

Italy in the Euro-zone

Why a messy honeymoon?

By Maximo Miccinilli

Introduction: The Italian's romance with the single currency

Italy is the fourth largest economy in the whole EU and the seventh in the world. However, this statement would be funny for all desperate Italians that lived in 1945 with no economic and political prospective at all. Apart from massive immigration, Italy was divided in economic, political and territorial terms. Briefly, it had the largest Communist Party in Western Europe, the South and the North reinforced its pre-existent cultural differences and there was no consensus on how to recover from the devastation of the war. Nonetheless, the American Marshall Plan and a long list of politicians inclined the country to the only source of hope: Europe. The European Community grew and Italy followed this trend accompanying the development of this new era. Put simply, Italy did its best to be in the "core group" of European countries until 1992 where the creation of the single currency process represented the first real challenge by which Europe could be the one to downgrade the status of Italy as a core member besides Germany and France. This challenge was faced but the outcomes in short terms were negative: Low economic growth, high unemployment and enormous loss of competitiveness. Furthermore, a former minister speculated to brake up with the Euro in 2005 and the *Financial Times* insisted on the negative consequences that would lead the Euro-zone resulting from a voluntary abandonment of the single currency¹. In this line, it seems to be legitimate to wonder: Why one of the most important and historical supporter of the European Community as Italy has not been a successful case implementing the euro in short terms? Basically, this paper will argue that the mid nineties political set up that engaged the country to be part of the euro in 2002, decisively conditioned the chances of the centre-right ruling coalition (2001-2005) to reform enough the structure of the economy in order to satisfy the major domestic actors preferences that used to fuel the implementation of the EMU in the nineties. In other words, it will be proved that the euro has indirectly highlighted

¹ <http://www.johnkay.com/political/460> Financial Times article: "If Italy thinks the unthinkable about the Eurozone" September 12 2006, February 14th 2007

the urgent structural measures that the Italian economy needed and, by doing so, it was punished by the governmental coalition in office.

The paper will be divided into four parts. The first section will assess on the weak state structure that shaped the national preference formation in Italy and thus introducing better the subsequent sections: the political actor's preference formation during the negotiation of the euro and the special case of Confindustria as the representative of the specific economic sectors. In effect, it will be focus on this logic of the major domestic actors that have either fostered or constrained the implementation of the single currency before and during the cycle 2002-2005. Nonetheless, such theory will be complemented by the analytical framework provided by *Quagli and Dyson* who define the state structure dimension through institutions and ideas. Put simply, the theoretical approach of the paper consists of combining the elements of the national preferences formation and the values that supported them in a pre-defined and unique state structure's configuration. The fourth section, in turn, will move to the final evaluation of the Berlusconi's government that confirms the validity of the above mention hypothesis. To conclude, it will be summarize the axial arguments presented throughout the previous sections and it will be explained the potential perspectives in the next five years.

The Italian's state structure configuration

The starting point of the paper has to do with the features that define the Italian state structure. As Quaglia/Maes explain clearly: "*State structures determined how national preferences on EMU were formed domestically, and were fed into the EU process*"². In other words, the particularities of the Italian institutional apparatus did have incidence on the formation of preferences of the domestic actors, above all, in terms of major monetary policy decisions throughout the EC history. The state structure will comprise two key elements: a) the institution responsibilities and division of power, b) the state normative order regarding the state sovereignty and its attitudes towards "Europe". In fact, the Italian state model is considered as a sort of weak and "*fragmented archipelago configuration*" that has fostered incoherent macroeconomic policies which created

