

**Local Interests Confront the Euro:
Evidence from France and Italy**

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1. INTRODUCTION

The lengthy countdown to economic and monetary union (EMU) was a time filled with projections, planning, and politics. Scholars have examined closely the impact of EMU on firms, groups, parties, governments, and other political and economic actors. Most of our attention has focussed on Brussels and the national capitals, where key decisions are taken. Adjustment to economic integration takes place, however, throughout the EU, and so far we have paid far less attention to politics away from the center. This paper examines the politics of adjustment to EMU by business groups in two regions: Liguria, Italy and Provence-Alpes-Côte d'Azur, France. The central questions of this exploratory study are: what are the political strategies favored by regional associations, and do they engage in political actions that go beyond those customarily expected of sub-national groups?

The paper begins with a brief discussion of the theoretical impact of economic and monetary union. This is followed by an examination of the political responses at the national level to the introduction of the single currency in the two case study countries, France and Italy. The fourth section examines the theoretical basis for a multi-level approach to modeling the political strategies of groups, and describes the research design of this comparative study of regional business responses to EMU. The final three sections describe and analyze the impact and political responses of business to the single currency in Marseilles and Genoa.

2. THE THEORETICAL IMPACT OF EMU

A. Macro Level

The introduction of the single currency has numerous theoretical effects at both the macro and micro levels. At the macro level, the most commonly anticipated benefits of EMU are the following: 1. Greater exchange rate stability: the narrow fluctuations within Europe will be eliminated, and the euro will be less susceptible to speculation on international currency markets compared with the national currencies. 2. A reduction of interest rates. 3. A reduction of transaction costs on foreign commerce, which will produce aggregate savings, and 4. The conditions associated with membership (i.e. "convergence criteria" and "stability and growth pact") will ensure that governments will maintain disciplined finances.

Critics of EMU focussed on the theoretical disadvantages of the single currency. The main drawbacks were identified as: 1. The loss of decision making authority, and more generally, of national sovereignty. 2. The loss of monetary and fiscal adjustment tools, especially in cases of asymmetric cycles and shocks. 3. Lack of democratic accountability of monetary policy makers (Martin and Ross, 1999). 4. The fear that regional economic imbalances will become more severe, as capital moves more easily from lagging to vital areas. Relatively low labor force

mobility in Europe makes this a more salient concern in the EU than, for example, in the US. 5. Concerns were also raised about the short-term costs associated with the conversion to the single currency.

B. Firm Level

At the firm level also, there are numerous theoretical advantages and disadvantages. The presumed benefits include reductions in the costs of hedging against foreign currency fluctuations and the elimination of internal exchange rate transaction costs. Firms should also benefit from a lower cost of borrowing. This is especially true for small and medium sized firms in countries like Italy which have had protected and high cost banking sectors. One Italian manufacturer described the introduction of the euro as an “emancipation from the costs of small Italian banks” (*New York Times*, May 15, 1998). Firms in some countries may benefit from the termination of competitive devaluations undertaken by other countries.

The main disadvantages for firms are related primarily to the short term costs of the conversion to the single currency, and the costs facing firms which had previously benefitted from various forms of protection. The cost of switching to the euro is vastly higher for some sectors than for others. For some firms, it would be simply a matter of making minor programming changes in accounting software. For others, however, the cost can be high. Retailers, for example, have been concerned with the costs of implementing duplicate pricing. Commercial banks face another cost--the loss of exchange rate conversion revenues.

The highest costs will be paid probably by firms in protected sectors. The elimination of national currencies implies a far greater transparency of prices. Higher cost producers will likely need to reduce prices to compete in the European market. Costs may also be incurred by firms that have previously benefitted from their government’s competitive devaluations.

