

Fifteen Proposals for a Bipartisan European Policy in Italy

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Despite the important achievements of the past few years (the euro, enlargement, the drafting of the Constitutional Treaty, interventions in the Balkans and the growing diplomatic role in the Middle East), Europe is at a standstill, plagued by widespread scepticism. This, combined with prolonged economic stagnation, could deteriorate into a serious crisis. In this difficult situation, Italy is particularly likely to be negatively affected. At the same time, however, it could – as it has in the past – play a prominent role in providing the Union with new dynamism.

Italy's economic and political position and role in the twenty-first century will depend on the outcome of the European crisis. Economically, Italy has structural weaknesses that will have to be addressed if the country is to strengthen its position in the global system. In international politics, Italy has lost its geopolitical advantage and will have to re-examine its strategies

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to avoid being seriously marginalised in a world no longer divided between two blocs. In both fields, large new actors such as China, India and Brazil are coming onto the scene and pushing countries of medium importance such as Italy aside. Europe will inevitably be the framework for its decisions on economic and international policy.

Italy is confronted with this delicate situation at a time when its political system is still searching for a balanced approach to the question of what should be "partisan" and what should be "bipartisan" in a regime of alternating governments. When a democracy shifts from no alternation (or a single party: think of Japan, Mexico, India, France 1958-1981, Germany 1949-67, etc.) to alternating governments, the question of continuity or change in its policies – above all foreign policy – becomes acute. European policy is not only foreign policy; it is to a large extent domestic policy. But it is always conducted in an institutional framework in which "external" governments and institutions are present and in which sudden changes in direction can be particularly costly. Clearly, what is being referred to here is continuity or change in the base-line policy positions, not the whole range of issues on which a government is called upon to decide. Some changes are in fact dictated by events or transformations beyond a government's control.

For a long time, the bipartisan base of Italy's European agenda was very broad. In some respects it was even too broad, with the result that automatic support for proposed integration projects sometimes impeded serious debate on their implications for Italy's economy and economic policy. But the pendulum changed direction at the beginning of the last legislature and, as frequently occurs, has perhaps swung too far the other way.

On the eve of the most hotly contested federal elections in recent years, this article provides a map of the principal issues on Italy's European agenda in the three major fields of economic and social policy, foreign and security policy, and institutional reform within the Union. The analysis concludes with fifteen points on which Italy's European policy should remain stable. Corresponding to Italy's vital interests, they seem essential for its relaunch – which coincides to a large extent with the relaunch of Europe.

Economic and social issues

The European agenda

The main economic and social policy issues on the European agenda for the coming years can be grouped under two main headings: *i*) economic stability and growth and *ii*) the Union's budget and policies. Both have one dimension that deals with the situation today and one that involves possible

reforms to European instruments and procedures. Finally, there is another heading of an institutional nature: *iii*) the performance of the euro group.

Economic stability and growth. Despite modest signs of recovery, the European economy still appears to be mired in the longest period of low growth in the postwar period. While comparisons with the United States often overlook the fact that population growth "explains" roughly one point of the growth differential, one cannot but be concerned about the economic future of the EU and, in particular, the euro area. Just as stability (of prices, exchanges, and public finances) was the dominant theme of the eighties and nineties, so growth has become and will remain the dominant theme for the current decade.

Efforts to achieve stability were based on the conviction – grounded both in economic theory and recent historical experience – that this was a fundamental prerequisite for maximising the economy's growth potential. But the current prolonged period of low growth indicates that the root problems are structural and cannot therefore be cured by expansive macroeconomic policies. In a medium- and long-term view, it is clear that Europe must take the path of greater growth potential in order to ensure the sustainability of its social model while maintaining macroeconomic stability, especially in public finances. In the short term, the difficulties encountered in implementing the Stability and Growth Pact (SGP) – in part as a result of low growth – will keep attention focused on the issue of stability.

The gravity and duration of Europe's stagnation has meant that the impact on growth itself has tended to become the only measuring stick for a range of issues that were examined from different angles in the past. Five principal groups of issues – the single market, the Lisbon Agenda, trade policy, the Stability and Growth Pact, and the social model – are deeply intertwined and in some cases overlapping.

- *The single market.* The completion and strengthening of the single market, in particular in the services, financial markets and public utilities sectors, will occupy significant space on the European agenda in the coming years. It is not yet clear how much the EU will want or be able to unify closed national markets and how energetically it will defend the *acquis* of the Delors Commission's period of reform. Among the issues in question are the adoption of new directives (e.g. on services), the implementation of projects that have already been approved (e.g. the so-called "Lamfalussy process" for financial integration), and the direct enforcement of competition policy by the Commission or member states.

- *The Lisbon Agenda.* This project for intensifying policies for structural reform of product and input markets was to be implemented by the Lisbon method, meaning agreement on a set of objectives that each country pledges to pursue with its own policies. This has proven ineffective so far. An effort is now underway to relaunch the Lisbon strategy by redirecting it towards growth and employment and by emphasising national responsibility (ownership) of reforms. The EU's responsibility is limited to those areas in which community intervention offers value-added with respect to national action (redirection of structural funds, reform of state subsidies, completion of the single market, competition policy, trans-European networks, etc.).
- *Trade policy.* Globalisation is both a challenge and an opportunity for the European economy. On the one hand, it increases the competition from the US in the high-tech and financial services markets, from Asia in the manufacturing and textile sectors, and from the South in the agricultural sector. On the other hand, the opening of markets provides new opportunities for development, above all in sectors with highest value-added. Trade issues arise both during normal relations and during major international trade negotiations.
- *The Stability and Growth Pact.* Following the reform approved in spring 2005, the Pact faces the challenge of practical application. With the gradual adjustment of the French and German accounts, Italy finds itself left in the spotlight. Yet the new Pact can only promote greater coherence in budget discipline and stimulate growth if there is genuine adherence to the new rules. If the increased complexity of the rules offers loopholes for evading them and a collusive approach prevails with high-deficit countries covering each other, then the credibility of the economic policy of the Monetary Union will be seriously undermined.
- *The European social agenda.* The accusation of "ultra-liberalism" launched against the Constitutional Treaty by some of the supporters of the "no" vote in the French referendum, the social malaise underlying the crisis in the Netherlands and the riots in the French suburbs, and the fear that the oft-invoked structural reforms needed to compete with emerging economies, such as those in Asia where labour safeguards are minimal, will mean dismantling the welfare state, are only some of the circumstances that have brought the social question back into the European debate. Yet, although it is widely accepted that the market and development fall primarily under the aegis of the Union, while solidarity and assistance are primarily the responsibility of national

