW, *Dealing with Britain: the Six and the First UK Application to the EEC*, Cambridge University Press, Cambridge, 1997; L. NUTI, *Italy, the British application and the January debacle*, in: R. GRIFFITHS, S. WARD (eds), *Courting the Common Market: the first attempt to enlarge the European Community 1960-63*, Lothian Foundation Press, London, 1996, pp.112-113. On the first British attempt quoted here, see also M. CAMPS, *Britain and the European community: 1955-1963*, Princeton University Press, Princeton, 1964; A. DEIGHTON, A.S. MILWARD (eds), *Widening, Deepening and Acceleration: the European Economic Community 1957-63*, Peter Lang, Brussels, 1999; W. KAISER, *Using Europe, abusing the Europeans: Britain and European integration, 1945-63*, Palgrave-Macmillan, New York, 1996.
7. A. VARSORI, *La Cenerentola…*, op.cit., pp.207-212. On Britain's second attempt, see O. DADDOW, *Harold Wilson and European integration: Britain's second application to join the EEC*, Frank Cass, London, 2003; H. PARR, *Britain's policy towards the European Community. Harold Wilson and Britain's world role, 1964-1970*, Routledge, Oxon, 2006.
8. TNA, FCO 33/1827, "Annual Review on Italy" by Hancock, WRJ 1/1, 01.01.1972. On British entry, see G. BENTIVOGLIO, *La relazione necessaria. La Gran Bretagna del Governo Heath e gli Stati Uniti (1970-74)*, FrancoAngeli, Milano, 2011, and *Our sole commitment is to negotiate; no more, no less': the Conservative Party and Britain's entry into the EEC*, in: L. BONFRESCHI, G. ORSINA, A. VARSORI (eds), *European Political Parties and the European Integration Process, 1945-1992*, Peter Lang, Brussels, 2015; I. POGGIOLINI, *Alle origini dell'Europa allargata. La Gran Bretagna e l'adesione alla CEE (1972-1973)*, Unicopli, Milano, 2004.

The project for the European Monetary System and its reception in Britain and Italy

In October 1977, the president of the European Commission Roy Jenkins revitalised the EC's efforts at establishing a monetary union. This initiative led to the birth of the European Monetary System (EMS), which became operational in March 1979.[9]

In his speech at the European University Institute in Fiesole, near Florence, Jenkins summarised the main goals he was expecting to fulfil for the future of the European institutions: the creation of a monetary union would take Europe "over a political threshold" and Europe at the moment was not prepared to pursue that objective solely for ideological reasons. He developed seven economic arguments in favour of the monetary union, and concluded by quoting one of Europe's founding fathers:

> "Politics is not only the art of the possible, but as Jean Monnet said, it is also the art of making possible tomorrow what may seem impossible today".[10]

Actually, the task Jenkins was indicating to his European partners seemed impossible. His proposal attracted little attention (according to Edmund Dell, "little but derision") and it was basically set aside and labelled as the product of a "dreamer".[11] Even his vice-president and predecessor, François-Xavier Ortoli, did not share this enthusiasm, commenting that he did not believe it would be useful to raise a "politically absurd" idea in order start a debate with a probably negative outcome.[12] However, West German chancellor Helmut Schmidt had started discussions with the French President Valéry Giscard d'Estaing to create a new European monetary institution: the outcome of this highly personal and secret initiative (the German ministries and the Bundesbank were deliberately not informed of two bilateral meetings) was the proposal at the European Council at Copenhagen in April 1978 to establish a "zone of monetary stability" in Western Europe. According to the British Foreign Office, it was Giscard who had initiated the discussion with Schmidt, since the Chancellor had "never been a European idealist".[13] The Committee of Finance Ministers (ECOFIN), the Monetary Committee and the Committee of Central Bank Governors were involved in the tech-

9. The literature on the EMS is voluminous. The most accurate narration is probably still the essential volume by Peter Ludlow, *The Making of the European Monetary System*, London, Butterworth, 1982. We quote here: E. MOURLON-DRUOL, *A Europe made of money. The emergence of the European Monetary System*, Cornell University Press, Ithaca NY, 2012; H. JAMES, *Making the European Monetary Union*, Belknap Press, Cambridge, 2012; J. STATLER, *The European Monetary System: From Conception to Birth*, in: *International Affairs*, 2(1979); J. STORY, *The launching of the EMS: An Analysis of Change in Foreign Economic Policy*, in: *Political Studies,* 3(1988), pp.397-412; P. COFFEY, *European Monetary System: Past, Present, and Future*, Martinus Nijhoff, Dordrecht, 1984. See also the reconstruction of one of the British political protagonists: E. DELL, *Britain and the Origins of the European Monetary System*, in: *Contemporary European History*, 1(1994), pp.1-60.
10. R. JENKINS, *Europe's Present Challenge and Future Opportunity* (first Jean Monnet Lecture), European University Institute, Florence, 27 October 1977.
11. E. DELL, op.cit., p.2; *A distant goal*, in: *The Times*, 28.10.1977.
12. *Financial Times*, 20.10.1977.
13. H. JAMES, op.cit., p.152.

nical details, although Schmidt relied mostly on a secret committee formed of German, French and British representatives for the creation of the new European Monetary System. The German Chancellor had eventually involved Britain in this inner circle: an agreement among these three countries would be a guarantee for the other Members States to follow.

The timing of this project was extremely unfortunate for both Britain and Italy: the two countries had been struggling with internal problems for years, and the dilemma whether to join the EMS had profound economic and political implications for the British and Italian governments.

Britain

In 1978, the United Kingdom was still recovering for the profound crisis of 1976.[14] In April 1976, James Callaghan had become Prime Minister after the resignation of Harold Wilson, and devaluation was a ghost haunting his stay at 10 Downing Street from very early days. In fact, Callaghan was Chancellor of the Exchequer in 1967, when the worsening economic situation ended in the forced devaluation of the pound. Nine years later, investors became convinced that the pound was overvalued and a large-scale sale of sterling began: the pound rapidly lost value against the dollar, reaching a record low in June. As pressure on it continued, in September 1976 the government approached the International Monetary Fund for a loan of 3.9 billion dollars, the largest amount ever requested, with the prerequisite of tough, deflationary measures. The government had an intense debate on Denis Healey's proposals for a cut of 20 per cent in the budget deficit, but they eventually came to an agreement, in order to avoid a disastrous run on the pound.