3. NATIONAL RESPONSES TO MONETARY INTEGRATION: FRANCE AND ITALY

A. Political

The economic policies that followed the Maastricht agreement produced political battles more intense than the treaty itself. Governments across the union--even in the pivotal countries Germany and France--were compelled to introduce austerity measures in order to meet the Maastricht convergence criteria. Politically, the most visible and difficult actions were undertaken in order to reduce budget deficits to the 3% of GDP level. Strong opposition to spending cuts and tax increases contributed to the fall of one of Maastricht’s architects, Helmut Kohl.

In France, also, there were fierce reactions to the center-right’s austerity measures. Lionel Jospin ran successfully in the 1997 election on a platform that criticized the pace and scale of privatization in France, and the spending reductions demanded by the euro.

France

France has been a longtime advocate of European monetary integration. François

Mitterand's commitment to monetary union was based in part on his conclusion that France "...would have more influence over the European bank than they presently had over the mark" (Moss 1998, 237; see also Ross 1997). However monetary integration and the austere financial conditions attached to it were not popular in the midst of high unemployment and stagnating incomes. The Socialist government of Pierre Bérégovoy faced a serious setback in the September 1992 referendum on Maastricht, which passed only narrowly, 51-49%. Support from managers and professionals was relatively strong, but key socialist constituencies voted against the government's position on Maastricht (Moss 1998; Ross 1997).

The conservative Balladur and Juppé governments struggled to stabilize public finances in the midst of the economic downturn which began in 1993. Amid widespread strikes and demonstrations, restrictive fiscal policies were introduced, reversed, and again reintroduced in order to meet the Maastricht criteria. Juppé narrowed the deficit by increasing corporate and personal wealth taxes and also the VAT.

In 1997, the socialists ran against the spending cuts and privatization programs, and took a decidedly qualified position on the euro (*New York Times*, June 15, 1997). But once in power, Jospin accepted the Maastricht criteria, and imposed an additional F32,000 million in taxes, primarily on business. Higher revenues from the tax increases and a revived economy finally brought the 1997 deficit to the Maastricht-acceptable level of 3% of GDP. On April 22, 1998 the National Assembly decided to adopt the euro by a vote of 334-49. Although the Socialists' coalition partners, the communists and the Citizens' Movement, voted against the euro, the UDF joined the PS in support of EMU. The Gaullist RPR walked out in order to protest the government's economic policies (Keesing's April 1998).

Italy

Italy appeared to have little chance to enter in the EMU with the first round of entrants. In 1995, Italy was not close to having met any of the Maastricht criteria for entry, and remained outside of the ERM due to its humiliating departure in 1992. There was widespread speculation that Italy would even default on interest payments.

To meet the Maastricht criteria, Italy would have to undertake a "Herculean effort" to reduce its high deficit and enormous debt, the legacy of years of uncontrolled spending by the old regime. The post-tangentopoli governments--especially Lamberto Dini's unelected government of technocrats--made some headway in balancing the budget and in carrying out pension and tax reforms. However it was the government of Romano Prodi that made entry into the single currency possible. Holding key positions in Prodi's center-left Olive Tree coalition were former prime ministers Dini and Carlos Azeglio Ciampi, both formerly of the Bank of Italy. Prodi, working with Dini and Ciampi, made entry into EMU the government's overriding priority (Pasquino 1999).

Facing skepticism and opposition from within and outside (especially Germany) of Italy, Prodi skillfully brokered budget compromises among the PDS and other coalition partners, trade

unions, and the Refounded Communist Party (RC), on whose external support the government depended. The neo-communists extracted a major concession in return for their support on the budget: the government agreed to introduce the 35 hour work week by 2001. Prodi reduced the deficit through a combination of spending cuts and tax increases, including the so-called "Euro-tax" that would be later refunded. His task was facilitated by accelerated rates of economic growth, and a reduction in inflation and interest levels. Although Italian and foreign commentators derided the "one-off measures and tricks of creative accounting" (*Economist* November 8, 1997) that brought the deficit down to the mandated three percent level, it is clear that fundamental structural reforms essential for Italy's ultimate success had already been underway (Chiorazzo and Spaventa 1999).

