

NATIONAL BANK OF BELGIUM

WORKING PAPERS – RESEARCH SERIES

THE PROCESS OF EUROPEAN MONETARY INTEGRATION: A COMPARISON OF THE BELGIAN AND ITALIAN APPROACHES

I. Maes (*)
L. Quaglia (**)

The views expressed in this paper are those of the authors and do not necessarily reflect the views of the National Bank of Belgium.

The authors would like to thank all those who contributed to this project, especially the many persons with whom the authors had fascinating and illuminating discussions. The usual caveats apply.

(*) NBB, Research Department, University of Leuven and ICHEC (e-mail: ivo.maes@nbb.be).

(**) Robert Schuman Centre, European University Institute, Florence (e-mail: Lucia.Quaglia@IUE.it). She wishes to thank the ESRC for its financial support (Award nR00429834634), as well as the Robert Schuman Centre for the Jean Monnet Fellowship in the 2002-2003 academic year.

Editorial Director

Jan Smets, Member of the Board of Directors of the National Bank of Belgium

Statement of purpose:

The purpose of these working papers is to promote the circulation of research results (Research Series) and of analytical studies (Document Series) made within the National Bank of Belgium or presented by outside economists at seminars, conferences and colloquia organised by the Bank. The aim is to provide a platform for discussion. The opinions are strictly those of the authors and do not necessarily reflect the views of the National Bank of Belgium.

The Working Papers are available on the Bank's website : <http://www.nbb.be>

Individual copies are also available on request from:

NATIONAL BANK OF BELGIUM
Documentation Service
boulevard de Berlaimont 14
B - 1000 Brussels

Imprint: Responsibility according to the Belgian law: Jean Hilgers, Member of the Board of Directors, National Bank of Belgium.
Copyright © National Bank of Belgium
Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.
ISSN: 1375-680X

Abstract

This paper analyses and compares the roles which Belgium and Italy have played in the process of European monetary integration. It discusses Belgian and Italian attitudes towards European integration and EMU, exchange rate policies, key concepts of the Belgian and Italian EMU strategies and the concrete contributions made by Belgium and Italy. Overall, these two countries played an important and pace-setting role in the process of European monetary integration. They developed several creative and diplomatic proposals. Moreover, Belgian and Italian policy-makers often acted as "policy entrepreneurs" and proved to be skilful negotiators. The main difference is that Belgium has been a constant and consistent "pace-setter" in monetary matters, from the preparation of the Hague Summit to the elaboration of the EMS, the monetary chapter in the Single European Act and the realisation of EMU, whereas Italy was mainly active in the 1980s. This assessment of the Belgian and Italian contributions does not challenge the decisive impact of the Franco-German axis, but illustrates that EMU was a multilateral process. Furthermore, the paper shows how important it was for a country to achieve a sound economic performance, especially a stable exchange rate, in order to have influence on the European monetary scene.

JEL codes: A11, B20, E58, F02, P16.

Key words: European monetary integration, Belgium, Italy.

TABLE OF CONTENTS

1. INTRODUCTION.....	1
2. ATTITUDES TOWARDS EUROPEAN INTEGRATION AND EMU	3
2.1 Belgium	3
2.2 Italy	3
2.3 Comparison.....	6
3. EXCHANGE RATE POLICIES	7
3.1 Belgium	7
3.2 Italy	11
3.3 Comparison.....	15
4. KEY CONCEPTS AND CONTRIBUTIONS	16
4.1 Belgium	16
4.2 Italy	21
4.3 Comparison.....	25
5. CONCLUSION	27
Annex	29
References	30

1. INTRODUCTION

This paper will analyse the role which Belgium and Italy have played in the process of European monetary integration. Belgium and Italy were both founding members of the European Communities and shared a pronounced pro-European attitude.

Of course, France and Germany have been the dominant players in the EMU process¹. However, by highlighting the contributions of Belgium and Italy, this article reinforces and illustrates the fact that EMU was a collective, multilateral achievement. Belgium and Italy, through creative proposals and diplomatic efforts, played an active and pace-setting role in the process of European monetary integration². The main difference is that Belgium played this pace-setting role throughout the EMU process, whereas Italy was mainly involved in the 1980s.

Generally speaking, one has to admit that it is difficult to assess a country's influence in the European Union system. An important reason is that consensus building is pervasive in European decision-making, so that cooperative moves are the typical procedure. This makes it difficult to isolate individual contributions. Moreover, Member States often exert power in indirect ways. It is therefore not easy to assess a country's influence. This paper will focus on the participation of Belgium and Italy in the European exchange rate arrangements, and to their views on and contributions to European monetary integration, crucial determinants of influence in the EMU process³.

The paper starts with an analysis of Belgian and Italian attitudes towards European integration and EMU. It then moves on to their exchange rate policies. Finally, it analyses the key concepts of both countries for the creation of EMU and their contributions to the European monetary integration process.

This paper draws on earlier research in which the authors were involved, both on the process of European monetary integration in general (see Smets, Maes and Michielsen, 2000 and Maes, 2002a and b) as well as, more specifically, on the Belgian and Italian approaches towards EMU (see Smets, Michielsen and Maes, 2002 and Quaglia, 2002).

¹ Overviews of the process of European monetary integration can be found in Dyson & Featherstone, 1999, Gros & Thygesen, 1998, Issing, 1996, Papadia & Saccomanni, 1994, Szász, 1999 and van Ypersele & Koeune, 1989.

² See Börzel (2000) for an analysis of the concept of pace-setting.

³ Wallace (2001) distinguishes seven sources of influence in EU decision making: political weight, political practice, economic weight, social and economic practice, persuasive ideas, compelling demands, and credibility and consistency.

The research is based on a variety of sources including primary documents, a review of the secondary literature, archival sources and a large-scale programme of interviews. Official positions are the main focus, although the ideas of certain influential Belgians and Italians are sometimes presented⁴. The paper considers the period from the Hague Summit of December 1969, when EMU was put on the agenda, to the selection of the participants in 1998.

⁴ A complicating factor is that individuals move between national and European institutions, especially the Commission. Also, national officials are often members of European committees and study groups. Furthermore, even the issue of what is an official position is not entirely clear (see Wallace, 2001, who focuses on governments). In this paper "official positions" refer mostly to governments (especially the ministry of finance), but also to central banks.

2. ATTITUDES TOWARDS EUROPEAN INTEGRATION AND EMU

2.1 *Belgium*

There has been a very high degree of consensus in Belgium in favour of European integration. EMU was an important objective of Belgium's European policy, being an essential element of political integration (Franck, 1998: 207). This fundamental consensus in favour of European integration and EMU was based on the structural characteristics of Belgium as a small open economy, its geographic location and fundamental attitudes in favour of European integration, strongly marked by the experience of the two world wars. The consensus involved the main political parties and key social players (trade unions, employers' organisations, etc. ..). Moreover, the Christian Democrats, the dominating force in the political landscape in the post-war period, identified themselves strongly with European unification. As Mark Eyskens, a former Prime Minister, pointed out: "Europe is like a fatherland to be loved" (Beyers and Kerremans, 2001, 16)⁵.

For Belgium, as a medium-sized country, European integration implied a gain in influence. European integration instituted the rule of European law, limiting the power of the larger countries. Also, new supranational players, such as the Commission and the Court, were set up, further constraining the power of the larger countries.

In this institutional context, Belgium and the Commission were usually natural allies, sharing the same fundamental aim of a more federal Europe. Also, as the Commission was based in Brussels, informal contacts were easy. Moreover, the Member of the Commission in charge of Monetary Matters has typically been French, further favouring contacts with the Belgian authorities⁶.

2.2 *Italy*

In general, Italian attitudes towards European integration were more complex than the Belgian stance: there was less consensus and positions shifted over time. However, for most of the period covered by this paper, Italian political, economic and cultural elites, as well as public opinion, supported the process of European integration. Italian governments

⁵ The Christian Democrats (and the church) have typically taken a "universalist" approach (in contrast to a more "nationalist" approach).

⁶ Thus, at the end of the 1960s, there were good contacts between Barre and Snoy, the Belgian Finance Minister. They even exchanged their initial proposals for the Hague Summit on a confidential and personal basis. (Archives Snoy, Maps 5.3.12.4 and 5.3.12.8.1). Delors and Maystadt also had a good relationship (Dyson and Featherstone, 1999: 707).

have traditionally been among the most pro-European and most in favour of transferring sovereignty to the European level. An important role was played by the Christian Democrats, who dominated the political scene until the 1992 general elections and who were very pro-European. Moreover, among other parties of the governing coalitions, especially the small but influential Republican Party, there was a very strong pro-European attitude⁷. The European "vocation" was also the prevailing ethos of Italian diplomacy, which emphasised that Italy had to remain at the core of the process of European integration. Membership of the European Communities was seen as a way to rehabilitate Italy in the international community after 1945 and as a way to anchor democracy and freedom in a wider European framework, especially in view of a potential communist threat. Also, the more enlightened and outward-oriented elements of the Italian elite regarded it as a way to develop the Italian economy and to modernise the country. It was a route to bring about domestic reforms, a "vincolo esterno" (Sbragia, 2001; Quaglia, 2002).

Initially, the socialist party (PSI) was cautious about European integration but it became more pro-European, especially after the Soviet clamp-down in Budapest in 1956. Moreover, until the early 1970s, the Italian Communist Party (PCI), which was supported by up to one third of the electorate, opposed European integration and Italian membership of the EEC (Vannicelli, 1974). This position shifted during the 1970s, when the PCI took a more independent view of international relations with the development of "Euro-communist" ideas, and also moved closer to the government with the so-called "historic compromise"⁸. So Italy's European policy became bipartisan, at least up to a point⁹.

European monetary integration was a topic of heated discussions in Italy. The foreign policy establishment was typically pro, while economic policy-makers tended to be more divided¹⁰.

