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France's and Italy's Policies □
on European Monetary □
Integration: □
a comparison of 'strong' and □
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France and Italy's Policies on European Monetary Integration:
a comparison of 'strong' and 'weak' states

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ABSTRACT

This work compares France and Italy's policies on European monetary integration from the early 1970s arguing that the very different state structures determined the different policies pursued towards European monetary integration. France is a 'strong' state in terms of macroeconomic policy-making in that it was able to coordinate the activities of national institutions in order to produce coherent macroeconomic policies that were a crucial condition for taking part in European monetary integration. Italy, in contrast, is characterised by an 'archipelago' configuration with weak political capacity, which resulted in less coherent and effective macroeconomic policies, thus challenging its participation in European monetary agreements. State traditions also affected the views of the respective countries on European integration with French policy makers largely in favour of an intergovernmental approach and Italian policy makers supporting a supranational one. Overall, whereas it was politically problematic for France to accept the principles of a supranational Economic and Monetary Union as well as central bank independence, the main obstacle for Italy was to achieve economic convergence.

KEYWORDS

- EMU, European Monetary Union
- ERM, Exchange Rate Mechanism
- Euro
- Economic performance
- policy analysis
- comparative public policy
- role conceptions
- France
- Italy

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1. INTRODUCTION

In the literature on Economic and Monetary Union (EMU), only a handful of works in both political science and economics, and even less in an interdisciplinary perspective, have compared and contrasted the experience of various member states in the process of European monetary integration (cf Talani 2000; Verdun 2000). The works that have covered more than one country have treated them mainly as individual country studies (e.g Dyson and Featherstone 1999) or have focused on one specific aspect, such as exchange rate policy (Onofri and Tommasini 1992; Oatley 2000; Walsh 2000). This paper, instead, compares France and Italy's policies on European monetary integration, arguing that such a comparison not only generates new insights into the process of European monetary integration, but also elucidates the importance of state structures in shaping EMU policies.

France and Italy, founding members of the EU, are comparable in terms of economic, geographic and demographic size. Both countries enjoyed relatively stable and supportive attitudes towards European integration among the elite and also more widely in public opinion. Economic interests did not have a major impact on shaping the member states' EMU policies, which were largely the domain of national 'core executives' composed of government officials and central bankers (Dyson and Featherstone 1999, Quaglia 2002).

The two countries' state structures and conceptions, however, differed remarkably in that France presents a clear example of a 'strong state' in terms of macroeconomic policy-making and is also one of the oldest nation states in Europe, whereas Italy is traditionally portrayed as a 'weak state' that dates its existence only back to the second half of the 19th century. This work argues that these state structures determined France and Italy's policies towards European monetary integration to a large extent. Given the centralisation of the French state, it was easier for national authorities to instil discipline into the economy, a crucial condition for progress towards European monetary integration. On the contrary, EMU in Italy was more often than not seen as a way to 'import' macroeconomic discipline.

The different state conceptualisations also resulted in different conceptions of European integration with intergovernmentalism favoured in France and supranationalism favoured in Italy. For French policy-makers the international dimension of EMU was paramount, as European monetary integration was seen as a way of strengthening the French position compared to the United States and Germany, whereas for Italian policy makers, it was more a means to implement domestic reforms. Indeed, whereas the problem for Italy in deciding to take part in EMU was mainly the country's economic performance,

for France, it was politically problematic to accept the principles of a supranational EMU as well as central bank independence.

France has of course been a more powerful actor in the European Union (EU) system than Italy, among other reasons because the Franco-German partnership has traditionally been regarded as the 'engine' of European integration. Thus, the Franco-Italian EMU relationship has been ambivalent: while the Franco-German relationship has been crucial for the French, France's relationship with Italy largely stemmed from it.

The period covered in this study spans from the Hague Summit of December 1969, when EMU came on the agenda, to the selection of the participants in 1998. The paper starts with an analysis of French and Italian macroeconomic policy-making institutions. It then moves on to the macroeconomic policy strategies of the two countries and the key concepts for EMU. Neither the Franco-Italian relationship, nor the broader EU dynamic in which their policies were embedded, are discussed in the paper. An overview of the process of European monetary integration is given in Table 2, which highlights history-making events in European monetary integration as well as the main positions taken by both countries.

This paper draws on the authors' earlier research on the French and Italian approaches towards EMU (see especially Maes 2002a, Maes 2002b and Quaglia 2002). This research utilises a wide variety of sources, which differentiates it from previous research in the field in that it relies on primary documents, archival sources, and a wide range of interviews, as well as the experience of one of the authors in the policy-making process. The focus is on official positions, even if attention is sometimes given to certain influential French and Italian individuals.¹

2. STATE STRUCTURE AND POLICY-MAKING INSTITUTIONS

This section focuses on state structures in France and Italy, paying particular attention to domestic institutions involved in the conduct of macroeconomic policies. A preliminary point to bear in mind is that, whereas France underwent major systemic changes with the end of the Fourth Republic in 1958, significant institutional changes did not take place in Italy until the 1990s.

The terms 'strong' and 'weak' state are generally used to characterise the relationship between state and society in national economies, in particular the

¹ Even the issue of what is an official position is not fully clear (see, for example, Wallace, 2001, who focuses on governments). In this paper 'official positions' refers mostly to governments (especially the ministry of finance), but also to the central banks.

degree to which the state is willing and able to intervene in the economy as well as the degree of state autonomy from society and bureaucratic influence (Katzenstein 1977). These terms are used in this work in reference to macroeconomic policy-making in order to describe the configuration of the state and political capacity, or the lack of it, to coordinate the activities of various macroeconomic institutions and to produce coherent economic policies.

2.1 France

France has a long tradition as a strong centralized state. As remarked by Rosanvallon (1992, 64), the 'State' preceded the nation in France and gave France a coherence and an identity². The Revolution of 1789 abolished the monarchy and reduced the role of religion placing 'Reason' at the center of French society. This further reinforced the role of the state in French society³. It gave birth to '*la tradition républicaine*', focused on the 'one and indivisible' republic, a view which would permeate France. Fundamental to the republican state was the primacy attached to the sovereign nation as the source of legitimacy. The task of the state was to ensure the unity of public power in the service of the nation⁴.