² Lucia Quaglia & Ivo Maes, 'France and Italy's Policies on European Monetary Integration: A Comparison of Strong and Weak States', in: *Comparative European Politics*, Vol. 2, No.1, 2004, pp-51

problems on the national front to participate in each monetary agreements. It is also outlined that the internal domestic instability and the dispersion of power between key political actors has undermined unified positions as other countries did (Figure 1) and thus enhancing the Italian authorities to support a pro-supranational framework for the EMU in order to mitigate the national institutional volatility and inefficiency. Such Italian structure is also shaped by the so-called normative order: the state and the society identified as separate spheres leading to a weak national identity that facilitates the legitimacy of the transfer of power and competence to a more neutral and non politicized center to govern the EMU, as Quaglia claims: “*De jure, the sphere and scope of state action in Italy are broad, however they are undermined by the systemic neutralization of power between different centres competing for influence. For this reasons, Italy has been portrayed as a weak state with a porous structure and a dispersed and poorly coordinated set of institutions punctuated by personalism and a Byzantine bureaucracy*”³ The following table comparing France and Italy helps to shade light on the strong differences and uniqueness of the Italian national structure that has constrained the choices and preferences of what Moravcsik defines as societal (and sectoral) interest groups, including commercial powerful economic producers/exporters⁴ and macroeconomic preferences of ruling governmental coalitions at the moment of supporting the entry in the EMU and the consequent *messy honeymoon*.

Figure I

State Structure	France	Italy
Domestic Structure	Strong executive, with leading role of the president	Strong legislative <i>Weak president</i>
	Powerful Treasury and	Relatively Power of Central

³ Ibid., p.56

⁴ Italy is an exporter oriented manufacturer sector with almost 87% of the goods tradable abroad according to the OECD. Further info: *OECD Economic Outlook 2001*, No.60, Vol. 2001, Issue 2, OECD, Paris

	Bank <i>No coordination with macro-economic policies</i>	
	Coordination Ministry (SGCI)	
	State capacity ensured Unity of public power	State capacity undermined by <i>fragmented state structure</i> and low perceived legitimacy
Normative Order		
State-Society	Strong identification nation-state	State and society <i>as separate spheres</i>
Attitudes towards Europe	Intergovernmentalist- Europe of nations	Strong pro-European, supranational
		Source based on Quaglia-Maes (2004) – adaptation-

The Italian domestic national preference formation

The extreme dynamics and complexity of the Italian political community, including trade unions, political parties and the Bank of Italy, constrains the analysis to few fundamental variables directed implied in the EMU process in Italy. Basically, the ruling governmental coalitions that negotiated the entry and ruled the country before and after the implementation of the euro were radically different and depicted an enormous political and economical transition. However, there were three essential trends that partly explain the main forces that would build legitimacy and boost confidence in the accession to the single currency (1996-1999) risking, paradoxically, the outcomes once the Euro would become a reality for the citizens in 2002 (2001-2005).

The first pattern is what can be called the *citizenship's race against dirty domestic politics and partitocrazia* ("partyocracy") regime. The pos-war Christian Democrats leadership characterized by its weak party compromises came to an abrupt end in the early nineties. The bribes-villes scandal contributed in three

ways: 1) the entire old political class got retired and the strongest traditional parties lost its natural identity conceived after the WWII opening a huge room to rethink its *raison d'être* in relation to the European Union; 2) the atomization of left and right parties shielded by the new electoral proportional law boosted enormous power to extreme parties in both sides for the future coalitions buildings (Rifondazione Comunista and the Northern League contrary to the Maastricht conception of Europe): 3) the citizenship's confusion in terms of political preferences after the bribes scandal would strength the skepticism towards the domestic political class and, in turn, an increasing support to the transference of sovereignty to Brussels. Indeed, the Italian citizenship was the most interested to adopt the Euro in mid nineties as Crocci states: "*The support appeared to increase as the legitimacy of the Italian political class diminished following the mani pulite inquiry. The less Italians came to trust their own politicians the more they approved the transfer of important responsibilities upward toward Brussels*"⁵ This logical effect, produced by the failure of the old political community, would impact directly on the political parties and the moderate Trade Unions in terms of coherence and legitimacy linked to Europe. Put simply, the TEU and the EMU was a clear way to regain credibility following the feelings of the Italians by contrasting also the new political class from the traditional one and thus incrementing the feasibility of a re-election in turbulent times. Those meta-processes explain three subsequent events: the Prodi's threat to leave his mandate of Prime Minister in case of not reaching the convergence criteria in the last Commission assessment in 1997, the enormous promotion of the Euro criteria as the label of "first division country" in unprecedented national broadcasting such as *Maastricht-Italy* and the large consensus of the centre-left Prodi's coalition even if implied dangerous concessions to the extreme left party called Rifondazione Comunista.

