Debates on European Monetary Union in the Italian Chamber of Deputies (Rome, 11 April 1997)

Caption: On 11 April 1997, Italian MPs comment on a statement by Romano Prodi, President of the Italian Council of Ministers, on his austerity plan and his policy of bringing public finances back on a stable footing in order to meet the Maastricht criteria and enable Italy to participate in the third stage of Economic and Monetary Union (EMU).

Source: Camera dei Deputati, Seduta n. 178 del 11/4/1997. [EN LIGNE]. [Roma]: Camera dei Deputati, [23.08.2005]. Disponible sur http://fr.camera.it/_dati/leg13/lavori/stenografici/sed178/s020r.htm.

URL:
http://www.cvce.eu/obj/debates_on_european_monetary_union_in_the_italian_chamber_of_deputies_rome_11_april_1997-en-2cd7fcb0-c7b3-47e4-b4cd-7f9160c504cf.html

Last updated: 05/07/2016

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Speaker: Government statements are next on the order of business.

The Prime Minister has asked to speak. He has the floor.

Romano Prodi:*Prime Minister:*

[…]

Convinced that the legitimacy of our Government is based above all on a pact with the electors, we have said from the start that we intended to implement a specific policy, looking to the long-term future. We have drawn up a long-term programme because a long-term programme was necessary.

We are not here to govern just for the sake of it; we are here to achieve a plan to renew and modernise Italy and to give everyone, in particular our young people and our new generations, some hope for the future.

Right from the election campaign, we told Italians that a great deal of determination and commitment would be needed from everyone if we were to implement, during our term of office, a wide-ranging programme with a strong impact.

Today, I repeat these convictions. Italy needs stability, certainty and continuity of government. Our fellow citizens ultimately want to live in a modern country where there is no doubt about who has the right and the duty to govern and about the time that the Government has available to accomplish its work.

[…]

Honourable Members, less than a year ago, after the election victory of 21 April 1996, we came before you to set out our programme and to ask for your trust. Today, much of what we promised has in practice been achieved.

The programme that we presented to both Houses set out a major plan for the renewal and development of our country. That plan and the principles that inspired it are as valid now as they were then. The results we have achieved in these first eleven months encourage us to continue along the path of this programme.

I refer first to the restructuring of public finances. I said a year ago that when a country lives under a mountain of debt, everything is at risk: investment capacity, economic growth, a balanced distribution of income and equity between the generations. Restructuring finances is not therefore an end in itself. It is a way of freeing resources that can be used to develop production and is the cornerstone of any concrete response to the problem of labour and the social and geographical imbalances of our country.

I refer to the objective of bringing Italy into European Monetary Union, which I identified, in our policy statement of May 1996, as the Government’s main goal.

I refer to the objective of triggering a virtuous circle of reforms in Italy in order to bring the State closer to citizens.

I said at that time that Italy was lagging seriously behind other countries and could not hope for a real future of growth and development unless we were able to make up for lost time.

I said that this was possible and could be achieved provided that all of us, Government and Parliament, majority and opposition, were able to discharge our duty and the responsibilities vested in us by the country. Practical steps have now been taken towards restructuring our finances. Very substantial efforts have been made in these eleven months and the results are evident.

In terms of the European challenge, we have, during these months, made a major leap forward, with the result that Italy can take part in European Monetary Union from the start, from 1 January 1999.

When this Government took office, Italy was far from meeting all five of the Maastricht criteria and it seemed inevitable that it would be excluded from monetary union.

We therefore asked the country to make an exceptional effort to counteract a situation that seemed irretrievably compromised, which would have condemned Italy to remain on the sidelines of the new phase to be opened up by the definitive launch of monetary union in Europe.

Today, after difficult months, we can say that at least three of the five criteria have already been met (inflation, interest rates, exchange rate stability). As regards the criterion relating to net government debt, it is again worth bearing in mind that the figure was 6.7 % of GDP at the end of 1996. This criterion had already fallen to 3.8 % by the beginning of 1997. Following the Easter strategy, it is set to drop to 3 %, thereby satisfying another of the criteria required by the Maastricht agreement.

Correcting public accounts by more than three percentage points is something that very few countries in the world have achieved in such a short time.

The public administration's primary surplus bears witness to the efficiency of the action to restructure public accounts. As a result of the recent corrective strategy, it will reach 6.7 % of GDP by the end of 1997. This is the highest value among the EU Member States, the G7 and the OCSE. No other industrialised country has such a high asset in its budget. The burden of debt is what distinguishes Italy from other countries, and it is something that this Government inherited from the past. I repeat: this Government has had to deal with debts of LIT 2.4 million billion.