governments, "primarily" does not mean "exclusively," and a Union apparently insensitive to social issues would not only *not* reflect the facts but would also risk being extremely unpopular. In the past, a European community attune to social issues led to the development of certain fundamental elements of the European social model: the social charter, fundamental labour rights, structural and cohesion funds, and the social dialogue method. For the policies discussed under the preceding three headings (single market, the Lisbon Agenda and trade policy) to move ahead effectively and enjoy the necessary level of acceptance in public opinion and political parties, new impetus and visibility has to be given to the role of the EU in safeguarding the shared body of institutions, practices and provisions which, despite differences from country to country, can be called the European social model.

Budget and community policies. Budget and community policies are the key issue in the debate on the Union's role in economic policy – especially at a time when the priority is to provide new impetus for growth. In this light, the EU budget could be seen as the community flywheel for the Lisbon strategy. Unfortunately, the recent negotiations on the budget were marked by a short-term outlook, a highly restrictive approach to the overall scope of spending, polarisation over the size and mechanisms of the UK rebate and an unwillingness to consider the European budget as an active instrument of common policies, in the economic field or beyond. This kind of reasoning strips the common budget of both its political significance and its economic purpose. A refusal to consider further reform of agricultural policies also prevailed.

Over the next five years, it is likely – and to be hoped – that the issue of the Union's budget will be tabled once again, quite apart from the current arrangements established by the 2007-13 Financial Perspectives. The Union budget is not responsible for either cyclical stabilisation policy or social policy, both of which belong to the national sphere. But it could be entrusted with powers of allocation for development. In addition to regional policy, already in place, interventions for industrial policy could be envisaged as could the allocation of resources to turn policies like defence and security into common policies.

These objectives do not require large budgets. With the European model, Union resources are tied to the efficient use of regulatory powers; in addition, co-financing makes it possible, even with limited resources, to exercise effective leverage on other types of projects, both public and private. A Union budget in the order of 1.5-2 percent of Product could be enough for a start. It should not be too difficult to find such own fiscal resources, once the benefits to be expected have been explained, to be

earmarked for Union development and construction. There are taxation areas where the principle of subsidiarity could apply (where raising fiscal revenues can be done more efficiently at the community level) and areas where a "dividend" could be given on the benefits obtained through the policies implemented. The idea of an EU tax, discussed many times in the past, could be brought forward in a new context, linked to an active role for the Union in economic policy.

Performance of the euro group. An important institutional issue is the performance of the euro group and new initiatives to strengthen it. The euro group is the key place for political negotiations and preparatory work for Ecofin decisions on coordination of economic policies and governance of the SGP. One matter discussed periodically concerns external representation of the euro. With an eye to the future, a more forceful role of the euro group in working out and launching new initiatives and coordinating economic policies could lead to a new phase consolidating the major advances of the past years.

Alternatives and positions within the Union

It is particularly difficult at the moment to identify the positions of the various governments on the issues summarised above. First of all, it is likely that the position of France will remain unclear for some time due to the presidential elections in 2007 and the still uncertain response – in terms of economic and European policy – to the failed referendum and the riots in the *banlieues*. Second, as revealed in the management of its semester presidency, the "British alternative" to the traditional Franco-German axis is not a credible option, given the UK's lack of participation in the "heart" of the EU (the euro), but also the progressive decline of Blairism on the domestic and international scene. The sluggishness with which the UK managed its presidency and especially the line it followed on the community budget may also have undermined the sway Great Britain appeared to have for some time over some of the new Union members. Third, these new members are themselves an element of uncertainty as they are still going through a kind of apprenticeship in the European game. Finally, and more generally, the methods that will characterise European negotiations in a Union of 25 are still being defined.

Therefore only broad-stroke hypotheses can be formulated about the future. In the short term, the most plausible scenario is the continuation of the current phase of uncertainty and lack of major initiatives. This could last for a few years, until after the French elections and the first test of the French presidency. The most plausible, and not necessarily incompatible, further developments can be summarised as follows:

- *An attempt to renew the Franco-German partnership.* The above uncertainties notwithstanding, at some point France and Germany may attempt to recover their leadership of the Union. It is difficult to imagine this occurring before the presidential elections in France. It is also difficult to predict whether this would be primarily a defensive move or an attempt to raise the stakes. The Merkel government's first steps in Europe would seem to indicate that Berlin may take a stronger role than Paris. It is likely that some initiatives will come from the countries in the euro area through a strengthening of the euro group.
- *Continuation of the minimalist-activist conflict.* The conflict will continue between the minimalist and activist positions on the Union's role in economic policy. The conflict has two dimensions: the first sets economic policies based exclusively on spontaneous market forces against policies that give public authorities a role of stimulus; the second concerns whether or not to reinforce Europe's role in economic policy, for example in public investment, research and energy. Today, Great Britain's leadership on both aspects of the minimalist approach seems to be waning. The question is whether the supporters of reinforcement of the European construct will regain leadership in coming years. A *sine qua non* precondition for this will be the popular perception of high quality economic proposals for jump-starting growth. Over the last decade, the countries traditionally most favourable to European integration (continental and Mediterranean) did not offer a convincing economic policy model, while the countries backing the minimalist approach (UK and Nordic) had an easy time of arguing the superiority of their economic and social system.
- *Increasing competition between countries.* The primary task of the Union is to consolidate its economic constitution: complete the single market, implement a serious competition policy guaranteeing genuine competition rather than "economic war" or "collusion to avoid competition", and rigorously apply the new SGP. The Lisbon Agenda should remain a form of soft coordination based on the definition of reference models, emulation and the exchange of information on best practices.