An important element of the French state was the creation of a strong national elite, formed in the '*Grandes Ecoles*' (*Ecole Polytechnique*, *Ecole Nationale de l'Administration*). The graduates of these '*Grandes Ecoles*' move quite easily between the public and the private sectors, which also assumes that, broadly speaking, the private sector is relatively responsive to the policies followed by public authorities.

With the Fifth Republic, France became a presidential republic in which the president is elected directly by citizens. The head of state enjoys a strong leadership role in line with the Napoleonic and centralist traditions. Although in periods of cohabitation, when the president and the government belong to different parties, presidential powers are curtailed, with the president maintaining responsibility for foreign affairs and EU issues.

² According to legal experts, the French civil law system was designed to be an instrument of power of the state. This contrasts with the Anglo-Saxon civil law system where the protection of citizens against the government is at the core.

³ So the state took on an important role in education, which in France is called '*éducation nationale*'.

⁴ It went together with a French emphasis on institutions, something which was typical of Monnet's approach to European integration: "*Rien n'est possible sans les hommes, rien n'est durable sans les institutions*" (Monnet, 1976, 412. See also Fontaine, 1990, 19 or Duchêne, 1994, 401).

The '*tradition républicaine*' also stressed the political direction of policy (Howarth, 1999). It implied the primacy of political will on the markets. Economic policy had a strongly 'voluntarist' element. The republican tradition also legitimated a centralisation of power in economic and monetary matters. The executive ultimately was responsible for macroeconomic policies while the influence of the legislature was limited. Furthermore, this often went together with a protectionist approach with Colbertism.

The '*Ministère de l'Economie, des Finances, et de l'Industrie*', including the Treasury, had a very prominent status within the French administration. The Treasury was responsible for the conduct of monetary policy, while the *Banque de France* was traditionally considered a part of the '*circuit du Trésor*', a far cry from an independent central bank. The autonomy and authority of the French central bank increased during the 1980s. With the growth of financial markets, the position of the *Banque de France* vis-à-vis the Treasury was strengthened, due to its technical expertise and its knowledge and experience of the markets.

2.2 Italy

Italy has traditionally been portrayed as a 'weak' state (Ranci 1987) with a porous structure and a dispersed and poorly co-ordinated set of institutions (Della Sala 1997). Admittedly, the country underwent significant changes during the 1990s affecting the electoral and political party system as well as the institutions dealing with macroeconomic policies. Even so, the main features of the governance structure identified below have not been fundamentally altered.

The executive had limited powers vis-à-vis the legislative and the Prime Minister's position within the executive was also relatively weak compared with France. Thus, the formal and substantial powers of the Prime Minister and the executive in macroeconomic policy-making, as well as in other policy areas, were quite limited and mainly rested on the Prime Minister's function as arbiter between domestic forces (Dyson and Featherstone 1999). The archipelago institutional structure also meant that a multitude of economic ministries were involved in macroeconomic policy-making in various ways – a typical example of Italian 'fragmentation'. For example, three main ministries dealt with macroeconomic policies, namely, the Ministry of the Treasury; the Ministry of the Budget and Economic Planning; and the Ministry of Finance. Amongst them, the Treasury was de facto the most influential. As part of a wider set of reforms implemented in Italy in the late 1990s, the three economic ministries were merged and reorganised (Quaglia 2002). The institutional positions and powers of the Prime Minister as well as of the Treasury Minister were also strengthened (Della Sala 1997).

The Italian central bank has always had a special position in Italy and is highly respected domestically and internationally. First, the Bank of Italy secured stability and continuity in the volatile Italian environment with a high turnover of governments, even if substantial changes in the composition of the government majority and political personnel were more limited.⁵

Second, the Bank is a monolithic institution within which the governor has a very powerful position representing the Bank de jure and de facto and being personally responsible for central bank policy (Eizenga 1993: 13). This contrasted neatly with the weakness of the executive and its strong subordination to the legislature, at least for most of the period considered here. Third, an important factor in explaining the Bank's central role is that all too often Italy attempted to manage its economy largely by means of monetary policy alone (Posner 1977). Yet, in the 1970s the Bank had to 'accommodate' the Treasury's financial needs by monetising the public deficit, that is, issuing currency to finance budgetary imbalances (Fратиanni and Spinelli 1997)⁶. With the so called 'divorce' between the Bank of Italy and the Treasury in 1981 the former was freed from the obligation to buy unsold treasury bonds, therefore acquiring greater independence from the fiscal authorities (Fратиanni and Spinelli 1997; Goodman 1992). During the 1980s the Bank's 'economic independence'⁷ was de facto strengthened by the parallel development of the domestic financial market and the liberalisation of capital movements, for both processes facilitated the placement of government bonds in the market (Carli 1993).

Last but not least, as far as strong and weak states are concerned, it is important to remember that in the 1970s the Italian state was threatened by internal terrorism. Nothing on a comparable scale happened in France. This could not but affect policy-makers' choices in the macroeconomic field (Carli 1993) as shown by the 'monetary compliance' of the Bank in financing the public deficit. Also, although corruption scandals broke out both in France and in Italy during the 1990s, they had more far-reaching consequences in Italy.

⁵ In the postwar period Italy had more than fifty governments but only five governors of the Banca d'Italia.

⁶ In 1975 Carli managed to open the auction of Treasury bonds thereby creating a private market for public bonds and defeating the 'corporatist attitudes' of the banking system (Carli 1993), which had blocked this reform in 1962. Some authors (e.g. Sarcinelli 1995; see also *Repubblica*, 26 July 1991, interview) argue that the price paid for this was a resolution of the Inter-Ministerial Committee for Credit and Saving which compelled the Bank of Italy to act as the residual buyer of all unsold treasury bonds.

⁷ Some literature on central banks distinguishes between economic independence and political independence see Grilli et al (1991). However, one should be aware that such a classification is not uncontroversial and other typologies have been used, such as 'goal independence' and 'instrument independence'.

2.3 Comparison

The main difference between the French and Italian macroeconomic policy-making structures is that whereas France is a strong state with a hierarchic and monolithic configuration, Italy is a weaker state characterised by a more fragile and disjointed structure. These institutional features are very important in explaining why France, under a strong leadership, managed to shift its macroeconomic policies rather swiftly and convincingly in the 1980s, whereas a major breakthrough only occurred in Italy during the 1990s. Secondly, different domestic institutions made it possible for the Italian central bank to have a major input into charting Italy's policy on European monetary integration, albeit more during some periods, such as the 1980s, than during others, such as the 1970s and 1990s. In France, in contrast, the executive was generally more involved.