The 1976 IMF crisis may be considered Britain's economic Suez: if 1956 had rapidly diminished London's global political role, twenty years later the United Kingdom experienced the weakening of its economic stance, with the coup de grace to the sterling as a reserve currency.[15] US economist Milton Friedman accentuated the point, predicting in 1976 that Britain was going the way of Chile: a Socialist crisis followed by a military coup was the only outcome conceivable.[16] Although this guess was exaggerated, few images of the periods were more iconic – and embarrassing –

14. See K. BURK, A. CAIRNCROSS, *Goodbye, Great Britain: The 1976 IMF Crisis*, Yale University Press, New Haven, 1992.
15. See K. HIROWATARI, *Britain and European Monetary Cooperation, 1964-1979*, AIAA, Reston, 2015, p.176.
16. Quoted in D. REYNOLDS, *Britannia Overruled. British Policy and World Power in the Twentieth Century*, Longman, Harlow, 2000, p.238.

than that of Healey driving to Heathrow airport on 28 September and then rushing back to the Treasury on hearing news of a further fall in the value of sterling.[17]

However, after the loan, the overall economic and financial situation improved: the pound quickly appreciated in value and interest rates were soon reduced. In the end, only half the loan was used, all of which was repaid by the time Labour left office. By the end of 1977, there were improvements in the balance of trade, partly as a result of new oil revenues from the North Sea (Britain would be self-sufficient in oil by 1980 and already was in gas).[18] Nevertheless, the crisis gave new impetus to a change in policy orientation, away from full employment and social welfare towards the control of inflation and expenditure: Callaghan's speech at the Labour Party Conference in Blackpool, on the very same day of Healey's "turn-around", is usually regarded as the moment when Keynesianism was rejected in favour of monetarism, although there is still much controversy regarding it.[19]

In this scenario, and considering the abortive six-week effort in 1973 to participate in the Snake, Britain was not willing to discuss her participation in exchange-rate arrangements in early 1978. The major argument against EMS membership was that it imposed an asymmetrical burden on weak currency countries, severely reducing growth and government spending. The new monetary system was also likely to become an electoral issue, since it was widely expected that Callaghan would schedule a general election for the autumn of 1978. The 1976 crisis also upset the Treasury, which "was disenchanted with floating exchange rates".[20] Some Treasury speculations were quite apocalyptic, assuming that membership of the EMS would keep sterling at an artificially and unacceptably high level, resulting in restrictive fiscal measures, a GDP deficit, rising unemployment and social conflicts, not to mention the suggestion that the whole of Schmidt's proposal was part of a "Machiavellian German plot to boost their exports", to Britain's detriment.[21] However, the main fear in Whitehall was marginalisation. The EMS could be a move towards a "two-tier community", and the political implications if Britain was not in the top tier had to be taken into consideration: it was appropriate to ensure either that this was a scheme which the UK could live with, or that it foundered.[22]

Therefore, when Callaghan met Schmidt and Giscard at a private breakfast on the morning of 8 April in occasion of the Copenhagen European Council, he put aside

17. The Chancellor was about to fly to Hong Kong to attend a meeting of the Commonwealth Finance Ministers and then going to the IMF annual meeting in Manila, and his decision attracted many critics for its appearance of panic; in addition, Britain would not be represented by any Minister at the IMF meeting, precisely when she was going to be a heavy debtor, with no favourable effect on world opinion. D. WASS, *Decline To Fall: The Making of British Macro-Economic Policy and the 1976 IMF Crisis*, Oxford University Press, Oxford, 2008, p.229.
18. A. MARR, *A history of modern Britain*, Pan Books, Basingstoke, 2008, pp.368-369.
19. K. HICKSON, *The IMF Crisis of 1976 and British Politics*, I.B.Tauris, London, 2005, pp.102-106.
20. J.I. WALSH, *European Monetary Integration & Domestic Politics: Britain, France, and Italy*, Lynne Rienner, Boulder, 2000, p.32.
21. P. LUDLOW, op.cit., pp.111-112.
22. TNA, PREM 16/1615, Chancellor Schmidt, the Snake and Pooling Reserves. Note by Hunt, 06.04.1978.

his reservations and agreed to restrict discussion to a group of three specially chosen confidants. This troika of experts had the task of working out the details of the projects of what would become the Bremen Annex, attached to the conclusions of the European Council in Bremen. The Group of Three – or Gang of Three, as Peter Ludlow labelled it – was formed by Bernard Clappier, the governor of the Banque de France; Horst Schulmann, Schmidt's senior economic adviser; and Ken Couzens, who was nominated weeks later than the others and was second permanent Secretary of the Treasury. The choice of the experts revealed a great deal about the countries' different strategies: Giscard chose one of the civil servants most in favour of Europe, while Schulmann was one of the most trusted advisers of the German Chancellor and had worked in the European Commission. Couzens, instead, had only recently come to deal with international financial matters and "acted throughout as a senior Treasury official", with a professional scepticism that Callaghan failed to counteract.[23] This would also explain the substantial failure of the UK inside the Group of Three: the British representative did not take part in all the secret meetings during the spring of 1978, and the final document of the group was basically a Franco-German position paper on which Clappier and Schulmann had already been working before the arrival of their colleague from London. In any case, with Ken Couzens' appointment, the British Prime Minister had deliberately avoided people with a pro-European and integrationist stance, like Michael Butler: it was a clear indication of "where he did not want to go".[24]

Italy

1978 was a pivotal year for Italy, one of the most difficult moments in her history as a republic. The year opened with a government crisis which was only resolved in March, a few days before the kidnapping of Aldo Moro and the resulting deep new crisis culminating in the most tragic epilogue, the murder of the leader of Italy's Christian Democrats. Beyond the apparent inability of the authorities to face the terrorist threat, Italian institutions were further weakened by the resignation of President Giovanni Leone, after the Lockheed scandal.