This is a sign that Italy has made and is making an unparalleled effort. In the debate in the Senate yesterday, there was criticism that there had been one manoeuvre after another, an uninterrupted series of financial manoeuvres: but there was no other way. It was necessary for the country and, while it is unpleasant for everyone that the Government has continually to engage in operations of this type, the emergency facing this country made them necessary.

How, otherwise, could we pay the debt left by preceding Governments …

[…]

But debt there is, and it costs the State an enormous amount every year: over 10 % of gross domestic product. That is the heavy legacy of the past.

Sound, long-term measures were and are needed to resolve this crucial problem. We have been aware of that right from the start.

The new credibility that, step by step, we are gaining internationally has had an immediate impact on trends in interest rates which have fallen by approximately three percentage points. Given the mass of our public debt and its average term, that means, ultimately, a saving for the State in terms of interest payments of LIT 20 000 billion for each percentage point less: a saving of LIT 60 000 billion is the only way Italy can be brought into Europe without destroying its production economy and without placing further burdens on those who already bear too many burdens.

The time for responsibility has therefore arrived, my parliamentary friends: this is the meaning of the difficult path on which we have embarked.

Savings on interest are not, however, the only economic improvements.

Since June 1996, there has been a strong and ongoing decline in inflation. The rate of growth of the cost of living fell from 5.4 % in 1995 to 3.9 % in 1996. This is the most rapid drop in inflation in all the countries of Europe.

In March, the rate of inflation was 2.2 %. These are figures which Italy has not experienced for almost 30 years and which make it possible to say that, here in Italy, we have really started to protect savings, giving everyone a reasonable opportunity to build up the resources they need to plan for the future, through savings that do not lose their value.

Four years from September 1992, at which time our country was entering a very serious financial crisis that could have relegated it to the sidelines of Europe's history for generations, the action of this Government last November enabled the lira to return to the European exchange agreements. We had to fight a tough battle against our European partners who wanted to give our currency a value higher than the one for which we argued.

Today, we can say that Italian citizens have a currency that has a strong value on the exchange market, thereby respecting the efforts and sacrifices that those citizens make every day.

The international markets again have faith in our country. At the end of 1996, the portfolio of foreign investments reached LIT 122 300 billion: the highest figure in the whole of the post-war period.

A virtuous circle has finally been established in Italy, and is helping to consolidate the culture of stability that is the strength of other countries.

In the 1997 Finance Act, we wanted to give an unequivocal signal that the economic and financial uncertainty that has held sway for too many years had come to an end.

That strategic choice, together with the need to speed up our progress towards the European convergence criteria, has necessitated an additional contribution in terms of revenue. Although the Government and the majority have not been able, in this respect, to comply with their contract with electors which stated — as we well remember — that fiscal pressures would not change, we have come close to doing so.

Alongside the Finance Act, the Government has launched a reform of taxation under which the rates of taxation on both households and enterprises are to be greatly reduced. When it is up and running, the Italian taxation system will help to improve the autonomy of local and regional authorities and the rate structure will be closer to that of many other European countries. In particular, it will be a fairer and simpler taxation system that is more difficult to evade.

However, governing the economy does not merely involve containing public debt. For this reason, we have also undertaken far-reaching action to reorganise markets.

The privatisation of major public enterprises, in particular the telecommunications enterprise STET, whose privatisation will unequivocally take place this year, the reorganisation of the telecommunications market, the directive on State Railways and on the postal system and the reform of banking foundations are all fragments of a mosaic designed to achieve ever greater competition. This is one of the most valuable effects that European integration has had in our country: the 'break-up' of monopolies and the full liberalisation of markets. We intend to proceed along this path with determination.

All this tells us that today, 11 months on from the start of this Government, we Italians can really pull through.

Italy is already well over half-way along the road and we have overcome three quarters of the obstacles. Economic and financial stability is within reach and we are laying the foundations that we need if we are to make the most of the potential offered by the new phase of economic growth which is at Europe's doors.

That recovery can be sound and sustainable. It will in practice be based on low inflation, low interest rates and well ordered public accounts; it will not depend, as was too often the case in the past, on currency devaluations and the use of public money.

It is an opportunity that needs to be fully grasped.

Alongside our efforts to streamline the economy, the Government has also focused on the problem of labour.

We have had to cope with particularly adverse economic conditions. The slow pace of growth has been our main enemy. The dramatic situation facing vast areas of the South has been and is our main concern.

Our objective has nevertheless been to give young people confidence and hope.