The second pattern can be illustrated as the non continuity or linearity of the so-called 'sound economic' or "stability oriented" paradigm implemented for the first time in the late seventies by Prime Minister Andreotti. The designed of the Euro-zone was full compatible with such strategy that mainly tended to tackle the failure of the Keynesian approach in terms of high unemployment and national inflation pressure. In fact, the key role of the Bank of Italy, that opposed radically to the entry of Italy to the European Monetary System in 1979 became the most important ally of the government to embrace such pragmatic monetarist values and

⁵ Osvaldo Crocci & Lucio Picci, 'European Monetary Integration and Integration Theory: Insights from the Italian Case', in A. Verdun (ed.), *The Euro. European Integration Theory and Economic and Monetary Union*. (2nd Edition) Rowman & Littlefield Publishers Inc., Oxford, 2002, pp-231

thus starting the painful reforms needed in line with the Confindustria and bankers interests during the nineties. As Dyson comments: " *The crucial enforcer of the sound money paradigm is the global financial markets. They act as vigilant external disciplines on the Euro-zone's public sectors. Even with Social Democrat-led governments in power in the large majority of Euro-Zone states, and the macroeconomic dialogue launched, the primacy of this discourse remains intact.*"⁶ Nonetheless, the Italian case shows remarkable discontinuity to protect this paradigm since the *partito azienda* logic ("enterprise logic-oriented party") incarnated in *Forza Italia* (still the national right-wind largest party since 1999) which governed briefly in 1994 and coincidentally took office with a huge coalition majority for five long years (2001-2006). The evidence of this setback for sound economic measures are contained in the composition of the Ministers (three of them representing the Northern League⁷ and Giulio Tremonti an euro-skeptical economy minister that approved two budgets out of the Stability and Growth Pact-SGP), the intense negotiation of the Prime Minister, Silvio Berlusconi, to support the softening of the SGP in 2005 besides Germany and France and, finally, the consolidation of anti-European vocation as ideology of Forza Italia party to the convergence criteria since 1994. Precious comment in such original trajectory of the renewed centre-right apparatus after the bribes-scandal is pointed out by Quaglia: "*Policy learning, however, was not linear. For example, during the short life of the Berlusconi Government in 1994, a different set of economic objectives, instruments and strategies prevailed in macroeconomic policy making. The electoral slogan – lower taxes, more jobs- (...) resurrected a blend of supply-side proposals, especially on the tax side, complemented by a call for a looser monetary policy*"⁸.

Finally, the last pattern deals with the role that played three specific actors during the domestic political bargaining to adopt the convergence criteria and the overall cost associated with the implementation of the euro. Firstly, the most impressive and influential actor that set a convenient environment to widen the domestic political elites towards a more European approach was the Bank of Italy. *Ciampi, Amato, Schioppa* are a generation of pro-European state men that carried

⁶ Dyson Kenneth, *The Politics of the Eurozone. Stability or Breakdown?* (1st Edition). Oxford University Press Inc, New York, 2000, pp-31

⁷ The declaration of Minister of Justice Castelli (2005) to brake up with the Eurozone should be seen as part of the logic above mentioned: extreme parties with non EU vocation dominating the stability of governmental coalitions. This logic rejects the idea that Italians or Italy as a whole are keen to breaking up with the Euro in short terms.