The "Italian case" had still paramount importance for Britain, although the situation had changed since the 1976 Puerto Rico summit, when Italy's internal policy, with the risk of the so-called "sorpasso" ("overtaking": i.e., the possibility that the PCI, the Communist party, could beat the Christian Democrats in the general elections) had been an issue of concern, discussion and intervention for the four major

23. P. LUDLOW, op.cit., pp.108-109.
24. E. MOURLON-DRUOL, op.cit., pp.171-173.

Western powers.[25] The new cabinet formed by Giulio Andreotti in March 1978 was a government of "national unity", indirectly supported by the Communists, and this raised no negative reaction on the part of either of the major Western partners and the European Community. Notwithstanding this, Italy was still the "sick man of Europe", yet in London there was widespread conviction that Italy's main problem was no longer the dreaded participation of the Communist Party in the government, but rather her political instability, worsened by terrorism and economic difficulties. In April, *The Economist* dedicated a monographic dossier to Italy, entitled "*A democracy on trial?*".[26]

In the same month, during the dark days after Moro's kidnapping, the Joint Intelligence Committee asked the collaboration of the Foreign Office for a study of the Italian situation and its probable evolution in the following two or three years. The exchange of notes between the Western European Department and the British Embassy in Rome allows a clear reconstruction of the ten themes considered fundamental for the future of Italy by the UK government: the attitudes within the Christian Democracy and the PCI towards a "compromesso storico", an historical compromise; the will of Christian Democrats and Communists to collaborate in countering extremist groups from both Right and Left; the extent to which Italian policies were influenced by Communist support to the government; the popularity of the PCI and whether it had reached its peak; the prospects for a revival of the PSI (the Socialist party); the probable alternatives to an historical compromise, should it result impracticable; the possibility for existing Italian institutions to succeed in facing the challenge of terrorism; the extent to which the extreme Left could gain support in the event of a DC-PCI rapprochement, and the threat which this could pose to the stability of the state; the probable developments in the Italian economy and their effect on the political situation, particularly on the position of the Communists; and the success or otherwise of the PCI in penetrating the media.[27]

As for the economy, Italy underwent a long period of stagnation from mid-1976 until the end of 1978. The depreciation of the lira had increased inflation and led Italy to turn to the International Monetary Fund for assistance. A new economic strategy was formulated by the Governor of the Bank of Italy, Paolo Baffi, in May 1976: its goals were a surplus in current accounts, repaying the debts contracted in the previous phase, stabilising the rate of exchange and controlling inflationary tensions, even to the detriment of growth, investment and employment. This strategy proved partly successful, with a reversal of the balance of payments and a relaunch of exports. However, the reduction of inflationary pressure had been very slow, and in 1978

25. A. VARSORI, *Puerto Rico (1976): le potenze occidentali e il problema comunista in Italia*, in: *Ventunesimo Secolo*, 16(2008), pp.89-121; D. BASOSI, G. BERNARDINI, *The Puerto Rico summit of 1976 and the end of Eurocommunism*, in: L. NUTI (ed.), *The crisis of détente in Europe. from Helsinki to Gorbachev, 1975-1985*, Routledge, Oxon, 2009.
26. R. HARVEY, *A democracy on trial? Survey on Italy*, in: *The Economist*, 01.04.1978.
27. TNA, FCO 33/3567, Italian political situation, Rhodes to Campbell, WRJ 014/2, 20.04.1978. The last three points were added by Ambassador Campbell in his reply in TNA, FCO 33/3567, Campbell to Rhodes, WRJ 014/2, 28.04.1978.

consumer prices were still increasing at almost 13 per cent, with a rate nearly double that of the major European countries. This was one of the reasons for Italy's hesitancy about the EMS: there could be no durable band of fluctuation if there were huge divergences among the members of the system – and at that time West Germany's inflation rate was only increasing by two per cent.[28]

Considering the peculiar internal situation, during the spring of 1978 the Italian government, not surprisingly, paid little attention to the EMS project. Italy had shared with Britain the unfortunate experience of the Snake in 1972-73 and its aftermath; the lira stayed in the system for a period longer than the pound, but also more "nasty and brutish" and, despite encouraging signs of recovery, Italian economy was still fragile and could be numbered among the "less prosperous" countries.[29]

The government formed a group of experts to discuss the feasibility of joining the Franco-German project: it included Filippo Maria Pandolfi, Minister of the Treasury; Baffi and Carlo Azeglio Ciampi, respectively Governor and Director-general of the Banca d'Italia; Rainer Masera, a young member of the study department of the bank; and Renato Ruggiero, who had returned to the Ministry of Foreign Affairs following his experience in the Commission. The group – also called "The Club" in Italian documents – had expressed its favour towards an "unconditional adhesion in principle" to the proposal, although timings and ways of proceeding had to be cautiously pondered; Rome's commitment should be accompanied by a strong assurance by the Community, and Germany in particular, to a substantial transfer of resources to Italy, as a contribution towards solving the structural problems of the Italian economy. Even the Banca d'Italia indicated how a more positive economic scenario and growing financial solidarity inside the EEC would be necessary to the favourable outcome of the proposal.[30]

Beyond economic considerations, there was a basic political constraint which affected Italy's attitude towards the EMS. This was the consensus in Italian politics on the European choice as an important way to maintain the peninsula's link with the Western world. In the words of Ruggiero:

> "If we did not participate in the EMS, this would show that we are unwilling to accept the challenge […] of being a fully European country".[31]

28. M. SALVATI, *Muddling Through: Economics and Politics in Italy 1969-1979*, in: P. LANGE, S. TARROW (eds), *West European Politics*, Special issue on *Italy in transition: conflict and consensus*, 3(1979), pp.41-42.
29. P. LUDLOW, op.cit., p.146.
30. A. VARSORI, *La Cenerentola…*, op.cit., pp.318-319.
31. Quoted in L. SPAVENTA, *Italy Joins the EMS: A Political History*, in: *Johns Hopkins University Bologna Center Occasional Paper*, 32(1980), p.69.

From Copenhagen to Bremen

The two European Council meetings in Copenhagen in April 1978 and in Bremen in July were the major landmarks in the achievement of a common strategy for establishing a zone of stability and growth in Europe as a solution to the prolonged economic crisis. At Copenhagen, the Heads of State or of government agreed on an broad programme and then at Bremen they instructed their Finance Ministers to formulate the guidelines for the procedure of a European Monetary System as well as undertaking concurrent studies of the action needed to strengthen the economies of the less prosperous member states.

