Market Globalization and Financial Market Stability: Italy's Viewpoint. Round Table Debate *

Scalfari

In the first place I must excuse two absences: Professor Mario Monti, whose place I take, little suited as I am, and Professor Giuliano Amato are both detained at meetings where their presence is essential.

The participants in this debate are all well known to you: Enzo Berlanda, a former Consob (National Commission for Listed Companies and Stock Exchange) President, Tancredi Bianchi, President of the Bankers' Association, Vittorio Merloni, President of his great firm who has in past years also taken a guiding hand over Confindustria (Italian Manufacturers' Association), my friend Paolo Savona, who presides over the deposit safeguard fund, and Dr Pera, who is standing in for the Antitrust President and thus replaces Giuliano Amato.

The subject of the debate is "Market globalization and financial stability".

Allow me a very brief recollection, superfluous for you but significant for me: we are here to commemorate the founding of the periodical *BNL Quarterly Review*. I joined the Banca del Lavoro at the very time *BNL Quarterly Review* was founded – fifty years ago – and stayed there five years. So I am an old 'bancolavorista', and in my short but by no means fleeting experience in the bank had the luck to meet, among many other central managers, the head of the Milan office. In fact I made the acquaintance of Mario Monti's father, who was

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at that time director of the office, during the last two of my five years, when I was in charge of the foreign and commodities office. I was a fledgling and Monti took me under his wing; and when I had to leave the bank on account of various circumstances he was very sorry. Subsequently I made the acquaintance of his son and we became good friends; therefore, as I am standing in for him today, it is a pleasure to recall these things.

Now for globalization. Here we shall be discussing this richly evocative word, and I should like to point out, by way of preliminary provocation for our debaters, that personally I feel this word has been somewhat artificially loaded with contents. I would also suggest that some of these contents, far from being non-existent, have in fact existed for quite a long time. There is a certain degree of inflation here, connotations being forced onto the word for specific ends. This is the thesis I offer to provoke debate, and it might bear some attention together with the many other aspects. I refer to specific ends since globalization evidently entails what philosophers term single thought, or thought free of any antagonism. By this I mean that globalization imposes certain behaviours, and anyone eluding them will be driven back into line by the mechanism and the ideology matching the mechanism.

Let me add, incidentally, that when it is said, with a sigh of relief, that ideologies are no more, I am not so sure it is really worth breathing that sigh but I would certainly challenge the statement, because globalization is itself an ideology. Here, however, we are entering into complex issues which I shall not dwell on.

Bianchi

What I mean by 'globalization' here is the process by which international trade grows with a degree of elasticity exceeding the rate of increase in the gross world product. It is a process that, on the one hand, is leading to the progressive integration of markets while, at the same time, redistributing production geographically on the basis of comparative costs.

As one might well imagine, parallel with this process is the ongoing integration of the financial and money markets, partly as the result of reallocated savings and investments.

Globalization of this type could in fact be obtained even more rapidly and systematically if the functioning of the world monetary system were regulated in such a way that the value ratios of the various currencies were prevented from departing too far from reasonable exchange parities. However, the old ideal of the gold standard remains a purely theoretical reference points, although something approaching it might be the formation of a vast currency area such as we should soon be seeing in Europe. In fact, European Monetary Union will simplify a number of problems involved in international and world trade for the countries joining it.

Nevertheless, globalization as we have defined it has gone ahead in the face of a far from orderly world monetary system. Indeed, it has taken long strides ahead on the assumption that such disorder, and the odd exchange quirks reflecting it, might be offset with the new financial tools for hedging, namely those products that go under the name of derivatives.

What people were forgetting, or rather failing to give due weight to, was the fact that a device to cope with future risks, conceived as a hedging tool, can itself become a means of speculation – when traded independently – and arbitrage. The money authorities have on various occasions pointed up the risks involved in operating with derivatives, but with no success in their endeavours to prevent increasing resort to them and – with manifold effect – speculation in them as globalization steamed ahead.

At the time it all seemed a way of giving a boost to the growth of international trade following the principles of free trade.

It has, however, led to large-scale intervention by the banks in support of production and trade, and with it growing foreign debts for the emerging countries as well – in many cases – as public debts with European and American financial institutions giving rise to formidable risks.

The – necessary and advantageous – process of reallocating savings is not the work of final investors but intermediaries, largely – and inevitably – in the form of corporate lending and a range of government securities. In the meantime hedging operations to offset quirky exchange rates have spawned with the rising tide of specula-

tion and arbitrage in derivatives. As usual, in the beginning these processes seem to hold out great promise for development and growth, but may eventually prove as hazardous as they are impetuous, themselves sources of instability. The present Asian crisis also prompts such misgivings.

Thus this particular solution, this product of financial innovation, working on the futures market with derivatives, has proved insufficient. We may expect better results from the creation of vast monetary areas with a single currency. It is a solution that seems fairly feasible in Europe, has actually been achieved in North America and may well extend to Latin America, but for the time being appears somewhat harder to apply in Asia; with the Chinese economy now powerfully emerging, I cannot see the yen playing a leading role for long.

So we come back to the problem of how many central banks can best guarantee international monetary order.

Despite the various factors for instability in the money and financial markets and the attendant risks of financial and currency crises with turbulent exchange markets, it is hard to see anything stopping international trade developing at a faster rate than production in real terms, or in other words the process we have agreed to define as globalization. The long period trend is in this direction.

We may therefore also assume that the trend towards geographical redistribution of production will continue, with final reallocation of savings. Furthermore, countries remaining economically underdeveloped will see their populations migrating towards the developed and emerging countries. All this will inevitably lead to adjustment crises, which the nation states as traditionally conceived may no longer be able to handle.