It is impossible to predict the course of events within this general framework. But it is likely that a period of decantation will precede any major initiative. In the past, highly innovative steps like the single market or monetary union were preceded by actions aimed at clearing the table of old conflicts that had paralysed the European Council's ability to act.

Italian constraints and interests

Today, Italy is the country with the worst performance in terms of growth, as it was in terms of stability over the twenty years that led up to the adoption of the euro. But while nobody at that time blamed its shortcomings on Europe, today some insistent voices attribute low growth to a European strait-jacket: the euro, the Stability and Growth Pact, trade openness.

These voices must be countered with facts: the history of Italy's participation in the European Economic Community (EEC – and later the EU) is fundamentally a history of economic successes. Through participation in Europe, Italy received the impetus needed to overcome its lagging development through exports, to modernise its apparatus for economic governance, to restore monetary stability and balance public finances. It should also be remembered that difficulties in participating in Europe and discouraging voices coming from within the country are not new: just think of the many clauses deferring application of community directives, Italy's debated entry into the exchange rate mechanism (ERM) and the wide band with which it entered, its delay in entry into the Schengen area, and so on.

Therefore, a broad consensus must be re-established on the strategic significance of Italy's participation in the economic and monetary union. This consensus must be based on two key arguments:

- first, the challenge posed by globalisation and the new emerging economies is inescapable and would be even more difficult – not easier – to meet without full insertion in the European framework;
- second, Italy has the resources required to meet the challenge.

Since the early nineties, Italy's growth has been inferior to that of the rest of the euro area and the gap has continued to widen. In particular, the failure to renew its production structure, the weakness of its financial system, and inadequate discipline in production costs have caused a progressive loss of competitiveness on the global market. An exceptional effort is required at the national policy level to restore the Italian economy's dynamism and competitiveness.

Yet, it is difficult to imagine a relaunch of the Italian economy that is not anchored in a strategy for community growth and for maintaining credibility and negotiating power in Brussels. The following points seem to be essential:

* **Participation in the euro.** Recent government statements critical of Italy's participation in monetary union and calls to withdraw from the euro have shaken financial analysts and the markets. In reality no government has the will or determination to take such a decision and would immediately face ruinous political and financial consequences if it did. Stopping this

kind of talk is not enough, though; what is needed is greater awareness of the choices Italy's economy and economic policy will have to face to adapt its development model to the competition of the single market and the globalised economy.

* **Budget discipline.** With the highest public debt in Europe (well over 100 percent of GDP) and with an unfavourable demographic profile, fiscal prudence will remain an inescapable must for Italian economic policy for many years to come. It is in this field that community rules have helped Italy the most over the past decade and will be of greatest service in the future. During the debate over reform of the Stability Pact in the last few months, in which a slackening of the rules loomed large, Italy was immediately identified as the weak link by the markets and rating agencies. Rigorous application of the reformed Pact, including the part that envisions greater emphasis on public debt stock rather than on budget deficit, is an obligatory choice for Italy.

* **Completion of the single market.** The Italian economy has more to gain than other Union economies from the completion of the single market in the services and utilities sectors, precisely because it still has a longer way to go to reach efficiency. However, the protected sectors that would be exposed to foreign competition through opening constitute well-organised interests capable of influencing government choices. In the final analysis, economic policy must choose between the interests of the producers and those of the users/consumers. Bipartisan support for completion of the single market would put the seal of approval on the market economy as the essential framework for credible strategies for prosperity and development.

* **Development of the community budget.** Because it is less conditioned by entrenched positions, Italy is in a better position to put forward a proposal to slowly put aside the logic of "fair return". The goal is to make the budget a key instrument for relaunching a European growth strategy, as proposed by the Sapir Report.

* **Euro group.** Italy has an interest in strengthening the role of the euro group, both internally (greater coordination of economic policies in the euro area) and internationally (adequate representation of the euro area – ultimately with a "single voice" – in the G7 finance, G20 and the Bretton Woods institutions). At the institutional level, this could lead to "reinforced cooperation" among countries in the euro area, which could also have more general positive political consequences.

International status and security

The European agenda

The European Union is a prime international actor: a protagonist in global trade negotiations, an autonomous monetary actor, a party to negotiations such as the Road Map and nuclear non-proliferation with Iran, as well as present both politically and militarily in many crisis zones. Although it does not have a seat on the Security Council (where there is only weak consultation among EU countries), it has established important operational ties with the UN.

Enlargement of the Union's borders has been the most powerful expression of the Union's strong force of attraction. In only a few years, the EU enlarged to include all of the former communist European countries, including three former Soviet Republics (Estonia, Latvia and Lithuania). The states born of the dissolution of Yugoslavia, with some difficulties and delay, have also started down this road. Although this rapid enlargement has brought to light some problems with respect to institutions and efficiency, it has also been an enormous success in terms of international politics because it has allowed for the transition from communism and a planned economy to democracy and the market in a framework of stability and security.