Anglo-Italian relations inside the Community were apparently facing several strains in that period. In April 1978, the UK Permanent Representative to the EEC Donald Maitland drew the attention of the Foreign Secretary David Owen to some difficulties in Britain's relations with Italy over EEC affairs. According to Maitland, Italian suspicions of the UK were causing the Italians to be "obstructive" and British interests were suffering accordingly. However, this state of affairs could be improved if those Italian Ministers who seemed particularly difficult in this respect could be invited to London on goodwill visits by their opposite numbers, in order to avoid misunderstandings.[32] The Foreign Secretary agreed and asked Tony Benn, Minister of Energy, and John Silkin, Minister of Agriculture, to invite the Italian Ministers to London, but with no result. The invitation to Carlo Donat-Cattin was delayed, because determining which Minister was best suited as his opposite number (Energy or Industry) was initially declined for political reasons before the Bremen Council and was eventually put aside after the removal of the Italian Minister in October.[33] The Minister of Agriculture had a different opinion: Silkin thought that the Italian attitude was dictated partly by real internal political pressures and partly by an inclination to make the most of any negotiating possibility that presented itself. This attitude was quite usual for the Italians and also others in the Agricultural Council, and no "goodwill" was likely to change the situation. For this reason, Silkin did not consider it "necessary or even desirable" to invite Giovanni Marcora to the UK that year.[34]

On the same agricultural topic, during the first half of 1978 Andreotti tried to gain support for Mediterranean measures from European partners, raising the subject at the Copenhagen European Council in April. In this regard, there were several approaches towards the British, including two messages to Callaghan: the latest, on May 23, stressed how the EEC had not yet attained the necessary degree of awareness of the magnitude of problems. The Mediterranean package constituted a first step towards re-balancing the Common Agricultural Policy, and it was the opinion of the Italian government that new measures were needed in order to contain the surpluses of products of the continental regions and to improve preferences in favour of

32. TNA, FCO 33/3575, Relations with Italy, Note by Prendergast, WRJ 026/2, 23.03.1978.
33. TNA, FCO 33/3573, Commission Brunner's visit to Italy (4 May), Galsworthy to Ismail, WRJ 021/598/1, 11.05.1978.
34. TNA, FCO 33/3575, Packer to Prendergast, WRJ 026/2, 12.04.1978.

Mediterranean products. Andreotti stressed that this position was "not one of egoistical claim to financial benefits", but rather awareness that the ultimate aim of European construction had to be reached only through a fair contribution, without damaging the interests of the weaker regions and sectors.[35] The British response was clear: the UK supported Italy's view that it was necessary to reduce the surpluses which occurred in certain products and that the CAP should achieve a greater degree of balance. However, Callaghan did ask for mutual backing, trying to avoid the possibility that the Community would repeat in the South the mistakes which had become apparent in the products of the Northern sector.[36] Britain did not favour a direct link between enlargement of the Community and reform of the CAP, but could "encourage the Italians to make common cause" with the UK in attacking the defects of the Northern application of the Common Agricultural Policy.[37]

The relations between London and Rome showed no particular sign of "specialness" in the first months after the launch of the EMS project. After the disclosure of the existence of the Schulmann-Clappier-Couzens group, Italian resentment at being excluded from the inner circle in the secret preparations of the monetary plan was clear, although it was not directed towards the British.[38] However, it must be noted that until *The Economist* revealed the existence of the small group on 26 May, it is almost certain that nobody knew that these parallel discussions were taking place at all.[39]

After the negative experience of the Group of Three, Callaghan looked with scepticism at the Bremen Council, with growing concern about the Germans' distrust in US economic and military policy. The prospect of an early general election deeply influenced Britain's attitude in the first phase of the negotiations; the British did not in fact even try to start a proper discussion over the negotiations or to reach at least some results which would suit them. There was a UK "counter-draft" to the Franco-German proposal, although it was never put forward. As for Italy, in a conversation with Alan Campbell, the British Ambassador in Rome, at the end of June, Andreotti seemed not to expect that the forthcoming meeting at Bremen would result in remarkable agreements, despite the importance he attached to it. He was not particularly impressed by Schmidt's reassurances, remarking that Germany and Italy had rather different ideas of what a dangerous rate of inflation was.[40]

35. TNA, FCO 33/3573, Tel No 131 by Owen, WRJ 021/598/1, 12.06.1978.
36. TNA, FCO 33/3573, Tel No130 by Owen, WRJ 021/598/1, 12.06.1978.
37. TNA, FCO 33/3573, Call by Italian Ambassador on Permanent Under-Secretary, Wednesday 12 June 1978 – Mediterranean Agriculture, Brief by the European Integration Department, 13.06.1978.
38. See *Il Corriere della Sera*, 07.06.1978 and P. LUDLOW, op.cit., p.114.
39. P. LUDLOW, op.cit., p.95.
40. TNA, FCO 33/3572, Call on Signor Andreotti, by Campbell, WRJ 021/1, 30.06.1978.

After Bremen: moving closer

At the European Council meeting at Bremen of 6-7 July, Britain found herself quite isolated in the discussion over the Schulmann/Clappier paper, which was to become the Bremen Annex. Only Andreotti shared the British point of view about the Franco-German scheme, stressing that the paper "read as though everyone agreed". These common criticisms, however, were based on different attitudes: Callaghan did not politically support the scheme, while Andreotti had doubts about Italy's capacity to join, without calling Rome's endorsement into question.[41]

On 25 July, Filippo Pandolfi and Paolo Baffi met the Chancellor of the Exchequer, accompanied by Ken Couzens. Although Healey gave his Italian counterpart an account of the methods used to control public expenditure in the United Kingdom, the conversation focused mainly on the prospects for a new European Monetary System discussed at the EEC Finance Council the previous day. The ECOFIN meeting of 24 July was the first occasion to review the course of the negotiations since the Bremen European Council; it showed a general unanimity in favour of the Bremen Annex, with a few reservations only by Britain. Healey tried to downplay the Community character of the document by stressing that it had "a Franco-German starting point".[42]

By that date, Pandolfi, Baffi and their colleagues had already worked out the main features of Italy's economic strategy, which consisted of four principal elements: reinforcement of the domestic stabilisation programme; achievement of a monetary agreement which could provide wider bands of oscillation for the weaker countries; a significant revision of the Community budget and, more particularly, of the CAP; coordination of strategy and tactics with the British, with whom it was believed there was a strong community of interests. The document, which subsequently became known as the Pandolfi Plan, was eventually published on 31 August. The "appointment with Europe" was used as an occasion to place the government's economic strategy within a broader perspective and by doing so to reinforce its authority, stating that "a new direction for our economy and therefore for our society can also be seen as a vote for Europe".[43]