B. Public Opinion

Public support in the fifteen member states for the single currency held slightly above the 50% mark between 1993 and 1996. Support dropped to 47% in 1997, but climbed above 60% in 1998. In the final Eurobarometer taken before the introduction of the euro, support for the currency reached 64%, with 25% being opposed. Support was even higher in the "Euro 11" countries, where 70% were in favor, and 20% were opposed (European Commission, 1999).

With great consistency, Eurobarometer polls have shown a considerable variation in support for the euro by country. Among the Euro 11, support has been highest in Italy and the Netherlands, and much lower in Germany and Austria. In October-November 1998, 88% of the Italians surveyed were in favor of the euro, while only 6% opposed it. French support for the euro was above the EU average, with 74% in favor and 20% opposed. In the EU as a whole, self-employed individuals, managers, and other white collar workers displayed stronger support for the euro than did manual workers, house persons, the unemployed, and retired persons. All of these occupational groups, however, registered opinions that showed much more support than opposition to the single currency (European Commission, 1999).

In both Italy and France the perceived benefits that were expected by the largest number of people were easier traveling and shopping, and the elimination of currency exchange fees. Concerns about a loss of economic control and a loss of national identity were lowest among Italians (European Commission, 1999). Interpretations of the strong level of Italian support have been wide ranging, but a popular interpretation was that the Italians were looking to Europe in order to find a new identity (*Genova Industria*, March-April 1998). A multivariate analysis of public opinion on the euro finds that countries with a history of loose fiscal and monetary policy are associated with higher levels of support. Length of time in the EMS also seems to have an impact on approval ratings (Gartner 1997).

C. Business Responses to the Single Currency

Various surveys found that European businesses were unprepared for the arrival of the single currency despite the long lead time for its introduction. A Price Waterhouse survey conducted in 1997 found that only ten percent of European multinationals indicated they were prepared for the single currency. Only half reported that they had a formal plan in place. Large

firms were prepared at a much higher rate than smaller firms. Italian firms emerged as the ones most prepared, but fully two-thirds of Italian firms were not fully prepared as of 1997 (*Business Italy*, November 1997).

By the end of 1998, less than half (46%) of large European manufacturers responding to an IBM-commissioned survey indicated that they had already completed “assessing the single currency’s impact on business and setting their strategies.” Banking and finance firms were more prepared, at a rate of 72%, but even in the sector most directly affected, over one quarter of the firms were unprepared. Once again, Italian firms indicated greater preparedness for the euro compared to their counterparts in the four other large countries. Even so, this meant that only slightly more than half of the firms had conducted assessments and strategy reviews at the time of the euro’s introduction (*Industry Week*, February 15, 1999).

France

In choosing Jean Gandois over Jean-Louis Giral as president in 1994, the Conseil National du Patronat Français (CNPF), France’s leading employers’ association, selected the candidate who had the much stronger attachments to Europe and monetary union (*Financial Times*, November 14, 1994). In 1995 Gandois met with European Commissioner de Silguy to discuss monetary union (Commission Press Release, July 19, 1995). Gandois publicly supported monetary union, and argued in favor of British, Italian, and Spanish participation so that these countries would no longer play “the politics of devaluation.” The association argued that French exporters lost close to 150 billion francs over three years due to competitive devaluations (*Extel Examiner*, March 20, 1996). The CNPF was firmly behind the euro for additional reasons. They anticipated greater interest rate stability and, it was hoped, lower interest rates (*Le Monde*, Nov 26, 1996).

Although generally more cautious about economic integration, the association of medium and small enterprises, CGPME, also expressed support for the euro. They were optimistic that EMU would allow firms easier access to European markets, but they also worried that monetary unification could have adverse effects if France maintained higher tax rates than its competitors (*Le Monde*, November 26, 1996).