Globalization corresponds to a spontaneous aspiration for freedom in production and trade shown by many peoples. In itself it is a factor for change – unfortunately, not gradual change – in the previous equilibria, and indeed in the present imbalance. When the economic world leaves a state of equilibrium, precarious as it may be, to enter very different conditions, instability will increase in direct proportion with the rate of change. Opportunities and hazards lie entangled in the path. We might compare it with an earthquake where there are primary quakes and aftershocks: the fiercer the primary shake, the stronger and more numerous will the aftershocks be.

Looking now to the operating prospects facing credit and financial intermediaries, we must recognize the fact that big changes are also looming up here, in terms of both organization and dimensions: they must now take due account of the spatial and economic horizons opening up to the worldwide scale for clientele, savers and enterprises alike.

The natural aspirations we mentioned before are not limited to freedom in production and trade, but also involve the most adavantageous allocation of savings and investments. The great mass of consumers seek goods and services at the lowest possible prices; they want peaceful relations between nations, and the greatest possible development of international trade as a precondition for them. The general feeling is against any form of protected production or barriers to the movement of people and things. No restriction can be accepted on the movement of capital; indeed, any limitation here can only hamper advance in the information technology revolution.

It is a revolution that, on the one hand, affords real-time information about prices round the world while, at the same time, levelling down know-how thresholds for the production of goods and services. There can be no getting away from the fact that expectations will therefore inevitably be for worldwide reallocation of savings and new geographical patterns for the production of goods and services.

The reallocation of savings can be no mere matter of intermediaries shifting about resources among themselves but calls for the action of global institutional investors, orderly development in the securities markets, portfolios for savers with financial activities in a range of currencies reflecting the economic developments of globalization.

There seems to be very little future for the idea of the local credit intermediary firmly rooted in the area where he receives and allocates funds, given the ever widening geographical and economic scope for clientele. And clients will also expect the information, advice and services they are offered to take advantage of the ongoing integration of the world markets. The idea that contact between the money markets and financial markets must remain mediated is also bound to become obsolete sooner or later. In the global economy money and finance are becoming increasingly interrelated, and intermediaries will inevitably find themselves operating jointly in both fields.

And then, how many global banks can there be in the world? Relatively few, but they are absolutely necessary. We are all well aware of the need for vast, efficient securities markets uniformly regulated and organized since, either directly or with mediation (through corporate investors), savings will have to find the right channels there for reallocation, investment selection and mobility. Care must also be taken to avoid putting the process of financial globalization directly in the hands of the banks alone, given the risk of excessive financing with credit instruments.

With monetary union and the creation of the euro, Europe is coming up with a valid answer to many problems. However, there is another pressing question, and that is: will credit and financial intermediation in the various countries of the union be able to keep pace with the often unprecedented demands thrown out by globalization in terms of organization at both the individual and system structure levels?

Italy certainly has its own problems to solve here, and a somewhat fragile banking system to boot. To be fair, however, we must recognize, as usual, that though Sparta may weep, Athens is not exactly laughing. Italy's problems are common to all the countries in the EU, although in the case of Italy the solutions seem tougher given the ownership structures of the banks. However, necessity is ever the mother of invention, and it will at the same time be not only necessary but inevitable to overcome nationalistic spirits in the European Union.

The EU itself must become a geo-economic area of stability, although involved in the process of globalization with all the conditions of instability and occasional turbulence it will inevitably be bringing in the near future.

There can be no denying that Europe still consists of countries whose production is to some extent protected from international competition. It must open up to trade exchange in the worldwide arena step by step, with measured paces but no dragging of heels.

As we have seen, waves of immigration will be moving from the underdeveloped countries. The attraction of Europe seems strong, and the hazards they represent in terms of disequilibrium will be all the graver if Europe lags behind in the process of globalization.

We cannot seek refuge in the idea that world trade exchange does not account for a great part of the total product, nor would it be

wise to obstruct its growth maintaining disorder in the international monetary system.

We must face up to the fact that, at least in the early stages, globalization is a source of instability, but it is precisely this instability we must seek to offset and overcome – not the growth of trade exchange and the attendant reallocation of savings and redistribution of production.

Again the world faces a challenge, a multimedia revolution, and there can be no opting out of the struggle in this new industrial revolution, which is also a struggle to shake off our inveterate nation-state culture.

As the new millennium approaches earth-shaking prospects open up for the economy. Our task here is to limit the duration of the seismic effects, with all the instability they obviously bring. However, human progress has never been perfectly smooth. From our point of view, the coming millennium promises to be an 'interesting' time, to ring the changes on the old Chinese curse. In the final analysis, we are all eager to experience these 'interesting times'.

Scalfari

On these opening remarks by Tancredi Bianchi I think it would be interesting to hear what Savona has to say, since as we all know Savona had some experience with the Bank of Italy in his younger – but not excessively youthful – days, and also had experience with Confindustria, and thus a global picture.

Before Savona gives us his views, however, I should like to ask him a question: "Could you attempt to define globalization in a few words?" As you see, I am insisting on my point: what does it mean? Tancredi Bianchi mentioned the crisis of 1929. Now, in 1929 there was no talk of globalization, there were none of these devices, no derivatives, no computers, nothing of the sort, and yet – taking just a little longer – a crisis was sparked off that makes today's seem a laughing matter in comparison, and I find it hard to imagine any greater globalization than this. And so I would like to understand: what is the difference today? What is this globalization?

Savona

Your previous address, Dr Scalfari, had already touched a raw nerve, and I should therefore have tackled this point in any case. I totally agree – I have written as much and repeat here – that the globalization, I shall be briefly defining, is an economic process, and thus a reality, upon which an ideology is grafted. However, this ideology of economic freedom lacks the support of those basic conditions necessary to have the rational contents we expect for the management of the world's resources, especially at the monetary level. We must therefore reject any account of globalization given in simple terms of economic rationality or ideology pure and simple. These are in fact elements contributing to the development of this important trend in world policy.

