7. BETTINO CRAXI'S SUMMITS, 1984-86

A. London II, 7-9 June 1984

The ideological homogeneity which had begun to emerge at Williamsburg and which had contributed to the regrouping there, and the return the next year of all the same leaders save one, made for a promising set of talks at London in 1984. The only newcomer was Italian Prime Minister Bettino Craxi, the first Socialist Prime Minister in post-war Italian history. Despite leading the Socialist Party (PSI), however, he advocated right-wing economic reforms in Italy, and had instituted the first true austerity budget in five years. Based on expenditure cuts and tax increases, the aim was to make progress on the public sector debt problem in Italy, which in real terms meant holding it at a nominally constant level.[19] Nevertheless, his presence at London reinforced the strong neoconservative homogeneity which had emerged to dominate the summits of the early 1980s.

The Korean Airlines jetliner crisis, the breaking off of arms control negotiations by the Soviet Union in the wake of the Euromissile deployments, and the Soviet boycott of the upcoming Los Angeles Olympics made East-West relations the most important political issue at London. While Prime Minister Trudeau, about to retire, delivered a valedictory statement pressing President Reagan to renew negotiations with the Soviets, Craxi and Kohl also pressed for a another round of talks, but with little effect. Other political issues focussed on the Gulf war and a British-led discussion on terrorism resulting from the Libyan embassy incident in London earlier that year. Italy joined with France in avoiding specific condemnatory references or commitments to action in the statement on terrorism, though important developments towards an anti-terrorism regime were made. All countries endorsed a statement on democratic values commemorating the 40th anniversary of D-Day.

The economic discussions at London focussed on trade liberalization and the debt crisis. The usual objections to American deficits and high interest rates were made, but there was a more powerful, confident consensus expressed, building on the success of Williamsburg, which focussed on the recovery which was seen to have begun. Of particular relevance was the emergence of a growing consensus concerning the utility of what came to be termed the "structural adjustment" aspects of Reaganomics, microeconomic policies aimed at deregulation and privatization. For his part, Craxi, sensitive to his need to bolster support in advancing economic reforms at home, benefitted from the discussion on structural adjustment which he could employ as a source of external authority in his domestic efforts. He contributed further to the summit by joining forces with Mitterrand to forestall the setting of a timetable for the next round of GATT talks and in pressing for the sending of a clear, supportive signal to debtors in the South. The former led to a weak commitment to work towards a new GATT round, while the latter resulted in an endorsement of the G-5's suggestion of multi-year rescheduling for the largest debtors, such as Mexico. This last issue, on which Italy played an important role, would prove to be the most important contribution of the second London summit as the debt crisis, while not disappearing, began to come under greater control.[20] Italy joined France and Canada in arguing that more funds should be provided to assist Third World countries through the existing channels of

trade deficit which it blamed on the economic policies of other countries, pressed strongly for an announcement of an agreed-upon starting date for GATT talks. Everyone but France was in favour of a 1986 starting date, though the Italians were sympathetic to the French line of questioning concerning the need for monetary reforms. Craxi and Delors supported Mitterrand's concern that the EEC's position -- that the timing of a new round, however necessary it was, could not yet be set -- be maintained, and the concern that the summit was not the appropriate forum for setting such a date. Both positions were in effect protecting the Common Agricultural Policy from possible inclusion in the subject of the talks, which was an American priority. Craxi did favour a 1986 starting date, but only if the exclusion of agriculture from the new round was guaranteed. Meanwhile, he also backed Mitterrand's call for a new Bretton Woods conference which would treat trade and monetary matters in a parallel fashion. His and Delors' attempts to find a compromise position -- 1986 in return for a monetary conference -- were nullified by Mitterrand's insistence that 1986 not be identified as a starting date, leading to an important if not earth-shattering consensus on one of the consistently most contentious issues of summitry: "most of us think this should be in 1986".[21] The first public acknowledgement of disagreement to appear in a summit communique, this vague statement was also a clear indication that the USA could no longer have its way on important issues opposed strongly by its teammates, and upon which the solidarity of the team might hinge.