⁷ The republican movement in Italy was strongly influenced by the French revolution, giving it a "universalist" orientation.

⁸ The PCI and the PSI voted against the treaty on the European Coal and Steel Communities. The PCI voted also against the EEC Treaty, while the PSI abstained.

⁹ A word of caution is required. For example, in 1978 the PCI voted against Italy's joining of the EMS and the Socialist Party abstained. In 1992 the "Reconstructed Communists" and the Italian Social Movement voted against the ratification of the Treaty on European Union. The experience of the first and second Berlusconi government in 1994 and 2001 has also raised questions about this bipartisan approach as well as about Italy's traditional support for European integration. It is also worth noting that, in the early years of the EEC, certain sectors of the business community were against Italian membership (Carli, 1993).

¹⁰ Even if Luigi Einaudi had already come out in favour of a single European currency in the early 1940s.

At the time of the Hague Summit and the Werner Report, Emilio Colombo, initially the Finance Minister and thereafter the Prime Minister, took a positive approach towards the EMU project, while Carli, the Governor of the Banca d'Italia, was more cautious. In 1972, Italy joined the so-called "Snake", mainly for (geo)political reasons and despite disagreements amongst Italian policy-makers. However, with a worsening inflation and balance of payments situation, the lira had to withdraw in early 1973.

A crucial moment, and a watershed choice in Italian policymaking towards European monetary integration, was the decision to join the EMS (Spaventa, 1990, 17). Political leadership and a clear political view that Italy should be at the inner circle of Europe were the key factors that tipped the balance in favour of membership. Interestingly, the EMS was regarded in the debate as a proxy for "Europe" and "European integration". Membership of the EMS was mainly discussed in (geo)political terms, and less on the basis of economic considerations. Technical policy-makers, such as the Bank of Italy and many Italian economic experts, were reluctant to join the system. Also, views diverged within the government. The "pessimistic" view was supported by, among others, the Minister for Foreign Trade, Rinaldo Ossola, a former Director-General of the Bank of Italy. Ossola (1978) maintained that the EMS entailed fundamental problems for Italy. He believed that it would be merely a second version of the "Snake". Moreover, at the domestic level, Ossola doubted that the political parties and the social partners had the necessary commitment and cohesion to adopt the tough economic policy required to remain in the EMS. This line of thought was shared by the governor of the Bank of Italy, Paolo Baffi, and by other members of the government¹¹. In contrast, the "optimistic" view, embodied by the Treasury Minister, Filippo Pandolfi, favoured Italy's joining the system, also on the grounds that EMS membership would support his economic adjustment plan¹². The Italian government, with Andreotti as prime minister, after a week's pause for reflection, decided to join the ERM, but with a wider fluctuation band of 6 pct.

During the 1980s Italy played more and more a pace-setting role in the EMU process, with the Rome European Councils of 1990 as a high point. After the withdrawal from the ERM

¹¹ For "economic" reasons relating to the sustainability of Italy's participation, Baffi was clearly sceptical about joining the ERM, as he was a convinced pro-European and a member of the European Movement.

¹² In 1978 Pandolfi submitted a plan entitled "A proposal for development, a choice for Europe". Several Italian economists played a part in drafting the document. The main contribution came from Tommaso Padoa-Schioppa, who was seconded from the Banca d'Italia for two months. There were further contributions by Luigi Spaventa, Mario Monti and Paolo Baffi, the Governor of the Banca d'Italia. The Pandolfi Plan shows a shift in the reference framework for Italian economic policy-making, as it originated partly from IMF demands (related to a large IMF loan), while it was to become an important argument supporting Italy's commitment during the EMS negotiations.

in September 1992, however, Italy took a low profile in EMU matters. In the run-up to EMU, the Italian decision to attempt first-wave membership against the odds was the result of political brinkmanship and a strong political view that Italy had to remain at the inner circle of Europe.

2.3 Comparison

Several similarities may be discerned between the Belgian and the Italian attitudes towards European integration. Firstly, both countries were founding members of the EEC, and pro-European attitudes have traditionally been displayed by public opinion as well as by the political, economic and cultural elites. Secondly, both countries were characterised, be it to different degrees, by social and political divisions, weak governments and fragmented political party systems, contributing to significant budget deficits¹³. For policy-makers in both countries, European integration was a way to counterbalance centrifugal tendencies and to "anchor" national macroeconomic policies in a European framework.

The main difference, as far as European monetary integration is concerned, was that in Italy the pro-integration coalition was more fragmented and unstable than in Belgium. The Belgian approach was more or less unconditional, despite the economic and political situation. Belgium was a member of the Snake. It joined the EMS from the very beginning and remained within the Exchange Rate Mechanism throughout the 1990s. It also continuously played a pace-setting role in the process of European monetary integration. In contrast, the Italian approach changed over time and was highly influenced by the economic and political circumstances. Overall, for only about half of the period under consideration did Italy participate in the European exchange rate arrangements. Its main contributions in the EMU process were in the late 1980s and early 1990s.

¹³ In both countries the central bank played also a significant role in economic policymaking. This was most evident in Italy where several senior central bankers became leading politicians. In Belgium the central bank influence was more behind the scenes.

3. EXCHANGE RATE POLICIES

The Belgian and Italian economies were, to a certain degree, plagued by the same problems of inflation and budget deficits. However, for most of the period under consideration, there was a significant difference regarding the role of the exchange rate in the macroeconomic strategies, with Belgium following a stable exchange rate policy, while the Italian lira, for most of the period under consideration, did not participate in the European exchange rate mechanisms.

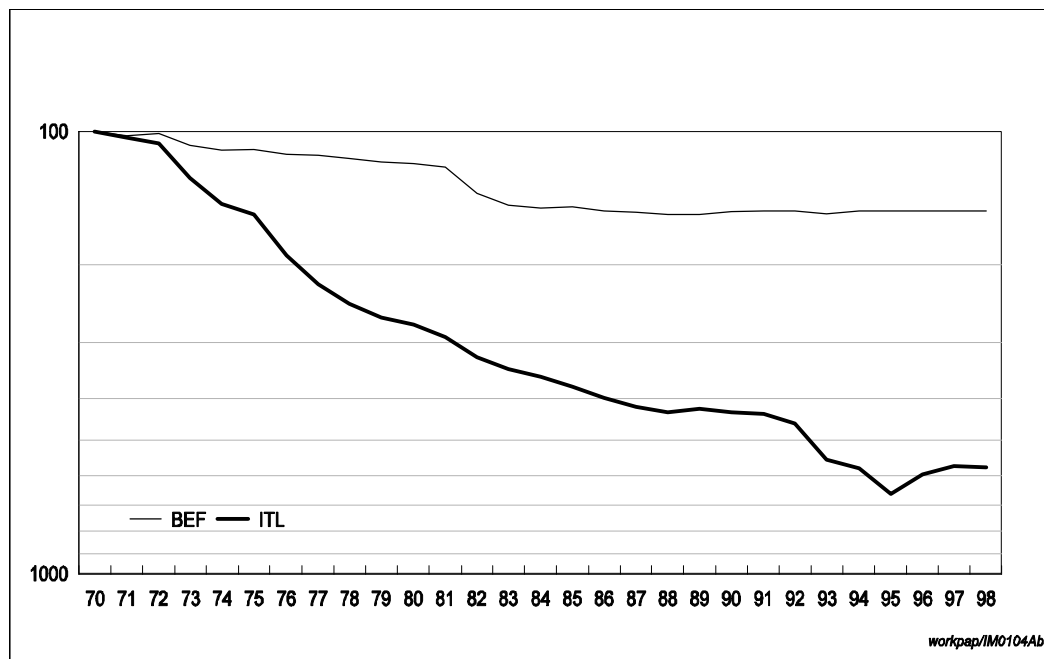
3.1 *Belgium*

During the whole period under consideration, Belgium participated in the European exchange rate arrangements, initially the Snake and later the Exchange Rate Mechanism of the EMS¹⁴. Belgium basically followed a stable exchange rate policy, with the exchange rate constituting a "vincolo esterno" for the Belgian economy (cf. Chart 1). Naturally, there have been shifts of emphasis in the Belgian exchange rate policy. So, in the early 1980s, a "stable" exchange rate was interpreted as a middle position in the EMS, while later the Belgian franc was "anchored" to the German mark.

¹⁴ When the Bretton Woods system broke down, on 21 August 1971, Belgium even concluded a special agreement with the Netherlands to limit the fluctuation margin between the guilder and the franc to 1.5 per cent. This formed the only fixed but adjustable parity mechanism in the EC until the launching of the snake in April 1972.