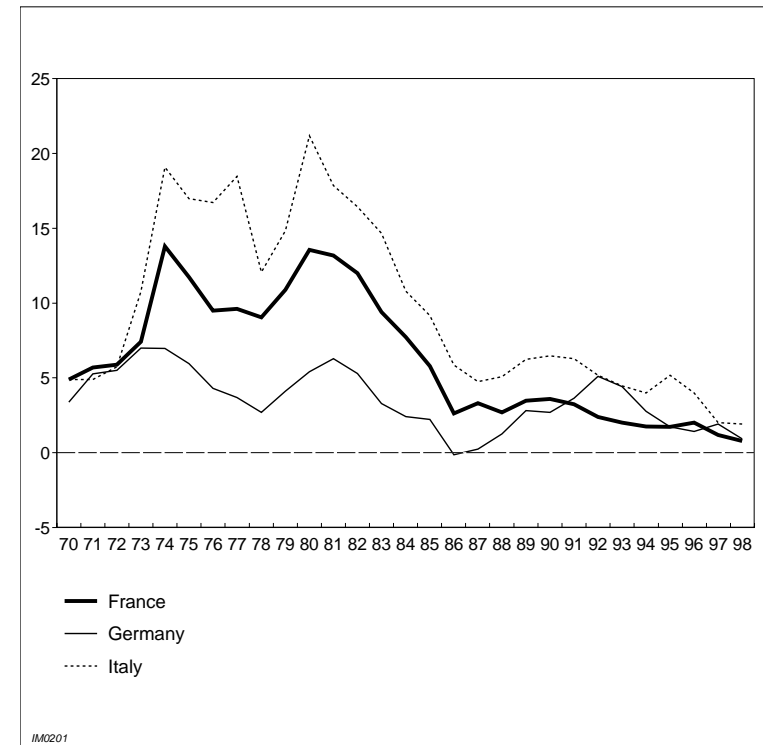
3. MACROECONOMIC POLICY STRATEGIES

3.1 France

There was generally a very high degree of coherence in economic policies in France: budgetary policy, monetary and exchange rate policy, as well as incomes policies were usually consistent with one another, which is not surprising given the configuration of the national policy-making structure in France.

It is however less easy to distinguish clear tendencies or schools of thought with respect to French macroeconomic and monetary policy (Maes 2002b). One could argue that there was a tension between two approaches: one focusing on domestic policy priorities, especially economic growth, and taking a more relaxed view of the exchange rate, and the other advocating 'discipline' and favouring a stable (or strong) French franc. The first tendency, focusing on domestic policy objectives, was more in line with the traditional French 'voluntarist' approach. It drew support from different quarters, both in socialist and gaullist milieu, as well as among employers and trade unions. The main objective of economic policy was to strengthen economic activity, even at the cost of a higher inflation rate. Ensuing competitiveness problems were mainly tackled by devaluations of the franc. This line of thought was dominant during the Pompidou presidency (1969-1974), the Chirac prime ministership (1974-1976) and the first years of the Mitterrand presidency (1981-1983), and could draw support from more Keynesian and left-wing economists. On the other hand there was the more 'orthodox' line emphasising discipline: a strong French franc, wage moderation and sound public finances. This line of thought

Chart 1:
INFLATION
(percentage change in the index of consumer prices)



dominated French policy-making during the Barre prime ministership (1976-1981) and also after Mitterrand's decision to stay in the EMS in March 1983, traditionally, finding more support with liberal, free market-oriented economists. This 'orthodox' line was, generally, also the more pro-European line. The EMS was created during the Barre prime ministership. For Mitterrand, his European convictions were crucial to his decisions to stay in the EMS. Generally speaking, the European constraint was influential in pushing through more orthodox economic policies, while a strong franc (with sound fundamentals) was considered important in order to be a strong and solid partner in the European debate.

The oil shock of 1973 and the ensuing stagflation were of fundamental importance in inducing changes in French economic policy-makers' conceptions. Both events very clearly showed the openness of the French economy and its vulnerability to external developments (Patat 1992: 8). The oil shock was also a more or less fatal blow to the French planning experience. French policy-makers became more and more aware that there were limits to activist policies and that France had to take external constraints more into account.

During the second half of the 1970s, under Raymond Barre's prime ministership, French economic policies became more stability-oriented (Albert 1982: 115)⁸. The exchange rate was a crucial element in the strategy designed to instil discipline into the French economy. Barre also pushed through measures to liberalise prices. This reorientation of French economic policy was an important reason why German policy-makers consented to the creation of the EMS. Mitterrand's initial economic policies could then be considered to be a last gasp of the traditional French interventionist policies running against external constraint⁹.