The most serious problem faced by many European countries, including Italy, is that of growth without employment. It has therefore been necessary to take steps to ensure that, when economic recovery takes place, employment reaps its full benefits.

Italy, through the initiatives taken during the six-month Presidency of the European Union and then the labour agreement of 24 September, with the involvement of the world of labour and production, has followed a method targeted on making the labour market efficient and flexible, creating a favourable environment for new investment, drawing up qualification policies to provide the necessary professional skills, supporting technological innovation and offering incentives for the infrastructure needed for economic development.

Following on from that agreement, the Finance Act has allocated LIT 6 000 billion for the next three years, to which available resources and the resources earmarked under laws on expenditure and reduction of the tax burden in southern Italy have to be added.

We have tabled two important draft laws for labour and production activities that have been approved by the Senate and are now being debated by this Chamber. Enterprises will have more resources to create new posts and young people will have more opportunities.

The abolition of the public monopoly on placement services will pave the way for more direct links between labour supply and demand.

As regards measures in Southern Italy, we have taken steps to make our ordinary intervention efficient and functional. We have also, however, paid special attention to creating conditions favourable to investment. The labour agreement identified the new instrument of the area contract, a system that many consider to be a truly new instrument likely to bring about new development in some industrial areas. In those areas, there will be a kind of exchange between unions, enterprises, public authorities and banks. Everyone will have to give up some prerogatives in the common interest of developing the economy and production. Everyone will benefit from this exchange.

[…]

As regards the problem of public investment and infrastructure, faced with endless red tape and uncertainties about decisions, the Government wanted to solve all such problems at one fell swoop and, with the support of the Head of State, tabled a decree law under which timely action can be taken in areas where projects likely to have a major impact in employment are taking place.

The modernisation of authorities, as well as the promotion of professional skills in the public sector, are part of the Government’s significant action in this field. Consensus has also been obtained on these measures through a protocol of understanding on public works signed with the social partners on 12 March 1996.

The reforming measures promoted by the government in these 11 months have been extremely wide-

ranging. I should like to express my gratitude to Members from both sides who, guided by their Chairmen, have up to now shown great commitment in this exceptional, albeit necessary, period of reform.

[…]

The Chamber approves the statement by the Prime Minister, and returns to the order of business. (*Comments from Members of the National Alliance group*)

I adjourn the sitting and call an immediate meeting of the Conference of Group Chairmen in the Speaker's library.

Speaker:

[…]

I declare the discussion on the statements by the Government open. Mr Bressa is the first to speak.

Gianclaudio Bressa:

[…]

Then we come to the story of these 11 months of Government, to the results highlighted by the Prime Minister this morning, extraordinary results (re-entry into the EMS, a halving of our deficit, inflation and the lira-deutschmark exchange rates), which enable us to look to the goal of the Europe of Maastricht with optimism. Those results have been obtained by this majority, made up of the forces of the Olive Tree, Italian Renewal, Italian Socialists and the Segni Pact, as well as Communist Refoundation. The strategies have brought in LIT 100 000 billion in 11 months — the greatest political and financial enterprise ever achieved by a Government of this Republic, arrived at without social conflict, without irreconcilable rifts, at the temporary price of unpopularity, an unpopularity that now has to be interpreted as compelling proof of a sense of responsibility.

[…]

In his statement, Mr Prodi also clearly set out the content, method and timescale of the political work of the majority. He said that his is not a Government which wishes to stay at any cost, but a Government that wishes to stay on only if it achieves the goal of entry into the Europe of the single currency. If we are to go into Europe and remain there, the reform of the welfare state and economic development that creates jobs are essential. It is not possible to go into Europe without signing a solidarity pact with our younger generations and a pact for the development of Southern Italy.

He also gave a very clear and specific deadline by which these policies are to be drawn up: the 1998 Finance Act.

The Government must be committed to this proposal and so must the majority that supports it, and all the forces of that majority.

[…]

Speaker: I invite the Group Chairmen to provide the Speaker's Office with the list of those scheduled to speak, together with the times available to the various speakers.

[…]

Marianna Li Calzi:

The policy of the Communist Refoundation party is at odds not with the two main goals that this Government has set itself — bringing Italy into Europe and smoothing the progress of institutional reforms — but only with generic statements of principle. When it sees, day after day, the Government's economic and financial policies, Communist Refoundation wonders how these two goals are to be achieved.

The proof of the pudding, Mr Speaker, is in the eating and that starts with this debate. The content of the Government's policy needs to be borne out. Italian Renewal has been loyal to the Government even when it disagreed.

