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What Can We Learn from the Economic Aspects of International Relations with the EU: the Case of Italy

1. Introduction

The paper focuses on the way Italy benefited from being member of EEC initially, and later from being part of the EU. This paper also emphasizes on Italian exceptionalism, the role Italy played in the EU and what were its contributions toward developing a common European economic policy.

By the 1990s, the convergence criteria required by the EU increased Italy's incentives and necessity to take constructive measures for increasing its economic indicators. Moreover, the process of capital liberalization increased the importance and the role of financial markets on macroeconomic policies. Being also subject to the external supervision of the EU, Italy encountered some important domestic changes, such as "dismissal of a large part of the political class, the electoral reforms, and the disappearance of traditional parties, all of which weakened the power of partitocracy."[1].

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2. Historical background

Italy was one of the 6 founding countries of the European Economic Community (EEC), which was created in 1957 to bring about economic integration. This status of founding member assumed a level of economic strength of Italy, natural resources that could contribute to a united European economy, and a stable government to deal with all the new implications of economic integration. Moreover, Italy was lucky enough to be a player in all the three big events of economic integration: the customs union, the Single European Market Program and the European Economic and Monetary Union.

The economic aspects of Italy's European integration are tightly interrelated with *the historical role of the state* in the Italian economy. Considering that the Italian state has existed only since the second half of the 19th century, the sense of national identity is not as much developed as in other Western European countries. This low reliance on national institutions and state mechanisms are correlated with an overall attitude favorable to European integration. A survey on the "support for EU membership" conducted during the period of 1981-2000 revealed that the percentage of people favorable to EU integration was much higher in Italy than the EU average[2].

[1] L. Ouaglia, I. Maes, *France and Italy's Policies on European Monetary Integration: A Comparison of 'Strong' and 'Weak' States,* Comparative European Politics, April 2004.

[2] Eurobarometer No 53, 2000.

3. Data/statistics

In order to emphasize the place of Italy in the EU economy, here is some relevant data on its population, life expectancy, education, employment, inflation, GDP and PPS.

The Italian population is 57,888,200 (as of 2004), which represents roughly 13% of the EU-25 population. Comparing with other Member Sates, Italy is among the first countries with the biggest population in the EU. According to the latest (2002) data in Eurostat Year Book (EYB), the density of population in Italy was 190 inhabitants per square km.

Life expectancy at birth in 2002 was one of the highest in the EU as well, with 83 years for women and 74 for men. Death rate est. for 2006 is 10.4 deaths/1,000 people. Population ageing is frequently on the topic of discussions and data (EYB) show that in 2004 Italy (along with Sweden, Greece, Belgium and Germany) had the highest shares of people aged 65 and over.

As regards to education, in 2003, the pupil/teacher ratio was 11 - one of the lowest comparing with other EU countries. This is a good sign in the sense that pupils have access to enough teachers to provide them with all the attention they need to get a good education. On the other hand, a low ratio also suggests that teachers' salaries are high and this motivates people to take this job position, or it may also mean low school matriculation of pupils.

According to the EYB, in 2003, most of the European Union countries had an employment rate of 67% or more, while the rate was less than 57% in Italy, Malta and Poland. In 2002, net migration, per 1000 inhabitants, was 6.1 and it rose the following year

(2003) to 10.4. According to the Eurostat Year Book, Italy is among the four EU countries (along with Spain, Germany and UK), that together accounted for 83% of the net inflow of migrants into the EU-25 in 2003. Obviously there is an interrelation between the high rate of unemployment and the high rate of migration in Italy, and it would be very hard to determine if one caused another and, if so, which one was first.

Comparing with other European states, Italy began to industrialize later. However, after the World War II, it made considerable progress proved by an industrial contribution to Gross Domestic Product (GDP) in 1990s of 35% of the annual gross domestic product, (while agriculture was less than 4%)[3]. Clear indicator of a nation's economic performance, the GDP expresses the total value of all goods and services produced in the country minus the value of goods and services used as inputs for the production of those goods and services. In 2004, Italy had a GDP growth of about 0%, contrasting with the previous .7% growth in 1996 to 1.4% in 1999 and 2.9% in 2000. The Berlusconi government was blamed for the recent economic underperformance and *The Economist* called Italy "the real sick man of Europe."

In order to eliminate differences in price levels in Italy comparing to other EU countries, Italy's GDP per inhabitant can be expresses in purchasing power standards (PPS). At current market prices from 2000 through 2006 respectively: 22 000; 22 800 (e); 23

[3] http://www.infoplease.com/ce6/world/A0858951.html as accessed on April 19, 2006.

100 (e); 22 800 (f); 23 400 (f); 24 000 (f); 24 900 (f) [4] (where e – estimated values, and f – forecasts).