Chart 1 - Nominal exchange rate of the Belgian franc and the Italian lira against the German mark

(logarithmic scales, 1970 = 100)

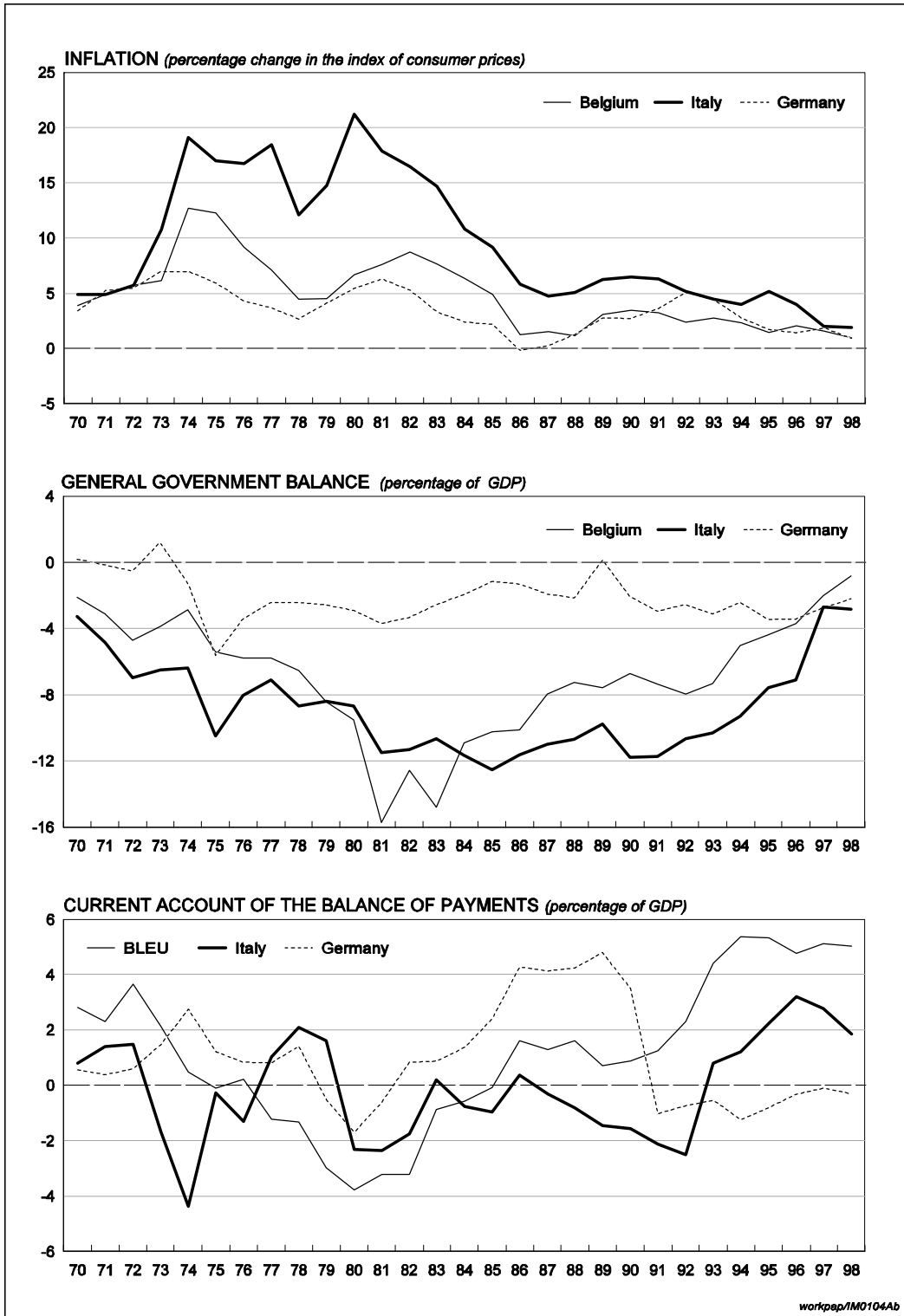


Source: NBB.

There were two crisis moments in the Belgian exchange rate policy: the early 1980s and the ERM crisis of 1993. The fundamental disequilibria in the early 1980s obliged the Belgian authorities to devalue the franc (cf. Chart 2). However, it is important to remark that the 1982 devaluation of the Belgian franc was conceived as a "never again" operation. During the ERM crisis the Belgian authorities successfully defended the exchange rate.

Overall, European exchange rate arrangements and EMU have been used by Belgian policy-makers as major arguments for the adoption and implementation of reforms. These were especially necessary to rectify the severe imbalances that had emerged in the Belgian economy in the late seventies and early eighties. While these measures were vital for the future of the Belgian economy and society at large, their European justification has been instrumental in gathering the necessary political support.

Chart 2 - Economic indicators for Belgium, Italy and Germany



Source: CEC.

The situation in Belgium was most serious at the beginning of the 1980s, when the Belgian economy hit rock-bottom: in 1981 the government budget deficit amounted to 16 pct. of GDP and the current account deficit to 4 pct. of GDP.

In 1982, under a new Christian Democratic-Liberal government, there was a radical reorientation of economic policy. At the core was a devaluation of the Belgian franc by 8.5 pct., a cut in real wages (with temporary suspension of the wage indexation mechanism), and, in a later phase, a budgetary tightening. This led to an improvement in the economic fundamentals, which enabled the Belgian authorities to pursue a gradually more ambitious exchange rate policy (Lamfalussy, 2000).

During realignment discussions in the mid-1980s Belgian policy-makers would only consent to ever smaller depreciations against the German mark (cf. Table 1). In January 1987, the position of the Belgian franc was the issue of rather bitter European discussions, as Belgium insisted on maintaining parity against the German mark, while France did not want to be isolated in depreciating against the German mark. Moreover, the Belgian authorities gradually also moved towards a strategy of keeping the Belgian franc well within the band and closer to the German mark, especially in order to influence market sentiment (Godeaux, 1989). This progressive strengthening of the exchange rate policy culminated in the Belgian authorities' decision, in June 1990, to peg the Belgian franc formally to the German mark.

Table 1 - An overview of the functioning of the exchange rate mechanism of the EMS

(from the start to January 1987, normal fluctuation margins of 2.25%)

Date	DEM	NLG	FRF	DKK	BEF/LUF	IEP	ITL ¹
24.09.1979	+2.0			-2.9			
30.11.1979				-4.8			
23.03.1981							-6.0
05.10.1981	+5.5	+5.5	-3.0				-3.0
23.02.1982				-3.0	-8.5		
14.06.1982	+4.25	+4.25	-5.75				-2.75
21.03.1983	+5.5	+3.5	-2.5	+2.5	+1.5	-3.5	-2.5
22.07.1985	+2.0	+2.0	+2.0	+2.0	+2.0	+2.0	-6.0
06.04.1986	+3.0	+3.0	-3.0	+1.0	+1.0		
04.08.1986						-8.0	
12.01.1987	+3.0	+3.0			+2.0		

¹ Fluctuation margin of 6%.

This exchange rate policy, with the Belgian franc anchored to the German mark, was also at the heart of the Belgian strategy to qualify for EMU. With this policy, and supporting budgetary and income policies, the price stability and long-term interest rate criteria would be attained without serious problems. The budgetary criterion remained Belgium's Achilles' heel (Brouhns, 1992).

The ERM crisis of 1993, when the Belgian franc also came under strong speculative pressure, struck at the core of the Belgian strategy. The storm on the foreign exchange market reached its height in October 1993, when the Belgian franc was quoted 7 pct. below its central rate against the mark.

The National Bank of Belgium strongly defended the exchange rate, applying all possible means. It increased the official rate from 6.7 pct. at the beginning of July to 10.5 pct. at the beginning of September. The Bank also intervened in the foreign exchange markets on a massive scale (to the tune of over 580 billion Belgian francs, or more than 8.5 pct. of GDP). In addition, the Belgian government relaunched its policies of budgetary restriction and wage moderation with the adoption of the "Global Plan for Employment, Competitiveness and Social Security", in November 1993. The plan modified the wage indexation mechanism, with the introduction of the so-called "health index". It also comprised budgetary measures totalling about 1 per cent of GDP¹⁵. The Belgian franc recovered and returned to its central parity against the German mark in January 1994.

3.2 Italy

The history of Italy's participation in European exchange rate mechanisms was rather eventful (cf. Table 2). Italy participated in the creation of the snake in April 1972, but the Italian lira soon withdrew in February 1973. The lira also joined in the ERM from the start in March 1979, but with a special fluctuation margin of 6 %. In January 1990 Italy entered the normal fluctuation margin of 2.25%. In September 1992, with the ERM crisis, the lira left the ERM, re-entering in November 1996.

In those circumstances it is no surprise that the role of the exchange rate as an instrument

¹⁵ This may not look very much, but Belgium basically followed a strategy of gradual budgetary adjustment, which had also started earlier than in Italy (cf. Cabral, 1996).

of economic policy has been a topic of intense discussions among policy-makers in Italy¹⁶.

A basic problem in Italy were the frequent divergences and inconsistencies between the various macroeconomic policies: fiscal policy, monetary and exchange rate policy and incomes policy (cf. Onofri and Tomasini, 1992 and Rossi, 1998).

Table 2 - Italian participation in the European exchange rate mechanisms

April 1972	Creation of the snake: Italy participates
February 1973	Italian lira leaves the snake
March 1979	Creation of the EMS: lira enters the ERM with a special fluctuation margin of 6%
January 1990	Fluctuation margin of the Italian lira is reduced from 6 to 2.25%
September 1992	Italian lira leaves the ERM
November 1996	Italian lira re-enters the ERM

Moreover, Italy's economic situation was evolving. In the second half of the 1960s the Italian lira was regarded as a strong currency. In 1969, the Italian authorities considered revaluing the Italian lira, together with the German mark. However, with the "hot autumn of 1969", the social and political climate changed in Italy, and more so than in other countries¹⁷. This contributed to inflationary pressures and a chronically weak balance of payments, undermining the Italian lira.

In the 1970s, the Italian authorities responded to the oil shock by letting inflation go up and allowing the exchange rate to depreciate (Giavazzi and Spaventa 1989). The weakening of the lira surpassed the inflation differentials, thus leading to a depreciation of the lira in real terms (cf. Chart 3).