⁸ Lucia Quaglia, 'Italy's policy towards European monetary integration: Bringing ideas back in?', in: *Journal of European Public Policy*, Vol. 11, No.6, 2004, pp-1106

out the socialization of stability paradigm efficiency, imported from Germany, during the road to the convergence in the nineties. By contrasting the negative vision of the institution in the sixties and seventies in which the coordination of monetary issues damaged the legitimacy of the authority, they cooperated vis-à-vis with Prodi government to reduce the public deficit and inflation in 1997 and they were actively involved in technical demands to ensure the participation of Italy in the first EMU wave. In other words, the Italian Central Bank made its best to isolate the public debate from a profound discussion on the *costs* that the country would be implied and thus pushing the national coalition and trade unions to accept the conditions *imposed by the EU Commission*. Quaglia/Maes describe the Bank of Italy principal's interests as follows: "*In the 1980's the Italian monetary authorities adopted the hard currency option, whereby the exchange rate deployed in the domestic arena to fight inflation by disciplining the trade unions and promoting industrial restructuring*"⁹

In this sense, the second inexorable category is undoubtedly the trade unions which were not less important so far. The strong internal tensions and natural fissures resulting from the political crisis in 1992 obliged the renovated three Unions to look for a new source of legitimacy associated with the EU. Parallel to the similar process of the new atomized political parties of both sides the EU, in turn, was the target to protect Italy from an extreme neo-liberal version or "American market". The Trade Unions price's to support the Euro were twofold as Crocci/Pucci summarizes: "*At home they received the promise that the savings made on debt servicing would be channeled towards employment creation. At Community level, they were able to have a new title inserted in the Treaty of Amsterdam. It was conceived as a counterweight to EMU and made the attainment of a high level of employment' a new Community objective*"¹⁰ In addition to this, the commitment of the trade unions in the nineties was such that they blocked the extreme left party to reject the budget in the senate to maintain the compromises of the Prodi's coalition with the European Commission in 1997.

The last key actors are essentially the power of the extreme left and right parties since the nineties. Starting from the left side, given the fact that the

⁹ Lucia Quaglia & Ivo Maes, 'France and Italy's Policies on European Monetary Integration: A Comparison of Strong and Weak States', in: *Comparative European Politics*, Vol. 2, No.1, 2004, pp-51

¹⁰ Osvaldo Crocci & Lucio Picci, 'European Monetary Integration and Integration Theory: Insights from the Italian Case', in A. Verdun (ed.), *The Euro. European Integration Theory and Economic and Monetary Union*. (2nd Edition) Rowman & Littlefield Publishers Inc., Oxford, 2002, pp-232

Communist Italian Party collapsed in 1990, many formations emerged. The most popular joined the vast majority of socialists with former moderate Communists by creating the *Democratici di Sinistra* –DS-. This party became pro-European either to avoid internal discrepancies after the chaotic socialist bribes scandal and thus enhancing legitimacy externally as the largest national party in the European parliament. Nonetheless, the pro monetarist vocation of the DS clashed with the reminiscence of the old hard line Communist party, *Rifondazione Comunista* –RF-, that maintained an orthodox discourse against “capitalism” and “liberal integration”. The eternal obstacle was that the coalitions of centre-left were always susceptible of instability if the RF party was not contained by the biggest cousin DS and trade unions, above all, in the sensitive issue of the monetary union. Moreover, the right-wing extreme parties, especially the Northern League which was extremely secessionist in the mid nineties, played an analogue role for the second Berlusconi government (2001-2005) attacking Brussels for trade, monetary and budgetary issues without little room of containment for the Prime Minister associating the country as more euro-skeptical than ever.

The Confindustria's power in the EMU political scene

Besides the political community in Italy there is a powerful actor to be considered in the periods analyzed regarding the euro which name is Confindustria. This confederation represents more than 115 thousand companies of 250 sectoral business associations in Italy and it has mainly become one of the strongest national industrial lobbyists in Europe. The principal component of such organization depends on the huge number of SME's that cannot cope alone with the costs that would require lobbying in Brussels. For this reasons, Confindustria reflects perfectly the Italian case of what Moravcsik defines as the “interest of the dominant domestic interest group”¹¹ that consequently builds the margin of bargaining power of the state when deciding either to transfer or not sovereignty. Moreover, organizational reforms in December 2002 due to the EMU's process and the increasing number of publications associated to the monetary union¹² leads to the concept of Europeanization of the Confindustria's authority elites. In this way, the Italian's colossal aim to be part of the first wave of the Euro-members, shaped

