The Italian Financial System in the Mid-1990s: A Difficult Transition *

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1. Introduction

The Italian financial system is now in the midst of a complex transition, in the search for an elusive compromise between a framework hinging on the "German-style" universal bank and the "market-oriented" Anglo-American system.

In our reflections on the theme of the changes triggered within the Italian financial system by market globalization and regulatory innovation, it will be helpful to frame our reading of the transformation by reference to some specific theoretical approaches (Section 2). This undertaking will certainly be useful to understand the dual linkage of cause and effect that binds our financial system to the evolution of Italian capitalism.

The international opening and modernization of Italian finance and the stimulus of European Community directives are two of the factors at work to transform the old system and overcome its inefficiencies, restrictions and ambiguities. These two propulsive forces, their accomplishments and the ground still to be covered form the main object of the observations set forth in Sections 3 and 4.

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The Italian economy remains heavily bank-centred, but it has undergone significant changes – nor could it have been otherwise – as a result of intensifying competitive pressures due to the liberalization of capital movements, the removal of constraints, the shift from the structural to the prudential approach to banking supervision, the issue of the Community's Second Banking Directive and related measures, and finally the winds of globalization. These factors are briefly analyzed in Section 5.

Recouping the functional effectiveness of the Italian financial system means recasting its ties with the business and corporate community. Limits and obstacles to this effort, as we shall see in Section 6, are constituted not only by the inadequate analysis of the linkages between the financial structure and the real economy but also, indeed chiefly, by the decades-thick sedimentation of patterns of behaviour, the consolidation of customary practices on the part of both banks and firms that have little or nothing to do with an efficient nexus between finance and industry. The role of the European Union, including its monetary role, as a spur to the further evolution of the Italian financial system is emphasized in the brief concluding section.

2. Markets, intermediaries, firms: some theoretical touchstones

The limits to the search for a theoretical tool for interpreting the transition of the Italian system are those so lucidly identified, in general terms, by Douglass North (1994, pp. 359-361) in his Nobel Lecture on the dynamic analysis of institutional change:

> "A theory of economic dynamics comparable in precision to general equilibrium theory would be the ideal tool of analysis. In the absence of such a theory we can describe the characteristics of past economies, examine the performance of economies at various times, and engage in comparative static analysis.
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> [...]
>
> The neoclassical result of efficient markets only obtains when it is costless to transact. [...] When it is costly to transact, then institutions matter.
>
> [...]
>
> It is the interaction between institutions and organizations that shapes the institutional evolution of an economy. If institutions are the rules of the game, organizations and their entrepreneurs are the players".

No general theory that can rationally explain the existence and evolution of economic and financial systems has been produced by the economists of the XX century. Nor, according to Frank Hahn (1991, p. 50), will the next hundred years witness any more substantial success in this vein:

> "Not only will our successors have to be far less concerned with the general [...] than we have been. [...] Not for them the grand unifying theory of particle physics which seems to beckon physicists. Not for them, or at least less frequently for them, the pleasures of theorems and proof. Instead the uncertain embrace of history and sociology and biology".

In markets that inevitably fail to satisfy the neoclassical canons of perfection and completeness, the existence of intermediaries (organizations, to use North's terminology) and of institutions is justified in theory as a useful if not necessary instrument for achieving a second-best equilibrium. Along these lines, more than one strand of analysis in the course of the past thirty years has wrestled with the problem of providing an analytical rationale for the nature and functions of various financial systems, sometimes examining their differing consequences in terms of social welfare and the growth path of individual economies.

From the "new view" (Gurley and Shaw 1960, Brainard and Tobin 1963) to the legal restriction theory (Fama 1980, Wallace 1983) and on to the latest developments in the economics of information and contracts (Akerlof 1970, Diamond 1984, Rees 1987) and non-cooperative game theory (Kreps and Wilson 1982, Terlizzese 1988), the practical impossibility of setting the analysis of financial systems within a Walrasian general equilibrium framework has become increasingly evident. Indeed, the growing theoretical awareness of such problems as informational asymmetry, principal-agent relations, and strategic interdependencies has directed economists' attention to Arrow-Debreu-style deviations from equilibrium as the microfoundations of financial intermediation.

The build-up of these successive stages of analysis has issued forth in the most recent approaches to the functioning and the dynamics of financial systems, and in particular the "functional perspective" (Crane *et al.* 1995) and the distinction between "banking" and "market" economies (Franks and Mayer 1994, Mayer 1994).

The former approach concentrates on a grid of functions that any and all financial systems must necessarily serve. Moreover, it is precisely the uncertainty over the particular compromise that Italy will eventually arrive at between universal banking and the market-oriented system that makes the functional perspective especially relevant. The framework laid out by Crane *et al.* considers six basic functions:

- furnishing a clearing and settlement system;

- supplying the machinery to collect resources from a large number of savers and pool them to finance investment;

- providing ways to transfer economic resources across time and space, both within and across national borders;

- making available instruments for uncertainty management and risk control through hedging, diversification and insurance;

- disseminating information on the level and variability of the prices of financial products to foster coordination of the independent choices made by agents in all the different sectors of the economy;

- reducing the "problem of incentives" and the costs of agency that derive from substantial informational asymmetries between the parties to major financial contracts.

The functional approach can also help in a summary analysis of the rough passage the Italian financial system is currently in the throes of. It is clear that the encounter between advocates of the German and the Anglo-American schools of capitalism – admittedly now in the process of dissolution at the hands of deregulation and financial innovation – is destined to prove barren unless we make more specific reference to the reality of those involved: the securities market, intermediaries and firms.

Gauging the Italian financial system by this functional yardstick, the results are hardly flattering. Of the six functions, only the first three can be considered satisfactorily developed at present. What is more, while some decisive advances have been made in recent years in modernizing the settlement system, especially for interbank payments, the coverage of the banking system has been enhanced thanks to branching liberalization, and the range of financial products offered by the post office has been greatly diversified, the internationalization of

the economy has yet to produce significant, homogeneous modifications in the behaviour of firms and above all households.

Moving further down in this functional taxonomy, it is clear that the areas in which our system is furthest behind are those of risk control and informational transparency with regard to saving and investment decisions, or at least the availability of consistent mechanisms for reducing informational asymmetry.

The analytical approach based on the bank-market dichotomy is more traditional, perhaps, but also more closely descriptive of the historical situation and its recent evolution in Italy. In this framework "banking economies" are characterized by the low incidence of industrial firms listed on the stock exchange, high concentration of share ownership, and long-term relationships between banks and industrial corporations. The "market-oriented" economies, by contrast, feature a high proportion of listed firms, low concentration of share ownership, and short-term relations between banks and industry (Sarcinelli 1993a and 1993b).