The Italian Renewal party has spoken frankly about the Easter strategy and has clearly said that dodging the levy on severance pay funds was a mistake; it was a measure that ran counter, moreover, to the goal of providing a more favourable framework for enterprises called upon to create new jobs in production in order to tackle unemployment, which, in the southern regions, has assumed the proportions of a collective drama.

The basis of the Government's action must continue to be its commitment to achieving the criteria laid down for accession to European Monetary Union within this current year. However, the goal of reducing the government deficit below the threshold of 3 % of GDP in the near future must be pursued with no change in the tax burden. What is necessary, now that a start has been made on restructuring government accounts, is rather to free up substantial resources so that the issue of employment can be tackled in a determined way.

We know that we are facing unprecedented events that involve the whole system of production, labour formation and the very methods of work. For that reason, we cannot stand by and do nothing about what has become a genuine emergency. In the last year, the unemployed have accounted for more than 12 % of the working population, but in Southern Italy this percentage has soared to peaks of 30 %.

Moving on from the welfare-based policies that have in the past aggravated the problems of the South does not mean abandoning Southern Italy to its fate, taking a path that runs the risk of destroying solidarity between the generations. While expenditure urgently needs to be channelled into public works, structural measures cannot now be put off either.

Mr Speaker, I have nearly finished. I simply wanted to point out that Italian Renewal has asked the Prime Minister to start to resolve these problems by putting policies into practice. We stressed three points: the tax burden, flexibility and the privatisation of public enterprises. We congratulate you, Prime Minister, for stressing in your speech of today, but not in your speech yesterday to the Senate, that these are key points for further action by the Government

We therefore affirm our confidence in the Government and expect that the line you have spelled out will be applied in a consistent way. The Government has to be judged by its consistency, especially from the point of view of the economic and financial policy document that is imminently to be prepared.

The review on which we have embarked will continue, since we have reached a point of no return at which everyone must take full responsibility. Italian Renewal will be vigilant: the country needs a cohesive Government, able to function, which restores the economy to a sound footing, which reforms the welfare state with rigour and equity, which breathes new life into development and which takes us into Europe. (*Applause.*)

Speaker: Mr Taradash is next to speak. He has the floor.

Marco Taradash: Mr Speaker, this Government no longer has the confidence of its own electors, as can be seen from the polls published by all the newspapers, and no longer has the confidence of its parliamentary majority; it has been forced to fall back on a farce such as today's debate in order to cash in a cheap vote before the start of the so-called review, i.e. the period during which the political forces supporting the Government will have to come to terms with one another.

We can also see the support that the Government and the Prime Minister are receiving from the majority and

how, from the Democratic Party of the Left to the Popular Party and the Refoundation, the representatives of these parties are rallying around the Government.

Prime Minister, yesterday in the Senate, and today in this House, you reviewed the history of the Government's work. It is history as it might be viewed by a Prime Minister, but it is certainly not the history seen through the eyes of the citizens and economic operators of our country, those who really believe that Italy has a place in Europe and should be there legitimately without fiddling the books. An economist who is no friend of our Alliance has spoken of accounting fraud, an economist who has often supported your political action, at least while that was possible; I am speaking of the Nobel laureate, Franco Modigliani. He said yesterday that the manoeuvre that you put before Parliament is accounting fraud. It seems to us that the crime is ongoing and has been aggravated by all the successive measures adopted by the Government, which have been little more than a three-card trick with government accounts; presenting accounts that are apparently in line with the Maastricht criteria, but behind which everyone knows — especially you and the Minister for the Treasury —are alarming gaps in the budget that will soon come to light.

In this respect, what you are doing is no more than sleight of hand, just as it is in the case of social expenditure. Communist Refoundation has its own agenda: it is putting off the possibility of resolving the country's problems until some nebulous future; it is not concerned with questions of economic compatibility or of social justice. Communist Refoundation merely wants to preserve current privileges, to maintain the status quo, possibly to redistribute poverty, but certainly not to promote wealth for those who do not possess it.

This stance is, however, not specific to Communist Refoundation, but is to be found in many other parties of your majority; it is rife in the Democratic Party of the Left and the Popular Party. There are conflicting conceptions of the economy and of society in your Government. It is for this reason, and for this reason alone, that you are unable to take the smallest step towards a real reform of public spending, which could bring well-being and equity to this country.

You, Prime Minister, have said that you are aware of the problem, that you have read the report of the Onofri Commission, that you are very well aware that social spending, while not as high in Italy as in other countries, is badly distributed. However, the issue is not just one of bad distribution; the power of the whole of the Italian union confederation, which is the social basis on which your Government relies, is founded on this bad distribution; the banking bureaucracy, the whole conservative movement of this country, is behind your proven inability to reform public spending.