In the 1929-33 period understanding of economic mechanisms was limited. Even today we are still discussing whether the Great Depression derived from errors in management of the real economy or money. At that time public intervention to offset falls in aggregate demand – what we now call Keynesian policies – found no place in the policy agenda, partly because it had not entered into the patrimony of economic thinking. Monetary regulation mechanisms were also imperfect, indeed the Federal Reserve called in credit instead of loosening purse strings at the first signs of bank crises looming up.

Such errors are hardly likely to be repeated although the chances of currency and monetary crises and stock exchange crashes are higher today than they used to be. In fact, in part with the help of new information technologies, the global market has invented a series of mechanisms to propagate the effects of incipient crisis in one point of the world system alone. Let me repeat once again, we have a better understanding of how real and monetary events unfold and we know how to react, as Greenspan is showing. In fact, just a few weeks ago, the Fed Chairman was worried about the turn taken by the real growth rate and fall in the rate of unemployment in the United States, and had warned operators against resurgent inflation, giving the market a clear message with a bland increase in official interest rates. Now, after the stock exchange crisis, he has inverted the terms of the message, recent as it was, concerned about the consequences unleashed by a stock exchange crisis and anxious to get them under

control. I would not be surprised if he were to call the bankers and offer them money to prevent a crash in stock quotations.

Globalization is a process extending the liberalization of trade, bringing development and well-being above all to geographical areas previously protected, but it also means particularly heavy social costs for some parts of the world economic system. On the former there has been unending discussion in WTO ambits while on the latter, namely social costs affecting the European Union, debate is now beginning in Luxembourg where the heads of state convene.

Liberalization means that everyone has the chance to take part in world trade, in commodities and services alike, launching production processes in countries other than their own. The rate of the process depends on the obstacles which states – geographically and politically alien to globalization – place in its path. Such obstacles are not only of the traditional type – restrictions on tariffs and quantities applied on the borders – but also various types of regulations and subsidies applying to the firms. Italy has had frequent recourse to such tools in the past.

A study carried out some years ago under the aegis of the World Bank calculated that tariff and quantity barriers had diminished by about 50% since the end of the Second World War, but subsidies and restrictive regulations had entirely offset this reduction. There can be no truly global market as long as such policies are applied, and globalization can only remain a trend in the national economic systems.

Even if the WTO were to complete its efforts towards liberalization successfully, eliminating all barriers, regulations and subsidies whatsoever, the market would still not be global if we continued to base the ratios between currencies on flexible exchange rates. So much was clear to the fifteen European countries participating in the drafting of the Maastricht Treaty: complete unification of the community market meant setting fixed exchange rates between the European currencies to prevent conditions for competition from re-emerging with adjustments in the exchange rates rather than adjusting production quantities and factor costs. This is what Italy did up to 1992 (1995 was another case; in fact, the devaluation was subsequently reabsorbed by the market). The Maastricht agreement went even further ahead with the decision to create a single currency, the euro.

At this point we can return to the subject of this round-table debate, putting Italy's position on the table. I must say I had long

hoped that 'my' point of view was Italy's too, but fate has decreed otherwise and so I can only present the point of view of an Italian in this debate. Thanks to my relations with Guido Carli and studies carried out with my colleague Michele Fratianni – actually the first of these, a comment on an article by Fritz Machlup entitled "Eurodollar Creation – A Mystery Story", was published in 1971 in the *BNL Quarterly Review* whose fiftieth anniversary we are celebrating – I had been able to spend about five years, from 1971 to 1976, when I left the Bank of Italy to take a chair at the university, participating in the Basle BIS project for control of the eurodollar which ended up as a mild sort of surveillance. My thesis is that international monetary creation – once limited to the US dollar and now in the American currency and others in a 3 to 2 ratio – has got out of control. The only limitation to the multiplication of international monetary means is the solvency of the operators involved. When an operator encounters crisis, the system reacts in proportion to the extent of insolvency, forcing the authorities to intervene.

What was not so clear in 1929 is now clear to us. A currency cannot be treated like a commodity for a number of reasons, foremost among which is the fact that it is so easily produced and the difficulty in extending to the units creating it, especially the banks, the same rules that apply to bankruptcy for productive firms. If we really wish to achieve a global market, with consequent uniformity of wage levels and cost of money and, eventually, of taxation in all the countries, then the money supply for international uses must also be controlled. If this cannot be achieved – and it would be through lack of will, let me add – then flexible exchange rates will inevitably have to be maintained and we shall have to forego any idea of a truly global market.

Whatever countries they hit, monetary crises – including the present crises in Asia – are always fractures in the global market. With them are hit continuity in production and steadiness in stock market quotations, with a halt or reflux in direct investments and decline in rates of profit and social well-being. It is a far cry from the 'new economic paradigm' contemplated by exponents of an irreversible change in economic processes. They have failed, or perhaps refused, to understand how the mechanism for multiplication of international monetary means really works.

For years Carli and first and foremost Rinaldo Ossola negotiated for reform of the international monetary system that had

emerged incomplete at Bretton Woods. As we all know, Keynes called for the constitution of an international standard, but to no avail. With the 1968 agreement of Rio de Janeiro something like a standard – the SDR – was created, but the mechanism emerged hamstrung with a glut of restrictions that prevented it from becoming truly effective. Drawing on the Fratianni-Savona analysis and his own experience Carli foresaw the collapse of the system in March 1971, a few months before the declaratory judgement on the non-convertibility of the dollar in gold decided by the Nixon administration, and by so doing acquired the prestige of someone who had the measure of the situation, much like Sarcinelli when he decided on the title of the present conference last year.