On proper inspection, what sets these two models of economy apart is their different "response" to the problems of risk management and to the operation of informational asimmetry. In the market economies the solution – evidently a second-best – to the failure of the general equilibrium schema consists in a mechanism of horizontal dispersion of risk among a large number of investors (Arrow 1953). In banking economies, the stress is on a vertical or intertemporal model of risk sharing, effected in the long run between banks and firms.

In this model, the concentration of corporate ownership and the low risk of takeovers are seen as the necessary condition to induce financiers to establish lasting relationships with borrowers. By the same token, if concentration is a requirement for financing, resort to bank credit in turn becomes a necessary condition to maintaining the high concentration of corporate ownership.

There is, then, an ineluctable nexus between the financial and the entrepreneurial systems, a relation of dual linkage. The distinction between market and banking economies is nonetheless insufficient to account for cases like Italy, where the legislative philosophy of separation between banking and industry led to the degeneration of a system based on intermediaries while at the same time preventing the development of a market-oriented model. An especially lucid reading of this interpretation is that of de Cecco and Ferri (1994, pp. 35-37):

"It would be harsh to contend that the Italian financial system clipped the wings of industry by making access to ordinary and special credit difficult. What does appear clear, after half a century's operation of the system – inaugurated, it is true, in 1936 but really only tested in the postwar period – is that what was lacking was not credit but high-quality financial services, that is the synergy between banks and firms that Colin Mayer so greatly admires in Germany and Japan. [...] Italy thus appears as the world's sole exemplar of a business community heavily dependent on the banking system yet perfectly uninterested in establishing with it the sort of close relationship that recent economic analysis has found leads to the fruitful melding of the respective skills of entrepreneurs and bankers, to the benefit of the country's industrial development".

The separation between ordinary and "special" (medium or long-term) credit, the practice of borrowing short-term from a multiplicity of banks, the requirement of real collateral for lending, the use of public guarantees for medium-term and above all for subsidized credit were among the factors that helped impoverish Italian "relationship banking", understood as an expression of *intuitus personae*, of the professional skill and competence in knowing and judging the customer that should constitute the foundations of the banking function.

3. The international opening and modernization of Italian financial system: some indicators

Of the major European countries, Italy is the one that remained longest at the margins of international financial integration and liberalization, which stands in contrast to the country's very active role in world trade. In the 1970s and '80s Italian participation in the process of financial integration was uneven. Residents' indebtedness to non-residents was favoured, and concomitantly, in order to facilitate the financing of the current balance-of-payments deficit, the acquisition of foreign financial assets by Italian investors was discouraged.

Between 1972 and 1983, which is to say before the barriers to capital movements began to be dismantled, the foreign component of Italy's financial assets fell from 10.8 to 3.2 per cent, while the incidence of external liabilities rose from 5 to 13.2 per cent.

Between the end of 1983 and May 1990, Italy gradually adopted the European Community's directives for foreign exchange liberalization. This made possible a very considerable internationalization of the Italian financial system, especially in the form of external diversification of residents' financial assets portfolios.

The abrogation of constraints also boosted capital inflows. Combined with the improvement in some economic fundamentals, liberalization enhanced the international financial community's confidence in Italy. At the end of 1994 the external component accounted for 9.2 and 11.4 per cent, respectively, of the country's total financial assets and liabilities.

Like France, another major country in which the elimination of capital controls came relatively recently, Italy has regained at least part of the ground lost earlier. A significant indicator in this regard is the swift expansion of cross-border securities business, which soared from 4 per cent of GDP in 1985 to 118 per cent in 1992, bringing Italy roughly into line with international standards.

The external diversification of portfolio investment displays a similar trend. The stock of Italian residents' foreign investments rose from 5.4 per cent of GDP in 1990 to 15.6 per cent in 1994. The incidence of foreign investment in Italy rose from 4.6 to 18.6 per cent.

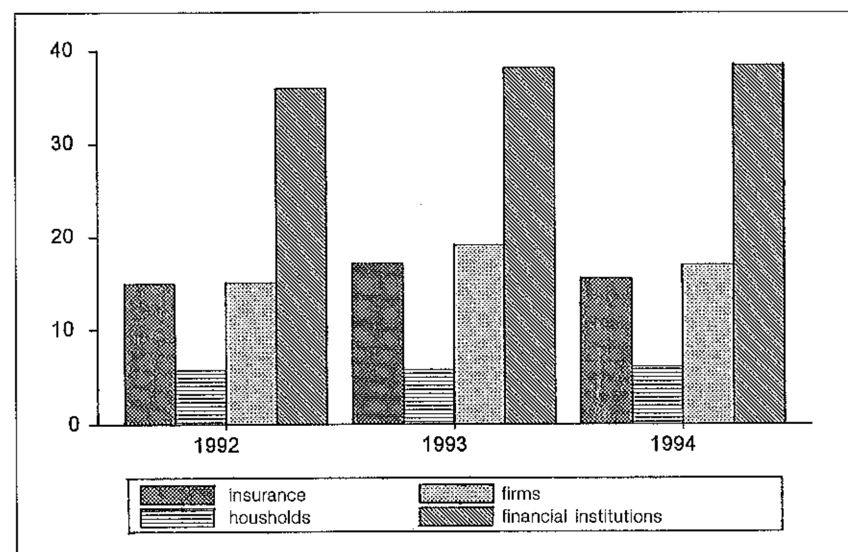
Exchange liberalization was a watershed for foreign lending and foreign direct investment as well. The stock of Italian investment abroad expanded from under 4 per cent of GDP in 1990 to about 9 per cent in 1994.

To return to the topic of financial investment, the spaces opened up by the removal of foreign exchange controls have not been exploited in the same manner by the different sectors of the economy. The strong interest shown by financial institutions and firms contrasts with the comparative apathy of households (see Figure 1). This confirms the private rejoinder made by the writer of this article, in 1987 and thereafter, to the numerous observers who expressed open fears or veiled criticism of liberalization, on the grounds that the whole of Italy's financial resources, including monetary ones, would flee to Paris or Frankfurt.

Between 1990 and 1994, the share of the securities portfolio accounted for by foreign assets rose from 19 to 38 per cent for financial institutions and from 8 to 17 per cent for firms. But for households it remained more or less unchanged at 5 to 6 per cent. On the liabilities side, the share of the public debt held by foreign investors increased substantially, from 5 per cent in 1990 to 14 per

FIGURE 1

THE EXTERNAL SHARE IN THE FINANCIAL WEALTH OF SOME ECONOMIC SECTORS
(percentage of total share and bond assets)



Source: Banca d'Italia, *Conti finanziari*.

cent in 1994. Even so, this figure remains low by comparison with other major countries.