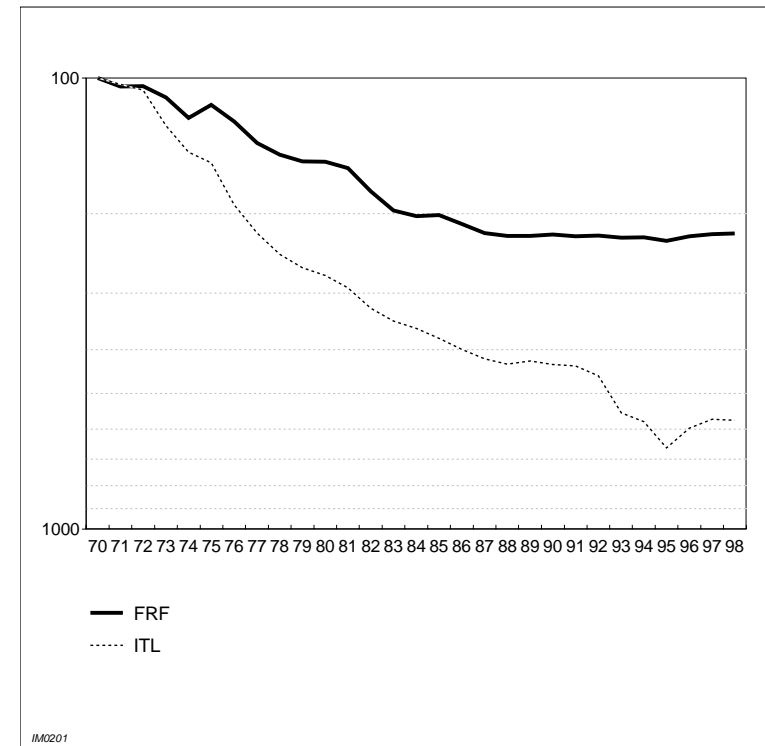
3.2 Italy

In Italy, contrary to France, there was less unity and coherence between the various macroeconomic policies for the period from the 1970s to the 1980s namely, in the areas of fiscal policy, monetary and exchange rate policy and incomes policy (Rossi 1998). Furthermore, given the weak political capacity and fragmentation of economic policy responsibilities, there were often divergencies

⁸ Raymond Barre was originally a prominent academic and scholar. As a Vice President of the European Commission from 1967 to 1972 he had first hand knowledge of differences between the French and German economic policy conceptions (Barre 2000: 19).

⁹ For an analysis of the early years of the Mitterrand presidency based on the Archives of the Presidency see Feiertag, 2001 and Saunier 2002.

Chart 2:
**EXCHANGE RATE OF THE FRENCH FRANC AND THE ITALIAN LIRA
 AGAINST THE GERMAN MARK**
 (logarithmic scales, 1970=100)



and inconsistencies between the various policies (cf. Onofri and Tomasini 1992: 88). On the one hand, an important factor in Italy's macroeconomic policy strategy during the 1970s and 1980s was the attempt to manage the economy largely through monetary policy – often referred to as the 'function of substitution' performed by the central bank. On the other hand, Italy did not embark on major fiscal adjustment until the 1990s, starting with the Amato government in 1992, when the reform of incomes policy was also completed. Furthermore, in the Italian case, in contrast to the French, it is more difficult to identify predominating lines of economic thought and major shifts in macroeconomic policy.

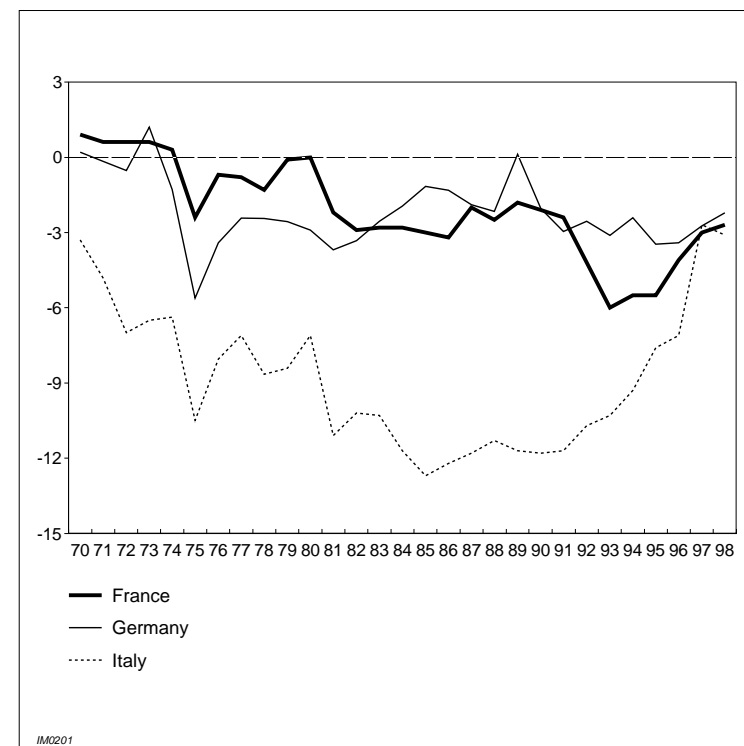
As in France, one can contrast the advocates of 'discipline' with those in favour of 'activist' policies (or in the case of Italy, 'laxist' policies may be a better description). In Italy, as opposed to France, the role of the exchange rate as an instrument of economic policy was much debated. Indeed, in an export-oriented and modernising economy, such as Italy was in the 1970s, the balance of payments position and the level of the exchange rate were at the centre of the monetary authorities' attention (Hodgman and Resek 1983).

In the 1960s, Italian authorities supported the Bretton Woods fixed exchange rate system, whereas, by the end of the decade, they acknowledged that the system had become a source of instability. In 1970, for instance, Guido Carli, governor of the Bank of Italy (1960-75), argued in favour of flexible exchange rates between the US and Europe. He further favoured frequent and small parity changes within the EC area, given the remarkable differences in the national levels of inflation among EC countries (Carli 1970: 5). During that period, Treasury Minister Colombo was also in favour of a crawling peg.

In the 1970s, the Italian monetary authorities' response to the supply shocks was a blend of supply side measures, mainly subsidies to enterprises, inflation and exchange rate depreciation (Giavazzi and Spaventa 1989). The priority was to safeguard industry's profitability and investment. A 'flexibilist' approach to exchange rate policy can also be found in the negotiating position of certain Italian economic policy-makers, such as Governor Baffi, during the setting up of the EMS (Ludlow 1982).

In the 1980s, the Italian monetary authorities supported a (relatively) 'hard currency' option for Italy, maintaining that the exchange rate could be deployed as an 'external constraint' in the domestic arena to fight inflation by disciplining the trade unions and promoting industrial restructuring. The high interest rates resulting from the tight monetary policy which was needed – or so the argument went – to defend the lira exchange rate parity within the Exchange

Chart 3:
GENERAL GOVERNMENT BALANCE
(percentage of GDP)



Rate Mechanism (ERM), thereby avoiding politically costly devaluations, was also used in an attempt to trigger restrictive fiscal policy. A major turning point in the conduct of Italian exchange rate policy was the creation of the EMS in 1979 and the appointment of Ciampi as Governor at the Bank of Italy shortly thereafter.¹⁰ In the first half of the 1980s the small and frequent lira realignments that took place within the ERM never fully compensated for the inflation differentials between Italy and the low inflation countries within the system (Bini-Smaghi and Vona 1988). Furthermore, from 1987 to 1992, no realignments took place within the ERM, and by the end of that period the lira was strongly overvalued in real terms. Eventually, the lira had to be withdrawn from the ERM during the currency crisis of September 1992 and floated outside the system until the end of 1996.