Reform of the SDR was restricted due to an ideological view of the international monetary system (and I return to the point you raised, Dr Scalfari). I can confirm from my personal experience that despite some contrasting views the BIS Standing Committee largely agreed on the technical possibility of controlling the eurodollar, but did not find it politically opportune. In the early Seventies Communism was still feared, and the socialist governments of Europe were introducing various restrictions on economic freedom. It was thus decided to leave one thing free – the most hazardous, as it happened – and that was the possibility to create an international currency with no limits other than those set by the market itself (i.e. the risk of insolvency for the contracting parties). What can an economist or the governor of a marginal central bank like the Bank of Italy answer when faced with these arguments? His can only be the 'voice of conscience', taking cognisance of the intention not to extend the rules regarding the internal currency to international monetary government.

I shall not repeat here the many technical arguments advanced against acting in the direction I deemed just, while restrictions on SDR supply, demand and interest rates (even more than any intelligent monopolist would have deemed necessary!) were accepted regardless. I can only testify that the decision was solely and exclusively political, or ideological, to put it more bluntly. An ideology that is still at work after the fall of the Berlin Wall and the spread of liberalizing processes that would have made it possible to apply the customary forms of internal monetary control to international monetary creation without any risks for a system based on economic freedom.

The problem has now become still more pressing on account of the spawning of operations 'derived' from the principal contracts. In fact, it is no longer necessary to possess monetary means in order to speculate. It is enough to bet that something – an exchange rate, interest rate, quotation of stock exchange index – will go up or down to make money or pay a premium. Here it would mean entering into technical arguments which would be tedious, and this is neither the time nor the place. My opinion is that money supply should have the sum of derivatives included, below the line, in the space banks reserve for liabilities and risks, given that they possess the speculative demand property indicated by Keynes, namely that of influencing interest rates. Any money targeting, such as we are about to adopt in the European Monetary Community, which did not include derivatives would be imperfect, leaving the euro exposed to international speculation as much as any other currency.

I shall conclude with an idea already published in one of my articles. Tietmeyer and various other central bankers have stated that the Asian stock exchange crisis is a salutary lesson for the market. What they fail to realize – and this is a very grave error – is that it is in fact a salutary lesson for them. As long as they fail to recognize this point monetary crises will continue, the blame being placed either on the speculators, acting 'incautiously and perversely', or on the workers who will not accept a cut in real wages and social security. The 'global market', I repeat once again and for the last time, cannot be truly global on these terms. The real rate of development will remain low, and employment with it.

Scalfari

If I may, I should like to put another question to Savona.

You pointed out – and I was greatly struck by the remark – that states seek in various ways to limit the process of globalization, and you observed that a fluctuating exchange rate is a tool serving this purpose, while stable exchange rates favour it. Nevertheless, since real differences exist between the various countries and areas and will continue to exist for goodness knows how long, once the rates begin to steady down and the number of currencies diminishes, is there not a risk that the effect of inequalities in the real conditions may have negative repercussions on employment levels?

Savona

I have already pointed out that there is always a social cost to pay with liberalization. And I think we are all accustomed to the idea that it is always the people who pay the cost of development. Few escape any burden, and very few benefit from it. Entire generations pay the social costs of development, passing on the benefits to future generations. As much has happened in Italy and is happening all over the world. The process of liberalization entails heavy adaptation costs, which are all the heavier for those countries which have much more than the others.

The error of capitalism, prompted by the presence of Communism in vast areas of the world, lies in having allowed incomes to grow so massively differentiated that the present levelling out of well-being through liberalization and globalizing market trends entails great costs and risk of grave crisis for better off people.

I must admit that global capitalism is persisting in its error, underrating the same problems that were underrated in the past while adding a new one, namely the idea of levelling down incomes, above all on the 'implicit', social security side. A change in the approach to public intervention is clearly needed. No longer giving fish but making fishing rods more readily available, or in other words encouraging the individual's sense of responsibility for their own future. Professor Kregel, who is here at our meeting today, is a keen student of Keynes and has always warned us that Keynesian policies consisting in subsidies (or fish) rather than investments (or fishing rods) misinterpret the master's thinking, as Keynes himself had occasion to point out in the prefaces to the German and Japanese editions of his *General Theory*, when he realized that 'non-market' use was being made of the policies he suggested to fight unemployment.

Strongly differentiated wage and environmental conditions, and fiscal conditions in particular, between rich and poor countries aggravate the social costs involved in adapting to liberalized, globalized world trade. Luckily for us, the process is a slow one, leaving to rich

countries the chance to reorganize in the face of unemployment generated by global competition. The main problem is not the competition the emerging countries pose on the strength of low wages and few taxes, but the speed of labour-saving technological innovations. This is a point Krugman stresses, in contrast to Thurow. The current unemployment in developed countries derives from technological innovation, and it is by no means easy to cope with. It is not a strictly economic problem, but a political one, and you, Dr Scalfari, are better qualified to answer on this than an economist like myself.

I shall therefore confine myself to describing what is being done and once again advancing an idea I have on the matter. The answer the European countries have come up with in the face of unemployment – a highly civilized answer, I feel – is based on the principle of social solidarity. In fact, we cannot conceive of a society retaining inner cohesion while dividing its citizens between those who have jobs and those who have not, nor will in any permanent way. The first category is full of mature persons, the second one of the young people who represent the country's future.

For the young transitional policies can be applied, described by my friend Tremonti as the 'three Is' (*informatica, inglese, impresa*) – information technology, English, enterprise. Young people acquainted with the 'three Is' will have a better chance of finding jobs, participating in the global labour market rather than the national or merely local one. Norman Walter, chief economist of the Deutsche Bank, put it like this: "Nehru has beaten Nairu". To appreciate the play on words you have to know that NAIRU is the index applied in the United States to define the natural employment rate, while Nehru refers to the growing number of Indians expert in information technology entering the labour market, teleworking for Coca Cola or TWA without budging from their homes. It is therefore not true that our children will not find jobs on account of the competition posed by countries with lower wages and fewer taxes, but it is a fact that they must be prepared to work in a different way from their fathers'. Our children's labour market is not round the corner, or there in town, but covers the entire globe. The important thing is to be ready for it, and adapt to it.