¹¹ See more on: Moravcsik Andrew, 'Liberal Intergovernmentalism and Integration: A Rejoinder', in *Journal of Common Market Studies*, Vol.33, No.4, 1995, pp-611-627

¹² See numbers and further information on: John Constantelos, 'The Europeanization of interest group in Italy: business associations in Rome and the regions', in: *Journal of European Public Policy*, Vol. 11, No.6, 2004, pp-1025-1032

a particular situation between the political coalition and the entrepreneurs: the entire sectors of the most important firms gave its "conditional" support to the EMU's entry based on international forecast of risky asymmetric shocks, which is the same, they proposed structural macroeconomic adjustments that the following governments did have to pursue during the Euro-zone implementation to avoid a general economic slow down. In effect, the president of the Confindustria *Giorgio Fossa* affirmed, after unusual series of demonstrations to attack the government payoffs to the extreme left party in 1998, that the criticism was not focused on the Euro *per se* but on the reforms the government financed to adopt the single currency such as measures for pension reforms, concessions to the radical communist party and a new business tax known as EU-labeled.¹³ As Constantelos makes clear on the environment of the industrialist: "*Italian business owners were generally, but conditionally, supportive of Italy's participation on the EMU. (...) Fossa argued that a reduction of Italy's high tax rates was essential for Italy to compete at the European level. Next in importance was to increase labor flexibility and mobility*"¹⁴ The follow table summarizes the precarious condition of the structure of the Italian economy by presenting the aggregate demands per sector, as Moravcsik theory conceives, posed before 1999.

¹³ See Interview in Spanish at: <http://www.elmundo.es/1997/12/07/economia/07N0069.html>, February 20th 2007

¹⁴ John Constantelos, 'The Europeanization of interest group in Italy: business associations in Rome and the regions', in: *Journal of European Public Policy*, Vol. 11, No.6, 2004, pp-1025

**A Conditional Support: Aggregated
Demands divided per groups in
1996-1999**

<i>Sector</i>	<i>Structural Obstacle</i>
Chemicals	Non Transparent Prices
Tourism	High Labor Costs
Machinery	Inflexible Labor Market
Banks	Financial Market Fragmentation
Freight Fowarding	Inadequate Taxing System
General Services	Bureaucratic Labor Market
Specific Industries	Education Reform

***Source Constantelos
and Confindustria.it
(2004)***

Figure II

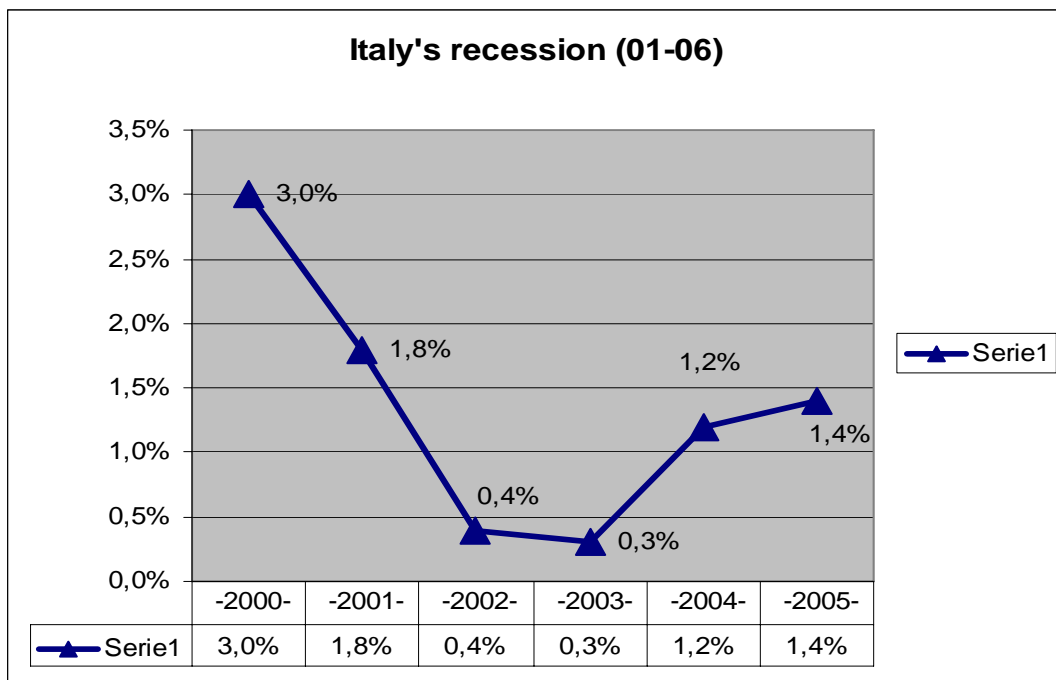
The Berlusconi's coalition assessment: 2001-2006