Finally, there is a real possibility that a new reforming social bloc could take shape, including Confindustria, and especially the entrepreneurs who are its members, Confartigianato, Confcommercio, those employees penalised by your taxation policies, those people who are out of work and cannot find work as a result of union protectionism inherited from another period of the economic life of this country, which is now no more than a barrier against young people and those who have not yet had an opportunity to work.

Self-employed workers, employees, entrepreneurs, craft workers and traders are telling you, Prime Minister, that the world has changed, that a vision of politics based on Marxist, solidarity-based and Catho-Communist cultures is bankrupt, that such an approach has pauperised the countries in which it has been tried out politically, that the culture and the social bloc that you lead is waning and unable to cope with the transitions that are in front of us.

For that reason, our Alliance offers an alternative to your Government leadership, and for that reason our opposition will be even tougher when focusing on the needs and responsibilities that we have faced. (*Applause from Members of Forza Italia and the National Alliance.*)

Michele Salvati: Mr Speaker, colleagues, a brief intervention to explain my vote of confidence in the Government and to express my agreement with the arguments put forward by the Prime Minister to call for that confidence.

[…]

When he said that the reform of the social state — and therefore the containment of welfare spending in the long term — would start to be implemented from 1 January 1998, he said two important things and added a detail that is very costly for this majority's political and social stability.

The first is that the actual reform measures will be set out in the 1998 Finance Act; the second, which ensues from the first by implication, is that the outline figures for these measures — which will have to be specified in detail — will have to anticipated in the economic and financial policy document and in the convergence plan to be presented to the European Union, i.e. within a few weeks.

The costly detail is as follows. As is known, abiding by an old commitment, the unions have often said that 1998 was the year in which there would be further discussion — and I stress discussion — of welfare reforms. If the time sequence is correct and if the reform of the Dini reform is to start from 1 January 1998, that means that discussions need to start in 1997, indeed from now.

That detail is no small matter and merits far more than a review, which might take two or three weeks, as called for by Mr Berlusconi. Opposition colleagues should not be concerned: a review there will be, and very shortly.

I also share the Prime Minister's pride in what this Government has done, which should be appreciated by a liberal right-wing. It is no small matter to have started to govern with a debt which was around 7.5 % of GDP and to have brought it down to 3.8 % (data from the latest quarterly cash report) at a time when income growth was slowing down from 2.9 % in 1995 to 0.7 % in 1996 and then 1.2 % in 1997, if things go well. It is no small matter to have brought inflation which was around 5 % down to below 2 % as it now is.

Obviously, it is the half empty part of the glass that is the focus for opposition criticism: the increase in the tax burden, accounting stratagems and the temporary nature of many measures. I do not envy my colleagues who will have to defend the Government's latest emergency measures in Committee and in the House.

We knew, however, that the left, today's left, would suffer a great deal in retracting the rash promises made by preceding Governments to its social grass-roots; we knew that it would suffer from conceding the flexible employment relationships needed by enterprises at this stage; we knew that it would suffer from abandoning an unjustified predilection for the public, for 'over-regulation', that it shared not so long ago; we also knew, however, that the left was the only political force able to help this country through a difficult transition, almost a de-Sovietisation of the economy, without excessive rifts, safeguarding those values of solidarity that bind us to the major countries of Europe and that we hope are retained in the European Union, into whose monetary constitution we are preparing to enter.

Many of the tangles have now been combed out, and all at once. The Prime Minister is aware of this and has made binding promises: that the reform of the social state will be outlined in the economic and financial policy document, will be contained in the convergence plan and detailed in the next Finance Act; that he will resign if we are not there on 1 May 1998 — which seems to be the date on which the countries taking part in the first round of Monetary Union will be decided.

Be patient, honourable colleagues of the opposition (of whom I see very few): it may be that we do not make it, that the rift that took place over Albania opens up again in an irreparable way as regards economic measures and the two-chamber Commission, and then we shall have to choose. However, before you raise your battle cry: 'moderates of all groups unite together', let us dream: let us dream that a Government of the left succeeds in taking us into Europe; let us dream that a wide-ranging group that does not mirror the Government majority manages to produce a draft constitutional reform that takes us into the Second Republic. We shall leave no stone unturned to achieve that dream. (*Applause from Members of the Democratic Left-Olive Tree and Communist Refoundation-Progressive groups.*)

[…]