The different approaches to exchange rate policy tended to coincide with different views on the Italian economy. The ‘pessimist’ view was sceptical of the reaction capacity of the Italian economy on the ground that externally imposed discipline was useless, if not counter-productive, if domestic discipline was lacking. The optimistic view, by contrast, maintained that the EMS was a welcome external constraint that the Italian economy could stand, taking advantage of it to sustain the process of disinflation.

3.3 Comparison

There were significant differences in macroeconomic policy and performance between France and Italy. First, there were major differences in budgetary policy. In France, generally, the deficit was reasonably under control. Throughout the 1970s and 1980s the deficit rarely surpassed 3%. This contrasted with major deficits in Italy exceeding 10% for several years.

¹⁰ It should however be mentioned that several concurrent domestic and international changes occurred during that period. In 1981 the so-called ‘divorce’ increased the autonomy of the Bank of Italy in the conduct of monetary and exchange rate policy. Internationally, the US Federal Reserve tightened its monetary policy.

Table 1 - Main turning points in macroeconomic policies of France and Italy

FRANCE	ITALY
1976 Barre government Discipline-oriented policies	1975 Moro government - Incomes policy '100% plus' wage indexation - The ‘enforced’ Bank of Italy-Treasury marriage
1981 Mitterrand president Activist policies	1981 Spadolini government Divorce Bank of Italy-Treasury
1983 Mitterrand president - Decision to stay in the EMS - <i>Politique de rigueur</i>	1983-1985 Craxi government Reform of incomes policy (reduction of the wage indexation mechanism)
	1992 Amato government - Reform of incomes policy (wage indexation mechanism abolished) - Fiscal adjustment started - Lira withdrawal from the ERM
	1996 Prodi government - Lira re-entry in the ERM - Public deficit less than 3%

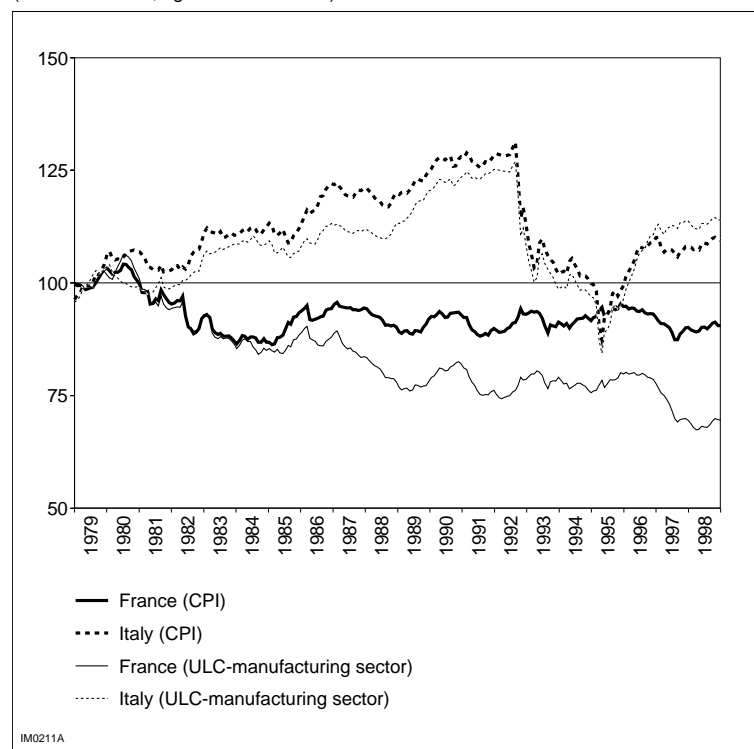
Second, in the 1970s, wage-indexation was important in both countries, even though it was more extensive in Italy. In France, it was abolished by the Mauroy government in 1983. In Italy, the reform started under the Craxi government in 1985 and was completed by the Amato government in 1992.

Third, there were important differences in exchange rate policies. France and Italy were both founding members of the Snake¹¹ in April 1972. However, Italy withdrew as early as February 1973. France withdrew in January 1974, rejoined the Snake in July 1975, and then withdrew again in March 1976. Both countries joined the ERM from the very beginning in March 1979, but Italy applied a wider fluctuation band (of 6%) and gave more ground during realignments¹². Furthermore, in September 1992, Italy had to withdraw from the ERM and rejoined it only in 1996.

¹¹ The snake in the tunnel, which entered into force in April 1972, was a mechanism for the managed floating of EEC currencies (the ‘snake’) within narrow margins of fluctuation against the dollar (the ‘tunnel’).

¹² See annex. Italy went to the 2.25% band in January 1990.

Chart 4:
**REAL EFFECTIVE EXCHANGE RATES OF THE FRENCH FRANC
 AND THE ITALIAN LIRA**
 (index 1979=100, against 25 countries)



Source: BIS

Fourth, from the early 1970s to the late 1990s, Italy had a consistently higher inflation rate than France, a clear indication of more 'laxist' economic policies. Its lack of coherence in economic policy and its difference with France comes clearly to the foreground when one looks at indicators of competitiveness. Taking 1979, the year of the creation of the EMS, as a starting point, the competitiveness of the Italian economy increasingly deteriorated, measured both by the evolution of consumer prices and by unit labour costs in the manufacturing sector. It is an indication that budgetary policy and incomes policy were not in accordance with exchange rate policy, in contrast to the French situation. In the summer of 1992 when the 'europhoria' on the financial markets ended, the Italian lira was forced out of the ERM.¹³

These differences in macroeconomic policy and performance can largely be traced to the very different state structures in France and Italy. Given the *tenue d'ensemble* of the institutions involved, it was easier for French policy-makers to impose discipline on the French economy. In Italy, with its 'archipelagic' state structure and weak political capacity, macroeconomic policy was less coherent and therefore less effective in imposing discipline.