Here I come to a crucial point: education. We are still debating whether to study Croce or Gramsci (probably we should study both, this is not the problem), virtually ignoring the 'three Is'. We must

gear education to the needs of the global economy, without losing the roots of our culture, but without being left with these alone.

In the long run I hope to see globalization going from strength to strength, and conditions for the populations of our planet being levelled out or, better, differentiated only by merit and commitment. Apart from the monetary obstacle I mentioned before, however, I also see policies being called for and applied that convince me neither on the strictly economic nor the social level as long as they remain isolated from the broader context. One of these is labour market flexibility, pursued without accordingly sound economic administration and schooling. Another is cutting back on social security even more than rationalization would demand, simply because "the countries competing with us do not have it". It strikes me as a short-sighted approach, and my fears are that there is a will to have one production factor, capital, prevail over the other, labour. It would mean a step backwards on the road to civilized social relations, which have benefited greatly from a balance between the two, bound together in complementary and inseparable force subsequent to the achievement of universal suffrage (which saw sovereignty pass from the hands of the few to the hands of all).

It is my opinion that equal wages for equal product is desirable and does not harm the workers if prices fall in equal proportion to the loss in real wages in the countries that have to adjust downwards. What counts is not how the real wage goes in itself, but its purchasing power. Competition brings prices down while boosting the purchasing power of the wages, creating the possibility of reducing real wages. In regard to welfare, the problem is not one of cutting back or actually doing away with it but, on the one hand, rationalizing, taking services away from the eternally inefficient public bodies and delegating the market to handle them in conditions of competition and, on the other hand, extending it to the countries where it does not now obtain. To this end I suggest, no doubt raising the hackles of my laissez-faire friends, introducing a compensatory tariff controlled by an international organization to drive countries lacking social security systems to adopt at least the necessary minimum. This would set them on the road to truly civil social relations while restraining world trade from social dumping, or in other words competing at prices that do not incorporate social costs. The purpose of this tariff would not be to protect countries from competition but to induce

those countries devoid of social security to introduce it, given that they would be paying tariffs equal to the social costs they save. It is a tool that was satisfactorily tried out by the American Confederation in its constitution to induce states dragging their heels over protective legislation on juvenile labour to make the necessary decisions. Moreover, Ruggiero's WTO is already applying criteria much like what I propose, although limited to juvenile labour. I do not see why minors should be protected but not adults!

I do not think that the labour problem can be solved with ships carrying illegal immigrants from all parts of the world to land or be shipwrecked on our or other countries' coasts. This is simply a symptom of governments incapable of coming up with a global answer to the problem, or of raising the cultural and professional level of the world's citizens. It is a symptom of a form of capitalism that repeats the error of not taking on the problem of the real civilization of peoples. Let me repeat, however, for our children there is no problem of unemployment deriving from global competition, but only the inability to adapt to technological innovations and the new 'rules of the economic game'.

Scalfari

Thank you very much; I had reason to suspect you had a somewhat heterodox view on the ideology, and I am glad to have proof of it.

I should now like to hear Pera's opinion – apart from all the other points he may wish to add – on a problem once again raised by Tancredi Bianchi in his opening address, and that is the need to increase the dimensions of operators; Bianchi made specific reference to bankers but the point can of course be applied to all operators on the global markets. The need is there, and it is real, but there is also the problem of how to conduct liberalization and the control of dominant positions effectively given a number of subjects that, I repeat, should be concentrating, creating potentially oligopolistic systems in the various sectors. How does the antitrust authority view this trend, with particular reference to the situation in Italy?

Pera

Part from the subject itself, I am particularly pleased to take part in the conference for two reasons: in the first place, because it is an occasion to celebrate the fiftieth anniversary of a review that, for people of my age, has been an essential tool for grounding in economic studies and opening up to international trends; and in the second place because Chairman Sarcinelli is one of the major advocates for a more open market in our country. Let me recall that just ten years ago, as Minister for foreign trade, he abolished restraints on the movement of capital, launching a decisive process for the liberalization and modernization of our economy. Speaking from the point of view of an authority particularly attentive to the market and liberalization, I can only express my gratitude on this point.

Of the points proposed by Dr Scalfari, I find the last particularly interesting and I shall endeavour to place it in the broader context he suggested.

The phenomenon of 'globalization' – not only in the financial markets – is basically a consequence of opening up the market to areas previously barred from it. In the financial sector, more specifically, it derives from a series of various types of phenomena: product innovations, technological progress in communications, deregulation, liberalization and capital flows – all factors attributing a central role to market and competition forces. This is not to be seen as an inexorable calamity, but rather as a process that has brought its own advantages. Let us take the case of financing for development in the emerging countries: today we speak of crisis in the Asian economies, but they have in fact been able to develop precisely because of the financing coming in from the international system, and in forms that were unimaginable until not so long ago; not only direct, from the banks, but also through the development of direct capital markets. Development in the real economies of these countries, often contemplated with envy and just appreciation, is largely a result of this opening up of the market.

In actual fact, a system that opens up to the market will tend to draw it into increasingly closer integration, both in geographical terms and in terms of tools. Yesterday Dr Padoa-Schioppa pointed

out how the diversity of financial tools was becoming a thing of the past, with the result that substitution between them was becoming increasingly feasible. The risk emerging from all this is that a shock experienced in a market in one country will have repercussions in others, but at the same time the need clearly emerges to structure risk control tools in such a way that they serve for the development of the market.

An evident consequence of this process is the vertical formation of integrated organisms operating in various countries and markets, thus implying a tendency to open out in scale. However, we must not suppose that market conditions are uniform. Yesterday Mr Heimann spoke of vertical segmentation of the market, with operators working at the global, regional and local levels. Clearly, each level has its own structures and market conditions.