The Berlusconi's mandate between 2001 and 2006 coincides with a negative performance of the Italian economy (See Figure III). The fact that the euro was negotiated by the opposition led by Romano Prodi evidently opened an enormous room to associate the single currency with the weak growth of the country. However, the substance of this argument should be envisaged taking into account several elements that derive from the previous sections.

Firstly, the Italian's state structures was not reinforced but seriously weaken due to both the indisputable strong leadership of the Prime Minister and its not-easy relationship with the President (Ciampi), a convinced European. Paradoxically, the largest majority that Berlusconi obtained in the Parliament in the history of the

republic, was always depended on the most anti-European and homophobic party: the Northern League.

Figure III – <http://www.tesoro.it/welcome.asp>



. This coalition's political preferences can be seen easily in the proposal to reform the Italian Constitution that tended to match Forza Italia (FI) and the Northern League interests since they tried to restore national competences for the regions (the so-called devolution of sanitary and educative prerogatives) and the end of political functions to the president of the republic. In this logic, both measures were indirectly against the reforms needed for adapting the economy to the euro: the empowerment of the regions would make fuzzier the national interest and identity and, by the way, the reinforcement of the PM would politicize definitely the Italian matters without any neutral interlocutor (the President) between divided political forces. Although this reform was not approved during the ruling government, the deadline for a referendum on it, polarize tightly both coalitions without any kind of consensus ranging from domestic reforms to European affairs issues.

Secondly, the right wing party started to demonize the previous government on the basis of the inappropriate engagement with the European negotiations that took the country to the Euro-zone. In fact, there is an 'special report' in the FI website that comments the "expensive-life brought by the Prodi's Euro" and explains why the Euro is damaging the citizen's interest by affirming that: "*the Euro has raised the prices in all the euro-zone, the Italian power purchase has diminished and the Prodi's government has obtained the worst exchange rate of all the members of Euroland.*"¹⁵ The curious remark is that the government punished not only the conditions by which the Italian economy accepted the road to the convergence criteria but the Stability and Growth Pact that is defined as "*rigid and limits the investments even if Prodi had already described it as stupid*"¹⁶. The consequent support to modify the SGP in 2005, due to consecutive excess of deficits beyond 3%, was considered as a 'victory' for the government that basically was associated against the pressure of the European Commission and its management of the Italian interest in line with the historical mistakes of the centre-left coalition. Not to mention that the Presidency of such Commission was led by Romano Prodi, incrementing the rivalry between Rome and Brussels in each Directive's proposal.

