

4. GIULO ANDREOTTI'S SUMMITS, 1977-79

A. London I, 6-8 May 1977

Italian Prime Minister Andreotti arrived in London under severe domestic economic, social and political pressures. The Italian economy continued to suffer from sluggish export growth, continuing inflation (which would reach up to 19% in 1977) and rising unemployment in the economy, despite an expansion of the public debt and a tightening of the money supply aimed at curtailing those developments. Terrorism was out of control and escalating in Italian society. And the Prime Minister continued to be faced with the intricate balancing act required by the *compromesso storico* described above.

The stalled recovery in western economies, felt most by Italy, France and Britain, was the focus of the London summit. It was at this summit that the famous "locomotive" theory of recovery was first introduced. Essentially, the strategy entailed that the strongest economies (Japan, West Germany and the United States) pursue expansionary fiscal policies to promote growth which would allow them to serve as 'locomotives' for weaker economies by providing export opportunities which could pull them out of the recession. Related to the debate over which economies should play the role of locomotive and to what extent, a split over macroeconomic policy emerged between President Carter and Chancellor Schmidt at London, a division over the need for demand stimulus and surplus reductions in the stronger economies which would dominate the next three summits.

These discussions saw Britain, Italy and France agree to stop pressing West Germany and Japan, and to a lesser extent the USA, for expansion, in return for assurances that those countries would not let their concerns for inflation lead the rest of the world into another recession with even greater levels of unemployment than were already being experienced by their weaker partners. Italy similarly joined Britain and France in offering a commitment to continue with their stabilization targets and to work for lower tariffs in an effort to promote international trade. They agreed to do so despite their economic problems, rooted in oil import dependence and high deficits, and the political difficulties such a move would imply. For Italy the problem was particularly acute given the nature of the Andreotti coalition and the continued reliance on international payments support to avoid a real crisis. On the subject of progress on the Tokyo Round of the GATT, however, the French-British-Italian grouping effectively resisted making a clear commitment to progress and succeeded in having a more diluted, vague reference to "substantive progress" appear in the communique.

The London communique also included a call for "structural changes in the world economy" and encouraged the efforts towards North-South dialogue being pursued at the Conference on International Economic Cooperation in Paris, particularly the need to create a common fund for stabilizing commodity prices. Italy joined with the other summit members to overcome American opposition to these initiatives, successfully placing North-South relations on the summit agenda.

The final issue of importance at the London summit was President Carter's effort to

convince his counterparts at the summit to join him in making a collective call for a halt to the spread of nuclear technology until more stringent international safeguards were in place. On what became a very contentious issue at the London summit -- and on which President Carter suffered a major loss -- Italy joined with all the other participants to defeat the proposal.¹⁰

In overall terms, Italy left London with a mixed set of results, but firmly in the company of at least two of her European team members who were suffering from similar economic difficulties. While they had been subjected to some pressure regarding their macroeconomic adjustment efforts, the continuing fear of communist involvement in the Italian cabinet and the reality of the terrorism problem affecting the Andreotti government helped Italy's summit partners continue to appreciate the powerful constraints that country's leaders face on a continuing basis.¹¹ Given the multiple pressures and challenges facing Italy in 1977, their performance at and contribution to the London summit was not insignificant, and again exhibited the benefits to be derived from participating in the team play required in the contemporary international political economy.

B. Bonn I, 16-17 July 1978

The general breakdown among the summiters at London in 1977, linked to the Carter foreign policy agenda and catalyzed by the Carter-Schmidt animosity which emerged, made the subsequent meeting in Bonn a very significant one. The leaders of the seven countries accurately perceived the need to avoid the divisions experienced at London. That pressure to perform combined with the comprehensive, efficient approach of the West German hosts to produce the most substantive and detailed set of positive results in the history of the summit.

At Bonn the summit leaders once again focussed their attention on issues surrounding economic growth, energy and trade. In their efforts to increase policy coordination, they built on the effective work of their sherpas in preparing a communique which would ultimately include specific country statements and commitments for the next year. For Italy, led again by Prime Minister Andreotti (at the head of a new government, his fourth turn as Prime Minister) and his foreign policy advisor/sherpa Umberto La Rocca, the biggest concerns were the continuing inflation and currency problems plaguing the Italian economy. Italy was particularly concerned over the negative market effects of poor results at the summit, especially in terms of the volatility of currency markets, central to which was the US dollar.

As a result of the foregoing pressures, Italy's currency vulnerability became the focal point of Italian participation at the Bonn summit. A strong supporter of European monetary integration, stable exchange rates and currency market controls aimed at stability, Italy had welcomed the Schmidt-initiated EEC Bremen summit on monetary integration. Meeting just ten days prior to the Bonn summit, the European leaders laid the groundwork for the European Monetary System, set the Community's energy-saving policy at halving oil imports by 1985, and reiterated the need to implement anti-inflationary policies, including curbs on

wage increases and welfare programmes. While the latter issues were particularly problematic for Italy given the power of unions and the wage system there, they joined with their European partners in setting a powerful agenda for the Bonn summit, with special consideration given to extracting an energy conservation commitment from President Carter and to pressing for greater monetary system stability.