Other economic issues were minor in comparison with the GATT controversy. General agreement was easy to reach on the North-South issues of debt and famine relief, which did not occupy a central place on the summit agenda. In addition, the subject of the environment, while emerging for the first time in summit discussions, did so with little significance.

On the political front, while the West German hosts had insisted going into the summit that the only political statement would be one commemorating the 40th anniversary of the end of World War II and highlighting the cooperation achieved by previous wartime enemies, everyone at Bonn was concerned with the new political priority of President Reagan, the Strategic Defense Initiative (SDI). In a debate heavily controlled by the West German hosts in order to avoid controversy, Craxi expressed his country's uncertainty concerning participating in the SDI programme. He also reported to his counterparts that he had received a letter from Secretary Gorbachev inviting him to Moscow and repeating the Soviet opposition to SDI, and indicated his intention to accept the invitation. No statement on SDI found its way into the summit's official communique.

The other political discussion of significance at Bonn emerged spontaneously during a dinner conversation in which Prime Minister Thatcher inquired about Nancy Reagan's anti-drug efforts with American youth. An unexpectedly fervent discussion followed, out of which it was agreed to create a study group to look at ways of dealing with the drug problem common in some degree to all summit countries. While the deliberations on drugs were informal and unplanned, they did lead to strong language in the communique[22], and introduced to the summit an issue which would become more important over time, and on which Italy would eventually take a leading role.

The Bonn summit thus ended with a mixed set of results. There had been a failure to deal with the difficult monetary/trade nexus, but a clear set of economic policy statements reflecting a high degree of consensus emerged. Similarly, the failure on SDI was tempered by additional movement on North-South relations and the introduction of the new issues of drugs and the environment. By the end of the second Bonn summit, a growing role for Italy at the summits was beginning to emerge. Linked to an economic turn-around that would soon reach surprising proportions and a leader with a stable coalition who was increasingly carving a place out for Italy on the major team-oriented issues of North-South relations and macroeconomic coordination, these trends would continue into the future, intensified en route to Tokyo by the catalyst of another threat to Italy's membership and participation in key collective decisions affecting all the summit partners.

C. Tokyo II, 4-6 May 1986

The Italian economy continued to show signs of improvement into 1986. While growth was sluggish, it was nevertheless related to important trade improvements and the coming into its own of the Milan Bourse stock exchange, which had doubled its index by halfway through the fiscal year.[23] While unemployment and inflation rates remained higher than in the other summit countries, and the public sector deficit continued to pose a threat, things were looking brighter for Prime Minister Craxi, who was enjoying an unprecedented duration in office, especially for a leader from one of the smaller parties in the Italian political system.

But despite these signs of genuine improvement, Italy found itself faced once again with a serious threat to its claim to co-equal participation in concert decisions before the Tokyo summit. On this occasion the event which triggered the crisis for Italy was a direct outgrowth of the tendency which had developed within the summits since Montebello: the increasing reluctance by political leaders to deal with the major issues of macroeconomic coordination. Partly due to a lack of expertise (the leaders were no longer, as their predecessors had been, former finance ministers capable of dealing with the details of economics questions), and partly grounded in the neoconservative consensus against political interference in market-oriented economic processes, the tasks of managing the major economic issues of the day had increasingly fallen to the G-5 group of finance ministers, especially after the mandate to undertake multilateral surveillance was handed to them at Versailles. While this placed the responsibility for complex issues in the hands of the technical experts, it also directly excluded three summit participants from the management of those affairs. As the role of the G-5 grew in importance over time after Versailles, the significance of being absent from its deliberations and decisions escalated.

By 1986, the significance of the G-5 was becoming such that Italy could no longer tolerate being excluded from its discussions. When the G-5 arrived at the Plaza Accord in New York in September 1985, they assembled for the purpose of making their first ever public statement. Embracing US Secretary of the Treasury Baker's proposal for an orderly appreciation of non-dollar currencies and US participation in coordinated exchange rate intervention, the G-5 was in effect doing the work the summit had failed to achieve in Bonn. For Craxi, that action on the part of the G-5, however welcome from the perspective of achieving policy coordination, fundamentally altered its role in a way that comprised a major threat to Italy's interests in summitry.