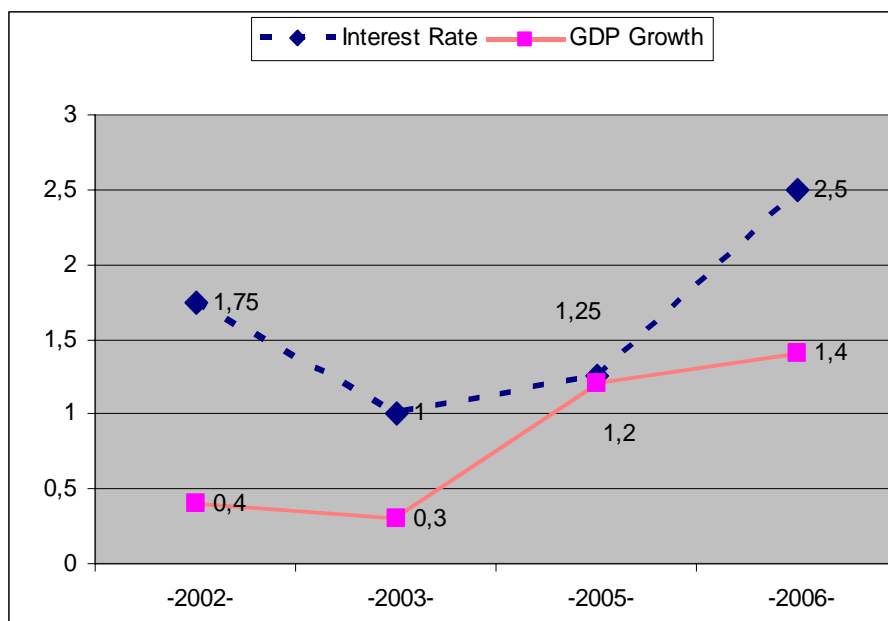
The third consideration focuses on the increasing skepticism to Europe that involved the Berlusconi's coalition as far as the economy did not show signs of rebound in terms of GDP. Transnational issues that seemed not to be controlled efficiently by the EU fueled the official speech against the *expensive-euro*. These topics involved mainly: trade, illegal immigration and the participation in the Iraq's war. Briefly, the Berlusconi government has never been in line with the EU Commission and took advantage to criticize the weak management of such supranational institution in *adjacent areas* to justify the critical conditions of the national economy.

The fourth point highlights the lack of general compromise in the right-wing coalition to boost the reforms, even if the ECB supported a restrictive monetary policy (Figure IV), that the left parties promised to the most important actors composed of the SMEs and big industrialists.

¹⁵ Forza Italia Website, http://www.forza-italia.it/speciali/impegni_tasse_carovita.htm, February 18th 2007

¹⁶ *Ibid.*

Figure IV (ECB Source 2006)



The specific aggregate demands by which they had accepted the efforts to be in the Euro-zone were never carried out by Berlusconi. This contradiction, due to the fact that Berlusconi had the full support of Confindustria in 2001, explains how this organization started to criticize the Forza Italia's leadership and explicitly supported Prodi in the 2006 national elections. The next table shows the reforms and policies that the government ideated and the scarce impact on the economy, above all, the manufacturing export industry:

Figure V

Reform/ Policy	Assesment
Labour Market (Biaggi Law)	Vicious and Weak
Education (Moratti Law)	Weak
Liberalizations	None
Banks	Positive for Investors
PICO Plan (Lisbon Strategy)	Bad Focused
Stabilisation Plan 2003	No Compromise
Pensions System	No complete Reform
Welfare State Reform	None