4. KEY CONCEPTS FOR EMU

4.1 France

4.1.1 European monetary identity and power motives

French interest in European monetary integration can, in the first instance, be situated within discussions concerning the future of the international monetary system (de Lattre 1999). De Gaulle had always been critical of the central position of the American dollar in the Bretton-Woods system. During the second half of the 1960s, French officials, in order to attain a more equilibrated international monetary system, developed ideas about a 'European monetary identity' (Haberer 1981). However, this concept remained rather vague. Elements included a type of exchange rate mechanism in order to keep European currencies closer together and a common Community position in international institutions like the IMF¹⁴. Subsequently, power motives remained a cornerstone of the French attitude to European monetary integration. For instance, after the decision of March 1983 to opt for the EMS, France remained unhappy with the dominant German position within the system. During Franco-German

¹³ The literature on the ERM crisis is vast. See Buiter et al. (1998); Gros and Thygesen (1998).

¹⁴ This contrasted with German analyses of the Bretton-Woods system, which focused on the threat that intervention obligations posed for their domestic objective of price stability (Emminger 1977: 53).

negotiations, Jacques Attali even called the German mark the '*force de frappe allemande*'.

4.1.2 *The primacy of national sovereignty and opposition to supranational arrangements*

Because of the republican tradition, which emphasises the 'one and indivisible' state, French policy-makers were generally more reluctant to transfer sovereignty to the European level. Supranational institutions, such as the European Commission and the European Court of Justice, did not enjoy much support from French authorities and this was reflected by the intergovernmental approach and support for ad hoc cooperation that they traditionally adopted on EU matters.¹⁵ For example, immediately after its publication, the Werner Report¹⁶ was heavily criticised by the orthodox gaullists in France (Tsoukalis 1977: 104). Their criticism centred on the supranational elements of the Report. It induced a change in the policy of the French government, contributing to a dilution of the proposals of the Report¹⁷. In particular, the creation of new Community institutions was dropped.

4.1.3 *A monetarist emphasis*

France was a dominant player in the 'monetarist' camp, favouring greater exchange rate stability and exchange rate support mechanisms. A blueprint can be found in the so-called Fourcade plan of September 16, 1974. Jean-Pierre Fourcade, the French finance minister, presented a communication on new initiatives in the monetary field. One of the main points was a change in the institutional framework of the Community exchange rate mechanism. The snake would continue to exist, but would be complemented by a 'welcoming mat' for the other Community currencies (Fourcade 1974: 22). This could be done by allowing European currency rates to fluctuate according to reference rates, which could be adjusted and temporarily suspended. The reference rates and fluctuation margins would be defined in relation to a new European monetary unit of account, that would be derived from a basket of various European currencies. So, as some observers noted, the Fourcade plan would create 'a kind

¹⁵ In the past there has been a relatively high degree of support for European integration in France. This trend peaked in the 1980s, when it reached 70%, and followed a declining trend throughout the following decade bottoming, by the end of the 1990s, at 50% or less. Yet, in the late 1990s the support for the single currency was still above 60% (Eurobarometer 2000).

¹⁶ In December 1969 the European Council decided to make EMU an official goal of the community and appointed a high-level group chaired by Pierre Werner, Prime Minister of Luxembourg, with the task of drawing up a report on how EMU was to be reached by 1980. Other members of the committee were the chairperson of various EC committees.

¹⁷ For an analysis of the attitude of Pompidou towards EMU (see Bernard 1999).

of boa around the snake' (van Ypersele and Koeune 1985: 44). Moreover, it was intended that the use of the European unit of account would contribute to a more symmetrical system. In the snake, the intervention obligations were formally symmetrical. However, as the loss of reserves constitutes a more effective constraint on a weak currency country, the burden of adjustment falls, de facto, on the weak currency country. The Fourcade plan also provided for a consolidation and extension of intra-Community credit mechanisms.

Later, in January 1988, the French Finance Minister, Edouard Balladur, argued that the exchange rate mechanism still had some important defects, notably its asymmetry. Balladur criticized the German dominance of the system: '*Il faut éviter qu'un seul pays ait, de fait, la responsabilité de fixer les objectifs de politique économique et monétaire de l'ensemble du système*' (Balladur 1988: 19).

4.1.4 *Central bank independence and a 'gouvernement économique'*

The concept of central bank independence proved to be particularly awkward and difficult to accept for French policy-makers. It came on the agenda with the Delors Report in 1989.¹⁸ This proposed, at the institutional level, the creation of an independent 'European System of Central Banks', which would be responsible for the single monetary policy, with price stability as the ultimate aim. In the discussions on the independence of the central bank, one of the most delicate issues, Pöhl received valuable support from de Larosière, for whom the Delors Committee also presented an opportunity to increase the independence of the Banque de France (Dyson and Featherstone 1999: 345)¹⁹.

Central bank independence, and the lack of political control over monetary policy, would remain a sensitive topic in France. Mitterrand claimed, misleadingly, during a television debate before the French referendum on the Maastricht Treaty, that elected officials would establish the economic policy framework for monetary policy. Even after the signing of the Maastricht Treaty,

¹⁸ The Hanover European Council in 1988 appointed the Committee for the Study of Economic and Monetary Union, the so-called Delors Committee. The committee received the mandate 'to study and propose concrete stages leading to the progressive realisation of economic and monetary union' (Delors Committee Report 1989: 43). The composition of the Committee included the central bank governors of the then twelve member states, the President of the EC Commission, Jacques Delors, the Commissioner in charge of External Relations, and three independent experts. All of the members served in their personal capacity. The report laid out a blueprint for EMU, and many of these provisions were included in the Treaty on European Union (TEU) in 1992.

¹⁹ In order to cover himself politically de Larosière had a meeting with Mitterrand in which Mitterrand did not object to central bank independence.

Christian Noyer, then at the French Treasury, wrote about central bank independence as '*l'exception au principe démocratique*' (Noyer, 1992, 17).

When it became clear that an independent central bank was inevitable, Bérégovoy and Treasury officials introduced the idea of a '*gouvernement économique*'. It implied a form of political counterweight at the European level to the European Central Bank's control over monetary policy (Howarth 2001). The French draft treaty notes: 'Everywhere in the world, central banks in charge of monetary policy are in dialogue with the governments in charge of the rest of economic policy. Ignore the parallelism between economic and monetary matters ... and this could lead to failure.' It recommends that the European Council define the broad orientations for EMU and the economic policy of the Community. Moreover, the draft treaty also argued in favour of giving the Ecofin²⁰ the responsibility for exchange rate policy. The French draft treaty maintained an ambiguity as regards the goal of price stability: it favoured the primacy of monetary stability, but also gave the European Council and Ecofin a means to challenge this primacy.