Enlargement has strengthened the Union's international image and role, increasing its influence and strengthening its status in areas beyond Europe. But it has also raised several problems. The first and perhaps most important is that no one knows when and where this process should end. To date, the Union (which has recently opened accession negotiations with Turkey) has avoided defining what its final borders will be. In fact, it is thought that to do so would lead to a loss of credibility and efficacy in its policies for stabilisation and promotion of democracy in critical areas, such as the former Soviet republics, and would generally weaken the EU's force of attraction. The Union has therefore kept to the letter of the Treaty that leaves the door open to all "European" countries that respect democratic principles and the rule of law, taking care not to define what is meant by "European".

The EU's international reach goes well beyond enlargement. From its first years, it established a preferential relationship with African nations that has, in different ways and forms, been consolidated and deepened, not only in the economic arena, but also in the political and security areas. Ten or so years ago, the Union attempted to formalise its various forms of dialogue and cooperation in the Mediterranean area by institutionalising a framework for multilateral relations with all of the countries in the area. More recently, it launched the European Neighbourhood Policy, which has more operational flexibility and targets all countries that are not in line, at least for now, to receive an offer of full accession. Other initiatives, such as the

dialogue with the Gulf Cooperation Council, also fit into this framework. Bilateral and multilateral agreements on the management of migratory flows, border controls and the fight against organised crime and terrorism increase the importance of a wide and complex network of international relations centred in the EU.

At the moment, the EU does not have the necessary institutional instruments or resources with which to face the implications of the enlargement of its borders and its international reach. Failure to ratify the Constitutional Treaty has had particularly damaging effects because it has prevented the creation of a European Foreign Minister (who would also have been vice-president of the Commission), thereby making it impossible to conduct a truly Common Foreign and Security Policy (CFSP), given that the decision-making centres, budget responsibilities, procedures, etc., remain national and autonomous. Internal conflicts between the policies and agencies under the Council and those under the Commission loom over competencies and the budget, to the detriment of unity and coherence.

There has been progress in the area of European Security and Defence Policy (ESPD) despite the stalling of the Constitutional Treaty. Efforts to follow the path outlined in the European Capabilities Action Plan have continued. The European Defence Agency (EDA) has been established to provide an overall framework that evaluates and combines diverse capacities and optimises resource use, even though the absence of a strong political reference point (like a Union President or European Foreign Minister) and adequate financial resources is also strongly felt here.

A few timid steps have been taken in the particularly important field of research on advanced technologies for defence and security, thanks to the European Defence Agency, but a rational and effective European industrial policy is required – for the time being, the matter remains firmly in the hands of individual national agendas. Finally, what is still lacking is a coherent and integrated European Grand Strategy.

Alternatives and positions within the Union

Enlargement is an important part of the Union's strategy for strengthening its international status. Unfortunately, the last enlargement, which took place before ratification of the Constitutional Treaty started, severed the traditional trade-off between enlargement and deepening, in that the opposition to further enlargement seemed to be accompanied by opposition to further strengthening and hostility to or at the very least a lack of trust in the Union, its policies and its costs.

Nevertheless, most Union members recognise the need to proceed with a strengthening of CFSP and ESDP. The launch of the new Neighbourhood Policy, and the EU's increasing commitment in crisis management situations (the Balkans, Darfur, Aceh, Rafah, etc.) as well as the need to face difficult cases such as Moldova, China and Iran, merely compound the demand for a more active European presence already felt in the UN and the OSCE.

In the new global scenario, internal and international security governance (military, but also political, juridical, economic, environmental, etc.) requires a multiplicity of instruments and policies that must be managed in a coherent fashion. Various competencies already exist in the community sphere, but are not always applied effectively with a common vision. The need is increasingly felt for a European Grand Strategy, unifying communitarian and intergovernmental competencies and capacities and defining the strategic objectives to be pursued, the timeframes, the geographic scope, the type of missions to undertake beyond the Petersberg declaration. This would entail determining the necessary military resources, and working out modalities and mechanisms of reciprocal support between "hard power" and "soft power" instruments.

The absence of the new normative framework envisaged by the Constitutional Treaty has fuelled speculation about possible alternative models for managing CFSP and ESDP. A certain number of countries (including many recent Union members) advocate formal respect of the Treaty of Nice, which calls for the unanimous consent of all member states for any move in the ESDP arena. Others, and in particular the two major European military powers (France and UK), with the frequent support of Germany, argue for a sort of *directoire* of the biggest countries – without which it would be difficult to undertake any security and defence endeavour in any case. A more nuanced and politically acceptable option (in keeping with the Constitutional Treaty) could be the formation of a nucleus of reinforced cooperation among countries that have both the political will and the means to make a significant commitment. Other ideas focus on activating CFSP and ESDP through groupings such as the euro or the Schengen groups.

The future of transatlantic relations is another central issue that intertwines with the functional debate. There are clear differences between European and US positions in terms of interests and perceptions that call upon Europe to focus its attention and take responsibility. The US decision to attack and occupy Iraq provoked serious divisions within the EU and accentuated the differences in views on the role of the United States. It is undesirable and unlikely for Europe to unite around an anti-American position. At the same time, the position traditionally held by Italy – what is

good for the US is, with possible minor exceptions, good for Europe and vice versa – also increasingly lacks credibility. The end of the Cold War significantly eased the military threat to Europe and to the world that was the cement of transatlantic solidarity. Today Europe is no longer the essential ally of the United States, and the United States is no longer the necessary protector and guarantor of European security.

Nevertheless, there are broadly shared analyses on both sides of the Atlantic about the new threats and risks, though they lack the same aggregating force as in the past: the fight against international terrorism, organised crime and the proliferation of weapons of mass destruction, management of the serious problems posed by "failed" states, defence of human rights, control and reduction of mass migration and illegal immigration. But moving from this analytical level at which problems are identified to the practical level at which agreements are reached on the priorities for intervention and the strategies to be adopted has proven much more difficult.