The weak dispersed policies the introduction of

reforms and did not help at all the single

currency in Italy. This hard political burden that the Prodi's coalition left to Berlusconi's one was part of the *package* negotiated with a much more friendly trade unions and Confindustria due to the pressures that exerted the Commission during mid nineties either to accept or not Italy in the Euro-zone. The fact that Italy was accepted in the first wave eliminating the threat of a 'second division Italy', it automatically "untied the hands" of both manufacturer/exporters and Unions forces against the centre-right coalition. Moreover, Confindustria claimed for a flexible labor market and better conditions of SME's loans while the Trade Unions rejected such priorities by asking better conditions for workers and raise of the employment rate for the Italians. The outcome was a soft flexibilization of the labor market through the Biaggi Law that did not make the difference neither for Confindustria's sectors nor for the major players of the trade unions. This *petit pas* policy configuration that constrained the Berlusconi's government was reproduced in the rest of the policies, above all, in two of them: the PICO plan to re-launch the growth in Italy and the Stability Programme with the EU Commission in 2003. The first of those was designed to increase the investment on infrastructure by proposing mega-projects that were linked more with political visibility rather than real demands of the citizens. The second one confirms the extreme rejection of the stability-oriented paradigm that used to qualify much more with exponents of the "demonized" left coalition. The assessment document of the Commission in 2004 makes evident the weak compromise to reduce the deficit burden that prevents the country to take action in painful reforms as it clearly remarks: *"the reduction of the debt ratio below 100% has been postponed by two years to 2007 (...) the attainment of the budgetary objectives would be at risk. (...) the debt ratio in the future will be less favourable than projected in the programme. This is due to the risk ensuing from the deficit targets, the continued existence of undisclosed debt-increasing below the line operations that determine persistently higher cash deficits compared to the Maastricht-definition deficit and the relatively high degree of ambition of the privatization programme."*¹⁷

Conclusion

The adoption of the single currency in Italy contains an enormous variety of political elements and ideological aspects that do not necessary facilitates the

¹⁷<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/04/107&format=PDF&aged=1&language=EN&guiLanguage=en>. Commission Assessment Prologue of the 2003 update programme in Italy, February 20th 2007

assessment of the euro in short terms. Nonetheless, this paper has outlined the importance of the pre-configuration of a weak state that lost coherence in macroeconomic policies and lacks of automatic identification with the national identity as the French does. This trend complicated the entry in the euro during Prodi's coalition and exacerbated even more the European skepticism of the Berlusconi's government years later. The second argument focused on the domestic actors and the national preference formation including the powerful Confindustria, trade unions and political coalitions with its respective extreme parties. The most notably remark is how the Prodi's coalition, in line with the stability paradigm values, "packed" and "tied the hands" of the most important players to reach the convergence criteria and thus postponing structural reforms that a radical different environment and a euro-skeptical government between 2001-2006 would not be able to cope with it. In fact, trade unions, the Northern League and the anti-monetarist values convictions of the coalition betrayed the hopes even of the traditional right-wing ally Confindustria, which decided gradually to not to back up the re-election of Berlusconi. The last part of the paper emphasizes the lack of compromise that the Berlusconi's government had to start the painful reforms in the labor, pension and service markets. It is also highlighted the polarization of the political community and the constant association of the left-centre opposition with the European policies such the euro negotiation, the trade policy of the Prodi's Commission and the inefficient immigration policy emanated in Brussels.

All these arguments explained the messy honeymoon between Italy and the Euro. In brief, the political conditions that one governmental coalition obtained thanks to the pressure of Brussels, would be an inexorably obstacle for the future efficiency of the single currency in the economy. This trend was proved during the Berlusconi's coalition that not only carried out the reforms demanded by the whole spectrum of political and industrial actors but opposed ideologically to deepen on the Europeanization of its political programs and strategies. The clear outcome was the euro as the symbol of an old-fashion management of the Italian interest of the leftist former officials.

The perspectives in short terms for this weak marriage will depend on the ability of the second Prodi's government to implement the reforms already mentioned. New actors as *Padoa Schioppa*, *Masimo D'Alema* and *Bersani* have given some signals that Italy is coming back to the stability paradigm values in line with *Barroso Commission*. In effect, the liberalizations decree last year was welcomed by the EU and the OECD. However, it is not possible to exaggerate due

to the strict margin of maneuver that this government has, above all, in the Senate. Moreover, there is no chance to recover the consensus of the most important actors without a strong centre coalition that could govern for five years without extremist parties' kamikazes that threatens the coherence of an already weak state. In this line, it seems impossible to avoid a wider question related to this case: Will the euro contribute to an Italian national preference formation that will depend more on the extreme parties or, by contrary, consolidate the emergency of a stronger centre coalition?

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