

6. THE SPADOLINA-FANFANI SUMMITS, 1981-83

A. Ottawa, 20-22 July 1981

Italy was rocked by an earthquake in 1981, the effects of which caused significant political disruptions, including a PCI call for a coalition excluding Christian Democrats in the wake of inept relief operations. That tragedy combined with a political scandal, which involved the membership of leading cabinet figures in a secret Masonic society, to bring about the fall of the Forlani government which had taken over from the Cossiga coalition in October 1980. Just three weeks before the Montebello summit, a new five-party coalition, the first of its kind in post-war Italian politics, resulted in Republican Giovanni Spadolini becoming the first non-Christian Democrat Prime Minister since 1945.

Economically, Italy continued to suffer from a worsening growth rate, continuing high inflation, steadily rising unemployment, and a growing current account deficit, despite a marked improvement in its balance of payments. Like many of the summit members, Italy saw a direct relationship between its economic difficulties and the high interest rate-based monetarism instituted by the first Reagan administration in Washington. As a result, Spadolini arrived at Montebello with a priority on sending a message to President Reagan on the interest rate question; pursuing further the North-South questions Italy had pressed at Venice the year before; but above all, and consistent with the intentions of the host, Prime Minister Trudeau of Canada, getting to know the other leaders, five of whom, like him, were newcomers to the summit.

The summit began with inconsequential political discussions which evolved into a Europe-versus-America split over East-West trade. When attention turned to economic issues, Spadolini joined with West Germany's Schmidt, France's Mitterrand, and Canada's host, Trudeau, in a sharp criticism of high US interest rates. He made the case that the American policy was costing his country a percentage point's worth of GNP and was frustrating the anti-inflationary economic policies his government was instituting at home. He echoed Mitterrand's assertion that the fight against inflation could not be made at the expense of other important objectives such as reducing unemployment, and that it must not be undertaken with exclusively monetarist instruments like high interest rates and tight money supplies. Like the others, he then backed off in response to Reagan's reaction, agreeing to wait and see if the expected benefits would emerge over time.

On North-South issues, Spadolini made his most important contribution to his first summit, earning at least a minor victory for Italy in doing so. He joined Prime Minister Trudeau in pressing for agreement on North-South issues, especially the sending of a signal concerning the upcoming Cancun summit which was central to the effort at continuing global negotiations, on which Reagan and Thatcher reluctantly agreed to a compromise. And more importantly, Spadolini won specific approval for his call for accelerated food production programmes for the least developed countries, including both greater levels of food aid and increased exports of agricultural technology. As a result of these contributions, Spadolini continued the trend of Italian teamplay, and contributed significantly to a growing role for Italy at the Seven Power Summits, especially on North-

B. Versailles, 4-6 June 1982

The patience with Reaganomics exhibited by European leaders at Montebello did not endure until the next summit. The onset of the worst recession in the United States since the Great Depression and related French difficulties which led to a devaluation of the franc re-ignited the longstanding Franco-American conflict over stable versus floating exchange rates. Mounting US deficits and the continuing use of high interest rates to support the dollar, with their deflationary effects elsewhere, added to the widening conflict between Europe and the United States. Italy, perhaps the hardest hit of the summit countries, was experiencing negative growth rates, a declining but still high inflation rate, swelling unemployment, and the protectionist pressures these produced domestically.

The search for a solution to the mounting tension, especially between the USA and France, produced the compromise of a G-5/IMF Director multilateral surveillance mechanism. This temporary solution, which was endorsed at Versailles, began a steady trend towards growing reliance on the G-5 (and later, its successor, the G-7) to deal with macroeconomic policy coordination, while the summits themselves increasingly focussed on political issues, a trend closely related to the increasing free market-oriented ideology of key leaders, especially President Reagan. While the experts at the G-5 were capable of responding to the limited leadership being exerted on the big economic questions at the summits, reliance on them also meant that Italy, Canada and the EC were effectively left out of decisions whose importance mounted as the macroeconomic stalemate or lack of initiative of the summit itself continued.

Meanwhile, a second problematic issue emerged in the lead-up to Versailles which contributed to what would be one of the most difficult summits on record. Following the imposition of Martial Law in Poland, the United States began calling for a united response from the west which would extend American-imposed sanctions on East-West trade. Of special concern to the Americans was the issue of technology transfer, especially exports related to the natural gas pipeline being constructed between the Soviet Union and western Europe. Again divisions emerged among the summiters as the Europeans saw their interests in economic ties with the East bloc threatened by what were considered ideologically charged demands by the USA. Italy and France would be the hardest hit by sanctions against the East, and this divisive issue merely added to divisions already setting in prior to Versailles.

Finally, another traditional dividing line resurfaced en route to Versailles, on the subject of multilateral trade. The USA and West Germany were pressing for an agenda for a new round of GATT talks, while France and Italy saw economic recovery as a precondition for further movement towards liberalized trade. Meanwhile, Japan continued to pose a problem as it successfully penetrated western markets while protecting itself from imports. All of these issues which produced divisions between the summit countries and their leaders made the Versailles meetings challenging ones for all concerned.

The difficulty in dealing with such significant divisions within the summit was exacerbated by President Mitterrand's conscious effort to make the discussions more informal than they had tended to be prior to Montebello. On the political side, this produced an emphasis on the immediate crises of the Falklands War and the Israeli invasion of Lebanon (timed to coincide with the summit). On the Falklands issue, Italy was in the awkward position of being the only EEC member present at the summit which had refused to impose sanctions against Argentina (some 40% of Argentinians are of Italian descent). On both issues the summit was indecisive and leaders became frustrated with their lack of progress.