The Patronat found Juppé’s proposed spending cuts commendable (*Financial Times*, Sept. 19, 1996), but criticized harshly the deficit reduction policies of the Jospin government. In an interview with *Le Monde*, Gandois reaffirmed business support for the euro, and the willingness of business to shoulder some of the costs. The Patronat, however, charged that Jospin’s government was passing all of the costs of deficit reduction onto business, and that the additional taxes would effectively undercut the ability of French business to compete with their European counterparts (*Le Monde*, July 23, 1997). CNPF’s sharpest attacks were directed at Jospin’s electoral pledge to institute the 35 hour work week (from 39 hours), arguing that the employment policies were “grave menaces for the stability of Europe and of the euro...” (*Agence France Press*, October 17, 1997). The Patronat also charged the government with reneging on agreements made with business to increase youth employment by permitting early retirements.

Some people in the association criticized Gandois for his inability to stand up to the government. Gandois resigned and was replaced by Ernest-Antoine Seillière, who took up the attack on Jospin even more vociferously (*Financial Times*, October 15 and December 17, 1997; *Agence France Press*, December 21, 1997).¹ The CNPF joined forces with four other employers' associations in January 1998 to denounce the government's employment programs (*Financial Times*, January 14, 1998). The government stood by its proposal, and the Patronat had to resort to trying to delay the implementation date of the bill (*International Herald Tribune*, March 19, 1998).

Various surveys indicated that most French businesses, with the exception of the banks, very large firms, and major exporters, were unprepared for the arrival of the single currency. A Deloitte and Touche survey indicated that most firms were receiving information about the euro from the banks, and very few from trade and professional associations. In 1997 the CNPF prepared several reports and guides and developed a public relations campaign to increase awareness and preparedness of French firms (*Financial Times*, September 9, 1996; *Le Monde*, November 19, 1997). The confederation of medium and small enterprises, CGPME, established a program to provide technical support for the reprogramming of computer accounts. These costs were estimated to be \$16,500-33,000. The government had conducted informational campaigns, but provided no financial support for the conversion (*Agence France Press*, March 6, 1998).

Italy

Italian business owners were generally, but conditionally, supportive of Italy's participation in the EMU. While certain industrialists like Fiat's Giovanni Agnelli claimed to be longstanding supporters of the single currency (*International Herald Tribune*, April 15, 1998), many--including Fiat's own chairman, Cesare Romiti--were highly outspoken in criticizing the government for the specific policies it chose in order to attain entry (*La Repubblica*, March 17, 1998).

Confindustria, Italy's leading employers' association, harshly attacked the government on the euro. In retaliation, various government ministers portrayed Confindustria as "anti-Euro",² a charge that had some truth to it, for the association's caution and ambivalence went largely undisguised. Confindustria's president, Giorgio Fossi, argued that Italy was unprepared for the euro in the absence of fundamental structural adjustment. Fossi spoke with candor and apprehension about the inability of Italian firms to rely on competitive devaluation for market advantage after the euro was introduced (*L'Imprenditore*, May 5, 1998).

Confindustria's public criticisms focussed not on the benefits of the single currency, which

¹ Seillière also took actions to "modernize" the CNPF, including passing a name change in October 1998. Henceforth, the Patronat would be known as the *Mouvement des Entreprises de France* (*Financial Times*, October 29, 1998).

² After the Council's approval of Italy's admission, Finance Minister Vincenzo Visco reveled in his triumph over the euro's "enemies ...at home" (*La Repubblica* May 3, 1998).

were acknowledged, but on the government's choice of finance reform policies. Fossi and Confindustria's director general, Innocenzo Cipolletta, attacked the government for its imposition of new business taxes, inadequate measures on pension reform, and the other concessions made to the left (RC), particularly the thirty-five hour work week (*Il Sole 24 Ore*, April 15, 1998). To compete in Europe, Fossi argued, required above all, a reduction of Italy's high tax rates. Next in importance were policies to increase labor flexibility and mobility (*L'Imprenditore*, May 5, 1998).