Turning, now, from this world scenario to the Italian scene, my impression is that the problems of stability in Italy have to do with shortcomings in globalization and in adapting the financial structure to the demands of competition, and not the reverse. In our country, in fact, development in the structure of the banking system has long been conditioned by concern over stability, which took concrete shape in a form of structural regulation determining both the number of intermediaries and the areas in which they might operate. This was achieved not only through the administrative application of rules, but also through a system of public property that had a certain conditioning effect on the way the market functioned.

Thus the process unfolding before us – privatization of the banks, rationalization of the through mergers system and liberalization of access – is to be welcomed with open arms, for it is creating conditions for the banking structure, and thus the financial system, to adjust to market structures. The present problems derive precisely from the fact that in the situation we have to deal with protection has been the rule and competition the exception, and the system has tended to build inefficient structures on the basis of this protection, notably in terms of overstaffing and labour costs.

The bank mergers need not necessarily give rise to concern about competition, since concentration at the national level is still fairly limited. Nevertheless, certain situations can jam the proper functioning of the market and this is something to keep a close watch on,

as the Authority has in its examination of agreements between insurance companies and banks holding dominant positions, for example.

At the same time, the fact that globalization exists, and that competition therefore grows on the national market and even the world market, does not necessarily prevent problems of competition from arising in various quarters. In the nationwide context we have a national market where the big banks compete with one another, but we also have regional and local markets for certain products and services in particular where access may be limited. We might try applying Heimann's paradigm at the national level, distinguishing between bank market conditions at the national, regional and local levels. Here it becomes important to examine the formation of banking groups that compete by exploiting the relative conditions in terms of costs and efficiency, keeping an ever watchful eye to ensure that positions of real dominance do not emerge, especially at the regional and local levels.

On the basis of the experience the Bank of Italy and the Authority have had in examining concentrations and competitive behaviours – take, for example, the recent Bank of Italy inquiry in Sicily, regarding the Banco di Sicilia – it seems that the deposit and investment market tends to operate mainly at the local level.

For this reason – and here I shall conclude – I believe it would be a good thing to reconsider the trend towards regional groupings which has also had a part in the idea of mergers in the banking system, and which might be replaced with competition on the national scale between groups operating in various parts and regions.

Scalfari

There is another question I should like to ask you. You have, for example, observed that in the case of telecommunications a successfully completed process of privatization has had a certain slowing effect on liberalization: the idea was that the offer to private capital would be more tempting if it still included monopolist's profits.

So now it is that in this sector we have a large privatized company making important deals with national and international groups

which tend to reinforce its position of semi-monopoly. The fact that certain private investors have control over it rather than the state is no particular cause for satisfaction for the users, the consumers. How do you view the situation?

Pera

I thank Dr Scalfari for this question since it touches on a subject I am particularly interested in, and which in turn involves three issues: the privatization-liberalization connection as conceived by the privatizer, or in other words the state selling shareholdings; the frame of reference to gauge the effects of enterprise behaviour; and the right conditions to guarantee a market functioning to the consumer's benefit. On the first point, the idea that what counts is 'to bring in the cash' should not be uppermost; rather, the privatizer should, I believe, ensure that privatization entails increased value for the economy as a whole and enhances its efficiency. Essentially, the important point is to take into account the effects of the operation on competition. Failing to do so could also have counter-productive effects on the value of the privatized enterprise: in the field of telecommunications, for example, given the liberalized world context an important point for the markets is that the enterprise should be accustomed to operating on markets open to competition.

On the second point I have already made some remarks speaking of the situation in the financial and bank markets. In many markets sectors like telecommunications or banking-finance see competition following through at the national or international level. It is important to have alliances to operate on the international markets, but it is also important to bear in mind that the more competitive the national markets are, the better chance those enterprises will have in competing successfully on the international level, as firms like British Telecom and British Airways have demonstrated.

As you know, competition is safeguarded not only at the national level but also in the community context. On analysing agreements between operators in various European countries – in the field of telecommunications or air transport, for example – the European

Commission has made them conditional on liberalization at the national level with the aim of reducing the pressure of these great aggregations on the home markets.

The third point has to do with the connection between privatization and the interests of the consumer, who stands to gain more in a competitive market or, where this does not obtain, in optimally regulated sectors.

Now, it is my conviction that in certain sectors, such as telecommunications, all the conditions exist for the market to become fully competitive at virtually all levels, if not today within a few years. In other sectors fairly extensive regulation may still be necessary. Here I have another conviction, and that is that the tendency in Europe – and not only in Italy – to effect regulation through public enterprise does not often go to the benefit of the consumer since it can lead to a sort of symbiosis between regulator and enterprise, and can in fact undermine that necessary condition of 'antagonism' between the two which can alone guarantee effective control of enterprise behaviour.

Scalfari

The transparency criterion is essential in global systems. This is a subject I think Berlanda can tackle: as ex Consob President he is fully qualified.

Berlanda

We can, I believe, see certain manifold factors attesting to the ongoing process of financial globalization in Italy. We may cite at least four.

The first is the increasing international diversification of family investments, mainly in indirect forms, through mutual funds and fund management. This process of diversification and opening up to the markets involves four factors: the headway made in the sector of national investors, who have in recent years equipped themselves for foreign investment, fewer risks involved in exchange between the lira

and the major currencies, lower returns on internal financial activities and the penetration of global brokers and operators in Italy.

In a recent interview Sarcinelli pointed out in this connection that securities abroad accounting for 4% of the GDP in 1985 had shot up to 118% by 1992, reaching levels normal among the industrialized countries.

All this has led to a greater public sensitivity to market trends abroad, and more room in the media. Dr Scalfari can testify to this.

The second factor, working in the opposite direction – but for similar reasons – towards increasing globalization in Italy's financial market, is the growing weight of foreign investors' portfolios in the Italian market. A significant point here is the growing interest foreign investors are showing in the new stocks and bond issues associated with privatization in Italy. Another point worth noting is the increasing interest Italian firms are showing in quotation abroad.