In 1978, when the EMS and Italy's participation came on the agenda, the discussion heated up. While accepting that this was a political decision, senior policy-makers at the Bank of Italy, as well as many Italian economists, maintained that the ERM needed some "in-built flexibility" and had to be "realistic" (Masera, 1987a, Baffi, 1989). It was intended to attain an exchange rate system that could be adapted to Italy's "special conditions" and would contribute to the "convergence" of the Italian economy without imposing intolerable burdens. Indeed, senior policy-makers at the Banca d'Italia feared that the exchange rate

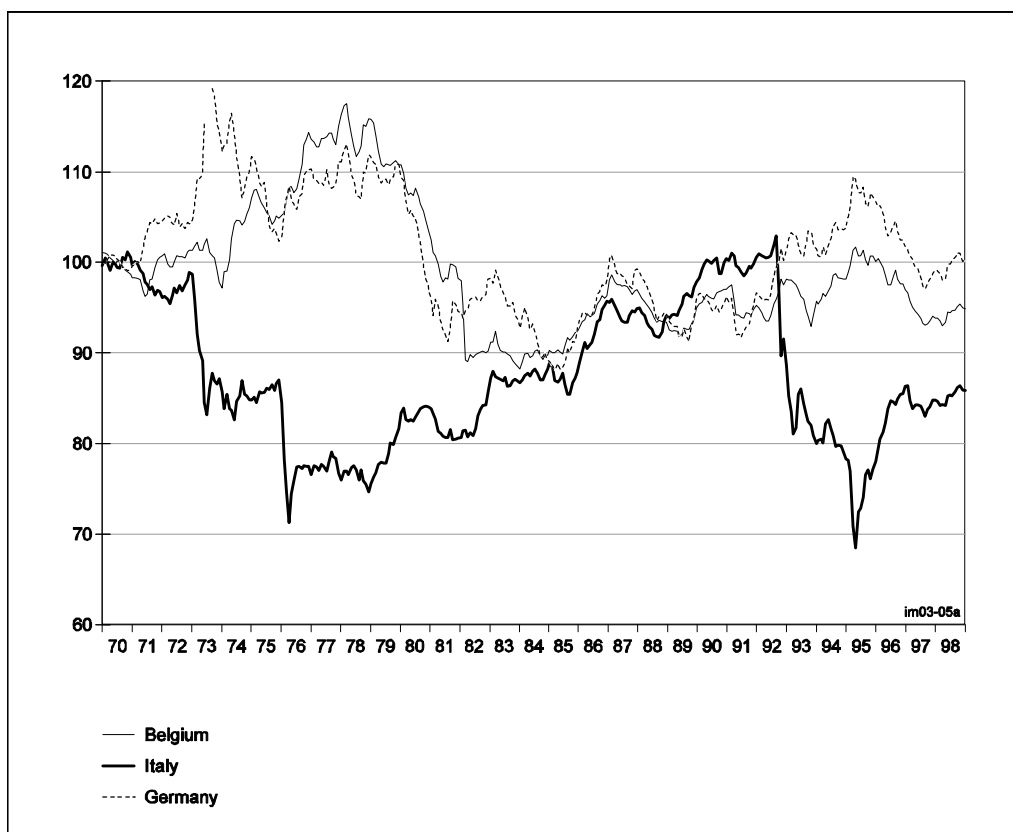
¹⁶ For an overview of the debates on money and credit in Italy, see Nardozi, 1993.

¹⁷ The changes in Italy were not only more extensive and pervasive than in other countries (e.g. terrorism), but also lasted much longer (Allum, 2000, 27).

system would not be supported by sufficiently convergent economic policies. If so, the lira would have to leave the ERM, as happened with the snake. This could constitute a threat to the credibility of the Banca d'Italia. So Baffi publicly stated that, the "fundamentals are too divergent and, therefore, the EMS cannot enjoy credibility" (Repubblica, 7 October 1978). Furthermore, in explaining his position on Italy's membership of the EMS, Baffi used to point out how unsettled the Italian situation was, often reminding his colleagues that "there are the Red Brigades out there"¹⁸.

Chart 3 - Real effective exchange rates of the Belgian franc, the Italian lira and the German mark

(on the basis of the index of consumer prices, index 1970 = 100, against 26 countries)



Source: BIS.

With the participation in the EMS in 1979, and under the governorship of Ciampi, a major shift in Italian exchange rate policy and monetary strategy occurred. This was further supported by changes in the domestic monetary policy framework which strengthened the

¹⁸ Moreover, several policy-makers, also at the Banca d'Italia, hoped that Great Britain would join, so that the lira would be less isolated.

position of the Banca d'Italia¹⁹. From the first half of the 1980s the realignments of the lira never fully compensated for the inflation differentials between Italy and the low-inflation countries within the ERM (Bini-Smaghi and Vona, 1988). Furthermore, from 1987 to 1992 no realignments took place. This led to an appreciation of the lira in real terms, reversing the exchange rate policy of the 1970s (Gaiotti and Rossi, 2003). The so-called "strong" exchange rate policy consisted in deploying the exchange rate as an "external constraint" in the domestic arena, where it was used to fight inflation by disciplining the trade unions and promoting industrial restructuring. It was also intended to obtain a more restrictive fiscal policy.

After the agreement on the Maastricht Treaty, the Italian authorities took significant measures to combat inflation and to improve the budgetary situation. In July 1992, the Amato government succeeded in completely abolishing the wage indexation mechanism (Sarcinelli, 1995, 401). As for fiscal policy, the initial budget, presented in June 1992, included significant measures, amounting to nearly 2 pct. of GDP.

The picture changed dramatically with the withdrawal of the lira from the ERM in September 1992. However, five days after the lira's exit from the ERM, even more drastic steps were taken, with budgetary measures amounting to 5.8 pct. of GDP. Thereafter, the budgetary adjustment process subsided.

The withdrawal of the lira from the ERM in September 1992, very much like Italy's exit from the snake in early 1973, constituted a major setback for Italy's policy towards EMU. It reversed the exchange rate policy followed by the Italian authorities during the 1980s. Yet, despite the sharp depreciation of the lira, inflationary performance and inflationary expectations improved, owing to the anti-inflationary incomes policy introduced since 1992 (Baldassarri et al., 1996).

The floating of the lira became an important element of the Italian strategy after 1992. It fostered an export-led boom which, in turn, sustained Italian economic growth in a phase of fiscal retrenchment and slow growth in the European Union. Yet, this choice was made for a variety of reasons, one being the lukewarm attitude of some countries towards the lira's re-entry into the ERM.

¹⁹ For instance, in 1981 the Bank of Italy was freed from the obligation to buy unsold Treasury bonds. It was the so-called "divorce" between the central bank and the Treasury. This increased the autonomy of the Bank in the conduct of monetary and exchange rate policy. For an overview of the development of the institutional framework of Italian monetary policy, see Passacantando (1996).

The lira re-entered the ERM in November 1996, which was essential to fulfil the convergence criteria. There were intense discussions on the new parity of the lira, in which Ciampi, then finance minister, and Tietmeyer played a leading role.

3.3 Comparison

Belgium and Italy shared several economic weaknesses, be it to different degrees. During the 1970s and 1980s, Belgium and Italy were two of the countries with the most pronounced wage indexation mechanisms, making the economies prone to wage-price spirals. In the early 1990s, in both Italy and Belgium, the wage indexation mechanisms were dismantled or modified. Belgium and Italy also had a tradition of weak public finances. As regards politics, for most of the period under consideration, both countries had systems of proportional representation. This contributed to a more fragmented political party system, coalition governments and government instability, an important factor behind the chronic budget deficits (cf. Annex 1).

For most of the period under consideration, however, the exchange rate played a very different role in macroeconomic policy in Belgium, compared to Italy. Throughout the whole period, Belgium participated in the European exchange rate arrangements and basically followed a stable exchange rate policy. At the beginning of the 1980s, when the competitive position of the Belgian economy had become unsustainable, the Belgian authorities decided on a once and for all devaluation backed by accompanying policies. Italy only participated in European exchange rate arrangements for about half of the period under consideration. These differences in the degree of participation in European exchange rate arrangements can be explained by wide variations in economic performance, especially in terms of inflation (cf. Chart 1).

4. KEY CONCEPTS AND CONTRIBUTIONS

This section will pay attention to the basic vision of Belgium and Italy on EMU and the way of achieving it, as well as to the main concrete contributions in the EMU process²⁰.

4.1 *Belgium*

In regard to European monetary integration, Belgium has been a "consistent demandeur" and has played a pace-setting role. As in many other areas, it was usually a close ally of the European Commission. One of its constant concerns was to keep EMU on the agenda.

4.1.1 *A supranational and symmetric EMU*

The basic blueprint of the Belgian vision of the structure and functioning of EMU can be found in the Belgian plan for EMU of January 1970: "A three-stage plan for European monetary solidarity: 1971-1977"²¹.

The ultimate aim, as adopted at the Hague Summit of December 1969, was the creation of a "European monetary community". For this, two conditions had to be fulfilled: the unification of economic policies and a certain homogeneity of the economies of the Member States. This homogeneity referred not only to a degree of institutional homogeneity, but also to an absence of marked differences in the economic and social systems.

Major institutional reforms were necessary for the final phase. The creation of new supranational Community institutions was crucial, implying a revision of the Rome Treaties²². EMU revolved around two axes: first, a "Community Monetary System", like the Federal Reserve System in the United States, and, second, a kind of economic government, "of Community institutions endowed with the necessary powers to pursue a single economic policy"²³. Economic policy was defined as encompassing budgetary and

²⁰ Contributions to the process of European monetary integration can also be considered in the light of three main roles assumed by policy-makers: (i) "providers" of influential ideas and concepts for the overall design of the EMU project, which were instrumental in pushing the process ahead; (ii) "policy entrepreneurs", who put forward concrete proposals to provide a new impetus to the process; (iii) "skilful negotiators" who helped to achieve successful outcomes in key episodes of the process.

²¹ "Un plan de solidarité monétaire européenne en trois étapes 1971-1977" (Ministère des Finances, 1970).

²² In this respect there was a clear difference in comparison with the French position of 1970, as Pompidou was against the creation of supranational European institutions.

²³ "d'organes communautaires dotés des pouvoirs requis pour la poursuite d'une politique économique unique".

income policies. For budgetary policy, the new Community institutions would establish the general framework within which the Member States had to conduct their budgetary policy. Moreover, the Community budget should gradually gain in importance.