As a counterproposal, the industrialists presented a set of demands that included: "...the extension of short-term contracts, greater recourse to temporary work, part-time apprenticeship, new regulations to govern individual dismissals, the opportunity to distribute working hours over seven days and to exceed the limit of the eight-hour day, lower tax pressure...and the elimination of contractual negotiations conducted at two levels (*La Repubblica*, March 17, 1998)." These proposals were followed in April by a series of rallies to criticize the government for the tax increases and concessions to the left.

4. A TEST OF REGIONAL BUSINESS RESPONSES TO EMU

The question of how economic interests respond to economic and monetary integration in Europe has been examined in some detail. Various studies have analyzed the political activities of firms (Camerra-Rowe 1998; Green Cowles 1995; Pijnenburg 1998), groups (Gorges 1997; Greenwood 1997; Greenwood and Aspinwall 1998; Greenwood, Grote and Ronit 1992; Kohler-Koch 1994; Mazey and Richardson 1993; Traxler and Schmitter 1995; Wallace and Young 1997) and diffuse interests (Pollack 1997) at the European and national levels. Adjustment, of course, takes place at all levels, and it is at the regional and local levels that we have relatively few theoretical and empirical studies.

A. Regional Groups and European Integration

How do regional and local interests respond to the deepening of integration? An earlier study of regional responses to the Single European Act found that the organizational structure of interest groups is a variable associated with the type of political response, but also deserving of further examination. The degree of political decentralization was also found to be a relevant factor. It was found to be a statistically significant variable for explaining interest groups' decisions of whether to target the central or regional governments in their lobbying efforts (Constantelos 1996a).

The strengthening of both regional and supranational authority in Europe led Streeck and Schmitter to predict the development of:

an American-style pattern of "disjointed pluralism" or "competitive federalism," organized over no less than three levels -- regions, nation-states, and "Brussels." As in the United States and perhaps more so, this system would be characterized by a profound *absence of hierarchy and monopoly* among a *wide variety of players of different but uncertain status* (Streeck and Schmitter 1991, 159).

However, it is doubtful whether we really know what “American-style” patterns look like. The American interest group literature converges with that on federalism and we are told that groups in federal systems have a greater number of channels for influencing public policy than groups in unitary systems (Grodzins 1967). More than forty years ago David Truman described “the multiplicity of points of access” in the United States (1951, 507). More recently, Clive Thomas writes:

Generally, unitary systems restrict the access and particularly the influence points of interest groups, while federal systems provide multiple points of access and opportunities for influence--at the state/provincial level as well as at the national level (1993, 18).

The use of multiple channels to fulfill policy objectives is axiomatic to pluralist theory. Surprisingly, however, there is no empirical research which systematically tests this important theoretical proposition. Instead, US interest group studies have inappropriately chosen single governmental levels as self-contained units of analysis (Constantelos 1996b). Therefore we have no real understanding of how groups operate in systems characterized by “multi-level governance” (Marks 1993).

In a “multi-level lobbying model” we would expect to see interest groups that are organized at any level lobbying government of any level (Constantelos 1996b). Certainly this would mark a departure from the types of interest group patterns we have seen historically in Europe. Corporatist countries were defined by the existence of very orderly and hierarchical processes. But even in more pluralistic countries like France and Italy, subnational associations would traditionally confine their activities to their mandated jurisdictions. Confindustria, Italy’s leading business association presents a typical model. Confindustria’s organizational chart indicates that functional responsibilities are demarcated clearly according to organizational unit and the targeted level of political activity. National-level associations are responsible for national affairs, while regional and provincial associations have responsibility for matters in their respective jurisdictions. Confindustria’s national office and the national sectoral associations also have consultative roles in most local and regional matters. The reverse, however, is not the case. *On national matters, the local territorial and regional associations have no competence whatsoever, not even consultative* (Confindustria 1988).