Italy had supported the activities of the G-5 as long as it continued to meet secretly and did not take any operational decisions. The Plaza Accord, in Prime Minister Craxi's view, had been far too public in nature and operational in substance. Moreover, as a result of the Baker Plan, to which Italy had not been privy, the Bank of Italy ended up spending three billion dollars of reserves to support the lira and keep it in line as the mark rose against the dollar. The vulnerability which Italy felt, a result of the economic interdependence which the Seven Power Summits were created to manage, and which was exacerbated by a decision from which Italy had been excluded, made the expansion of the G-5 and its subordination to the summit Italy's priority en route to Tokyo. If the G-5 was to begin to play a more direct coordinative role in macroeconomic policy management, Italy wanted it expanded to mirror the summit's membership, and clearly subordinated to the latter and the political leaders comprising it.

Aside from the real political insult this issue dealt Italy, what Craxi reacted to most was the idea that the G-5 could take decisions and initiate policy changes which the Seven Power Summits had not approved. In other words, the finance ministers of five countries could move macroeconomic policy forward in a manner in which they were either creating new commitments not endorsed by all affected political leaders, or contravening agreements previously reached by them. This was especially problematic, naturally, for those countries not included in the G-5. As a result, Craxi began a campaign leading up to the Tokyo summit to have the G-5 expanded to include Italy (and, by implication, Canada). He conducted this campaign against the wishes of his central bankers but encouraged by his foreign ministry.

Craxi's efforts began with a reminder to President Reagan that during the Euromissile debate in 1979-80 the USA had promised "never again to take decisions of direct concern to Italy without consultation".[24] The President, seeking Italian support on the Libyan question, honoured that commitment and agreed to an enlargement of the G-5 to include Italy and Canada in an announcement at the January 1986 meeting of the G-5 in London. This was a move seen as necessary by Reagan's key advisors. By tying the meetings of the finance ministers more directly to the summit process, they could both ensure political ratification of G-5 initiatives and place pressure on finance ministers to produce a more effective coordinative mechanism. Accordingly, the USA convinced Britain's Nigel Lawson to make that question the first item on the G-5 agenda in London. US Treasury Secretary Baker then supported Italy's subsequent inclusion in G-5 discussions, over British and French finance minister opposition but based on President Reagan's "positive and final" decision to support Craxi. The Japanese remained quiet on the issue, wishing neither to expand the G-5 nor to undermine the upcoming Tokyo summit.[25]

Craxi then dealt bilaterally with both Mitterrand and Kohl, who were not sympathetic to expanding the G-5, by threatening serious consequences within the EEC if Italy was not brought into the group. While Mitterrand capitulated, Kohl wavered under the pressure of his finance minister, and the matter remained unsettled but on the agenda in the lead-up to Tokyo.

As had been the case at the first Tokyo summit, the issues to be discussed by the leaders were decided by events just prior to the gathering. In this case the key agenda-setting stimuli were the American bombing raid on Libya three weeks before the summit, in retaliation for alleged Libyan-directed acts of terrorism in Europe and the Middle East; and the Chernobyl nuclear disaster in the Soviet Union just prior to the Tokyo meeting. On the former, a clear condemnation of terrorism, including the naming of Libya, and an arms embargo on terrorists and their sponsors were achieved, adding to the EEC diplomatic sanctions set in motion before the summit. These initiatives were introduced by Margaret Thatcher, mostly to avoid the likelihood of further unilateral military actions in the future.

Italy, having begun a more active diplomatic role in the Mediterranean region, was sensitive to developments in the Middle East. Craxi had taken a strong position against the American military raid, especially because of the difficulty the Americans had caused for his government during the Achille Lauro incident earlier in the year. Such an anti-US stance had prevented his government from falling after the US forced the jet with the hijackers aboard down at a NATO base in Sicily. At Tokyo, Craxi joined with the others in condemning terrorism, while maintaining the EEC position that economic sanctions were not an appropriate response, while diplomatic sanctions certainly were.