The natural process of adjustment to the complete abolition of foreign exchange controls in 1990 has by now probably largely run its course. If Italy's holdings of foreign assets are to continue to expand, the country needs to overcome other, equally important obstacles. Despite the striking progress of recent years, the gap separating us from the most highly developed markets remains substantial and in the absence of well-conceived measures risks widening still further.

The Italian stock market is still of marginal importance both globally and by comparison with our main European partners. The index of stock exchange capitalization as a proportion to GDP puts Italy, at 15 per cent, together with Austria at the bottom of the global ranking (see Table 1). The correlation coefficient between the leading foreign stock exchanges shows lesser correspondence between the London and Milan stock market indices than between London and the Paris or Frankfurt bourse.

TABLE 1

STOCK MARKET CAPITALIZATION
(as a percentage of GDP)

Country	1975-80	1981-85	1986-90	1991-94
United States (NYSE)	42	42	50	65
Japan (Tokyo) [1]	25	39	157	125
Germany	11	12	28	29
France	13	6	26	39
Italy	7	7	19	15
United Kingdom	48	50	95	112
Canada (Toronto)	40	40	51	54
Australia	41	39	58	59
Austria (Vienna)	3	3	12	18
Belgium	15	11	38	41
Denmark (Copenhagen)	16	16	35	44
Finland (Helsinki)	n.a.	10	33	29
Luxembourg	57	150	428	208
Mexico	n.a.	25 [2]	12	30
New Zealand	n.a.	31	38	42
Netherlands (Amsterdam)	18	20	54	66
Norway (Oslo)	n.a.	12	29	34
Spain (Madrid)	27	7	20	24
Sweden (Stockholm)	18	35	78	70
Switzerland (Zurich) [1]	46	53	120	152

[1] From 1991 onwards, nationwide total.
[2] 1983-85.
Sources: Fédération Internationale Bourses de Valeurs and OECD.

Despite its recent growth, the depth of the Italian foreign exchange market remains comparatively modest (see Table 2). A BIS survey referring to April 1995 puts daily foreign exchange turnover in Italy at 2.9 per cent of GDP, which leaves Italy behind even such second-rank financial markets as France (4.4 per cent) and Germany (3.9 per cent).

The development of financial derivatives markets is still in its infancy, and part of this business tends to be directed to the more efficient foreign exchanges. Turnover on futures contracts on Italian government securities is greater on LIFFE, in the UK, than on the

TABLE 2

AVERAGE DAILY FOREIGN EXCHANGE TURNOVER
(net amount in billions of US dollars)

Country	April '89	April '92	April '95	% of GDP
United Kingdom	187	290	464	45.7
United States	129	167	244	3.7
Japan	115	120	161	3.5
Singapore	55	74	105	169.1
Hong Kong	49	61	91	80.0
Switzerland	57	66	86	33.1
Germany	n.a.	57	80	3.9
France	26	33	58	4.4
Australia	10	19	30	2.9
Italy	30	30	4	12.4
Total [1]	620	880	1230	

[1] Net of double counting.

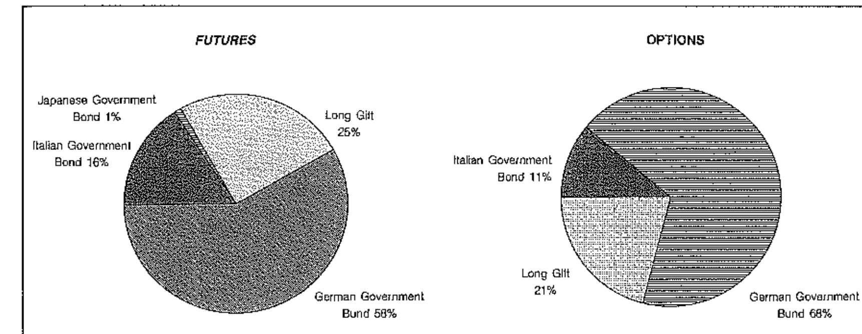
Source: BIS, *Central Bank Survey of Foreign Exchange Market Activity in April 1995*, March 1996, Basle.

Italian futures market MIF. The success that derivatives on Italian securities have registered abroad – on LIFFE, for instance, 16 per cent of all government securities futures and 11 per cent of the corresponding options are Italian (see Figure 2) – can be ascribed largely to the breadth of the underlying market in Italian government securities, which by outstanding volume is the world's third-largest, behind the United States and Japan.

The globalization of the Italian banking system can be euphemistically described as "incomplete". The unsatisfactory projection of Italian credit institutions abroad is underscored by two circumstances. First is the modest performance of Italian banks in their foreign business. It has been authoritatively observed (Banca d'Italia 1995, p. 304) that the foreign branches of Italian banks do not always seem capable of operating successfully in highly specialized and competitive markets, and their presence is limited even in the traditional markets. Second, there is the fact that as of June 1995 some 60 European banks had notified the authorities of their intention to do business in Italy under the EU's freedom to provide services, while no Italian bank had taken analogous steps.

FIGURE 2

GOVERNMENT BONDS FUTURES AND OPTIONS TRADING
(number of contracts traded on LIFFE, January-July 1995)



Source: LIFFE.

Despite the development of recent years, Italy's share in the international investment flows of the leading industrial countries, both direct and portfolio, remains very small. It is generally below the figures registered by the other main European countries, such as Germany and France.

Italian firms too rarely show interest in merger with foreign corporations, which is reflected in the slow pace of merger and acquisition activity. The number of takeovers of foreign by Italian firms has shown no upward trend in recent years, going from the 155 acquisitions registered in 1990 to 103 in 1994. The same goes for foreign acquisitions of Italian companies, which declined from 188 in 1990 to 144 in 1994.

Italian securities represent a modest 1.1 per cent of international investors' total portfolio. To explain this underrepresentation exclusively by reference to country risk would be reductive. A necessary if not sufficient condition to proceed with Europeanization and globalization appears to be the further refinement of the regulatory arrangements governing Italian financial markets. In doing so, it must not be forgotten that what has been accomplished is not just the fruit of the Community's liberalization of capital movements but also of the adaptation of Italian legislation to the Community's directives on the structure and the activities of markets.

4. Financial intermediation in Italy: the stimulus of the Community directives

European integration has provided the decisive stimulus to the renovation of Italy's financial legislation. The framework of the Community rules on financial markets has been gradually extended in parallel with the intensification of the integration process itself. Since the end of the '70s the system of regulations has been reoriented towards more competition, while the focus of regulation has been shifted from institutions to activities.