In Europe, the fight (not "war") against terrorism and organised crime and the issues of mass migration and illegal immigration are considered central problems. A specialised Agency has been established for control of common borders (in particular those of the Schengen area). Cooperation on home affairs, justice, police and intelligence has been reinforced. The EU also operates internationally in these fields, with multilateral and bilateral agreements, as well as financial and technical cooperation designed to establish a wide area of control over areas beyond the Union and for joint response to crises. Significant political differences between member states remain, however, and are further complicated by the fact that the relevant competencies are held at the national decision-making level.

It is essential that the European political leadership take up its prerogative to define defence industrial and technology policy and definitively abandon the now purely virtual distinction between research for civilian and military uses. This would also encourage businesses to undertake genuine rationalisation and would contribute to resolving the old question of recourse to Art. 296 of the Treaty (which allows for exceptions to internal market rules for equipment and services relating to national security). Decisive impetus is required. So far the European Defence Agency has not gone beyond a voluntary non-binding "Code of Conduct" that some countries have already rejected.

Italian constraints and interests

Italy has asserted its international role in parallel with the affirmation of the major multilateral organisations and the alliances of which it is a member. At

the same time, although the more strictly bilateral aspect of Italy's foreign policy has at times played a significant role, it has never achieved the importance of great power policies due, perhaps, to the country's limited size and its realisation that it has neither the resources nor, in the end, the ambition to compete with the major powers. Instead, Italy's greatest successes have been achieved when it has been able to influence important multilateral choices in a decisive manner. Italy's most important international profile in the field of crisis management and security has generally been attained within well-defined multilateral frameworks.

This reflects a realistic view of the interests and capabilities of a medium-sized European power that has the dubious honour of being the "smallest of the big" and the "biggest of the small". Italy had to struggle for a long time to overcome strong initial handicaps such as its status as a "defeated nation" (which excluded it for many years from the UN) or its nature as both a European and a Mediterranean nation, industrialised but still developing, and characterised by the presence of the strongest Communist Party in Western Europe.

Its "long march" within the multilateral institutions has certainly met with success in terms of increasing the country's international role and status and affording it a position of respect within the major international decision-making bodies. Today the greatest risk, linked to the globalisation of international politics and the emergence on the scene of many other large countries, comes from the attempt to redefine the role of "medium" powers like Italy to make room for new actors such as China, India, Brazil. A creeping process of "re-nationalisation" of international politics, exemplified by the new American unilateralism and the rediscovery of a national dimension in German politics, makes this risk even greater.

Most of Italy's politicians realise that Italy has no hope of competing successfully on this "nationalist" scale and that its chances lie instead in relaunching and improving the effectiveness of multilateral organisations and, in the final analysis, in progressively asserting solid governance of globalisation.

Yet there has been a return to nationalist discourse in Italian society as well, which appears to take past successes for granted and sees them as capital to spend in affirming greater independence from the very multilateral organisations in which those successes were achieved. There is scepticism about the process of globalisation of international politics, and even more, if not downright opposition to the role of international institutions and multilateral alliances. Those who subscribe to this analysis apparently do not lay any weight by a system of governance other than the kind that can be temporarily achieved through power politics.

It may be difficult to reconcile the directions and choices of these two different trends in Italian politics, however, points of convergence for pursuing the traditional route of multilateral engagement certainly exist.

* **Multilateralism and an EU role.** Italy's international role can only grow in tandem with a strengthening of the major multilateral organisations and the European Union. Nationalist tendencies among European powers that could weaken the EU and isolate Italy should be opposed as should the recent return to a "nationalist" approach that tries to make up for the country's weaknesses by seeking reinforcement from preferential alliances with external powers (preferably the United States). It is in Italy's interest to promote a common European policy in multilateral fora (OSCE, UN, IMF, World Bank, etc.) that reinforces the Union's international profile.

* **Rebalancing Union enlargement.** Enlargement has tipped the EU scales towards the north and the east. Political trends in France, Germany and the Netherlands could block future enlargement in the Balkans and Turkey. This would weaken the position of southern European countries and fuel a dynamic of confrontation between North/South, Christianity/Islam, Europe/Mediterranean and Middle East that would be very dangerous for the EU and for Italy in particular. It is therefore in Italy's interest that enlargement to the southeast be completed and that neighbourhood policies towards the Middle East and Africa be strengthened. Political criteria for enlargement must be strictly enforced. As enlargement moves towards areas of potential ethnic or nationalist conflict, it is paramount to keep the logic of conflict from being imported into the Union.

* **More security in areas bordering the Union.** Italy should seek to promote the creation of a large area of cooperation and control in regions surrounding the Union such as the Gulf, the Caspian basin and Mediterranean Africa. As concerns energy supply in particular, security can no longer be entrusted to preferential bilateral accords but must be predicated on maintaining stability and security in extraction and transport areas. Greater Union commitment in these areas and with respect to Russia should be encouraged. These are the regions where the fight against terrorism and organised crime, and efforts to improve control of illegal migratory flows are also being played out. Negotiations should be moved to the European level in order to define a reference framework and guidelines for bilateral instruments and to harmonise them with other common policies.

* **Specialisation of Italian defence.** Italy must act to prevent its influence in the European defence and security field from being diminished by the recent heavy cuts in the defence budget. One way is to make

selective decisions about present and future commitments based on a more coherent industrial and technology strategy. Italy should urge Europe to adopt a policy designed to exploit the niches of national excellence in a coherent framework of European integration. This would mean abandoning areas of technology where European partners can provide more mature products and obtaining in return the use of Italian products, when more valid. National decisions would in any case have to be accompanied by consistent behaviour in the European arena in order to reinforce their impact and limit negative consequences.

* **Integration of European security and defence.** Experience from missions in the past twenty years has revealed both the inadequacy of a solely humanitarian or "observer" approach and the impossibility of resolving a crisis by military means alone. Strategically and operationally, the two phases of "war-winning" and "peace-building" form a political and operational continuum. In practice, this implies doing away with the current distinction between defence and security, which leads to useless and costly duplication and is clearly in contradiction with real needs, and rethinking European military instruments in terms of greater civilian/military integration. Technological renewal of military instruments should be addressed on a European scale, through the EDA.