At Bonn, Italy supported President Carter's demand-management approach to macroeconomic policy coordination, which focussed on the OECD's new "convoy" strategy for recovery, essentially a "collective locomotive" approach which combined different roles for specific countries in a unified effort at sustained growth. This strategy advocated greater rates of growth for West Germany and Japan and reductions in American energy imports, and Italy joined the United States at Bonn in their effort to convince West Germany to further stimulate its economy. While the traditional German fear of inflation made it difficult for them to budge on this issue, the convoy approach did receive an endorsement by the summit leaders in their official communique.

For their part, Italy responded to the expectation that more be done to fight inflation by making a commitment to greater non-inflationary growth. Andreotti pledged his country to a national growth target increase of 1.5% (which it more than fulfilled in the following year) combined with a package of public spending cuts and private investment stimulus, essentially a reiteration of commitments undertaken at earlier summits and an acknowledgement that the problems in the Italian economy remained unchanged.

On the other main issues at Bonn, Italy joined in the praise expressed for a framework arrived at by trade negotiators just days earlier for a planned completion of the Tokyo Round of the GATT. The summit leaders agreed to specify in their communique that the GATT negotiations be completed by 15 December 1978. Italy also stood with its European partners in a failed attempt to have European monetary integration formally endorsed at the summit, and joined its fellow summiteers in a spontaneous condemnation of international terrorism, perhaps the most interesting breakthrough at Bonn. On the whole, Andreotti was able once again to effectively play the concert game, mobilizing support for Italian efforts to cope with heavy constraints while attempting to forge forward with economic reforms, and working collectively with its closest European partners in pressing for much needed monetary stability free from the volatility of the marketplace.¹²

C. Tokyo I, 28-9 June 1979

The first Tokyo summit returned to the subject of coordinated energy management with full force, catalyzed by the onset of the second oil shock. For Italy this summit quickly became an issue of managing potentially conflicting team memberships, as European attempts to coordinate a collective energy response among themselves, which had begun at Bremen, were confronted by the American priority of specified national import targets. In the end, despite a valiant effort on the part of Prime Minister Andreotti, who was operating without a mandate -- his fifth government, and third in two and a half years, had fallen in March -- the American plan was adopted. That decision constituted a major loss for Italy both

nationally in terms of their expected oil import increases, as well as in the context of ongoing summitry, as the dynamics which produced the American plan's adoption threatened to fragment the concert of seven powers.

The Tokyo summit from the outset was a crisis management summit, leaving much of the detailed work to be done not by their sherpas but by the leaders themselves. Andreotti arrived confident that Italy's expectations of increasing oil imports, price increases notwithstanding, could be effectively managed through a collective EEC plan worked out in advance of the Tokyo summit. But the united European front which Italy had committed itself to was undermined during the summit by a French capitulation at a private breakfast agreement between Giscard, Carter, Schmidt and Thatcher. Italy's exclusion from such a discussion, which would have significant effects on the Italian economy, touched the very sensitive Italian chord concerning membership and participation in discussions affecting Italy, a threat to Italy's membership and role in the summit which was a harbinger of more serious conflicts of a similar nature in the future. In the end, the summit communique not only endorsed national energy import targets, but also included another American priority, a specific condemnation of OPEC's price manipulations.

While there emerged an unusual and impressive unanimity in the early discussions on macroeconomic policy coordination at Tokyo, the same could not be said for the more important energy talks which dominated the agenda. The news of OPEC's 25% price increase which confronted leaders after the summit had begun produced deep divisions within the concert. EEC members had earlier agreed to a collective position based on the Community's aggregate import targets, which were set at 1978 levels for the years 1980-85. The Americans were seeking specific national import targets and duration periods. An impasse was reached on the first day. Following a night of efforts by sherpas and energy ministers, all questions aside from import targets had been settled. At the aforementioned breakfast meeting the next morning, Giscard proposed a European acceptance of national import targets in return for an extension of Japanese, Canadian and American targets through 1985 to match the duration of European commitments. Schmidt and Thatcher supported Giscard, the former to avoid a failed summit, the latter because the UK no longer imported oil. The European Community, Italy, Japan and Canada had been committed in absentia.

The country most threatened by the shocking news was Italy (leaving aside the other non-summit EEC members with even less access to the decision). Andreotti needed to link oil import levels to overall economic growth rates if Italy's efforts at economic recovery were to be left unimpeded. His closest European ally, France, had violated the collective EEC accord. And his status as a "lame-duck" Prime Minister facing elections upon return to Rome further weakened his hand. He was left with no alternative but to "dig his heels in"¹³ to demand a footnote in the communique which would indicate Italy's commitment to the EEC's collective import target, which would simultaneously free Italy's imports to grow as GNP rose. While he was successful in safeguarding Italy's specific interest in this issue, however, Andreotti was left with the bitter reality that he stood alone and had been excluded from the discussion with the greatest potential impact on his country's economy, and therefore his party's fate in the upcoming election. It was a lesson in summitry Italy would safeguard itself more strongly against in the future, and based on which they took

advantage of their hosting of the next summit to institute important changes which would substantially alter the summits of the future.