Community directives have provided an external constraint obliging Italy to adjust its financial regulations, although some of the domestic measures decided on were not required by the directives and some others actually preceded the Community legislation. Recommendation 77/354 for a European code of conduct on securities transactions has been followed by an unbroken series of directives to implement the principle of full and correct public information (Directives 79/279 on listing requirements, 80/390 on the listing prospectus and 82/121 on periodical information requirements) and the prevention of improper conduct (Directives 88/627 on corporate raiders and 89/592 on insider trading). The edifice was completed in 1993 by the keystone directives on the capital adequacy of intermediaries (93/6) and on financial services (93/22).

Until 1991, when the law on securities firms went into effect, the Italian financial market was still framed by organizational arrangements all conceived between 1913 and 1932, with the exception of the screen-based market in government securities, whose importance admittedly can hardly be overstated (Padoa-Schioppa 1995). In any event, the new regulatory framework did not move in the direction of fewer rules but towards a system with a different *modus operandi*.

The efforts of legislators and the administrative authorities to provide incentives for the development of the securities market have produced, as we know, rules governing open and closed-end investment funds, SICAVs, securities firms, pension funds, real estate investment funds, takeover bids, insider trading, information requirements for accepting savings from the general public, the simplification of issue procedures, and securities clearing and settlement.

However, this regulatory activity has not always been so conceived as to avoid the segmentation of intermediaries' business, even though such segmentation is natural only if it arises from a market decision, i.e. an operational specialization.

This legislative evolution has now endowed Italy with a regulatory framework less out of line with those of the more advanced financial systems, but it has not yet succeeded in overcoming the underdevelopment of many segments of our financial market. The latter, as the chairman of the Companies and Stock Exchange Commission (Consob) has observed, has its "contradictory aspects", namely an excessive propensity for bank credit rather than securities issues as a means of corporate finance. Specifically, whereas share issues by already listed companies are more or less on a par with those in other countries, testifying to the primary market's sizeable subscription capacity despite its modest overall capitalization, the raising of fresh capital on the stock exchange continues to be the province of a restricted group of companies with a significant presence in the financial sector (Berlanda 1995).

The same kind of contradiction is found in the bond segment, where in April 1995 no less than 87 per cent of the total volume outstanding consisted of public paper, while the bonds of private Italian firms represented a mere 0.3 per cent, or just 6 trillion lire. Even adding in the issues of public enterprises and foreign corporations, the portion accounted for by non-bank, non-government securities comes to no more than 1.5 per cent.

In a situation of fierce competition in which individual exchanges and markets seek to attract business by cutting red tape and enhancing the efficiency of trading, if the modernization of the Italian system is not completed, the gap separating us from the more advanced markets could actually widen (Onado 1995).

An excellent opportunity to counter this risk and overcome Italy's relative backwardness has been offered by the transposition into Italian regulations of the Community's framing directives on financial services and by the introduction of Italy's new banking code, the Banking Law of 1993. The basic objective remains that of extending the markets, enhancing their efficiency and transparency, and improving operating conditions.

4.1. *Italian financial legislation: the qualitative shortcomings*

Pending the restatement of the whole financial legislation to be effected in connection with the introduction of the keystone direc-

tives, what is the most reasonable assessment of the enormous effort of regulatory adjustment to bring a system whose development had been arrested in 1932 into the modern world? An attentive observer (Visentini 1995, p. 46) has delivered this judgement:

> "The legislation on the securities market and the stock exchange has proven needlessly complex and, as has been observed at the Community level as well, autarkic and protective of national operators. [...] The legislation on securities firms, takeover bids, and insider trading is mediocre in structure and technique and in substance conserves the pre-existing system. It is accompanied by fiscal legislation that [...] has not favoured the market [...] but actually aggravated the tax regime during period in which the capital gains tax was [in effect]".

In what follows I cite three instructive examples, one in the institutional field, one concerning intermediaries, and one involving activities. On the institutional front, it is difficult to deny that the institutional role of the Consob itself has become uncertain. Originally created as the regulatory agency for the stock exchange and corporate information, with the express purpose of attenuating informational asymmetries, under the chairmanship of Franco Piga the Commission eventually assumed, in part, the role of a supervisory authority for the securities industry, necessarily oriented to regulation. The Consob's shift from fair play rules to prudential regulation was one of the afflictions of the writer of this article when he served as Director General of the Treasury. Needless to say, the diversity of the tasks assigned to the Consob does nothing to facilitate their accomplishment; worst of all, it ultimately saddles the Commission with responsibility for dysfunctions and malfunctions for which operators or the market are actually to blame, on the widely shared assumption (or presumption) that the supervisory agency must see to everything.

A positive assessment of the Consob's action, especially in the last few years, is offered by Nardozzi and Vaciago (1994), but even they agree with the view that it suffers from a degree of "opacity" *vis-à-vis* the market, which does not enjoy access, via publication, to the mass of data that the Commission collects. This criticism, however, is flanked by the observation that the tools at the Consob's disposal are not entirely adequate to its mandate.

Nardozzi and Vaciago argue that making the Commission financially independent would help resolve this contradiction. However, the recent decision for self-financing has made the institutional machinery, if possible, even less accountable. In the past, it was the budget allocation that set the limits to the Commission's activity; in the future this will no longer apply, and certainly the Consob will gain in independence and visibility. Yet since, quite properly, the "taxpayers" have no franchise to "vote" on the programmes of their supervisors, we have a classical case of taxation without representation. The way the SEC is funded, still through the Treasury, is preferable.

Anyone with misgivings as to the quality of the regulations on intermediaries need only look at the legislation on securities firms in order to transform them into certitude. The law is the resultant of a series of difficult compromises between institutions and between interest groups. Thus we have the division of supervisory responsibilities between the Bank of Italy and the Consob along lines that are unclear and that differ from those relative to mutual funds; the authority for banks to constitute securities firms as wholly-owned subsidiaries but not to operate directly in the stock exchange, thus encouraging a proliferation of useless, costly intermediaries; and the obligation to trade on-exchange coupled with ample scope for block trading, but without the centralization of price information.

With regard to activities, let me cite but one of a potentially numerous set of examples, namely the rules on takeover bids. In Italy this matter is governed by Law 149/1992, which has been criticized on a number of grounds. Its overfine breakdown of cases is susceptible to generating rigidity within the market; the requirement of residual public takeover bids when the portion of outstanding shares falls below 10 per cent prompts speculation. The notion of controlling interest used to determine whether a public bid is compulsory is too indeterminate and needs to be supplanted by a single reference threshold. At present, the exemption from the public bid requirement in cases in which the significant holding is acquired for the purpose of guaranteeing creditors and as part of a plan to restore the soundness of the debtor firm rests solely on an interpretation of the law. Only once has the State Council allowed the bid to be raised, and this by the original bidder, almost as if, even conceding the possibility of a "mistake", the correction remained the prerogative of whoever spoke first. The law does not deal with the case in which a significant interest in a listed company is acquired via control of another, unlisted company which in turn exercises powers of direction over the listed one. Specific rules on concerted actions, i.e. the

various forms of understanding aimed at joint control of a company, are lacking. The rules on intragroup operations are also incomplete. More efficacious regulations would allow for immediate action of the sort the Consob recently took, after the fact, in requiring Mediobanca to make a public bid for Ferfin shares, and this would shield the Commission from the charge of excessive discretionary powers. Above all, the writer of this article remains unconvinced today, as when he served as Director General of the Treasury, of the wisdom of Parliament in imposing a condition of utter passivity on the target company; this point must absolutely be re-examined.