A corollary that cannot be ignored is related to the transatlantic relationship. While greater coordination is required between the EDA and NATO's recently established High Command for transformation of alliance military instruments, it will be important to avoid acritical implementation in Europe of US organisational, operational and technological models. Not only must autonomous European industrial and technological capacities be safeguarded, but the European approach to civilian/military integration and the relationship between defence and security, however fragmented, appears to be more effective than that of the US. Italy should insist on an advanced European debate in view of drawing up a new defence, security and peace-building model.

Institutional reform

The European agenda

The uncertainty about the future of institutional reform created by the French and Dutch "nos" to the Constitutional Treaty has had a negative impact on deliberations in other fields. It also risks reinforcing the sense of distrust and distance *vis-à-vis* European institutions that underlay – along with purely internal factors that should not be ignored – the French and Dutch votes.

The ratification process has been halted for the moment. After the two referenda, governments adopted different approaches to ratification in their respective countries: some completed the process while others chose to suspend it. To date, the treaty has been ratified by 13 out of 25 countries, which together represent over half of the Union's population.

Institutional actors have thus far given little impetus to a relaunch. The British presidency carefully avoided the subject. Similarly, the European Commission has chosen to concentrate on other issues deemed to have a more immediate impact on European citizens. At the same time, it is trying to improve the Union's public image through the so-called Plan D in preparation for renewed national debates on the future of reform. To this end, a European conference on the future of the Union is expected in May. Only the European Parliament has shown some initiative: in fall 2005 it began to debate strategies for ending the impasse on the basis of an articulated resolution project.

In the absence of the Constitutional Treaty, some attempts are being made to address urgent problems. For example, informal application of some of the Treaty's provisions has continued. In the area of foreign and security policy, for example, the Defence Agency was established in July 2004, while work continues, albeit cautiously, towards the creation of the External Action Service. Furthermore, the solidarity clause against terrorism and natural disasters has been approved. The decision to set up a stable presidency for the Euro group is also significant. Efforts have been intensified to create *ad hoc* institutional instruments, capable of implementing important Union policies more effectively. For example, in the area of justice and home affairs a Counter-Terrorism Coordinator has been appointed and an Agency for External Borders created. The tendency to form restricted groups of countries with a view to promoting greater cooperation in certain sectors, such as management of migratory flows and defence, has also been reinforced, confirming the need for greater flexibility in integration projects. Finally, that the Union's political and institutional instruments have to be adapted in order to be able to continue the process of enlargement is increasingly being recognised. Thus, it is likely that "absorption capacity", already enunciated in Copenhagen in 1993, will become an important criterion for proceeding with new enlargements. It was given particular emphasis during approval of the mandate to engage in accession negotiations with Turkey and Croatia.

A period of inactivity after the shock of the French and Dutch no votes was inevitable and it would be short-sighted to interpret this as indicative of what will happen in the medium term. The issue of institutional reform remains on the table because these reforms are vital to the performance of the Union, and the vast majority of countries (including Italy) are in favour

of them. Furthermore, the eurosceptic front has proven incapable of exploiting its success in the six months after the French and Dutch “nos”. In France, it has not been able to position itself as a political force capable of reorienting the country's European policy as de Gaulle did after his return to power. Blair also missed his opportunity to take on genuine European leadership during the British presidency. At the same time, one of the first acts of the Merkel government was to request that the ratification process continue. Merkel's personal success at the European Council in pursuing a highly Europeanist line already distinguishes her chancellorship from Schroeder's.

Thus it would be a serious mistake to think that “the Treaty is dead” or acquiesce in the proposal that the ratification process be stopped. While signature of the Constitutional Treaty by the 25 governments was not enough to bring it into force, it did impose a clear obligation on them to see the treaty ratified in their respective countries. The final count can only be taken once the process has been concluded, and only then can the will of those who ratified the Treaty (arguably the majority of countries) be measured against the will of those who did not.

Alternatives and positions within the Union

Diverse opinions exist in Europe today on the future of institutional reform. To a certain extent, they reflect alternative conceptions of the Union that have been in conflict for decades, and that have sometimes been reconciled through compromise and have sometimes led to periods of stalemate. While European policy in no country has been exempt from oscillations and shifts, these different conceptions can be traced back largely to the lasting, if not permanent, nature of the strategies of different countries for European unification.

Four main positions can be identified:

- *Inter-governmental retreat.* Taking their cue from the results of the referenda, some European leaders propose renouncing all efforts at constitutional reform and focusing on inter-governmental cooperation. This would imply, among other things, giving up on increasing the powers of the European Parliament and reducing the role of the European Commission with respect to that of the Council. These leaders are contrary to a deepening of the integration process as such, openly calling into question the objective of an “ever closer union” set out in the current Treaty. They believe that integration has already gone too far and that is why it has progressively lost support, as demonstrated by the French and Dutch referenda. Insisting on an

overall reform, which has already been rejected, they say, can only provoke even greater opposition from European citizens.

Positions such as these enjoy considerable support in some older member states such as Great Britain and Denmark, but have also been expressed recently by the new Polish government and some leaders of Slovakia and the Czech Republic.

- *Pragmatic progress.* A second position believes that, given the difficulties in ratifying the treaty, it makes sense to concentrate on sectoral policies, such as economic and social policies, that have more immediate impact on citizens. If in doing so tangible results can be obtained, for example in terms of economic growth, this will re-establish a climate of trust in European institutions. It is feared that putting treaty reform back on the agenda could generate new tensions. It is better to keep reforms frozen while leaving the door open to the possibility of addressing them in the future in a climate that is more favourable to the creation of consensus.