4.2 Italy

4.2.1 Pro-European attitudes

A crucial factor in shaping Italy's policy on European monetary integration has been the widespread pro-European attitudes of the Italian national élites as well as public opinion.²¹ The Christian Democrats, who were by far the main component of each government coalition until the 1992 general elections, and other parties of the coalition, such as the Republican and Liberal parties, espoused a European 'vocation'. In the early 1970s the main opposition party, the Italian Communist Party also abandoned its hostility towards European integration (Vannicelli, 1974) and Italy's European policy became consensual, at least up to a point²². From 1973 onwards public opinion support for the EC in Italy was higher than elsewhere, and remained so throughout the 1990s.

Furthermore, since the creation of the EC, the more 'enlightened' and outward-oriented part of the Italian elite has regarded 'Europe' as a way to

²⁰ Council of Economic and Finance Ministers.

²¹ Since the early 1970s Italian public opinion had recognised the benefits deriving from European integration and by 1973-4 mass support for the EEC in Italy was higher than anywhere else (Putnam 1978, Eurobarometer 1973, 1974).

²² A word of caution is required. For example, in 1978 the Italian Communist Party voted against Italy's joining the EMS and the Italian Socialist Party abstained. In 1992 the "Reconstructed Communists" and the Italian Social Movement voted against the ratification of the TEU.

develop the Italian economy, to modernise the country and to bring about domestic reforms. The vision of Europe as a useful 'external constraint' (Sbragia, 2001; Dyson and Featherstone 1999)²³ has been an entrenched policy belief in the mind of many Italian policy-makers. It has also been part and parcel of the policy beliefs concerning European monetary integration, which, in the Italian debate, was often considered a synonym for European integration *tout court*. The widespread support for European integration has been an important asset on which certain national policy-makers have relied in tipping certain domestic policies in the direction they favoured (Sbragia 2001; Quaglia 2002).

4.2.2 A supranational institutionalist approach

A constant feature of the Italian approach to European monetary integration – and to European integration *tout court* – has been a supranational and institutional vision. Already at the time of the Werner Report, Colombo, the Italian finance minister, was in favour of substantial progress towards EMU. According to Belgian minutes of the Ecofin meeting of February 23 and 24, 1970, he pleaded for Community institutions that would become responsible for economic policies and a European Federal Reserve System.²⁴ '*Il désire, en effet, remplacer la coordination des politiques nationales par une véritable mesure d'unification*' (Note X/CEE/620/34160, 26/2/1970, Archives Snoy, Map 5.3.12.8.2).

Another instance in which the Italian institutionalist approach came to the fore was the support for the institutional phase of the EMS with the creation of the EMF in the early 1980s. Throughout the negotiations of the TEU, the adequacy of the institutional arrangements for the transitional stage to EMU and, in particular, for the stage two institution, were constant concerns for the Italian negotiators (Bini Smaghi et al. 1994).

4.2.3 The shift from an 'economist' to a 'monetarist' approach

At the time of the Werner report, Italian authorities sided with the economist camp, since they held the view that a condition *sine qua non* for fixed exchange rates in Europe was the acceptance of similar economic objectives among

²³ Italian public opinion has generally supported the process of European integration and monetary integration was no exception. In May 2000 a survey concerning the support for the Single Currency reported that 81 % of Italians supported the Euro and 14 % were against it. The EU 15 average was 58 % in favour and 33 % against (Eurobarometer 2000).

²⁴ It is worth noting that the Italian institutionalist approach extended to many spheres of EC activity. For instance, Italy supported the creation of common institutional mechanisms, like the secretariat, at the time of the Single European Act in 1986.

countries, as governor Carli (1969) argued in a paper prepared for Jean Monnet's Action Committee for the United States of Europe.²⁵ In concrete terms, Italian authorities supported the 'Schiller plan', named after the German finance minister (Ungerer 1997). Italian Treasury Minister Colombo, despite his support for substantial progress, was close to the Dutch-German position on matters of procedure and was therefore cautious about the transitory phases. He was reluctant to the idea of narrowing exchange rate fluctuation margins (Segreto 2002). Kruse (1980: 70) argues that the Italian authorities shared the concern of the other 'economists' about introducing a common currency before a high degree of economic convergence had been achieved, albeit for different reasons. As a country with a chronically weak balance of payments, Italy was loath to enter into commitments that might force the adoption of deflationary measures.

When the EMS was established in 1978, Italian policy-makers, in particular, the Bank of Italy, espoused economist leanings, pointing out that the EMS needed some 'in-built flexibility' (Baffi, 1989) to take into account Italy's 'special conditions' and that it should contribute to the 'convergence' of the Italian economy without imposing unbearable burdens. In other words, senior policy-makers at the Banca d'Italia feared that the exchange rate system would not be supported by sufficiently convergent economic policies. If so, the lira would have to leave the ERM, as had happened with the snake. Also, in the light of their experience with the snake, they (unsuccessfully) advocated a more 'symmetric' configuration of the EMS (Masera 1987) in terms of interventions to defend the exchange rate.

From the early 1980s, Italian policy-makers generally sided with the monetarist group, together with France, Belgium and the Commission. Furthermore, as time passed, Italian authorities became more outspoken both in their call for symmetry - Italy was penalised by the asymmetric functioning of the EMS - and in proposing moves towards EMU. The Amato memorandum in 1988, which pointed out that the fundamental problem of the EMS was the lack of an 'engine of growth' was another way to draw attention to the asymmetric functioning of the system. The Italian document called for the coordination of the objectives of the EMS, among which a common policy vis-à-vis third country currencies with an increased role for the ECU in exchange rate interventions and the strengthening of the EMCF, which should also serve the function of reallocating financial funds among the member states. Ultimately, the EMU was also seen by Italian authorities as a way to address, once and for all, the asymmetric functioning of the EMS and to have a say in European monetary policy (Amato 1988; Ciampi 1992).

²⁵ Carli, in an article published in Euromoney in 1970 also argued that the creation of a European currency should be 'the culminating act of a sequence through which political and economic unification were achieved'.