On the Chernobyl disaster, it was Kohl who took the initiative, sensitive to his domestic environmental constituency. A quick agreement was reached on the West German statement,and a possible disagreement between Italy and her more nuclear-oriented teammates or between the US and others with less of an East-West perspective on the issue, was avoided. The public reassurance offered by the summit leaders on such a sensitive topic was an important signal of the leadership role they saw as vital for the summit process.

Two important economic discussions took place at Tokyo. One focussed on the continuing problem of agricultural subsidies, a discussion which emerged spontaneously among the leaders and had not been subject to sherpa preparations. The second centred around the finance ministers' achievements in macroeconomic policy coordination, especially the Baker proposals concerning joint economic performance reviews based on ten common macroeconomic indicators (the surveillance mechanism discussed at earlier summits and operationalized by the G-5).

The introduction of the thorny agricultural subsidies question -- another spontaneous initiative of Margaret Thatcher -- stimulated a growing and important collective awareness of the need for action on all sides to rectify an increasingly ludicrous source of trade distortions and disputes. The talks among the leaders not only led to a serious statement acknowledging the problem and calling for action in the summit communique, but served as a powerful agenda-setting stimulus for future trade talks and subsequent summits.

The finance ministers' discussions on macroeconomic coordination on the first day of the summit catalyzed the next stage of the G-5 controversy Italy had been struggling with throughout the year. The problem was that Baker's impressive Plaza Accord proposals for a multilateral surveillance regime grounded in ten universally agreed-upon indicators[26] which everyone endorsed, had been intended only for the G-5 countries. Italy strongly supported the move towards more disciplined coordination and the stability it was expected to generate, but because Baker's proposals did not include all seven summit countries, Craxi subjected them to harsh criticism. He condemned the Baker proposals as strengthening the G-5, and hence the finance ministers, at the expense of the summit seven and the political leaders. If a consensus was not reached admitting Italy to the G-5 that evening, he threatened, he would withdraw from participating at the summit beginning the following morning. With Mulroney joining him in advocating the abolition of the G-5, and the support as promised earlier from Reagan and Mitterrand, a compromise was ultimately achieved with a recalcitrant set of G-5 finance ministers and an EC delegation (led by the Dutch) angered at not being included on the basis that they did not represent an individual sovereign nation. Thus a new group of seven finance ministers was created to operate in parallel with the G-5 whenever the discussions of the latter involved the overall management of the monetary system and policy issues related to it. The differences between the two groups would be the inclusion of central bank governors along with finance ministers and their deputies in the former, and a differentiation of tasks, the G-5 dealing with intervention strategy and the G-7 with multilateral surveillance.[27]

While this resolved the immediate crisis, it would not be sufficient for long, as a new round in Italy's effort to be part of the G-5 club and link it more directly to the summit seven would develop not long after the Tokyo summit. Italy would not be satisfied with being admitted into a new but only peripheral group. Nevertheless, this issue, in which Italy was a central player, was the most significant achievement of the Tokyo summit. Most important of all was that the procedural wranglings initiated by Italy would ultimately produce an even stronger multilateral regime with the summit at its apex: the events at Tokyo had strengthened the momentum towards more specific instruments of real policy coordination which had eluded the summit seven since the great need for them was acknowledged during the troubled days of the Versailles summit. By insisting on being recognized as a legitimate member of the multilateral team, Italy had directly strengthened the movement towards greater team play and the collective management of the international political economy it implied.

A final issue accorded less centrality in the summit discussions involved another of Secretary Baker's initiatives, the now-famous Baker Plan for developing country debt which had been unveiled at the annual IMF/IBRD meetings in October 1985. It called upon debtor countries to undertake structural adjustment policies within their economies to stimulate growth, in return for greater loan assistance. Such new lending would come primarily from the private banking sector, who in aiding the growth in developing economies, would ultimately be helping them to pay back the debts owed the banks. The summit officially endorsed the Baker Plan in the communique, effectively encouraging the extension internationally of some of the principles of Reaganomics, which despite their optimism served only to guarantee in their failure that the debt issue would soon regain its status as a central issue at future summits.