In the discussion in London, the two governments were similar in their attitude towards the Franco-German initiative, as regards both the necessary conditions for participation in the scheme of monetary co-operation and the importance of resource allocation. The Italians had clearly been surprised at the unqualified political support of the French for a new monetary scheme and at the apparent about-turn by Chancellor Schmidt in his attitude towards economic convergence as a pre-condition for monetary co-operation. Baffi also aligned his country with the UK's wish to see changes in the CAP: since Italy had become a major importer of certain goods, especially butter and meat, from the rest of the Community, the Italian government seemed

41. E. MOURLON-DRUOL, op.cit., pp.188-190.
42. Ibid., pp.202-203.
43. P. LUDLOW, op.cit., pp.148-149.

"distinctly unhappy" with the disproportionate resources going to support Northern European agriculture. However, Pandolfi, while sharing the Chancellor's objectives, expressed doubts about finding the practical means to achieve them. The main concern expressed by the Italian delegation was to bring the inflation rate down before committing Italy to enter a monetary scheme. The ambitious counter-inflationary policy of the Pandolfi Plan was not realistically expected to show significant results until mid- 1979; domestic policies were therefore "out of phase" with the timetable for establishing a currency scheme by 1 January 1979.[44] Baffi referred to Italy's dilemma as the weakest member state: whether to enter a European monetary system with too weak a currency or whether to stay out, with all the consequent problems. According to Couzens, it would be desirable for the system to lean in an anti-inflationary direction, but Britain wanted to avoid a situation in which countries were forced to deflate or undertake large-scale borrowing in order to maintain an indefensible rate. Pandolfi agreed: massive credit was not as important as the possibility of a change in rate.[45]

The Italian press and media gave full coverage to the visit, with enthusiastic comments stressing the extent to which Italian and British views converged on European monetary reform and to which Italy could learn from the British government's example in limiting public expenditure, wage increases and inflation.[46] *Il Sole 24 Ore* spoke of an unsurprising identity of views: apart from the significant similarities in Britain's and Italy's basic economic attitudes, the British had never concealed their view that exchange rates must reflect the relationship between fundamental economic situations, and that it made no sense to restrict rates within theoretical limits which could not subsequently be sustained.[47] In advance of the visit, *Il Corriere della Sera* mentioned fears in Community circles that an Anglo-Italian monetary alliance could be created in opposition of the Franco-German one.[48]

The meeting, however, had also revealed differences of opinion between Italy and Britain, in particular over fluctuation margins. The Italian negotiators aimed at a looser system for at least a transitional period, while the British preferred a system which was precisely drafted, in order to guarantee the reinforcement that external discipline would give to domestic anti-inflationary policies. Beneath these technical differences, there were two different political visions: on one hand, wider margins would allow Italy to combine her political desire to become a member of the system and at the same time avoid suffering unbearable economic costs. On the other, for the United Kingdom, the most important precaution was a clause allowing members to opt out: "the first was the solution of a government predisposed to join, while the

44. TNA, FCO 33/3575, Visit of Signor Pandolfi and Signor Baffi, Note from Battishill,, 28.07.1978.
45. TNA, FCO 33/3575, Visit of Italian Minister of Treasury and Governor of Bank of Italy, Note from Ingham, 01.08.1978.
46. TNA, FCO 33/3575, Tel no, 364 by Campbell, Visit of Italian Minister of the Treasury and Governor of the Bank of Italy to London: Italian press reaction, WRJ 026/2, 26.07.1978.
47. *Il Sole 24 Ore*, 26.07.1978.
48. *L'Europa delle monete rischia di partire senza Roma e Londra*, in: *Il Corriere della Sera*, 08.07.1978; *Disavanzo '78: la CEE ha fissato il tetto*, in: *Il Corriere della Sera*, 21.07.1978.

second was the proposal of an administration that was still agnostic". More than a difference in views, the main problem was Britain's hesitancy. By the end of July, the British authorities were still unclear about what they wanted from the EMS and this was also one of the difficulties about forming an Anglo-Italian front: according to the *Financial Times*, the Pandolfi-Baffi visit was

> "notable for the invention by a very senior British representative of the phrase 'constructive caution', which covered the whole spectrum of UK official responses to monetary union"

and was accompanied by the "unspoken assumption" of superiority by British Ministers and officials when dealing with their Italian counterparts.[49]

Despite these differences, by mid-September the importance of Italy for Britain's strategy grew stronger. Following the ECOFIN meeting of 18 September in Aachen, with the ratification of the parity-grip option by Schmidt and Giscard, the UK found itself as the strongest defender of the so-called symmetry. The Franco-German bilateral agreement meant that Britain had lost its most important technical ally.[50] On these premises, it was decided to approach the Italians: they would not be a fitting replacement of the French, but they could indeed help London's cause, as shown by the British archives. In a note entitled "Lobbying the Italians on the EMS", the Undersecretary in charge of the Community, Michael Butler, made a very clear statement:

> "the Italians will be an important factor in our strategy. The Chancellor has himself considered making personal contact with his Italian opposite number, but the Treasury also consider that we need to keep Andreotti reinforced against the heavy lobbying that he will receive from Giscard and Schmidt".

The Italians, together with Britain, were the "foremost advocates of the need for an EMS to be reasonably flexible and to avoid it being deflationary" and were "at present allies in trying to correct the inequities of the present EEC Budget". Considering the key role played by the respective heads of government in determining their national position, it would be extremely useful to organise a talk with Andreotti. Italy's Prime Minister, "with some unusually effective official support from the Foreign Ministry", seemed to be largely responsible for the "realistic line" taken by the Italians about the CAP, the concurrent studies, and the EMS itself.[51]

Yet this Anglo-Italian rapprochement might be undermined by the risky strategy adopted by the British government on revealing – or better, concealing – its real intentions.

49. P. LUDLOW, op.cit., pp.151-152.
50. On the Aachen meeting and its significance see E. MOURLON-DRUOL, op.cit., pp.216-227.
51. TNA, FCO 33/3570, Lobbying the Italians on the EMS, Note by Butler, WRJ 020/1, 20.09.1978.