This pragmatic approach, authoritatively supported by the president of the Commission, is shared by the governments of Great Britain and other Nordic countries which, though they do not go so far as to declare the Constitutional Treaty dead, want the emphasis to be turned to issues such as the common agricultural policy, the budget, liberalisation of services, etc.

- *Vanguard groups.* The difficulties in relaunching the treaty reform project have led some to argue that the best road to take is to implement greater flexibility through the creation of "vanguard groups" among member states that want more advanced forms of cooperation or integration in this or that sector. The mechanism for reinforced cooperation has not yet been utilised, however, as the rules of the EU treaty in force are too rigid. The supporters of this position underline how some integration projects have already successfully developed from vanguard groups, for example, the euro and Schengen and that these groups also demonstrated their ability to evolve, progressively opening up to countries that were not initially members (significant is the fact that the Schengen accord, born outside of the treaties, was successively integrated into them).

An important variant of this position is the formation of a cohesive nucleus of countries intent on systematic closer integration. This would avoid the risk of excessive "variable geometries" resulting from different vanguard groups and would provide a more organic central motor for integration. Such a nucleus could well be made up of the

euro countries, which might eventually create their own institutional structures alongside those of the Union.

French President Jacques Chirac recently pronounced himself in favour of creating mechanisms that allow for greater political coordination within the euro zone. Belgian Premier Guy Verhofstadt went further, calling for the creation of a "federal Europe" beginning with the twelve euro countries. Other founding nations, such as Luxembourg and Germany, appear interested in exploring the idea of progressive political and institutional strengthening of the euro zone.

- *Treaty ratification.* Formal and substantive reasons lead some countries to maintain that the cycle of ratifications has to be completed. On the formal side, there is the commitment that all member states took on in signing the treaty to review the results of national ratifications after two years. Giving each country the chance to express itself on the treaty in the manner provided for in its Constitution is not only a duty but also indispensable for taking pondered collective decisions. On the substantive side, supporters argue that the innovations envisioned in the Constitutional Treaty are essential to avoid decisional paralysis – especially after the recent enlargement and in light of possible future ones – and to give the Union a more efficient and democratic institutional structure.

While useful, is it not enough to put some of the treaty's provisions into practice informally because they concern only limited aspects of the Union's performance and do not remove the constraints of the existing juridical framework. Some supporters of this position also fear that vanguard groups, in the absence of a new institutional arrangement for the Union, could upset the Union's political and institutional equilibrium.

The new German government has declared its support for renewing the reform process and has committed itself to promoting it during its presidency of the Union in the first half of 2007. Other European countries that have ratified the treaty, such as Luxembourg and Spain (both by popular referendum) also back this approach.

The four approaches have different nuances and are not incompatible; indeed some may even be complementary. For example, the pragmatic approach does not exclude *per se* a relaunch of the treaty reform process. Analogously, many supporters of the vanguard groups argue that once consolidated, these groups – in particular the euro group – could provide decisive impetus for an overall strengthening of the Union's institutions.

Italian constraints and interests

Since the 1950s, Italy has considered support for the institutional strengthening of Europe a primary interest. Governments with significantly different positions on other political issues have maintained this approach, giving it continuity and coherence for two fundamental reasons. First, a well-functioning European Community (now Union) has been considered a favourable framework for Italy's international profile, its economic development and the strengthening of its own political and institutional system. Second, a robust European institutional system has been considered indispensable for ensuring the Union's good functioning and for protecting Italian interests within it. Broad agreement on this approach was underscored recently by the positions adopted by the Italian members of the European Convention and the overwhelming bipartisan vote in the House in favour of ratification of the Constitutional Treaty.

Stronger institutions and decision-making procedures permit effective development and efficient implementation of Union policies in sectors of vital interest to Italy, such as immigration, internal security, foreign affairs and the economy. It would be difficult to develop these policies without stronger institutional instruments and additional resources. Institutional strengthening also makes the formation of preferential axes or directories – from which Italy, as has occurred even recently, tends to be excluded – more difficult or less necessary.

Striking a good balance between enlargement and deepening is also in Italy's interest. To be credible, a policy in support of enlargement, as has been taking root in Italy, must be accompanied by a corollary commitment to reform within the Union to avoid decision-making paralysis.

It is clear that renewing the debate on treaty reform will cause tension. But no progress has ever been achieved without tension, and Italy has often been the one to shift the scales between immobility and progress. The increasing difficulties the Union will face in the coming years if it does not undertake incisive reform of its institutions should not be underestimated: any initiative that is contentious will be a risk. But leaving the matter pending will be an even greater risk.

One of Italy's major strengths in its European and international role is its particularly strong public support for more efficient European policies and institutional strengthening. This support puts it in a position to play a leading role in diplomatic discussions over the future of institutional reform.

Finally, Italy has increasingly felt the need for European democracy to be strengthened. The main arguments against the Constitutional Treaty in France and the Netherlands were the democratic deficit and the lack of

transparency and democratic control in a Union with much greater scope and power of intervention than before. An exclusively or predominantly national response to the problem of democratic deficit is inappropriate and even counter-productive. That some national governments are trying to deal with this problem by proposing initiatives such as national referenda – the French and Austrian governments have promised to organise popular consultations on the accession of Turkey – is worrying and could end up reinforcing the national veto on projects for the Union's internal transformation and enlargement. What is needed are common policies that encourage the creation of a real European public space in which people can identify themselves and participate as European citizens. Certain reforms move in this direction, in particular those promoting the introduction of new election or nomination procedures for institutional organs (e.g. the president of the Commission), reinforcement of the European Parliament's powers, creation of new institutional figures in the intergovernmental domain that are subject to democratic control, as well as mechanisms for popular initiatives at the European level, and the strengthening of the role of European political parties.