When later on, during the Maastricht Treaty negotiations, the idea of a "gouvernement économique" was launched by France and the Commission, the Belgian government gave its wholehearted support to it (Maystadt, 1998). Greater decision-making power for the ECOFIN Council was regarded as important both to strengthen the economic side, and as a counterbalance to the monetary side, which was based on a unified monetary policy. However, the concept was not adopted under the Treaty. Economic policy remained in essence a national matter, leading to an asymmetric EMU²⁴. But this debate contributed to Article 99 (ex article 103) of the Treaty, which provides for the annual Broad Economic Policy Guidelines of the Member States and the Community. Also, the Belgian authorities had favoured a Maastricht Treaty with a stronger social dimension and, in order to remedy the democratic deficit, a stronger role for the European Parliament.

*4.1.2 Parallelism with a monetarist emphasis*²⁵

The "monetarist emphasis" in the Belgian integration strategy cannot be denied if this means that monetary cooperation and integration can act as a catalyst for economic convergence, and that there is therefore no need to wait for complete convergence to be attained, as "economists" would prefer (see, e.g., Ansiaux, 1970; Smets, Maes & Michielsen, 2000; Ungerer, 1997, 103).

Exchange rate stability has been central to Belgium's moves to promote European monetary cooperation. The Belgian plan of 1970 proposed that, in the first stage, the fluctuation margins should be progressively reduced and that changes in parity could only be adopted by common agreement.

²⁴ Senior German policy-makers admit that there was some contradiction in the German negotiation position, with Germany being against a "gouvernement économique" but in favour of restraints on national budgetary policies. Waigel's political problems in Bavaria were mentioned as an element in the explanation.

²⁵ The debate between the "monetarists" and the "economists" came clearly to the foreground in the Werner Committee, where there were heated discussions about the priorities on the path to EMU. The "monetarists", with France as a dominant player, were in favour of plans for greater exchange rate stability and exchange rate support mechanisms. They saw a driving role for monetary integration in the process of European integration. The "economists", under the leadership of Germany, emphasised the coordination of economic policies and the convergence of economic performances, especially inflation, as a precondition for EMU. According to their view, the so-called coronation theory, monetary union could only be the last and crowning phase in the process of economic integration

A second area in which Belgium has been active - and one which is closely related to exchange rate cooperation - pertains to the mechanisms of monetary solidarity (official credit and settlement facilities). The basic idea was that such mechanisms not only promoted mutual monetary cooperation, but - by showing a collective stance - were also a more efficient way of averting currency speculation than isolated national measures.

As chairman of the expert committee of the Werner group, the then governor of the National Bank of Belgium, Hubert Ansiaux, left his mark on the proposals designed to elaborate mutual support mechanisms (Werner, 1991, 24). Belgium later favoured granting the European Fund for Monetary Cooperation (EFMC) sufficient powers and resources to allow a real coordination of monetary policy from the very outset (Vlerick, 1974, 13)²⁶. At the time of the EMS, the Belgian representatives continued to focus on strengthening the Community credit mechanisms.

Belgium's "monetarist" orientation also came to the fore during the Maastricht Treaty negotiations, when the Belgian government pressed for the inclusion of deadlines in the Treaty, in order not only to ensure definite action in the process of deciding on the launching of EMU, but also to provide a catalyst for meeting the convergence criteria.

Although it took this "monetarist" view, Belgium joined the consensus on the need for parallel progress in the economic and monetary areas (de Strycker, 1970, 21). Apart from parallelism as a compromise solution, the Belgian authorities were convinced that monetary cooperation was not sustainable without sound economic fundamentals and economic convergence. Coordination of economic policy had to make a contribution in this respect, not only by recommending suitable policy measures to Member States, but also by enhancing their effectiveness through the mutual coordination of national measures.

When, in November 1995, Germany proposed a "Stability Pact for Europe", Belgium immediately reacted positively. However, the Belgian finance minister, Philippe Maystadt, also stressed the need to supplement the budgetary stability pact by a "monetary stability pact". This would focus on the exchange rates between the single currency area and the other Member States of the EU (Maystadt, 1996, 10). Here he was drawing on an old and fundamental Belgian idea, namely that exchange rate stability is important in a single

²⁶ The European Monetary Cooperation Fund was established in 1973 by the central banks of the Member States taking part in the Snake.

market. Moreover, this could also help the convergence process in the other Member States. The ensuing discussions led to the creation of a new exchange rate mechanism, the so-called ERM2 (Brouhns, 1997, 53).

4.1.3 Scope for a multi-speed Europe

The concept of a multi-speed Europe was controversial and highly sensitive. The official debate on this strategy was triggered by the Tindemans Report, submitted at the December 1975 European Council.

The Tindemans Report was written at a time when, in view of increasing economic and monetary divergences within the Community, the atmosphere was not right for relaunching EMU. It defined for the first time the elements of a multi-speed integration. Member States that were in a position to make progress had to be able to do so without waiting for the ones which were lagging behind (Tindemans, 1976, 27). The latter would receive the necessary assistance and be judged on their performance by the competent Community institutions with a view to catching up. The Snake was to provide the primary framework here, becoming the pivot of the new strategy subject to greater co-ordination of economic and monetary policy (Rey, 1994, 32).

Such a two- or multi-speed strategy must not be confused with a Europe "à la carte" in which various countries would aim at various objectives. The objectives remained the same for every country but could be achieved at varying rates. In order to safeguard unified objectives, the process would have to continue within the Community's legal framework. This also implied that the Community institutions should not be left out (as was the case for the Commission in the Snake), but should remain involved and exercise their powers.

Initially, the idea of a multi-speed strategy was treated with quite widespread scepticism, because of fears that the Community would disintegrate. Gradually, it gained more acceptance and was applied successfully in the EMS and the Maastricht Treaty (de Schoutheete, 1997, 105).

4.1.4 Concrete contributions

Belgium also provided several concrete contributions to the EMU process. The negotiations on the monetary dimension of the Single European Act in 1985 were an important moment. This was the first major revision of the Rome Treaties. While EMU could not be an immediate objective, it was crucial that the Treaties should mention the "acquis communautaire" in monetary matters (EMU as an aim of the Community, the EMS and the ecu). Belgium carefully prepared its proposals, manoeuvred to prevent the Commission becoming isolated, and negotiated hard and tenaciously on this issue (de Ruyt, 1989). At the time of the Delors Report, this would become a crucial stepping stone for further progress on EMU.

Belgian officials also played an important role in brokering compromises and furthering consensus²⁷. Belgian monetary diplomacy, often together with Luxembourg, was very much focused on stimulating a Franco-German understanding which promoted the process of European integration. When the Rome Treaty was being negotiated, the exchange rate was already a topic of turbulent debates. According to Van Tichelen (1981, 340), one of the Belgian negotiators, one of the main points of disagreement was whether it should be a national or a Community competence. The Belgian delegation, inspired by a Commonwealth formula, proposed that "Each Member State shall treat its policy with regard to exchange rates as a matter of common interest". It was an ambiguous formula, but it succeeded in placing the exchange rate in the area of competence of the Community. A further example was the Belgian contribution to the preparations for the EMS when Belgium was chairing both the Monetary Committee and the Committee of Central Bank Governors (Ludlow, 1982, 165). The Belgian idea of the "divergence indicator" opened the way for an agreement on the EMS resolution of December 1978, even if the instrument was subsequently hardly used. Another example is the Belgian proposal, during the intergovernmental conference on the Maastricht Treaty, to call the new institution of the second stage, the "European Monetary Institute" (Schönfelder and Thiel, 1996, 132). It was instrumental in bridging the differences between France, proposing the creation of the European Central Bank, and Germany, in favour of a "Council of Presidents of Central Banks".

²⁷ Coming from a small country, Belgian policy-makers have been obliged to take greater account of the point of view of the other players. Moreover, living in a multicultural and multilingual country, they were also much more used to negotiating with persons from a different background.

Later, in the implementation of the Maastricht Treaty, Belgium played a creative and pace-setting role in the preparations for the euro scenario, as approved at the Madrid Summit of December 1995 (Smets, Michielsen & Maes, 2002). In the summer of 1996, Belgium further adopted a "Schéma national de la place", which contained the main lines for the transition to the euro for the financial sector. It was also decided to create a "General Commission for the Euro", in charge of encouraging and coordinating the changeover to the euro. This allowed Belgium to play a creative and pace-setting role in the preparations for the so-called cash changeover, as is clearly apparent in the Commission's "Report on the Preparations for the Introduction of the Euro Notes and Coins" (CEC, 2001).

4.2 Italy

While Italy has been consistently in favour of a supranational EMU, its role on the European monetary scene has changed over time. The heyday was in the late 1980s and early 1990s, when Italian policy-makers played an important pace-setting role in the EMU process.

4.2.1 A supranational EMU

A constant feature of the Italian approach to European monetary integration – and to European integration in general – has been a supranational vision. Already at the time of the Werner Report, Colombo, the Italian finance minister and a convinced European federalist, was in favour of substantial progress towards EMU.

At the Ecofin meeting of 23 and 24 February 1970, Colombo structured his presentation in accordance with the Belgian plan. Generally, he was in agreement with it: "We agree broadly with the analysis and assessment in that plan"²⁸. In particular, he agreed with the creation of Community institutions which would become responsible for a unified economic policy and a European Federal Reserve System, also stressing that this presupposed a step in the political organisation of the European Community.

²⁸ "Noi concordiamo largamente con l'analisi e la valutazione in detto piano" (Colombo, 1970, 236). The text of Colombo's intervention was published in *Bancaria* (Colombo, 1970).

4.2.2 From an 'economist' to a 'monetarist' approach

As for the road to EMU, according to several observers, Italy initially tended towards an "economist" position. For example, Tsoukalis situates Italy with Germany and the Netherlands, pointing out that the Italian authorities opposed the introduction of the EMCF (Tsoukalis 1977, 97, 109). Werner, in contrast, considered Stammati, the Director-General of the Italian Treasury and the Italian member of his Committee, as one of the members of the monetarist group (Werner, 1991, 124)²⁹.