A "soft landing" in disguise

It seems quite clear that, by early October 1978, the British government had already taken the decision not to join the EMS. Strong opposition came from the left wing of the party, which felt that participation would lead to higher interest rates. At the meeting of the Labour Party's National Executive Committee on 1 October 1978, to consider motions for the upcoming party conference, a proposal "denouncing and rejecting the EMS" passed by a vote of sixteen to nine. This motion was not voted at the conference, but it revealed enough hostility to persuade the Prime Minister that he could not count on the party's support.[52]

In a meeting of the Ministerial Group on European Monetary Co-operation on 10 October, Callaghan was explicit:

> "the Group by a large majority felt that it was clearly not in [British] interests to join the proposed European Monetary Scheme in the form in which it seemed likely to emerge".

However, for "tactical reasons", it would seem "unwise" to make this known prematurely to other European partners: Britain had to continue to take part constructively in the negotiations until the European Council in December; otherwise, it could prejudice the chances of a successful outcome to the ongoing studies on resource transfers. There was still scope for influencing the details of the scheme before it began and during the transitional period: the real question was, once the scheme was established, whether Britain would be worse off outside it and unduly exposed to speculation. Meanwhile, it was important that there should be "no advance disclosure of the government's position".[53]

In the meantime, Ministers endorsed the idea put forward by the Treasury that, while staying out of the Exchange Rate Mechanism, the United Kingdom could become a nominal member of the EMS: this idea, known as "halfway house", envisaged that Britain, together with the ERM members, should deposit 20 per cent of Central Bank's gold and deposit reserves to finance short-term intervention in ECU.[54] In addition, the Treasury, i.e., Ken Couzens, started to formulate the so-called "soft landing approach", consisting of three types of actions, in order to pursue economic growth, counter inflation and continue with ongoing studies. In the event of non-participation in the EMS, this strategy would minimise the risks to the pound exchange rate and avoid Britain's political isolation within the Community.[55]

Quite surprisingly, at the same time some Italian officials and politicians appeared to be inclined to believe that the British would join the French and Germans in accepting the EMS for political reasons, even on conditions which were unsatisfactory

52. J.I. WALSH, op.cit., p.33.
53. TNA, CAB 130/1047, Ministerial Group on European Monetary Co-operation, 5th Meeting minutes, European Monetary Co-operation, GEN 136(78), Limited Circulation, 10.10.1978.
54. M. FRANKLIN, *Could and should Britain have joined the European Exchange Rate Mechanism in 1979? A personal memoir*, in: *Journal of Contemporary European Research*, 5(2013), p.762.
55. See E. MOURLON-DRUOL, op.cit, pp.244-245.

for Italy. According to Renato Ruggiero, who was reporting in strict confidence, a reflection of this thinking could be found in *Il Sole 24 Ore*, describing a meeting by leading members of the Republican Party close to the Bank of Italy, during which the possibility of British surrender to the French and German position was aired. The Foreign Office dismissed the matter as "nonsense": the British Ministers "were holding their cards very close to their chests", but there was no doubt that they could not contemplate the possibility of joining unless the terms were right.[56] On that occasion, the divergence between the actual policy of the British government and its perception on the Italian side was quite striking.

Despite Britain's determination not to join the EMS, collaboration between London and Rome continued in those months. Within the FCO, there was a widespread conviction that the French wanted to split the Italians from the UK, for example, by talking about resource transfers for Italy (and Ireland) but not for Britain. As the moment for making decisions drew near, it would probably see increasing pressures and incentives on the Italians to accept whatever form of EMS Giscard and Schmidt could agree upon. It was therefore very important that the British government should "encourage the Italians to stay with [the UK] in holding out for an acceptable EMS": this could probably only be done with reasonable hope of success at the level of Andreotti himself.[57]

As for Italy, according to Baffi, as early as 2 November Andreotti wanted to enter the EMS "also without England", a decision which did not encounter the governor's favour. Even Pandolfi disagreed with the Prime Minister. Despite the many rumours circulating not only in the press but also in Brussels about Britain's non-participation, every British official was pursuing the consistent strategy of continuing to say that no decision had yet been made by the Callaghan government.[58]

A great pretence? Rome goes in, London stays out

The final act of the British strategy took place on 22 November, when Andreotti visited London at Callaghan's invitation, accompanied by Pandolfi and Baffi. This was one of an intensive round of Italian consultations prior to the European Council. Giscard visited Rome on 25-26 October for discussions on the EMS, and Schmidt paid a one-day visit to Italy on 1 November for discussions on Community issues; Andreotti also visited Luxembourg on 11-12 November and discussed the EMS with his Belgian, Dutch and Luxembourg colleagues, while Pandolfi saw Colley, the Irish Minister for Finance on 13 November.

Prior to Andreotti's visit, the Foreign Office stressed how the Italians, together with the United Kingdom, were the "foremost advocates" of the need for an EMS to

56. TNA, FCO 33/3570, EMS: Italian and UK attitudes, Adams to Galsworthy, WRJ 020/1, 16.10.1978.
57. TNA, FCO 33/3570, Lobbying the Italians on the EMS, Note by Butler, 20.09.1978.
58. E. MOURLON-DRUOL, op.cit., pp. 245-246; P. LUDLOW, op.cit., p.216.

take into account the needs and problems of all the economies, both strong and weak, and, like the British, they were concerned to correct the inequities of the EEC Budget. The Italian objectives were probably to focus mainly on the Community side, trying to ensure UK support for the position Italy would adopt at the European Council, particularly regarding the width of currency margins in an EMS and on immediate commitments to assist less prosperous economies. Andreotti would also stress Italy's interest in parity of treatment for Mediterranean as against Northern agriculture within the EEC, while encouraging the further "thickening" of Anglo-Italian bilateral relations, in particular, further collaboration on defence projects and in the fight against terrorism. Britain's main objective was to ensure that the Italians stayed as close as possible to the UK at the European Council and thereafter, both on the EMS itself and on related measures to help countries facing economic problems. The meeting with Andreotti would also provide a useful opportunity to consolidate Anglo-Italian co-operation on other Community questions, on many of which the two countries had complementary interests: the FCO then stressed the convenience of demonstrating the importance that the British government attached to the UK-Italy relationship, as well as its readiness to consult Italy on problems of common concern on the same basis as West Germany and France were consulted.[59]