At the Community level, the proposal for legislation on takeover bids is based on the principles of correct information and equal treatment of a company's shareholders. The Commission, seeking to harmonize member states' legislation, has long since drafted a proposal for a directive. However, this has met with strong resistance from some members and from UNICE, the Union-wide industrialists' association. UNICE's position is that the directive should cover only the content of the takeover bid document, its publication, and the procedures to follow when a bid is made and that it should avoid, in particular, the determination of cases in which a public bid is obligatory (as the member states' laws already guarantee equal treatment of shareholders) and any regulation of the powers of the target company's board of directors as regards own-share purchases and new issues, which would unfairly handicap the defence against hostile takeovers.

The issue of a Community directive could, yet again, provide the needed stimulus for a revision of Italy's regulatory apparatus, which, with its many lacunae, certainly requires retouching and perhaps rethinking. For example, instead of continuing to be a simple mechanism for redistributing the control premium, public bids could serve to safeguard the shares market itself against the turmoil that takeovers produce.

4.2. *The keystone directives on financial services: transposition and delegation of powers to reorder the financial structures*

Closely coordinated with those on the credit system are EC Directives 93/6 and 93/22, which serve as framing legislation for the single market in financial services. These acts are designed to introduce the principle of home country control and mutual recognition of the home country authorities' chartering power. There is, between the two directives, a functional linkage similar to that between the directives on the own funds and capital adequacy ratios of credit institutions and the Second Banking Directive.

Significant though they will be in formal terms, the changes that will be involved in the transposition of these framing directives into Italian law should not substantially alter the terms of foreign participation in our market. The leading European and global operators are already active in the Italian market today, mainly through securities firms. According to the Consob, 19 per cent of Italian securities firms are controlled by foreign shareholders. And they are among the most active members of the screen-based market in government securities (MTS): no fewer than six of the sixteen "specialists" are foreign-controlled, and many securities firms have acted as advisors and underwriters in privatizations, some concluded and others still in course (Berlanda 1995).

The key point today is that the incorporation of EC Directives 93/6 and 93/22, by means of a codified law on finance, offers what some observers call a historic opportunity to reorder existing regulations and give the markets more efficient and competitive organizational arrangements.

With regard to Directive 93/6, the draft bill now under discussion in Parliament is little more than a formal act of transposition embodying marginal amendments to existing legislation, in that Italy's present arrangements are consistent with the Directive and Law 1/1991 already endows the supervisory authorities with sufficient powers to make any changes needed on an administrative basis.

As for Directive 93/22 on European securities investment firms, the text submitted to Parliament contains provisions allowing, among other things, for administrative rules for the obligatory concentration of all trading on official markets.

As Guido Carli observed in 1989, the obligation to trade on-exchange is a principle virtually unknown in the rest of Europe and puts Italy "farther from, not closer to, the most advanced markets in the Community" (Ministero del Tesoro 1989, p. 8). In fact, the provision merely served one special interest group which, in the name of the market, succeeded in procuring a legal monopoly.

A Treasury committee on financial market reform now appears to have reached more or less the same conclusion (Draghi 1995).

This is no cause for rejoicing, however, in that it merely underscores a continuity of analysis with what the writer of this article has always maintained and, more important, with the authoritative recommendations of a working group formed in November 1989 by the Minister of the Treasury to produce a draft enabling act laying down principles and guidelines for reordering the regulations governing financial intermediation (Ministero del Tesoro 1991).

The array of problems of the stock exchanges, lent added significance by their function in the mobility of corporate ownership and control, was also highlighted in a document submitted to the Minister of the Treasury in March 1987. The report presented a series of considerations, still highly topical, on the inadequate supply of shares on the exchange, the reasons for firms' lack of interest in listing, the adverse consequences of disparities in the tax treatment of different kinds of securities, and the effects of shares' being registered (Ministero del Tesoro 1987).

Finally, unless we want to engage in "reverse discrimination" in favour of the banks of all the other EU member states, by 31 December 1996 Italian banks must be authorized to trade directly in the stock exchange, and this will have a major organizational impact on the market. The specialization whereby securities firms are responsible for dealing in shares would appear to be "the fruit of regulations, not of any specific strategic choice" (Onado 1995). Hence the elimination of the regulatory barriers will produce profound alterations in the organizational arrangements of this segment of the securities business (Ministero del Tesoro 1991).

The draft Community transposition act also has a second delegation of powers to the Government, namely the mandate to enact, within 24 months, a codified law coordinating the two directives being transposed with the provisions governing financial markets and intermediaries and with all the other legal provisions that go to make up the regulatory framework.

In order to help draft these measures, the Bank of Italy and the Consob have submitted to the Treasury a joint document, which has been criticized by the bankers' and securities firms' associations. In particular, the proposal is for a restructuring through what can only be described as the timid introduction of elements of private law and principles of self-regulation.

In the Consob-Bank of Italy document, the constitution and regulation of the markets would leave ample room to the initiatives of the intermediaries, explicitly recognizing the role of market managing committees and converting the authorities' intervention into oversight of the acts of these self-regulatory bodies. As for the rules on market membership and insolvency, the direct jurisdiction of the authorities would be maintained, while the Consob's powers to require information would be enhanced.

Under this organizational plan, then, legislation would set the general principles; regulations drafted by the Consob would establish the operating standards; and the self-regulating measures, issued under the responsibility of the market's own management bodies, would be subject to the approval of the authorities.

With respect to the present configuration of the markets, the proposals envisage rationalization and a period of transition. The procedure proposed to privatize the stock exchange, which is now structurally a public market, is analogous to that followed for public corporations; once this has been completed, the rules designed for the new markets could be applied.

The regulations governing the screen-based market in government securities are also in need of reallocation and harmonization, but this exchange's special role in public debt management makes it advisable for powers in this area to be largely retained by the Minister of the Treasury.

At present, the law on securities settlement makes passage through the clearing houses compulsory. The planned reform would remove this matter from the sphere of statutory legislation, enabling the supervisory authorities to institute settlement procedures and guarantee systems for the various markets.

