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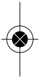
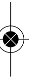
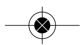

Ad impossibilia nemo tenetur. Notes on Giulio Andreotti and Europe. A Rejoinder*

Francesco Lefebvre D'Ovidio
Sapienza University of Rome

ABSTRACT
The chapter describes – based on Giulio Andreotti's personal papers – the decision by the Italian government of the day, taken in the course of the extraordinary council of 27-28 October 1990 in Rome during the semester under the Italian presidency, to agree to the adoption of a single currency. Actually, however, the documents do not directly reflect Andreotti's thoughts on the issue. The interpretative scope of the chapter is accordingly limited: the idea was to show how the Italian government conducted the negotiations within the European institutions in the preparation of the Maastricht treaty and its ratification, not to consider the effects of EMU on the Italian economy, nor to express my personal opinion concerning the decision.

I believe that the decision to adopt a single currency – rather than the alternative referred to by Professor Savona, namely a "common" currency, the ECU, to circulate together with the existing national currencies[1] – followed mainly from the strategy of

* Professor Paolo Savona's essay on issue no. 1, 2019 of this Journal comments on a book on the European policy of Giulio Andreotti edited by Professor Luca Micheletta and myself. The main topic of the essay is the chapter on the Maastricht treaty and EMU, for which I am responsible.

[1] I mentioned the "hard ECU" proposal advanced by the UK (i.e. the transformation of the ECU from a unit of account into a currency circulating side-by-side with national currencies), commenting that if that proposal had prevailed over the single

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Mitterrand. As German reunification appeared inevitable, it was necessary to "control" the new Germany within a reinforced European Union and overcome the monetary dominance of the Deutschemark by instituting a collectively regulated currency. During the Italian semester, Andreotti followed and helped this process along, thus making the single currency – at least to some degree – an Italian success;[2] but I do not think he fully shared Mitterrand's strategic framework. The documents show that Guido Carli's personal influence on Andreotti was decisive in the decision to push forward on the single currency. I have the impression – on this point Professor Savona surely has better and more direct knowledge than I do on how matters stand – that Andreotti delegated to Carli the technical assessment of monetary policy. In directing the council meeting, he only used his "diplomatic" skills for the benefit of a fundamental monetary policy choice, which he left in Carli's technical hands. On the latter, the main source is Carli's memoirs. Therefore, I have given weight to Carli's concept of "external constraint" – a concept that was more political than economic but that necessarily also implies the idea of an economic structure and of an economic policy, which Carli wished that Italy had, but that it did not and does not have. He hoped that the external "constraint" would force Italian policy to adapt and develop such a structure and policy.

I also wanted to describe the positions of the Italian political parties. For political reasons those forming part of the government coalition and those of the opposition approved the Maastricht treaty and Italy's participation in the new European construction based on a single currency. However, with the exception of the Liberal party they did not share the cultural and social basis of that construction, which was labelled as "neo-liberal," and they explicitly intended to modify it, subsequently, "from within." In other words, the Parlia-

currency, subsequent monetary crisis would have been easier to overcome (p. 249). However, I did not mean to imply that this would have been overall a better solution to Europe's monetary problems.

[2] As indicated by Andreotti's statements at the European Parliament on 21 November 21 1990.

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ment's decision went in a direction diametrically opposed to what Carli was hoping. I have often likened the Italian governing class to someone who applies for membership in a club but does not accept its rules and instead asks the members, who must approve his application, to adopt the new rules he is dictating. Italy followed this pattern in a long series of cases. It is true, of course, that in the case of EMU Italy was already a founding member of the club and that the new single currency represented a change in the pre-existing rules. But Italy might have followed the example of the United Kingdom and elected to stay out of the new institutions. Instead, the Italian political parties decided to accept the monetary union, albeit with the intention of changing its essential, constituent basis (the principle of monetary stability). This strategy has always struck me as doomed – as has been the case whenever Italy has tried it.

Savona's essay deals with a more specific issue, however: not the implicit or express motivations and the process of the decision, but the decision itself. Was the adoption of the single currency (and of monetary stability) inescapable (thus, the "*impossibilia*" of the alternative course) and proper (an "act of faith") for Italy's economic structure? This is a fundamental question in Italian economic history and indeed in Italian history *tout court*. Savona has dealt with it in numerous essays on the implicit economic model of the monetary policy of Carli and Carlo Azeglio Ciampi as well as in his essays on the history of "foreign dominance" of Italy's monetary policy. I realize that in my description of Italy's role in the EMU decision, while I did not want to express an opinion, I did implicitly assume that Carli's position was the right one. I would like to offer a few comments on this point.

From its inception, and owing to the very process through which it was borne, the European Union has been a hybrid construction. The EEC was the product of a compromise: an economic union, which according to some was solely economic in scope while for others (such as De Gasperi) it was really an initial stage that was to develop into political union. The customs union itself reflected partly liberal ideas and partly the idea of state intervention and the "mixed economy." It

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had a profound similarity to the German *Zollverein*. In that compromise, the ideas of free trade and of free market economy were set side-by-side with those of a "dirigiste," state-directed economy; in other words, the ordo-liberal idea of social market economy and the French concept of mixed economy, typical of the Fourth Republic and, in Italy, of the post-war coalition governments. The Community was born in the postwar cultural environment, in an attempt to create a hybrid social system that was the offspring both of the "postwar consensus" in the United Kingdom, and of the catholic-socialist alliances in France and similar experiments in Italy, Belgium and Germany (where Erhard was opposed to the treaty of Rome and the Hallstein Commission went in the opposite direction to what Erhard and the German liberals would have liked). It is not surprising that Hayek-style "neoliberals" opposed the project and instead favored GATT (and, later, the WTO). United Europe has never managed to free itself from this "original sin," and has remained a hybrid creation to this day.