Andreotti's visit had a wider meaning, going further merely than immediate negotiations over the EMS, according to Ambassador Campbell. The Italians had always been deeply attracted by European integration, in the wish to correct at European level the limitations of the Italian administrative system: despite the probable delusion which could spring from it, in that difficult economic situation they considered the evolving Community to be the main framework in which to solve their economic problems. In addition, all the democratic forces in Italy strongly felt that integration at a European level was a way of linking the country to the West, avoiding any drift towards pro-Soviet neutralism through the PCI, despite the fact that Italian Communists were "sufficiently sophisticated to understand the importance of the Community dimension". In the European integration process, Britain played a key role in Italian eyes: although less important economically than Germany (Italy's largest export market and a major source of investment capital and financial assistance in need), the United Kingdom was regarded as a vital counterweight to the long-feared Franco-German hegemony, as well as a major guarantee of European democracies. Apart from general, long-lasting goodwill towards Britain, more recently in some key sectors of the administration, such as the European Integration Department of the MFA, the Treasury and the Bank of Italy, a definite feeling had emerged that the two countries were "natural allies" in the struggle to create a more equitable distribution of the burden of EEC costs. Campbell made himself very clear in this regard:

> "As I understand it, Italy is in fact our only substantial ally in our attempt to correct the distribution of injustices inherent in the existing Community system".

59. TNA, CAB 133/486, Visit of Signor Andreotti, 22 November 1978: Steering Brief, Brief by Foreign and Commonwealth Office, 15.11.1978.

Italian officials and the Italian press had at last acknowledged that their country, the second poorest in the Community, shared with the United Kingdom the status of net contributor to it. It was in British interests to try to retain this sense of solidarity, otherwise the Italians might be tempted to seek remedies for their problems from other Community partners. If Britain could be seen to be fighting in the interests of London and Rome, then the good relationship with the Italians would survive and become the basis for profitable collaboration in the EEC, even if in the end the UK decided not to join the EMS. In this connection, the Ambassador suggested that the Prime Minister should be as open and as sympathetic as possible towards Andreotti during his forthcoming visit.[60]

In the discussion in London, Callaghan had indeed been sympathetic, but not open at all: he clearly stated that the cabinet had not reached a conclusion on UK participation and would not do so until shortly before the forthcoming meeting of the European Council on 4-5 December. If the government's decision were to be negative, however, the UK would certainly not wish to prevent a Community scheme from being established, and any Community member which wished to join should do so. Britain had participated, fully and constructively, in discussions of the scheme so far, and any criticisms by the British side would not be made from the standpoint of an antagonist. However, if the UK were to join the scheme and then found that she had to devalue, it would undermine the government's efforts to beat inflation and restore the country's economic position.

Andreotti stressed how the EMS had been presented to Italian public opinion as an important stage in the development of Europe and that this was a crucial factor in the stability of Italy's domestic politics, providing the only common ground between all the parties, including the Communists. This positive view of the future development of Europe would be improved by the EMS, particularly if all members of the Community were to take part in the scheme from the beginning. There was a major difference between the EMS and the Snake: when Italy had left the Snake, this had been regarded as a purely technical development, while entry into or departure from the EMS would inevitably be a major political decision.

The two Prime Ministers also discussed the American attitude towards the EMS. It needed to be made very clear that the scheme was not aimed against the dollar, and Callaghan added that the EMS should lead to a wider development in the monetary field: "with or without the EMS, the time would come when a world monetary system including the dollar would have to be recreated". Andreotti stressed the Italian desire to see a balance and a truly European system which would not reduce itself to a confrontation between the dollar and the deutschmark: this was the main argument of Italy's hope that Britain would eventually join the EMS.[61]

60. TNA, FCO 30/3901, Signor Andreotti's Visit To London, Telegram n.544 by Campbell, MWE 026/10, 16.11.1978.
61. TNA, FCO 30/3901, Prime Minister's discussion with Signor Andreotti on Wednesday 22 November 1978: EMS, Cartledge to Battishill, 23.11.1978.

Ten days later, these Italian hopes were to be broken: the British government finally showed its hand just before the Brussels European Council. On 1 December, Callaghan revealed to Andreotti the decision not to join the EMS. He chose a somewhat contorted and cryptic form for his message:

> "I shall not go to Brussels with a closed mind, but I would not wish to encourage you to think that it is very likely that the United Kingdom will be able to take part in the Exchange Rate Mechanism".[62]

Ambassador Campbell wrote in his memoirs that Pandolfi informed him of Britain's decision not to join before he had heard it from his own government: Callaghan had told the Germans, who "passed it on".[63]

Italy was now left without her most valuable ally. The British were in any case quite sure of Italian participation in the project. A memorandum by Callaghan himself a week after Andreotti's visit stressed Italy's favourable political approach to the EMS: it provided the only common ground among all the political parties, including the Communists, and the scheme was generally regarded as an important step towards the kind of Europe which Italy hoped to see. In spite of this, in Rome there had been significant reservations about the EMS, but these were left aside after the concession of an optional 6 per cent margin for exchange rate fluctuation and the restoration of the level of 25 billion ECU available to debtors. The main concern regarded to the need for greater progress on concurrent studies, so that the EMS would harmonise with the Pandolfi Plan, and Andreotti was keen to team up with Britain and Ireland to secure concessions on this front on the European Council.[64]

At the Brussels summit in December, Andreotti announced with displeasure a week-long "pause for reflection", but on 12 December he declared before the Chamber of Deputies in Rome that Italy would join the EMS without securing further concessions. Andreotti's "pause for reflection" was a result of the complex political situation: the Communist Party's opposition to the EMS would very probably involve a governmental crisis. In spite of all this, Andreotti and the Christian Democrats, supported by the small moderate parties, decided that Italy would immediately join the European Monetary System. Such a decision, which was consistent with Italy's traditional European commitment, was to lead to the end of the "national unity" government, and within a few months the Communists came back to the opposition.