On economic questions, the criticism of US monetary policy and high interest rates was carried over from Montebello, but as with the GATT issue, little developed out of the discussions which took place. In the pre-summit deliberations among the sherpas, a compromise had been reached between the French and the Americans, another round in their differences over exchange rate management stimulated by French monetary difficulties rooted in US high interest rate policies. They agreed to study the effectiveness of exchange rate intervention, while maintaining the IMF's official conditions for evaluating the need for intervention. That commitment to IMF principles was indicated in the Versailles communique. Unfortunately the compromise led to communique language which left both sides in the debate confident that they had prevailed, which produced an embarrassing level of division within the summit once public statements and press interviews revealed the contradictory interpretations of what had been agreed to. While President Mitterrand saw the agreement as a victory for France's longstanding desire for reform of the international monetary system, President Reagan noted that his host had failed to read the fine print.

During the debate at Versailles, Prime Minister Spadolini indicated the Italian preference for intervention into currency markets and noted the effects on his economy of American failures to move in that direction. While the pre-summit monetary accord was endorsed, it left extensive room for divergent interpretations, as did the settlement of the East-West export credits question. While Italy naturally found itself in the company of the French on these divisive issues, Spadolini would have supported a compromise based on a trade-off of concessions on East-West trade by the Europeans in exchange for the longstanding French proposal for a monetary conference, which they supported. He also contributed to movement on North-South issues, especially the need for global negotiations, emphasizing the relationship between LDC purchasing power and sustained growth in the North.

Unfortunately, the necessary middle ground was not achieved on any of the important issues at Versailles, especially the key economic ones, as the dividing lines going into the discussions were merely intensified by inadequate pre-summit preparations, loosely coordinated and contradictory press briefings, and the vague, imprecise communique that resulted. In the end, the leaders left Versailles with very divergent interpretations of what had been agreed upon, creating an atmosphere of disarray and controversy which made the second French-hosted summit the worst one on record. The only positive effect of the Versailles summit was the powerful need it created for progress to be made at the next meeting of the seven powers.

C. Williamsburg, 28-30 May 1983

As a result of the Versailles fiasco, the overriding priority facing leaders heading into Williamsburg was to restore harmony and convergence to the summit process. The desire to do so and the momentum for achieving it were strengthened by important changes which occurred in the months preceding the 1983 summit. While President Mitterrand was busy reorienting French economic policies in the direction of austerity, the Reagan administration was responding to the international debt crisis by relaxing its tight monetary policies, producing a fiscal stimulus which resulted in a surge of recovery in the United States. In addition, the election of neoconservative leaders in both West Germany and Japan, Helmut Kohl and Yasuhiro Nakasone respectively, created a condition of considerable ideological homogeneity at Williamsburg, out of which harmony would return to the summit process.

In Italy, the second Spadolini government had fallen in November 1982 as a result of its inability to achieve results on its mandate to lower the public deficit and reform the wage indexation system. His government was replaced by a caretaker administration led by the experienced Christian Democrat Amintore Fanfani, who inherited the worst inflationary effects of the early 1980s, a public sector debt of 15% of GDP, worsening negative growth, and unemployment levels which continued to rise. With a record of success on settling the contentious issue of the inflationary *scala mobile* wage regime, and heading into a post-summit election, Prime Minister Fanfani shared the desire of his counterparts for a harmonious result at Williamsburg.

The Williamsburg meetings emphasized informal discussions consistent with the intimacy of the surroundings and aimed at recapturing the spirit of pre-Versailles summits, particularly the Montebello session. Once again the economic deliberations focussed on the American deficit and high interest rates. Fanfani expressed his doubts that the US recovery would be sufficient to ease Italy's worst unemployment problems since World War II. He joined in the chorus pressing for U.S. deficit reduction, stressing the beneficial effects it would have on markets and interest rates. Italy's preference was for carefully coordinated reflationary policies, a position still shared by France. In the end, however, little of significance emerged out of these discussions, as the American hosts, bolstered by British and West German support, held their ground.

The other major economic issue which surfaced at Williamsburg was the American desire to proceed with a new round of GATT negotiations, especially discussions which would address the emerging conflict over agricultural subsidies dividing the European countries and the USA. A standoff developed at the summit table, with the USA facing its strongest opposition from France and Italy. In the interests of summit solidarity and harmony, the Americans did not press the issue beyond the stalemate achieved at Williamsburg, and only a vague reference to the continuation of consultations on proposals for a new GATT round appeared in the final communique.

Far more significant at Williamsburg were the political discussions which focussed on the Euromissile debate, a priority agenda item for the Americans, and a focal point of

discussions catalyzed by Soviet threats of retaliation if the West proceeded with the Europmissile deployment. Despite considerable domestic unrest over the planned installation of new missiles in Europe, Fanfani joined Japan's Nakasone in softly backing their host in a heated disarmament debate initiated by Thatcher, which lasted for several hours and which threatened to divide the summit. Eventually an agreement on the indivisibility of the security of the participants, NATO and non-NATO members alike, and for the first time officially including Japan, was reached. In addition, the commitment to proceed with NATO's two-track approach to arms control was reaffirmed. That unanimity, however diluted by specific divergences it might have been, achieved the public display of solidarity all leaders had been seeking going into the summit. They left Williamsburg, as a result, with few detailed initiatives, but a restored harmony so necessary and important in the wake of the distressing effects of Versailles a year earlier. The virtues and necessities of team management of the international political economy had been reaffirmed.