4.3 Comparison

Initially, at the time of the Hague Summit, France and Italy took more or less opposed positions in the debate on European monetary integration in policy-makers' circles. They diverged on the nature of EMU, with Italy in favour of supranational institutions and France against. These orientations were directly related to their views on European integration and state conceptions. They also favoured different paths towards EMU, with France strongly in favour of limiting exchange rate fluctuations and monetary support mechanisms and Italy much more cautious. Furthermore, the international dimension of EMU was paramount for France, and less so for Italy.

Table 2 - French and Italian positions at history-making events in European monetary integration

	FRANCE	ITALY
WERNER REPORT 1969	- Monetarist (in favour of monetary cooperation mechanism) - Intergovernmental (criticism of the supranational elements in the report)	- Economist ('crawling peg' to adjust for inflation differences) - Supranational (support for European institutions)
EMS 1979	- Symmetry (in favour of the divergence indicator; EC credit facilities)	- Symmetry (in favour of the divergence indicator, EC credit facilities) - In-built flexibility (in favour of wider fluctuation bands) - Parallel measures for the less prosperous economies
TEU 1991	- Opposition to central bank independence - Economic government (French draft treaty)	- Institutionalist (in favour of establishing the ECB in stage 2) - Flexibility in the convergence criteria

Over time the two positions converged. In the course of the 1970s, Italy became more in favour of mechanisms of monetary solidarity.²⁶ In the 1980s, policy-makers in both countries regarded European monetary integration as an 'external constraint' and used exchange rate stability -- although to a different extent -- as a way to enforce domestic discipline. Therefore, European integration was a way to 'anchor' national macroeconomic policies in a European framework and to bring about domestic reforms. Both countries advocated a monetarist approach and called for a more symmetric EMS and played an active role in relaunching the EMU process with the Delors Report and the TEU. For France, as for Italy, EMU was the way to end the asymmetry, and thus German dominance of the EMS. For French policy-makers, however, EMU constituted a kind of 'conceptual retreat' in that they had, gradually, to accept the German vision of a more supranational EMU with an independent central bank, both features that were not problematic for the Italian authorities. It should also be noted that French policy towards EMU was partly driven by political considerations which were greatly reinforced by German unification.

A main difference between the two countries concerned their positions on central bank independence. The principle was very controversial for the French authorities, as it ran so completely counter to the French centralised state structure and the republican tradition. Central bank independence was, in principle, not a problem for the Italian authorities. So, as regarding the 'political' dimension, the Banca d'Italia was one of the more independent central banks in the European Union (Grilli, Masciandaro and Tabellini, 1991, pp. 368-9). However, in Italy, central bank independence was more a 'practical' problem, given serious budget deficits and the associated problems of monetary financing.

5. CONCLUSION

This paper analyses the approaches of France and Italy towards EMU. Notwithstanding certain similarities and a convergence over time resulting from the European integration process, it is argued that there were very significant differences, which, to a large extent, have their origins in the structures and conceptions of the state in the two countries.

In France, strong and cohesive state institutions dealing with macroeconomic policies made it easier for French policy-makers to instil discipline into the national economy, a crucial condition for progress on European monetary integration. Italy, on the contrary, with its weak political

²⁶ Despite its withdrawal from the snake, Italy was one of the major recipients of EC financial support throughout the 1970s (Ungerer 1997).

capacity and disjointed macroeconomic institutions was less coherent and less effective in imposing discipline. The differences in state structure, and the associated differences in policy beliefs, also affected the views on European integration, with French policy makers largely in favour of an intergovernmental approach, while Italian policy makers, instead, supported a more supranational approach.

For both countries European monetary integration was important, but, in different ways. In Italy it was primarily seen as an external constraint on domestic policies, a way to promote reforms that national institutions were not able to achieve domestically. For France, the international and European power dimension of EMU was paramount. Overall then, whereas for France it was politically problematic to accept the principles of a supranational EMU and central bank independence, for Italy, the main obstacle was economic convergence.

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Annex - An overview of the functioning of the exchange rate mechanism of the EMS
(normal fluctuation margin of 2.25%, from the start to January 1990)

Date	DEM	NLG	FRF	DKK	BEF/ LUF	IEP	ITL	ESP	GBP	PTE	ATS	FIM	GRD
	Start	Start	Start	Start	Start	Start	Start						
13.03.79	+2.0												
24.09.79				-2.9									
30.11.79				-4.8									
23.03.81	+5.5						-6.0						
05.10.81	+5.5	+5.5	-3.0				-3.0						
22.02.82				-3.0	-8.5								
14.06.82	+4.25	+4.25	-5.75				-2.75						
21.03.83	+5.5	+3.5	-2.5	+2.5	+1.5	-3.5	-2.5						
22.07.85	+2.0	+2.0	+2.0	+2.0	+2.0	+2.0	-6.0						
06.04.86	+3.0	+3.0	-3.0	+1.0	+1.0								

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(Continued)

Date	DEM	NLG	FRF	DKK	BEF/LUF	IEP	ITL	ESP	GBP	PTE	ATS	FIM	GRD
04.08.86						-8.0							
12.01.87	+3.0	+3.0			+2.0								
19.06.89								Entrance ¹					
08.01.90							-3.7 ²		Entrance				
08.10.90													
06.04.92										Entrance ¹			
14.09.92	+3.5	+3.5	+3.5	+3.5	+3.5	+3.5	-3.5	+3.5	+3.5	+3.5			
16.09.92									Exit				
17.09.92							Exit	-5.0					
23.11.92								-6.0		-6.0			
01.02.93						-10.0							
14.05.93								-8.0		-6.5			

(Continued on next page)

(Continued)

Date	DEM	NLG	FRF	DKK	BEF/ LUF	IEP	ITL	ESP	GBP	PTE	ATS	FIM	GRD
02.08.93	Enlargement of the fluctuation margins to 15% (DEM and NLG keep 2.25% fluctuation margin)												
09.01.95											Entrance		
06.03.95								-7.0		-3.5		Entrance	
14.10.96							Entrance						
25.11.96						+3.0							Entrance
16.03.98													Entrance

¹ Fluctuation margin of 6%.

² Reduction of fluctuation margin from 6% to 2.25%.