The following information represents the convergence of price levels of Italy and the other EU member states. Comparative price level in 2003 for Italy was 102. Comparative price levels represent the ratio purchasing power parities (PPPs) over the market exchange rate for the country. The ratio is presented in comparison with the EU average (EU-25 = 100). Because the index of the comparative price levels for Italy is 102 (higher than 100), the country is relatively expensive as compared with the EU average, but 2 does not imply big difference however.

Considering inflation, Italy managed to keep itself within the EU standard, which was quite difficult for this country known for its history of continuous high inflation. "Consumer inflation fell from 3.9 in 1996 to 1.7 in 1999 but it did rise again to 2.5% in 2000."[5] Italy was subject to an agreement on wage adjustments in 1992 that helped counteract negative effects of the relationship between inflation and wage levels. The tight monetary policy pursued by the Bank of Italy also played an important role in reducing inflation. The introduction of euro in 1999 was considered to be the main cause of the 15% inflation as (estimated by academics). Officially, after the introduction of euro, inflation was calculated to be around 2.5%, however, the overall perception was that the introduction of euro was the cause of double overall prices.

[4] Europe in Figures EUROSTAT Eurobook 2005.
[5] http://www.wikipedia.org as accessed on April 19, 2006.

The GDP in purchasing power standards (PPS) per hour worked relative to the EU-15 (=100) is low in Italy. The Labor productivity in 1993 and 2003 was 92 and 93, respectively, which is lower than the EU-15 standard of 100.

According to the EYB, The General Government Debt (consolidated gross debt as a percentage of GDP) in Italy was 118 in 1999, and it decreased to 102 in 2004. General government gross debt reached 63.8 % of GDP in 2004, compared with 63.3 % in 2003. In the euro-zone, the rise was of the same order, from 70.8 % to 71.3 % of GDP.

All these economic indicators are watched over with great concern by EU economists and decision makers. Considering its relative huge population and its cultural specificity, Italy is a European country subject to lots of unexpected outcomes, as it developed economically due to the European integration, but its impact on the European integration was great as well.

The Italian government pursued an economic policy oriented towards bringing down budget deficits and coping with national debts even since 1992. This policy was a combination between new measures of raising revenue and reducing governmental spending as well. As a result, for the last 7 years, Italy had a primary budget surplus. In 2000, its deficit in public administration declined to 1.7% of GDP. This phenomenon can be connected to the fact that Italy joined the Economic and Monetary Union in May 1998. The national debt declined significantly until 2002 and then went up again. In 2005 the deficit-to-GDP ratio of Italy was 5.1% which was pretty high comparing with other EU countries and considering the EU limit of 3.0%. Especially for Italy, the European Monetary integration represented an external constraint in domestic policymaking. The reason why Italy was more affected than other European countries was its domestic weaknesses and its high level of macroeconomic indiscipline. In contrast, for France for example, this external constraint served as means for stimulating economic discipline in the country. Italy's closest trade ties are with the other countries of the European Union, with whom it conducts about 59% of its total trade. Italy's largest EU trade partners, in order of market share, are Germany (19%), France (13%), and the Netherlands (6%).

4. Italy's economic particularities in relation with EU

Italian economy's particularities rest upon the development discrepancies between its Northern and Southern regions. Its Northern part is industrially developed and is dominated mainly by private companies; however, its Southern part is less developed and it produces mostly agricultural output.

Because of the high levels of corruption, bureaucracy, the instability of governments and their high turnover, and the high number of parties that parasite on state resources, Italy is perceived by other EU countries to be a weak state. However, what makes Italy highly appreciated is its Central Bank which is powerful, has a special role in the economy and represents a symbol of Italian stability and continuity. The governor of the Italian Central Bank has the power to represent the bank both de jure and de facto and he has a personal responsibility for the bank's policy.

The Italian Central Bank has always been respected both internationally and domestically. The Bank is “not only an efficient, but also an intellectually strong institution, and its expertise was used in several economic policy areas. For these reasons, the Bank was able to have a major input in Italy's macroeconomic policy strategy and in EMU policy.”[6] This is the input Italy brought to the EU and it stands for the role of Italy in the European economic integration.

The *original Italian state structure* allows for its central bank to play a major role in designing the Italy’s policy on European monetary integration. Comparing to other European countries (such as France, for example), where the executive and the Treasury are the main actors in this field, in Italy the central bank governor has a personal responsibility for the policy. The Italian state structure allows power to be allocated among different formal institutions. Because of the weak state performance in general, Italian elites has always been favorable towards European integration and towards transferring sovereignty at he European level. The greatest part of the Italian public opinion agrees that Italy mostly benefited from European economic integration, and statistics support this argument. It is normal to have some Euro skeptics as well, but in Italy they are fewer.

[6] L. Ouaglia, I. Maes, op. cit.