Guido Carli, the Governor of the Banca d'Italia, clearly took economist positions. In an article published in *Euromoney* in 1970, he espoused the coronation theory, arguing that the creation of a European currency should be "the culminating act of a sequence through which political and economic unification were achieved". Also, in a paper for Jean Monnet's Action Committee for the United States of Europe, Carli had previously taken a cautious approach, stressing the need for economic convergence and advocating a gradual approach, based on a "crawling peg" (Carli, 1969)³⁰.

At the Ecofin meeting of 23 and 24 February 1970, according to the Belgian minutes, the position of Italy was "full of nuances" and tended towards the centre, between Belgium, Luxembourg and France, the "unrepentant optimists", and Germany and the Netherlands, characterised by a "positive cautiousness" (Note X/CEE/620/34160, 26/2/1970, Archives Snoy, Map 5.3.12.8.2).

Table 3 - Positions at the time of the Hague Summit

Monetary cooperation in the first stage	A supranational EMU		
	Reluctant	Cautiously positive	Favourable
Reluctant		Germany Netherlands	Italy
Favourable	France		Belgium Luxembourg

²⁹ Naturally, one can ask the question whether it was a coincidence that Stammati, who was close to Colombo, became the Italian member of the Werner Committee.

³⁰ Carli (1993, 227) described his paper as "rather different" (*assai diverso*) from the Werner Plan. Carli also wanted to avoid that the United Kingdom would not be able to participate in the EMU project or that a strengthening of European integration would be at the expense of the relations with the United States (Carli, 1993, 228 and 230).

Italy's position was certainly complex and subtle (see also Segreto, 2002). Part of the explanation is that it favoured an economic and monetary union with strong supranational institutions, as did Belgium and Luxembourg, a stance which was in line with Italy's traditional position on European integration. But, at the same time, Italy and especially Carli, the Governor of Banca d'Italia, was more cautious and reserved towards immediate concrete initiatives, as were Germany and the Netherlands (cf. Table 3).

At the Ecofin meeting of 23 and 24 February 1970, Colombo, the Italian finance minister, was cautious, but also very subtle, about the transitional phases. He was rather reluctant about the idea of narrowing exchange rate fluctuation margins, given the differences in economic policies. However, he also warned that a widening of the fluctuation margins could not be compatible with the functioning of the Community, especially the Common Agricultural Policy (Colombo, 1970, 237). He also argued strongly in favour of considering a crawling peg system, an earlier proposal by Carli. However, Colombo could envisage a European Reserve Fund, especially for medium-term operations.

The debates on European monetary integration in Italy were rekindled in 1978, when the creation of the EMS was being discussed. Some Italian policy-makers, in particular at the Bank of Italy, feared that the exchange rate system would not be supported by sufficiently convergent economic policies. If so, the lira would have to leave the ERM, as happened with the snake. They pointed out that the EMS needed some "in-built flexibility" to take into account Italy's "special conditions" (Baffi, 1989). Italian policy-makers further supported more symmetric monetary arrangements. After Italy's experience with the "asymmetric" Snake, Italian policy-makers, pleaded for a more "symmetric" EMS, as well as some flexibility in the system (Masera, 1987a). During the negotiations, they advocated three main points: i) wider fluctuation bands; ii) the indicator of divergence; and iii) parallel measures for the less prosperous economies, although this was regarded as less important.

From the early 1980s, Italian policy-makers clearly sided with the monetarist group, together with France, Belgium and the Commission. The participation in the exchange rate mechanism of the EMS in 1979, marked a turning point. Moreover, Governor Ciampi and some of his closest aides, such as Padoa-Schioppa, became strongly in favour of exchange rate cooperation within the EU and of Italian membership of the EMS³¹. They

³¹ For a comparison of the monetary policy of Carli, Baffi and Ciampi, see Panico, 1998, 155.

also favoured an institutional development of the EMS, with the creation of a European Monetary Fund in a second phase.

Italy's growing assertiveness in European monetary matters was clearly in evidence in the Amato memorandum, in which the asymmetric functioning of the ERM was brought to the fore³². The Amato memorandum argued that the fundamental problem of the EMS was the lack of an "engine of growth". The argument went that the EMS had an in-built deflationary bias, as the German Mark was undervalued and German domestic demand was lower than the EU average. This created a surplus on the German current account and reduced the growth potential in the other EMS countries. According to the memorandum, the system should single out the divergent countries in both directions and all countries should share the burden of adjustment.

The Amato memorandum also called for an "institutional phase" of the EMS. The first concrete step would be to strengthen the functions of the EMCF by creating a mechanism for collecting and recycling funds in the market to compensate for capital movements resulting from capital liberalisation in the EU. It also proposed a common policy vis-à-vis third country currencies and an increased role for the ECU in exchange rate interventions. Ultimately, EMU was seen as a way to address the asymmetric functioning of the EMS and to have a say in European monetary policy (Amato, 1988).

Italy's monetarist approach also came to the fore in Ciampi's contribution to the Delors Report, with a proposal for an institutional scheme for a common monetary policy (Ciampi, 1989). The aim was to establish a framework to ensure that the differing national monetary policies would be operationally merged into one policy.

Later, throughout the negotiations for the Maastricht Treaty, the adequacy of the institutional arrangements for the transitional stage to EMU and, in particular, for the stage two institution, were cause for constant concern for the Italian negotiators. Thus, the Bank of Italy issued a paper "The functions of the European central bank in the second phase of EMU", while a joint paper by the Bank and the Ministry of Finance outlined "A blueprint for stage two of EMU".

³² In February 1988 Giuliano Amato, Treasury Minister, sent a memorandum to his ECOFIN colleagues under the title of "An Engine of Growth for the EMS" (Amato, 1988).

4.2.3 Concrete contributions

Contributions by Italian policy-makers to EU negotiations, and their pro-active stance in key episodes, tended to be concentrated in the 1980s and early 1990s, the period when Italy participated in the ERM.

Initially, Italian policy-makers sought to improve the functioning of the EMS. Thus, the Italian authorities supported the Commission's attempts to improve the functioning of the EMS in the early 1980s³³. Likewise, as long as monetary union seemed impracticable at the official level, Italian policy-makers turned to the market in an attempt to further the process of monetary integration, and proposed an increased role for the ecu, in particular the private ecu (Padoa-Schioppa, 1992, XVIII, Masera, 1987b, Amato, 1988)³⁴.

Italian policy-makers played an important role in the relaunching of the EMU process in the second half of the 1980s and in the negotiations concerning the Maastricht Treaty. An example is the role of Padoa-Schioppa as the co-rapporteur of the Delors Committee, which provided the blueprint for the EMU negotiations. Padoa-Schioppa played a major role in the drafting of the report (Dyson and Featherstone, 1999, 502). A second example is the Italian Presidency of the EC in 1990 and how the agenda-setting powers and other prerogatives of the Presidency were used by Italian representatives. The Conclusions of the Rome European Council of October 1990, which paved the way for the IGC, were very much the result of Italian diplomatic manoeuvring (Marshall, 1999, 354-55). A third example was the proposal to set a final deadline for EMU in the TEU. This provision was agreed at the last minute at the Maastricht European Council in December 1991, and Italian policy-makers are often credited with the idea (Dyson and Featherstone, 1999, 517-18).

4.3 **Comparison**

Belgium and Italy both played an active role in the debate on European monetary integration in policy-makers' circles, be it to different degrees. They advocated a supranational EMU and, typically, a monetarist approach towards it. A major difference between the two countries was that the Belgian vision was developed in much more detail.

³³ At that time Padoa-Schioppa was the Director General of DG II (Economic and Financial Affairs). It is noteworthy that, until recently, the Director-General of DG II has always been an Italian (Maes, 1996).

³⁴ Belgian policy-makers were much more reluctant to support an increased role for the private ecu, as they feared that this could threaten the credibility of Belgium's exchange rate policy (Michielsen, 1986).

Moreover, the vision remained basically unchanged from the 1970s, when the first Belgian EMU plan was submitted, to the 1990s. In Italy there was not such a uniform and coherent view throughout this period. Italian policy-makers were mainly active during the 1980s and early 1990s. They also tended to be more critical towards the German dominance of the EMS, as in the Amato Memorandum³⁵.

³⁵ Belgian policy-makers had less reason to be critical, as the Belgian economy and business cycle were more in line with Germany's. Moreover, they were very well aware that criticism of the Bundesbank could be harmful to the credibility of the Belgian franc exchange rate policy.

5. CONCLUSION

This paper analyses and compares the role that Belgium and Italy have played in the EMU process. Belgium and Italy were both founding Member States of the European Communities and shared a strongly pro-European attitude. In EMU matters they favoured a supranational EMU. Moreover, they typically belonged to the "monetarist" camp, pushing for closer monetary and exchange rate cooperation. For both countries, exchange rate stability was important: to further the process of European integration, as an external constraint on domestic policies and as a crucial condition for securing influence on the European monetary scene.

Overall, Belgium and Italy played a pace-setting role in the EMU process. Belgian and Italian policy-makers contributed to several concepts and ideas which would be influential in the monetary integration process. The "Plan Snoy", which contained a well-developed blueprint for EMU and the path towards it, proved to be very influential at the time of the Hague Summit and the Werner Committee. The concept of a multi-speed Europe, as put forward in the Tindemans Report, was important to keep monetary integration on the agenda in the 1970s, and figured prominently in the Maastricht Treaty. Italy presented proposals for expanding the role of the ECU, contributing to the development of the private ECU market. Belgian and Italian policy-makers also acted as "policy entrepreneurs", putting forward concrete proposals. A typical example was the Belgian idea of the "divergence indicator", which opened the way for an agreement on the EMS. Ciampi, in his contribution to the Delors Report, developed a proposal for an institutional scheme for a common monetary policy. Belgium played a creative role in the preparation of the euro scenario, adopted at the Madrid European Council in December 1995 and in the preparations for the so-called cash changeover. Lastly, both the Belgians and the Italians were, at several instances, skilful negotiators. With its proposal for a monetary dimension in the Single European Act, Belgium prevented the Commission from becoming isolated and thus from being compelled to withdraw on this issue. Belgium also proposed the name "European Monetary Institute", a compromise name for the institution for the second stage, acceptable to both France and Germany. The Italian presidency succeeded in launching the IGC on EMU and giving it a broad agenda, outmanoeuvring Thatcher at the Rome European Council.