One result of this second globalization factor is to make the Italian market and firms more familiar to foreign investors.

The third factor is that control codes applying to the financial sector, the operations of intermediaries and standards of transparency for firms are now coming into line with the European and world regulations, thanks not only to the efforts made by international organizations but also to the fact that the world's major investors are active in Italy, propagating their culture and rules. This also applies to the auditing companies.

This facilitates movement in the international markets for intermediaries and fund managers.

The fourth factor is the interpenetration of markets whose general trends are becoming bound together in ever closer correlation, creating a sort of gigantic wave propagated throughout the world in a matter of minutes, as we have had occasion to see in the last few weeks. The great novelty of these last few weeks is that the European markets are beginning to march in step in the face of trends in Eastern Asia or the United States, drawn together by approaching monetary unification.

This marked correlation among markets leads us to consider, assess and weigh up all the data likely to affect trends in a financial market now covering the globe.

The role played by the Italian stock exchange in this process is, alas, marginal although, again citing Sarcinelli, it is equipped with modern systems for telematic transactions and settlement as well as matching technologies that can also be accessed from abroad, while we are also in the avant-garde in terms of organization of the Italian securities market.

It is widely held that the last ten years have seen a glut of confused legislation which needs tidying up, and here I agree. At the same time I cannot help wondering, if there had not been this glut of legislation, including the ten laws cited by Sarcinelli, where would we be now?

We are still in mid-course but we have covered a lot of ground: in 1991 stock exchange capitalization stood at 12% of the GDP, but by the end of September 1997 we had reached 28%. In the same period capitalization climbed from 177,000 billion lire to 553,000 billion, growing threefold. Trade showed a daily average of 140 billion lire in 1991, while now it stands at 1,250 billion in stock. In the case of derivatives comparisons are impossible since we have reached incredible figures in the space of a mere two-three years.

Thus we see a situation steadily evolving. We could even begin a new chapter on the other aspect, now the object of study for the finance consolidation act which will not only tidy up a set of laws in part contradictory, obsolete or at any rate susceptible of modification, but will also deal with sector of corporate governance. This is a particularly important sector concerning not only information but also structures, since a peculiarity of the Italian economic structure is that it is still based on family firms. Without entering into discussion on German versus Anglo-Saxon models, we are faced with situations that need opening up to the market in order to compete with other countries and, indeed, to favour the growth of the Italian firms.

Scalfari

Many thanks. And now we have a representative of the firms, or in other words the real economy.

Merloni

I would rather not take on the responsibility of representing the firms, but as an entrepreneur I know their problems. Scalfari asked us about the meaning of globalization; let us try to answer this starting from a different viewpoint. Savona spoke of the action of a process: I would call it evolution. Globalization is the consequence of certain forms of evolution – basically, three.

The first great evolution is demographic: problems have arisen over the soaring and unbalanced growth in the world population, which means great changes, and great new problems on the borders of the developed countries with scant populations and much lower rates of development.

The second area of evolution is cultural, but now it has become more religious than cultural. Clashes between the various religions and brands of fundamentalism give rise to intense exchange: today this evolution is highly hazardous, and we all seem to be somewhat afraid of it. Nevertheless, it could be very important for the future – we might even call it an 'investment for the future' – since, while these cultures may clash in conflict as they come together, they should ultimately evolve in positive directions.

The third evolution is technological: all the speakers have mentioned this. We may add that this evolution is beginning to receive juridical recognition thanks also to the transactions conducted through information technologies: a recent normative law passed by the Italian government also extends juridical value to such transactions.

These are three forms of evolution that lead to globalization: globalization of the markets, the financial markets and the commodities markets. And this means a great increase in competition.

True, I represent the firms, but who do I mean by this?

The firm is 'servant' to the client: the firm does not produce something for itself, but seeks to satisfy the needs of the client. And where is the client?

He or she goes where the market is, and an example of this is offered by our sector. Let us divide the market into two quite separate bands: mature and developing markets. In mature markets the annual growth rate stands at around 2-3% when things go well, as in France, Great Britain, Germany and Spain. Now take the developing markets: the worst runner has a 10% growth rate, while the others stand at 30-40%. The difference is clear, but industry must simply follow the evolution at work in the world.

Technology has transcended time and space: for example, we now have Internet, Intranet and Infranet, and all this has led to the famous worldwide web for communications.

Here let me make a personal consideration. Merloni has shown very healthy growth over the last thirty years, but if I compare the success factors of 1960 and 1990 I realize that in the space of thirty years, just one generation, they have changed completely. In 1960 Merloni owed its success to its specialized factories situated in areas where the cost of labour was lower than elsewhere, in the Marche.

They were fairly close together so they could be checked out directly: a trip round in the car took them all in, and as they were seven they were called The Big Dipper.

Today the Merloni organization is a web: visiting Fabriano, you can navigate over the system. We have a computer network linking up eleven factories and twenty-one subsidiaries from Singapore to Moscow, China and Buenos Aires, with graphics showing if a line is disconnected. You can navigate and see whether a product should be transferred elsewhere or not. Production costs used to be decisive, while now it is service that keeps the system going. The product used to stay where it was, it was local, and service therefore cost less in any case. Today we have better service, at the right rate and the right moment, wherever distribution and sales reach.

Here, speaking of globalization, there is a particular point I should like to make: for the Italians globalization is a dream that may become reality, but whether it does or not we must take the first step, we must become European. They may have one or two factories somewhere in the world, but I do not know any Italian firms that are truly global, just as I know of no world international automobile or household electric appliance firm that is global. We cannot call a firm global if it has not settled in with its own sources and production and everything else there. For example, there is only one European firm – and it is also the only firm in the world – with a fair output in China, and that is Volkswagen; there is no other. We must be careful not to confuse exporting with being global: it is one thing to export, quite another to be there, living there, with people who speak the language

and belong to that particular culture – present and producing in that place. The Italians must therefore aim at becoming European so that, in a few years, some Italians, some Italian firms can become truly global.