For their part, the associations of banks and securities firms have adopted a substantially common position. On the premise that an organized market for financial products is an enterprise that produces trading services, they note that Italy now suffers from a dangerous asymmetry between the public-law regulation of the stock exchange and the regulations of such other exchanges as the screen-based markets in government securities (MTS), in financial futures (MIF) and in interbank deposits (MID), which include such private-law elements as a convention among participants and the election of self-management bodies by the members.

Therefore, if the Italian financial market is to be put in condition to compete with its European counterparts, it must be organized as a private enterprise with full powers over operation, organization, and

trading oversight, as well as over membership and listing requirements. In authorizing the existence of an exchange, the public authorities must do no more than verify that the requirements for authorization are met. Supervisory activity should be restricted to enforcement of the relevant laws, regulations, and by-laws. And the choice of exchange and payment facilities and infrastructure should be unconstrained (as between the stock exchange EDP centre, the Interbank Society for Automation, Monte Titoli, the Clearing and Guarantee House, or others), abrogating the requirement that the final phase of all transactions be effected in the Bank of Italy's clearing houses (Zadra 1995).

Certain problems relative to the activities of supervised institutions warrant specific mention. There is no reason to retain the separate regime governing "dynamic" portfolio management, which is exercised by trust companies, in view of its close affinity with the business of the securities firms. Also, it would seem reasonable to abolish the present distinction between services connected with the placement of financial instruments and the actual placement of securities, because the separation puts Italian merchant banks at a competitive disadvantage with respect to their foreign counterparts. Finally, let us hope for rules that do not penalize Italian as compared with foreign markets in regulating shifts in the ownership of securities firms' equity and conflicts of interest, in order to prevent the risk of a flight from the more severe regulations and avoid discouraging the entry of foreign operators.

To conclude, let me just add that we have long favoured a system of rules oriented to privatization and self-regulation. The unimpeded private creation of securities exchanges organized as enterprises, as happens in the English-speaking world, was one of the fundamental pillars of the draft enabling act written by the working group formed at the Treasury in November 1989.

5. The transformation of Italian banks: more competition, less public intervention

In the foregoing the emphasis has been on the conditions that are necesary, if not sufficient, for the development of the financial market in Italy and on the factors that have helped propel its

modernization. But since the XIX century Italy, like Germany, Japan, and other latecomers to industrialization, has assigned the banks to act as the financial engine for accelerating growth. Despite the attraction of the Anglo-American model thanks to the dominant political influence of the United States, Italy and other countries with analogous financial histories have remained bank-centred. For that matter, far from being a natural tendency, the evolution of a system based on the securities markets has been explained by some observers precisely as the result of public regulation to curb the power of the banks (de Cecco, quoted in Gourevitch and Guerrini 1993; Nardozzi, quoted in Roselli 1995).

For banks and the banking market too, the 1990s launched a period of structural renewal, after half a century of suspended animation preserving arrangements and a *modus operandi* deriving from an original planning-based model, revived, at least in intent, in the '60s and '70s. First among the factors that pulled Italian banking out of the bog of the administrative model was certainly the abolition of any and all forms of foreign exchange control and the liberalization of capital movements in the second half of the '80s, which finally restored that full operational capability in foreign currencies and with foreign counterparties that the banks had lost decades earlier. Since the Second World War they had enjoyed such capability only in part, subject to varying constraints and high administrative costs.

With the eclipse of economic planning in Italy, as the breeze of deregulation abroad mounted into a gale of globalization, the model of banking supervision could be transformed. From structural oversight relying on constraints on new bank formation, branching, transactions and balance-sheet figures, the authorities switched to prudential supervision based essentially on capital adequacy. This restored the banker's independent decision-making powers, and the competitive capacity of the system.

A third factor, interacting with these two to precipitate the revision of Italian banking legislation (fundamentally unchanged since 1936), was the transposition of the Second Banking Directive. Maturity specialization was ended with the abrogation of the distinction between ordinary banks for short-term credit and special credit institutions for medium- and long-term lending; institutional specialization was ended with the elimination of the separation of credit institutions into various legal categories; and sectoral specialization was ended with the authorization of all institutions to offer loans

governed by special legislation or administered by specified intermediaries.

The Banking Directive represents the fundamental instrument for Community regulation. For the first time it listed all the activities that a bank may exercise within the European Union; it established the principles of the single authorization and of the home country control. It has since been flanked by other directives on the annual and consolidated accounts of banks, which extended the sixth and seventh directives on corporations to the banking sector; on the own funds and on the capital adequacy of credit institutions, which were necessary prerequisites to freedom of establishment and the freedom to provide services; on large exposures and deposit protection; on transparency, on insider trading and on money laundering. Some of these acts were anticipated by Italian legislation, many others were transposed into Italian law in compliance with Community obligations. All this has meant that Italy's banking institutions and rules not only were modernized but have taken on a European dimension (Sarcinelli 1993a).

A final factor that must not be neglected, and that stems from Italy's changed social and political climate, has been the transformation into joint-stock companies of Italy's myriad public credit institutions, the legacy of the country's lengthy banking history. Often the shares were turned over to a new controlling foundation for the bank. This pattern was launched in order to encourage privatization not merely in form but in substance, through the sale of the shares. In this respect, however, it has not lived up to expectations. Even so, in barely five years the institutional framework of Italian banking has undergone an upheaval that ten years earlier would have been unthinkable.

If the banking system is to contribute to the collective welfare, this revision of rules and forms must be completed by the transformation of the intermediaries themselves and their *modus operandi* (Sarcinelli 1995c). The restructuring process has to touch on four areas in particular: the relations between banks and firms, methods of production, the inadequate size of the leading banks, and some legal questions (Sarcinelli 1994 and 1995a).

In the area of bank-firm relations, it is worth mentioning the limits and, more important, the risks of a quick return to the "mixed bank". For after more than half a century of "administrative regime", the change in the operating environment has produced a discrepancy

between the dominant mind set within the banking community and the new rules of the game (Mottura 1995). Yet, let us repeat, the top Italian banks need to step up corporate financing activities other than the taking of equity stakes and expand their capital market activities. Italy still lacks a broad, diversified range of services in the former area, and in the absence of any domestic alternative the need risks being met entirely by foreign competitors, as in fact happened in the more sophisticated segments of the securities business (derivatives, for instance).

Another needed change in the relations between banks and firms in Italy is a reduction in multiple banking and multiple borrowing. This peculiar and at times downright pathological trait stems from entrepreneurs' excessive tendency to "shop around" for bank credit. If it is not to degenerate into an unacceptable heightening of credit risk, the movement towards the *Hausbank* type of relationship must be accompanied by a notable improvement in the exchange of information between bank and firm and between bank and group as well as by the development of a more general consulting function *vis-à-vis* borrowers. For this to occur, the bank's willingness to see an evolution in the relationship with the firm is not enough, the firm too must demand financial and advisory services from its chosen banker.