The project for a single European currency governed by an independent central bank was conceived in a historical period of *relative* success for a *relatively* liberal tendency. Since the "great recession," however, the liberal trend resumed its previous decline. Now that the single currency is in being, though, it is no easy matter to transform it into a new compromise, like the successful combination within a hybrid institution of free trade with the Common Agricultural Policy, five-year planning and nationalization of industries with the abolition of non-tariff obstacles to competition. With a single currency flowing in all the national economies, it is hard indeed to adopt hybrid monetary and fiscal policy and adapt the monetary union to the ideological compromise implicit in the European Union.[3] Experiments in this direction ultimately come at a heavy cost. Here lies the monetary union's constitutional problem, but also, perhaps, its power as a factor of social change, which is precisely

[3] As is well known, Article 105 of the Treaty on European Union, as amended by the Maastricht Treaty, explicitly subordinates the social objectives laid down in Article 2, including high employment, to the "primary objective" of price stability.

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what its supporters, and notably Guido Carli, wanted. This would not be the first time that a legal institution, such as a monetary system, has been the prime cause of a historical process.

Is it possible for a nation to be part of a global economic system yet still pursue its own social, economic, monetary aims and ideology, complying with its own domestic policy choices while using the exchange rate as an instrument to correct external imbalances, thanks to an international system of flexible exchange rates?[4] Or is such a country doomed, sooner or later, to close itself within its borders, enforce controls on capital movements and hence on prices and on every aspect of social life, like Italian economic policy of the 1970s?[5] I have studied Mussolini's efforts in the 1920s to bring Italy into the British- and American-dominated international economic-financial system, adopting the "gold exchange standard." A brief deflation during the "quota 90" period was quickly overcome, and subsequently, through competitive devaluations in the second half of the '30s, Italy ended up in a policy of autarchy, closing its borders to the rest of the world.

Savona's essay analyzes the main stages of monetary policy that preceded Maastricht: the end of Bretton Woods, the "snake," the EMS, and Italy's position in those stages. Is the Italian economic model of the so-called Center-Left coalitions, culminating in the high inflation of the 1970s, the best one available? Has the introduction of the euro been a failure for Italy *because* of the euro or rather because of the mismanagement of the monetary effects of the single currency by the Italian governing class? Is currency depreciation, fiscal redistribution through the currency's loss of purchasing power, and transfer of wealth from the holders of monetary balances to debtors the only model available?

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[4] Mario Sarcinelli, "Current account deficit, foreign borrowing, and monetary policy: the Italian experience," in *PSL Quarterly Review*, Vol. 35 (1982), No. 141, pp. 147-164. Sarcinelli concludes his analysis of Italian monetary policy, 1970-1981: "It is not for the international financial market to reconcile the contradictions of Italian society."

[5] The role of the EEC in adapting the nation-state to integration is the subject of Alan Milward's *European Rescue of the Nation-State*, London and New York, 2000 (2nd ed.).

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I believe that these issues need to be considered in the broad historical context, more than examining through the lenses of economic theory. Economics would tend to consider the underlying social ideology as a given framework against which the effects of political choices are measured; history instead shows that society evolves and that the evolving ideology alters apparently fixed parameters. This is the case of the ideological parameters against which one should consider monetary policy decisions, say the option between fixed and floating currency. In the aftermath of the First World War Europe entered a new historical era, in which the state took over expanding, ambitious tasks. But these tasks, which have become progressively more and more ambitious, have been taken on with inadequate instruments, assuming for the time being that better ones would eventually be designed. This process accelerated and broadened in scope following the Second World War, in an unconscious competition with the Soviet model in directing the economy to improving social welfare and setting full employment as the primary function of the state. The problem posed by the single European currency and the ECB's monetary policy appears to be essentially a phase in this wider historical evolution, which is more problematic and acute precisely because of the implicitly hybrid nature of the European Union as an unresolved ideological compromise.

To be sure, it was extremely ambitious to imagine that within a few short years (1994-1999) an entire society like Italy's, which had adapted to an inefficient economic system, could be transformed for entry into an open and competitive global system, in which money is a neutral tool that cannot be used for social redistribution or economic adjustment. As a matter of fact, the attempt has not been successful, save in a relatively limited part of the country (the North-East triangle), which does not appear to have any problem in competing on world markets, even without devaluation. Such transformations, as the history books make clear, require protracted and socially painful processes. I myself tend to believe that while this process may be postponed for some time, in the end it will be unavoidable, unless – and this may very well be the choice that Italy

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unconsciously makes – the decision is to go back to the old solution: a floating national currency, monetary financing of the public debt, devaluation, currency controls, price controls, limitations on consumption, autarchy and consequent general impoverishment.

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