However, there were also significant differences between Belgium and Italy. Belgium has been a constant and consistent "pace-setter" in monetary matters, from the preparation of

the Hague Summit to the design of the EMS, the monetary chapter in the Single European Act and the realisation of EMU. Its closest ally was the Commission, with which it shared the fundamental aim of a more integrated and federal Europe. Italian policy-makers mainly played a role in the EMU process in the 1980s, with the Rome European Councils in 1990 as a high point.

To a large extent, these divergences in the Belgian and Italian approaches can be explained by political, social and economic differences. In Belgium it is difficult to find any significant divergence from the consensus on European integration and EMU. The objective of a stable exchange rate policy was never seriously questioned. In Italy, there were at times ambivalent attitudes towards European integration. For instance, before the "historic compromise" in the 1970s, the Italian Communist Party, the second largest party in those years, was reluctant about European integration. Furthermore, the Italian economy was less stable and the situation was often worsened by acute social tensions. Moreover, the objective of a stable exchange rate was often questioned in Italy. Indeed, there were serious discussions among Italian policy-makers as to the wisdom of participating in European exchange rate mechanisms, as the Italian economy had recurring difficulties with high inflation and balance of payment deficits.

On a more general level, the study shows the importance of a stable exchange rate during the process of European monetary integration. From a domestic point of view, a stable exchange rate has played a crucial role as a disciplining device, a "vincolo esterno". Moreover, from an external point of view, a stable exchange rate was crucial in order to have influence on the European monetary scene and in the design of the EMU project. With its stable exchange rate policy, Belgium therefore was a continuous pace-setter in EMU matters, while Italy was mainly influential in the 1980s and in the early 1990s, when the lira was in the ERM. This also shows the fundamental changes which EMU implies. The exchange rate as a disciplinary device has been replaced by a new economic policy regime based on close coordination of economic policies. Moreover, the disappearance of exchange rates in the euro area marks an important change in the determinants of influence on the European monetary scene.

ANNEX – Governments' attributes in the European Union

Countries	Types of government (a)			Government durability (b)	Political stability (c)
	Maj.	Coa.	Min.		
Austria	39.0	58.5	2.4	2.67	40.0
Belgium	9.8	90.2	0.0	1.43	10.0
Denmark	0.0	34.1	65.9	2.11	5.7
France	41.5	39.0	19.5	1.29	2.5
Germany	9.6	90.0	0.0	2.00	20.0
Greece (d)	91.2	5.9	2.9	0.97	4.0
Ireland	65.9	24.4	9.8	1.90	5.0
Italy	0.0	95.1	4.9	0.95	10.0
Netherlands	0.0	100.0	0.0	3.33	6.7
Portugal (e)	26.7	53.3	20.0	1.48	5.0
Spain (f)	50.0	35.7	14.3	2.00	20.0
UK	92.7	0.0	7.3	4.00	8.0

- (a) Maj. = single party majority, Coa. = coalition majority, Min. = Minority (coalition or single party).
The number in each column refers to the percentage of years in which the government was of each of the three types, out of the years of democratic regime between 1950 and 1990. The type is defined with reference to the lower house.
- (b) Durability of the executive between 1950 and 1990 (average number of years).
- (c) Average number of years between "significant" government changes in the period 1950-89.
- (d) Dictatorship between 1967 and 1973.
- (e) Dictatorship until 1973. New democratic constitution in 1976.
- (f) Dictatorship until 1974. First democratic election in 1977.

Source: Grilli, Masciandaro & Tabellini, 1991, 365.

REFERENCES

- Allum P., 2000, Italian Society Transformed, in P. McCarthy (ed.), *Italy Since 1945*, Oxford: O.U.P., pp. 10-41.
- Amato G., 1988, Un motore per lo SME, *Sole 24 Ore*, 25 February.
- Ansiaux H., 1970, *L'Avenir Monétaire de la C.E.E.*, Société Royale d'Economie Politique de Belgique, 5 November, no 351.
- Baffi P., 1978, I Cambi: Ieri, Oggi e Domani, *Bancaria*, 8, August.
- Baffi P., 1989, Il Negoziato sullo SME, *Bancaria*, 1, January.
- Baldassarri M., F. Castiglionesi and F. Modigliani. 1996, *Il Miracolo Possibile*, Laterza, Bari.
- Beyers J. and B. Kerremans, 2001, Diverging Images of Consensus, Belgium and its Views on European Integration, mimeo.
- Bini-Smaghi L. and S. Vona, 1988, Economic Growth and Exchange Rate in the EMS: their Trade Effects in a Changing External Environment, in F. Giavazzi, S. Micossi. and M. Miller, (eds), *The European Monetary System*, Cambridge University Press, Cambridge.
- Börzel T., 2002, Pace-Setting, Foot-Dragging and Fence-Setting: Member State Responses to Europeanization, *Journal of Common Market Studies*, Vol. 40, No 2, pp. 193-214.
- Brouhns G., 1992, L'Union Economique et Monétaire, *L'Union Européenne après Maastricht*, Brussels: ULB and GEPE, p. 78.
- Brouhns G., 1997, Union Economique et Monétaire. Bilan du Conseil Européen de Dublin, *La CIG et l'UEM après Dublin*, Brussels: ULB and GEPE.
- Cabral A. 1996, Facing Similar Budgetary Problems, The Response in Ireland, Italy and Belgium, *Bulletin de Documentation*, Vol.8, no 2, pp. 291-320.
- Carli G., 1969, Problemi dell'Adesione della Gran Bretagne al Mercato Comune relativamente alle questioni monetarie, *Bancaria*, June, pp. 768-772.
- Carli G., 1993, *Cinquant' Anni di Vita Italiana*, Laterza, Roma.
- Ciampi C., 1989, 'An Operational Framework for an Integrated Monetary Policy in Europe', in *Collection of papers. Committee for the Study of Economic and Monetary Union* (Delors Report).

- Colombo E., 1970, Premesse e prospettive dell'integrazione monetaria europea, *Bancaria*, no 2, p. 235-238.
- Commission of the EC, 2001, *Report on the Preparations for the Introduction of Euro Notes and Coins*, COM/2001/0190final*, April.
- de Ruyt J., 1989, *L'Acte Unique Européen*, 2e éd., Brussels, Editions de l'Université de Bruxelles.
- de Schoutheete Ph., 1997, *Une Europe Pour Tous*, Paris: Editions Odile Jacob.
- de Strycker C., 1970, *La Coopération Monétaire au Sein du Marché Commun*, Conférence du Centre d'Etudes Bancaires et Financières, Cahier no 160.
- Dyson K. and K. Featherstone, 1999, *The Road to Maastricht*, Oxford, Oxford University Press.
- Franck C., 1998, La Politique Européenne de la Belgique, *Res Publica*, Vol. XL, N° 2, p. 197-212.
- Gaiotti E. and S. Rossi, 2003, La politica monetaria italiana nella svolta degli anni '80, mimeo.
- Giavazzi F. and L. Spaventa, 1989, Italy: The Real Effects of Inflation and Disinflation, *Economic Policy*, 4, pp. 135-171.
- Godeaux J., 1989, The Working of the EMS: A Personal Assessment, *Collection of Papers. Committee for the Study of Economic and Monetary Union*, Luxembourg, pp. 201-208.
- Grilli V., D. Masciandaro & G. Tabellini, 1991, Institutions and Policies, *Economic Policy*, Vol. 15, Oct., p. 365.
- Gros D. and N. Thygesen, 1998, *European Monetary Integration*, 2nd edition, Longman.
- Issing O., 1996, *Europe: Political Union through Common Money?*, Occasional Paper, no 8, Institute of Economic Affairs.
- Lamfalussy A., 2000, Stratégie et Politiques Monétaires, *Reflets et Perspectives*, Vol. XXXIX, N° 1, pp 145-153.
- Ludlow P., 1982, *The Making of the European Monetary System*, London: Butterworth.
- Maes I., 1996, The Development of Economic Thought at the European Community Institutions, in A.W. Coats (ed.), *The Post-1945 Internationalization of Economics*, Duke University Press, Durham and London.
- Maes I., 2002a, *Economic Thought and The Making of European Monetary Union*. Cheltenham: Edward Elgar.