The history of European unification shows that its dynamism is based on the positive interaction between the creation of vanguard groups, the construction of an institutional architecture open to those who accept its rules and principles and the exercise of leadership by national governments, either individually or in groups or alliances. Guided by its commitment to back them in so far as they further the building of Europe, Italy has over time consistently supported all three of these elements – and often provided an important contribution. In following this approach, it has on various occasions worked in close collaboration with Germany (the Genscher-Colombo Act), France and the Benelux countries; Italy's role was decisive in enlargement to Greece, Spain and Portugal. In some cases – as in the creation of the monetary union – it operated in a incisive way within the Franco-German relationship.

Given the arguments presented above, the Italian strategy on institutional reform should include the following points:

* **Ratification of the Constitutional Treaty.** Italy should strive for a relaunching of the reform process aimed at bringing the Constitutional Treaty into force. A *sine die* extension of the "pause for reflection" on the future of the Constitutional Treaty is a trap that has to be avoided – those intent on blocking European unification have always begun by suggesting to put it on hold. Completion of the ratification process is a prerequisite for governments to be able to meet, compare positions and work out a strategy.

It is important to create a link and possibly coordinate actions among countries that have ratified. By acting in concert in 2006, those countries could effectively provide a stimulus for the two countries where the no vote prevailed and that have not yet developed a strategy for recovering consensus, as well as for countries that have not yet voted or where the government has chosen to wait.

* **European democracy.** Only the European Parliament, as the strongest expression of European democracy, can provide the impetus required for relaunching institutional reform from outside the intergovernmental arena. Not only has the Commission renounced its leading role in this field for the moment but no links exist between national parliaments – even those with a large majority in favour of reform. It will be important for countries interested in reforms, such as Italy, to work to ensure that European Parliament initiatives are met with support and heard at the intergovernmental level. Eventually, a new treaty could be submitted to the electorate in a Europe-wide referendum during the next European Parliament elections (2009).

* **Pragmatic progress.** The informal application of some of the treaty's provisions should be encouraged. Constant attention must be paid however to the impact that changes, above all those involving the institutional sphere, could have on the Union's overall constitutional arrangement.

* **Vanguard groups.** The creation and consolidation of "vanguard groups" both inside and outside the EU can provide important drive not only for the integration process but also for the reform process itself. The euro countries could constitute such a core, but in order to be effective, it would have to find an adequate institutional basis. Italy should support and try to be a part of any initiative designed to give institutions and institutional actors greater power of initiative.

* **Ally with those who want to see Europe go forward.** It is in Italy's interest to avoid stable alliances, counter any idea of a "directory" and support those who do the most to strengthen the European construct. Along this line, Italy can continue to achieve important successes in European negotiations. Today it is likely that a coalition between Italy and Germany, which has proven advantageous in institutional matters many times in the past, can form the basis for a relaunching of the Union.

Fifteen Proposals for a Bipartisan European Policy in Italy

- 1 Participation in the euro.** An end has to be put to complaints about Italy's entry into the euro and proposals to withdraw. More importantly, though, the economic and economic policy choices needed to adapt Italy's development model to the competition of the single market and the globalised economy must be made clearer to all.
- 2 Budget discipline.** High public debt and the objective fragility of public finances require a structural correction that can only be implemented over more than one legislature. Rigorous application of the Pact must be an obligatory choice for Italy.
- 3 Completion of the single market.** Precisely because it is not as efficient as others in the Union, the Italian economy has more to gain from completion of the European single market in the service and utilities sectors.
- 4 Development of the community budget.** Italy is well placed to launch an initiative to make the European budget a key instrument in the relaunching of a European growth strategy, as proposed in the Sapir Report.
- 5 The euro group.** Italy has an interest in strengthening the role of the euro group both internally and internationally. At the institutional level, this could lead to a "reinforced cooperation" among countries in the euro area.
- 6 Multilateralism and an EU role.** It is in Italy's interest to promote a common European policy in multilateral fora that reinforces the Union's international profile and limits the nationalist tendencies emerging from within.
- 7 Rebalancing of Union enlargement.** To balance the EU's shift towards the north and the east, Italy should support enlargement to the south-east and the strengthening of neighbourhood policies with the Middle East and Africa.
- 8 More security in areas bordering the Union.** Italy must seek to promote the creation of a large area of cooperation and control in regions surrounding the Union that play a key role not only in the supply of energy but also in the fight against terrorism, organised crime and illegal migratory flows.

- 9 Specialisation of Italian defence.** The process of integration of the Italian military with a view to specialisation must continue. To this end, Italy should seek a European policy initiative designed to exploit niches of national excellence within a coherent framework of European integration.
- 10 Integration of European security and defence.** The distinction at European level between commitments and expenditures for defence and for security no longer makes sense. European military instruments should be reconsidered to ensure greater civilian/military integration.
- 11 Ratification of the Constitutional Treaty.** Completion of the ratification process is a "perfect" commitment for all member countries; only then can a future strategy be worked out. Italy should seek coordination among countries that have ratified to provide stimulus in those that have not.
- 12 European democracy.** What is needed are common policies that encourage the creation of a real European public space in which people can identify themselves and participate as European citizens. Italy and other countries interested in the reforms should ensure that EP initiatives are supported and heard at the intergovernmental level.
- 13 Pragmatic progress.** Informal application of some provisions of the Constitutional Treaty should be encouraged, paying constant attention, however, to the impact of the changes on the Union's overall constitutional arrangement.
- 14 Vanguard groups.** Italy should support and become a part of the vanguards, both inside and outside of the EU. A core group of euro countries could be particularly effective in providing impetus not only to the integration process but also to the reform process itself.
- 15 Alliance with those who want to see Europe go forward.** It is in Italy's interest to ally with those who endeavour to strengthen the European construction: common policies, a strong institutional framework, and a clear democratic basis.