The need to revise production methods within the banks is underscored by the fact that the profitability of much of the Italian banking system is unsatisfactory, unquestionably at present and in many cases also in prospect. To improve profits, given the impossibility, under increasing competition, of enlarging the spread between borrowing and lending rates (Sarcinelli 1995b), the incidence of operating expenses, and in particular of staff costs, must be reduced. The banks must reorganize production, perhaps cutting back the role of the traditional bank branch in favour of other modes of service provision (telephone banking, ATMs). The employment outlook in the banking industry, accordingly, is for sustained contraction.

At the top of the Italian banking system we find a large number of institutions, each with quite a modest share of the market. Elsewhere in Europe, things are quite different. The objective to aim at, accordingly, is a banking system in which market shares are less fragmented. It would not be right from either the economic or the competitive standpoint to require publicly controlled credit institutions with adequate capital resources not to act as entrepreneurs, to renounce the

idea of expansion through takeovers and, hopefully, mergers. For one thing, this would obviously have an adverse impact on their value with a view to privatization; not to mention the fact that private institutions still account for no more than a quarter of the Italian banking system and are thus not in a position to accomplish the sort of concentration required within a reasonable time.

The response to the need for sounder arrangements should come from a joint effort by the authorities (central bank and Treasury) and the banking community to establish the framework within which the necessary reinforcement of the system can be achieved. Such an intervention, which must not be seen as harking back to a past that is dead and buried, can combine the need for privatization with that for fostering concentration. Moreover, it should introduce a new configuration for the banking system and take sufficient account of the revolution in production methods, while adequately emphasizing the intended role for the leading Italian banks in the European and global market (Azzolini and Messori 1995). In a still bank-centred economy like ours, the choices we make for the banking system will inevitably have an impact on the growth prospects of Italian corporations both domestically and abroad.

Finally, there is the problem of the disposal of the former public banks and those controlled by foundations. In privatizing and making control more contestable, it will be objectively hard to avoid the danger of heavily discounted sell-offs of valuable public assets and, perhaps even worse, the exacerbation of the already precarious operation of the Italian securities market with a flood of new bank shares (Garetti and Modigliani 1995). The frailness of our financial system is unquestionably a significant limiting factor, but it must not be overstressed as a pretext for putting off privatization, on pain of legislative intervention with compulsory measures.

It is hard to say which of these four components of restructuring is most urgent. Actually, they are closely interdependent, most notably in the relationship between privatization and the upsizing of the leading banks.

From the banker's microeconomic standpoint, the first priorities are improving customer relations and increasing efficiency. The responsibility for such system-wide issues as legal status and bank size lies with the authorities, with the informed, convergent determination of bankers themselves. Yet the achievement of these two sets of objectives has a common theme, namely the development of the

securities market and above all the emergence and growth of institutional investors representing stable demand for bank shares, presuming that the latter will offer satisfactory returns, which at present, unfortunately, they do not.

6. Italian capitalism and the financial system: the crux of the matter

The effort over the past few years to equip Italy with a regulatory apparatus equal to the needs of an increasingly competitive financial market involved in globalization has not been sustained by a unified strategy. At times it has been fruitless, caught between vested interests on the one hand and regulatory excesses on the other. The outcome has been an inconsistent design, owing among other things to uncertainty over the reference model.

Can it be assumed that once carried through under guidelines safeguarding competition and private initiative, the reordering of the legal and regulatory framework governing the financial markets will be sufficient to impart decisive momentum to Italian finance and Italian capitalism generally? An appeal for caution is in order. It is doubtful that a more up-to-date financial market morphology can by itself make up for the historical limits of Italian capitalism, which are solidly rooted in the structure of the real economy.

The limits are of three kinds. First, there is the persistence of an essentially family-based structure of management and above all of ownership and control of Italian companies. It is peculiar, but hardly encouraging, that this is the case not only at the base but also at the apex of the size pyramid. For better or worse, Italy's handful of large industrial groups are still under the control of a set of persons whose Italian components at least can be traced, perhaps indirectly, to extended family groups. The national trait of spasmodic curiosity about a few big businessmen simply reflects the concentration of ownership and control. The same applies to small and to medium-sized enterprises. And this largely explains the great difficulty Italian companies have when they need to take a significant step up in size or managerial skill, or when opportunities for horizontal or vertical integration arise.

The chief risk, in a corporation with highly concentrated ownership, is that the controlling group may increase its own welfare at the expense of the corporation or attain benefits to the detriment of minority shareholders. In Britain and the US, the riposte of the minority can take the form of proxy fights and above all takeover threats.

These techniques are hard to employ in the Italian situation, given the predominant ownership structure. Transparency concerning the action of the controlling group, mandated by the reform of 1974 and implemented through compulsory publication of the information required by the stock exchange, is thus a necessary but not a sufficient instrument for precluding the risks mentioned. For such information to count, shareholders and investors must be able to modify their strategies accordingly (Belcredi 1994).

The second limit is that Italian industry continues to rely heavily on bank credit for financial resources, despite a trend of steady, though slow, development of direct resort to the capital market. It is unrealistic to expect any acceleration of this tendency unless the family-based ownership structure is attenuated. This is not only because share issues dilute the control of the original owners, when they do not deprive them of it entirely, but also because it is hard to imagine why markets should agree to finance, with bonds alone, industrial firms whose shares are unlisted, or control of which would be arduous to win, or that are managed directly by their owners. In other words, it is unrealistic to look for any great expansion of the market for private corporations' bonds and commercial paper in the absence of a parallel development of the share market and, above all, the emergence of easier access to corporate ownership and control.

The third traditional limit to Italian capitalism, subterranean but profoundly important, consists in a psychological dependency on the state, the insistence on the financial subsidies it can provide, especially though not solely to small businesses and export-oriented firms. Otherwise there is no explaining the vehement protests of industrialists' organizations at the Government's proposed Finance Bill for 1996, which did not renew the financial subsidies of the so-called "Tremonti" act, even though the strong economic expansion counselled eliminating measures of this kind, more appropriate to cyclical downswings. Nor should one need to underscore the huge rise in the last three years in firms' profits and in the share of GDP going to income from capital, thanks in part to the enormous competitive advantage of Italian exporters stemming from an exchange rate low enough to provoke cries of protest all over Europe.