- Maes I., 2002b, On the Origins of the Franco-German EMU Controversies, Working Paper, n°34, Research Series, National Bank of Belgium, July, forthcoming in the *European Journal of Law and Economics*.
- Marshall M., 1999, *The European Central Bank*, Random House, London.
- Masera R., 1987a, *L'Unificazione Monetaria e lo SME*, Il Mulino, Bologna.
- Masera R., 1987b, An Increasing Role for the ECU, *Princeton Essays in International Finance*, 167, June.
- Maystadt Ph., 1996, EMU: The Obstacle Race to Success, *Economic and Financial Review*, vol. 3, no 1.
- Maystadt Ph., 1998, Peut-on avoir une Union Monétaire sans Gouvernement Économique?, *Bulletin de Documentation*, Vol. 58, N° 1, pp 1-25.
- Michielsen J., 1986, EMU, EMS and ECU: Europese en Belgische Aspecten, *Revue de la Banque, Bank- en Financieuzen*, pp. 27-33.
- Ministère des Finances (Belgique), 1970, Un Plan de Solidarité Monétaire Européenne en Trois Etapes, reprinted in Europe Documents.
- Nardozzi G., 1993, Moneta e credito: vent'anni di dibattito in Italia, *Moneta e Credito*, no 183, Settembre.
- Onofri P. & S. Tommasini, 1992, France and Italy: a Tale of Two Adjustment, in Barrell, R. *Economic Convergence and Monetary Union in Europe*, London, Sage.
- Ossola R., 1978, L'Italia e lo SME, *Bancaria*, 8, August.
- Padoa-Schioppa T., 1992, *L'Europa verso l'Unione Monetaria*, Einaudi, Torino.
- Panico C., 1998, Autonomia della Banca Centrale, Crescita e Occupazione, in *Costruiamo Insieme l'Europa*, Napoli: Università degli Studi di Napoli "Frederico II".
- Papadia F and F. Saccomanni, 1994, From the Werner Plan to the Maastricht Treaty, A. Steinherr (ed.), *European Monetary Integration*, London: Longman.
- Passacantando F., 1996, Building an Institutional Framework for Monetary Stability: The Case of Italy (1979-92), *BNL Quarterly Review*, 196, March, pp. 3-37.
- Quaglia L., 2002, *Italy and Economic and Monetary Union: Domestic Politics and EU Policy-making*, DPhil thesis, University of Sussex.
- Rey J.-J., 1994, Pros and Cons of a Two-speed Monetary Integration, *Essays in Honour of André Szász*, De Nederlandsche Bank, pp. 31-43.

- Rossi S., 1998, *La Politica Economica Italiana 1968-98*, Laterza, Roma.
- Sarcinelli M., 1995, Italian Monetary Policy in the '80s and '90s: The Revision of the Modus Operandi, *BNL Quarterly Review*, N° 195, December, pp.397-422.
- Sbragia A., 2001, Italy Pays for Europe: Political Leadership, Political Choice and Institutional Adaptation, in Caporaso, J., Green Cowles, M., Risse, T. (2001), *Transforming Europe: Europeanization and Domestic Change*, Cornell University Press, Ithaca.
- Schönfelder W. & E. Thiel, 1996, *Ein Markt - Eine Währung*, 2 Ed., Baden-Baden, Nomos.
- Segreto L., 2002, L'Italie et le Plan Werner, in *Le Rôle des Ministères des Finances dans la Construction Européenne*, Vol. I, Paris: CHEFF.
- Smets J., I. Maes & J. Michielsen, 2000, De EMU in Historisch Perspectief, in H. Ooghe, F. Heylen & R. Vander Venet (eds.), *EMU: dé Uitdaging*, ced. samson, Gent, pp 37-99.
- Smets J., J. Michielsen & I. Maes, 2002, Belgium and the Creation of the Euro, forthcoming in M. Dumoulin & G. Duchêne (eds.), *La Belgique et l'Europe du XX^e au XXI^e Siècle*, Brussels: P.I.E. - Peter Lang.
- Snoy J.-C., Archives, Kadoc, Leuven.
- Spaventa L., 1990, The Political Economy of European Monetary Integration, *BNL Quarterly Review*, 172, March.
- Szász A., 1999, *The Road to European Monetary Union*, London, MacMillan Press.
- Tindemans L., 1976, *L'Union Européenne*, Ministère des Affaires Etrangères, Textes et Documents, no 306.
- Tsoukalis L., 1977, *The Politics and Economics of European Monetary Integration*, London, Allen & Unwin.
- Ungerer H., 1997, *A Concise History of European Monetary Integration*, Westport: Quorum Books.
- Vannicelli P. 1974, 'Italy, Nato and the EC: The Interplay of Foreign and Domestic Politics, *Harvard Studies in International Affairs*, 31.
- Van Tichelen J., 1981, Souvenirs de la Négociation du Traité de Rome, *Studia Diplomatica*, vol. 34, no 1-4, p. 340.
- van Ypersele J. and J.-C. Koeune, 1989, *Le Système Monétaire Européen*, 3e éd., Luxembourg.

Vlerick A., 1974, *Monetaire Hervorming en Europese Integratie*, Scriptoria, Antwerpen.

Wallace H., 2001, Exercising Power and Influence in the European Union: The Roles of the Member States, paper presented at the 2001 ECSA conference.

Werner P., 1991, *Itinéraires Luxembourgeois et Européens*, Editions Saint-Paul.

NATIONAL BANK OF BELGIUM - WORKING PAPER SERIES

1. "Model-based inflation forecasts and monetary policy rules" by M. Dombrecht and R. Wouters, *Research Series*, February 2000.
2. "The use of robust estimators as measures of core inflation" by L. Aucremanne, *Research Series*, February 2000.
3. "Performances économiques des Etats-Unis dans les années nonante" by A. Nyssens, P. Butzen, P. Bisciari, *Document Series*, March 2000.
4. "A model with explicit expectations for Belgium" by P. Jeanfils, *Research Series*, March 2000.
5. "Growth in an open economy: some recent developments" by S. Turnovsky, *Research Series*, May 2000.
6. "Knowledge, technology and economic growth: an OECD perspective" by I. Visco, A. Bassanini, S. Scarpetta, *Research Series*, May 2000.
7. "Fiscal policy and growth in the context of European integration" by P. Masson, *Research Series*, May 2000.
8. "Economic growth and the labour market: Europe's challenge" by C. Wyplosz, *Research Series*, May 2000.
9. "The role of the exchange rate in economic growth: a euro-zone perspective" by R. MacDonald, *Research Series*, May 2000.
10. "Monetary union and economic growth" by J. Vickers, *Research Series*, May 2000.
11. "Politique monétaire et prix des actifs: le cas des Etats-Unis" by Q. Wibaut, *Document Series*, August 2000.

12. "The Belgian industrial confidence indicator: leading indicator of economic activity in the euro area?" by J.-J. Vanhaelen, L. Dresse and J. De Mulder, *Document Series*, November 2000.
13. "Le financement des entreprises par capital-risque" by C. Rigo, *Document Series*, February 2001.
14. "La nouvelle économie" by P. Bisciari, *Document Series*, March 2001.
15. "De kostprijs van bankkredieten" by A. Bruggeman and R. Wouters, *Document Series*, April 2001.
16. "A guided tour of the world of rational expectations models and optimal policies" by Ph. Jeanfils, *Research Series*, May 2001.
17. "Attractive Prices and Euro - Rounding effects on inflation" by L. Aucremanne and D. Cornille, *Documents Series*, November 2001.
18. "The interest rate and credit channels in Belgium: an investigation with micro-level firm data" by P. Butzen, C. Fuss and Ph. Vermeulen, *Research Series*, December 2001.
19. "Openness, imperfect exchange rate pass-through and monetary policy" by F. Smets and R. Wouters, *Research Series*, March 2002.
20. "Inflation, relative prices and nominal rigidities" by L. Aucremanne, G. Brys, M. Hubert, P. J. Rousseeuw and A. Struyf, *Research Series*, May 2002.
21. "Lifting the burden: fundamental tax reform and U.S. economic growth" by D. W. Jorgenson and Kun-Young Yun *Research Series*, May 2002.
22. "What do we know about investment under uncertainty?" by L. Trigeorgis, *Research Series*, May 2002.
23. "Investment, uncertainty and irreversibility: evidence from Belgian accounting data" by D. Cassimon, P.-J. Engelen, H. Meersman and M. Van Wouwe, *Research Series*, May 2002.

24. "The impact of uncertainty on investment plans" by P. Butzen, C. Fuss and Ph. Vermeulen, *Research Series*, May 2002.
25. "Investment, protection, ownership, and the cost of capital" by Ch. P. Himmelberg, R. G. Hubbard and I. Love, *Research Series*, May 2002.
26. "Finance, uncertainty and investment: assessing the gains and losses of a generalized non-linear structural approach using Belgian panel data", by M. Gérard and F. Verschueren, *Research Series*, May 2002.
27. "Capital structure, firm liquidity and growth" by R. Anderson, *Research Series*, May 2002.
28. "Structural modelling of investment and financial constraints: where do we stand?" by J.-B. Chatelain, *Research Series*, May 2002.
29. "Financing and investment interdependencies in unquoted Belgian companies: the role of venture capital" by S. Manigart, K. Baeyens and I. Verschueren, *Research Series*, May 2002.
30. "Development path and capital structure of Belgian biotechnology firms" by V. Bastin, A. Corhay, G. Hübner and P.-A. Michel, *Research Series*, May 2002.
31. "Governance as a source of managerial discipline" by J. Franks and C. Mayer, *Research Series*, May 2002.
32. "Financing constraints, fixed capital and R&D investment decisions of Belgian firms" by M. Cincera, *Research Series*, May 2002.
33. "Investment, R&D and liquidity constraints: a corporate governance approach to the Belgian evidence" by P. Van Cayseele, *Research Series*, May 2002.
34. "On the Origins of the Franco-German EMU Controversies" by I. Maes, *Research Series*, July 2002.

35. "An estimated dynamic stochastic general equilibrium model of the Euro Area", by F. Smets and R. Wouters, *Research series*, October 2002.
36. "The labour market and fiscal impact of labour tax reductions: The case of reduction of employers' social security contributions under a wage norm regime with automatic price indexing of wages", by K. Burggraeve and Ph. Du Caju, *Research series*, March 2002.
37. "Scope of asymmetries in the Euro Area", by S. Ide and Ph. Moës, *Document series*, March 2003.
38. "De autonijverheid in België: Het belang van het toeleveringsnetwerk rond de assemblage van personenauto's", by F. Coppens and G. van Gastel, *Document series*, June 2003.
39. "La consommation privée en Belgique", by B. Eugène, Ph. Jeanfils and B. Robert, *Document series*, June 2003.
40. "The process of European monetary integration: A comparison of the Belgian and Italian approaches, by I. Maes and L. Quaglia, *Research series*, August 2003.