At the end of December, Andreotti sent a message to Callaghan about Italy's decision to join the EMS. The purpose of this message was to emphasise that, although the Italian government had taken a different decision, the spirit of its approach to the EMS was similar to that of the UK. The Foreign Secretary, David Owen, assured Andreotti that there was no British resentment over the Italian government's decision: the reasons for it were well understood. Although he believed that there was rather

62. TNA, FC0 33/3571, European Council: EMS, Tel No 277 by Owen, WRJ 101/1, 01.12.1978.
63. A CAMPBELL, *Colleagues and friends*, Michael Russell, Salisbury, 1988, p.125.
64. TNA, CAB 129/204, European Monetary System: French, Italian and Irish views, Memorandum by the Prime Minister, CP (78) 124, 29.11.1978.

more rhetoric than reality about the EMS at present, Owen hoped that the scheme would be successful.[65]

In fact, in the following weeks, there was some Italian resentment over Britain's behaviour and not on Community issues. Italy had been excluded from a series of multilateral initiatives during 1978, like the tripartite and quadripartite consultation on military technology and in particular the "Big Four" meeting organised by the French President in Guadeloupe in January 1979. Exclusion from the group of the big Western powers deeply irritated the Italian government. Roberto Ducci, the Italian Ambassador in London, stressed how Italy's main concern was the weakening of political co-operation among the Nine and of political consultation in NATO caused by privileged discussions by three member states with the US, and the Italian government viewed this development "with grave disquiet".[66] According to the FCO, if and when another Guadeloupe occurred, the British government should show some "special consideration" to the Italians, although there was no question in bringing them into the quadripartite scenario. In case of future slips, it was always possible "to take refuge in the Berlin cover-story": officials were talking about Berlin and happened to mention some other subject in passing ("no-one believes this story, but it inhibits non-quadripartite partners from making a fuss").[67] However, Italy resented the Americans and the French more than the British, since they had not played a leading role in organising the meeting. The French should make special arrangements over the briefing; as for the Americans, they "time and again [broke] the rules of confidentiality" and the Germans were "nearly as bad", as shown on the occasion of the Puerto Rico summit. At least the British could preserve a reputation for discretion.[68]

Conclusions – the basis for a fruitful collaboration?

According to Ambassador Campbell, the negotiations leading up to the establishment of the EMS had important and mainly favourable effects on Anglo-Italian relations. Italian and British objectives, although not identical, were near enough for collaboration to advance very closely in negotiating technical aspects and attempting to correct "the grosser inequities" of the Community budget and the Common Agricultural

65. TNA, FCO 33/3571, Call by the Italian Ambassador on the Secretary of State, Lever to Goodall, WRJ 020/21, 21.12.1978.
66. TNA, FCO 33/4056, Guadeloupe summit: Italian reactions, Tel no 18, WRD 021/2, 24.01.1979.
67. TNA, FCO 33/4056, Italian exclusion from quadripartite and other small groups, Palliser to Campbell, WRD 021/2, 31.01.1979.
68. TNA, FCO 33/4056, Italian exclusion from quadripartite and other small groups, Fergusson to Hibbert, WRJ 021/2, 30.01.1979. As mentioned in the document, in summer 1976 American "clumsiness" [sic] made sure that the Italians knew that a quadripartite meeting was taking place to which they were not invited and Chancellor Schmidt then disclosed that the Italian internal situation had been under discussion.

Policy. However, Italy and Britain differed in the attitudes of their respective political parties to European integration; hence, their different final decisions over joining the system from its outset. On these premises and despite certain well-known differences of emphasis (for example, on Mediterranean agriculture), there was no reason why the harmonious cooperation established between Italy and the United Kingdom over EEC questions should not be continued, to the advantage of both.[69]

Apart from these optimistic evaluations, the problem of Anglo-Italian partnership during the negotiations on the EMS was twofold and had affected the relations between London and Rome since the 1950s.

Firstly, there was the British tendency to downgrade Italy's role and the actual benefits which could derive from closer cooperation with the Italian government. This had happened during the negotiations for Britain's entry into the EEC, it had happened with the European Monetary System, it was to happen in the following years, as in the case of the negotiations for the Maastricht treaty or during the 2003 Iraq war. This peculiar attitude also had a side-effect: British politicians and officials were inclined to act with superiority when dealing with their Italian counterpart, in a sort of teacher-pupil relationship. However, this treatment was not reserved only for Italians: in the aftermath of the Second World War, British diplomacy had a similar approach even towards the Americans. For its lack of symmetry, the relationship between Britain and Italy recalled the Anglo-American "special relationship", albeit in reverse.

Secondly, there were the difficulties for Italian governments of trying to reconcile open allegiance to the European ideal with a more concrete strategy inside the Community, of which an "alliance" with the British could have been a sound move. The fear of being excluded from the European circle on many occasions had prevailed over tactical considerations. In addition, the language of federalism often spoken by the Italians was barely understood by the British. Italy in 1978 was not viewed in London as a worthy and equal partner: it was considered to be in a petitioning position which Britain wanted to avoid. However, the Italians placed too much faith on the alliance with the British, even when it had become apparent that the UK would not join the system. The year seemed to close with a renewed sense of solidarity between Britain and Italy, which had yet to face the changes on international and domestic levels.

In fact, 1979 would mark a watershed in the history of both countries, albeit with differing results. Italy was set to full realignment with the major Western powers, as shown by the will of the Italian government to comply with NATO's decisions on euromissiles. Participation in the EMS represented the end of the uncertainties of the 1970s and gave a new international stance to Italy, on the eve of the revived conflict between the superpowers. It was also an early test of the so-called European "external bond": by appealing to international constraints decided in Brussels, the Italian government could pursue harsh economic measures without incurring the opposition of public opinion. The European choice was therefore to become not only a powerful

69. TNA, FCO 33/4046, Annual review on Italy, by Campbell, 10.01.1979.

political tool, but also a vital element of internal economic policy. As for Britain, the impression at home and abroad was of a country in terminal economic decline and on the edge of ungovernability. The "winter of discontent" in 1979 was a key event: the rash of strikes in crucial public services against the Labour government's income policies seemed to show that the country was ungovernable, and destroyed the government's reputation for prudent economic management and its ability to gain the cooperation of the unions. The events of winter 1979 brought the question of British decline back into the limelight, despite Callaghan's attempts to minimise the situation.[70] It was the end of the post-war consensus and paved the way to Thatcherism for the next eighteen years.

70. After the quadripartite meeting in Guadeloupe, Callaghan stayed on for talks and sightseeing, and pictures of him swimming and sunning himself circulated in the press. When he returned to Heathrow, in a press conference he stated: "I don't think other people in the world will share the view that there is mounting chaos". This was famously translated by the *Daily Mail* into "Crisis? What Crisis?". See A. MARR, op.cit., pp.373-377.