The second point we are invited to consider here today is the financial markets and their stability. Here I have less experience and so, not wishing to express my own judgements or considerations, I shall simply describe the conclusion of a meeting we had in Paris a month ago. At this meeting of the world's eight major household electrical appliance firms we sought to understand the problems facing the sector and, thanks to the contribution of representatives from the Bank of France and the French government, we arrived at the conclusion that the European Monetary System has not been conceived for the economic advantages Europe might gain from it, because the European market already existed and the advantages were there, so much as to be able to guide change as evolution goes ahead. Guiding evolution and enhancing the stability of the financial markets – these are the most important aims firmly upheld by the Bank of France, and we may therefore speak of a political rather than simply economic choice. We should also realize that the unification of Germany, launched as an economic choice, was entirely political, and it has, I believe, left an extremely important sign for us to heed: just think, if it had not been unified, how many more problems it would have been creating now.

Unification of the currency and market will certainly mean more competition, and competition calls for general reorganization: it is not just a matter of productivity in the factories, banks and offices, but general reorganization. We now have to bring new approaches to reorganization. I shall not go into the details, but simply quote two points that emerged from the debate.

For today's level of production, if productivity were to gain 1% per year within twenty years there would be 36 million unemployed where today there are 18 million. I am not saying that we would actually have 36 million unemployed, mind, what I mean is that if productivity increased by 1% a year we would need 18 million fewer workers in twenty years. Something will certainly change and there will not be 36 million unemployed because new jobs will be created, but it is a problem to tackle, also at the political level. This scenario changes throughout Europe, however, and we can expect even

sharper contrasts in the future rates. What I had to say before about the consequences of demographic evolution and the movements of populations applies here, too.

The second point is political. In order to maintain solidarity in the face of such uncertainty over the great numbers of unemployed, the only way is a two-level policy: at the federative level, with firm regulation of region, state and country; at the confederal level, to safeguard solidarity between the various federations with a currency representing rather a social pact – above all a social pact between persons within a certain area.

Therefore, attempting to sum up the problem of financial stability I would say it is, perhaps, more political than economic.

Scalfari

So we come to the end of our debate, and Merloni has given us a prompt to embark immediately on another. On the point that the political sphere is closely bound up with the financial and economic spheres I should like to hear what our participants have to say. If someone would like to put a question we may hope there will be time for the answer.

Sarcinelli

I should like to know whether Italy is more likely to be globalizing or globalized in the future – each participant could put the two possibilities as percentages; after all, we are in a competition, and some prevail while others submit.

Scalfari

I pass the question on, beginning with Merloni.

Merloni

Just a minute ago I said that I found it very hard to imagine a globalizing Italy. Globalizing means that the nerve centre, the headquarters of a company working throughout the world, is in Italy. It is not easy because Italy lacks the right infrastructures: there is not a stock exchange like New York's, not an insurance system, not a nerve-centre for worldwide communications, not the technological development (the great technological development we are now experiencing is the result of liberalization in relation to American military secrets; we have no military secrets to liberalize, we have no secrets holding out positive benefits).

And so it is hard to imagine Italy as the centre of a worldwide enterprise. However, it is the exception that confirms the rule, so let us hope that some Italian enterprise will succeed.

Bianchi

I, too, am inclined to think that we cannot globalize on our present dimensions, but I have one great hope: since some of the most able of the financial market operators in London are in fact Italians who have emigrated there, and since we have this tradition of having invented the bank in the Middle Ages, Italy may not be globalizing but Italians will certainly not be holding the meanest positions in the global banks.

Merloni

Taking up Mario Sarcinelli's question in statistical terms, I would give globalized Italy an 80% probability, and a globalizing Italy 20%. However, I would immediately add that the first rule in modern economy, given its dematerialization and intangibility, is that no rule is permanent and, as we have shown in other fields – the latest example being this famous national deficit that has plunged from stratospheric heights to levels comparable to other European countries –, we Italians are able to reverse the situation if we put our minds to it.

This brings us back to the question of technological innovation. We talk of technological leadership as the cornerstone for global development, and I would say, insisting on a provocative point, if instead of spending 100 billion lire on Ronaldo to play for Inter we spent 10 billion to bring in ten Nobel Prize winners in the key sectors of technology, Italy would immediately reverse the percentages I initially set at 80 and 20, with a 20% probability of being globalized and 80% likelihood of globalizing. If, therefore, we succeed in showing a certain long-sightedness, investing in culture and professional training, I firmly believe that Italians will be able to participate in the process of globalization as leaders rather than subordinates.

Berlanda

We may wonder, how many stock exchanges can there be in five years' time? I would argue that the Italian stock exchange certainly cannot be globalizing but there will be room for it and it will be able to keep on its feet and go ahead together with other markets, especially from the organizational point of view. It will have scope if it proves able to cultivate the domestic market of small- and medium-size firms. In fact, the shortcoming still characterizing our market today is the short supply of firms, which are important features in the Italian scenario but have yet to reach the real-estate market. There is potential scope in this sector.

Pera

If I may, I should like to reformulate the question since I do not see it as a matter of globalizing or being globalized so much as finding the right place in an ever-expanding market where protection and barriers to access tend to fall away. At the global level, too, not all markets are

equal; it is not only a matter of size but, above all, of the capacity firms show in finding a place in the new scenario. From this point of view, Italian firms have revealed a much greater capacity for adaptation than those in other countries.

Thus, in answer to Chairman Sarcinelli's question I would say that the more we participate in the global economy, the better equipped we shall be as a nation to exploit the advantages implicit in our own economic and social system. Naturally, this also calls for institutional intervention – in the field of education, for example – to create the right conditions for the sustained exploitation of these factors.