Nor, except by reference to this attitude, is there any explaining why Italy's small exporters, instead of acting on their own behalf through associations or territorial bodies such as the Chambers of Commerce, never let slip a chance to repeat that the ultimate cause for their comparatively poor market penetration abroad is the inactivity of the government agencies assigned to this sector. Yet it is hard to believe that in the field of promotion and marketing abroad the public sector can go much beyond the basic services (participation in trade shows and fairs, facilitation of contact with foreign commercial bodies, etc.).

The point is cooperation among related businesses and entrepreneurs. For the single firm, promotion and marketing is costly and relatively ineffective. But on a cooperative or district basis, individual incentives can be channelled into a joint effort to exploit the immense economies of scale inherent in marketing. And this is the lesson taught by such industries as food-processing and ceramics, where the promotion of brand names and products, including international promotion, is increasingly oriented to areas of shared interest between producers that, as individuals, are competitors, through organizations born of strictly private initiative.

If these are the limits of our brand of capitalism, one naturally asks how they can be attenuated. The knee-jerk response tends to be that we need to promote "public companies", i.e. corporations whose shares are held by a mass of small investors. People have been talking about it for years, but the idea has never really gained a foothold. The reason is that it is not easy to escape from a situation that is sub-optimal but well defined and with definite advantages for the dominant groups.

To cite one important issue, let us examine the question of companies that are part of a group but listed separately on official exchanges. Listed companies should not be subject to the control of other corporations, because the profit objective and the return to the investor must not be subordinated to any other, superior interest, as in practice they are within the group structure. It follows that "the listed company that is subject to the unified direction of a parent company must in any event be taken off the stock exchange and removed from the list" (Rossi 1995, p. 33).

For the stock exchange to develop, moreover, there must be institutional investors. Among the potential candidates, insurance companies are limited by Italians' low propensity, by European standards, to purchase insurance policies. Let us not dwell on pension funds, which for the moment are fuelling not financial investment but cultural debate. As to mutual funds, they are oriented to the short or very short term, inherently bound as they are to make the day-to-day value of the portfolio known to their unit-holders, who are perfectly prepared to redeem their units at any shift in the wind – and these units are subject to the swings of a market much more volatile than those of other countries. In these circumstances, the market would have trouble expanding even if there were a stronger flow of new listings (some fifteen companies are now said to be girding themselves for the great leap) and in general much more massive corporate resort to the equity market than at present.

In this framework of very slow improvement, a recurrent idea periodically put forward as new is what we might dub the "banking road" to the solution of the problems of corporate control in Italian industry. It is common knowledge that in the last three years the banks' portfolio of non-financial companies' shares has multiplied, owing in part to a number of debt-for-equity swaps (Desario 1995). With time, equity interests deriving from debt restructuring could be transformed into equity interests *tout court*. The growth of banks' participation in the capital of non-financial enterprises could be favoured by the very process of privatization itself. The formation of stable nuclei as holding companies controlling huge industrial conglomerate groups could require the massive deployment of banks' resources, in order among other things to prevent these nuclei from being constituted by a tiny group of industrial corporations that may already be overextended.

Can Italy's major and middle-level banks substitute for our still absent institutional investors in the role of long-term investors and capable overseers of the performance of corporate management in industry? Regardless of its probability or lack thereof, such an outcome would not be desirable. Certainly, Italian banks need to strengthen themselves substantially in the entire range of intermediary activities other than straight lending, if not to compete with their foreign rivals in Europe at least to curb their expansion in the Italian market. But strengthening capital market and corporate financing activities is a far cry from taking significant long-term stakes

in industrial corporations, as is demonstrated by the portfolio composition of all the international investment banks. The "mixed bank" model brings benefits only when the banks are capable of functioning effectively as reference or significant shareholder, but obviously without overstepping the bounds set by the supervisory authorities. This in turn means that the banks must have the ability to develop suitable strategies even for large conglomerates operating in the most disparate markets.

It does not seem realistic to expect any such development in the short run. Italian banks are still striving to catch up with customers who demand the more sophisticated financial services, to streamline obsolete procedures and immobile, expendable, redundant organizational structures. The strategic campaign they are called upon to wage must be, first and foremost, internally directed, focusing on their own institutions and on a transformed financial market. The residual energies available for strategic planning can then be turned to positioning themselves within a market characterized by a great but as yet largely latent need for concentration and horizontal integration. To imagine that there are additional reserves of planning capacity to be directed towards the industrial subsidiaries is, to my mind, to harbour an illusion. Equity participations in non-financial firms would thus produce the pure and simple aggravation of risk for the major Italian banks, possibly lowering their return on equity (at least as long as the stock market fails to offer a reasonable return on share capital, as the story of recent privatizations has confirmed yet again).

The involuntary bankification of large and medium-sized groups corroborates this account. Italy's major commercial banks have often proven unable to devise an industrial strategy following the conversion of debt into equity or else have lacked sufficient incentive to develop the cohesion for a concordant financial strategy to make the most of their investments. The "banking road", then, even when embarked on out of necessity, can only be taken for short stretches. To each his own role; first of all Italian banks, having been recently transformed into corporations and thus now subject to the judgement of investors as well as customers, must show that they are on a par with their top foreign competitors in allocating resources and assessing risks.

7. Conclusions

In terms of its institutions and organizations, or more explicitly in terms of markets, activities, and agents, Italy's financial superstructure can be improved; indeed it must evolve in line with the rules envisaged by the EU for the single market. However, it will be but one of many factors, and not necessarily important, affecting the nature and structure of Italian capitalism.

From this, we can and should draw three cautionary lessons. First, while it is true that the structure of the real economy cannot be altered in the short run, this cannot be allowed to serve as an alibi for the residual indolence of financial operators. Second, the transformation of the Italian economy along European lines can be accelerated by banks' policy in managing credit so as to achieve a reduction of multiple borrowing, in performing effective monitoring which is crucial to corporate governance, and in steering their corporate customers towards the financial markets. Third, we must not take refuge in mere defence of the banks' role at the expense of the markets; instead, the principal task to which the Italian financial community must attend, with all its intelligence, is precisely the development of an effective compromise between the German and the Anglo-American model. In imparting form and substance to this compromise, theory is no help and the experience of others can be of only limited assistance. The lodestar of the transformation can only be the fostering of efficiency within the Italian financial system through competition, without prejudice to the constraints of systemic stability and correspondence to the changed and still evolving needs of industrial capitalism.

The European Community (now Union) is halfway to the scheduled date for the beginning of Stage III of Economic and Monetary Union, when the single currency will be launched. Probably the sector of the economy most powerfully affected in the past ten years by the Community has been that of finance, banking and insurance. Thus further development in the march to Europeanization and globalization will once again be the fruit of interaction with the Union's policies and rules. This is one reason that justifies the efforts made to achieve monetary union and the much more strenuous efforts required to ensure Italy's participation in it.

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