According to this organizational structure, we would not expect lower level units to act independently at the national level. Instead, regional and local concerns would be conveyed to national policy makers through the national associational channels. It is appropriate to ask now whether the important economic and political institutional changes in Europe--economic liberalization and integration, the availability of structural funds, political decentralization--have altered the behavior of economic interest groups. In particular, will subnational groups abide by organizational structures that deny them direct access to national and European policy makers?

Is there empirical support of the multi-level governance model? There is mounting evidence that state and non-state actors are using a variety of subnational, national, and

supranational channels to influence EU policy (Bennett 1997; Coen 1997, 1998; Constantelos 1996b, 1997; Greenwood and Ronit 1994; Hooghe 1997; Marks 1993; Marks and McAdam 1993; McLaughlin, Jordan, and Maloney 1993) and that multi-level policy networks are developing (Bukowski 1997). In a Europe that increasingly displays federal characteristics we need to reexamine patterns of interest intermediation to see if Streeck and Schmitter's (1991) prediction of "transnational pluralism" is materializing.

B. Research Design and Methodology

The central question of this research is: how do regional interest groups respond to the deepening of economic integration? And what explains their political responses? To answer these questions, I conducted paired sectoral comparisons of business associations in France and Italy. This paper reports on the findings of the second round of a four round survey of the political responses of regional business associations and their members to European integration.³

This research is designed as a "most similar case comparison." I conduct an investigation of a small number of cases, controlling for alternative explanations through careful case selection (Lijphart, 1971). Interest group adjustment strategies are examined in Liguria, Italy and Provence-Alpes-Côtes d'Azur (PACA), France, border regions that bear numerous economic and social similarities. The pairing of these two regions allows us to narrow considerably the possible causes of any observed differences. Even partisan alignments are "controlled" with this pairing: the left (or center-left) was in control of all levels of government in both cases. We can therefore ask the precise question, "do regional interest groups confine their political activities to their own jurisdictions, or alternatively, are they engaged in multi-level lobbying?"

Ten sectors were selected for the study, chosen roughly according to the overall importance of agriculture, industry, and services in the regional economies.⁴ The sample includes agriculture as a single sector, along with three industrial sub-sectors (metal and machine products, chemicals, and construction) and six service sub-sectors (commercial agents, tourism, freight forwarding, finance, business consultants, and professional services).⁵

³ The first stage examined responses to the Single European Act. Subsequent stages examine economic and political responses to EMU in surveys of business groups and their members in each of the French and Italian regions.

⁴ This is analogous to a procedure frequently used in cluster sampling called probability proportional to size, where a proportionately higher percentage of individuals are selected from the larger groups. The difference here is that random sampling is not used. Random selection of cases in small-n research does not necessarily reduce selection bias, and may indeed produce more bias than do purposive selection mechanisms. See King, Keohane and Verba (1994, 124-8) for a discussion of this problem.

⁵ Regrettably, the PACA association of business consultants dropped out of the survey, making the tenth matched comparison impossible.

Primary data for this investigation come from surveys of regional business associations in PACA and Liguria. The survey had two parts. The first part consisted of personal interviews with the presidents of the business associations. The interest group officials responded to a series of open-ended questions regarding the impact of economic and monetary unification on the association and its members. The presidents then completed a written questionnaire that included questions about the association and the effects of market integration and the single currency. Also included were questions about the normal frequency of contacts with each governmental level, and frequency of contacts on European matters. Finally, additional questions concerning the frequency of other political actions were included. The interviews were conducted May 25-June 5, 1998. Coming only weeks after the final approval of EMU membership, this was a period characterized by high attentiveness to the introduction of the single currency.

5. THE IMPACT OF THE SINGLE CURRENCY ON BUSINESS

A. General Findings

Most of the associations surveyed did not anticipate significant changes in revenues for their member firms as a result of the introduction of the euro. The modal response for revenue changes in all markets was an expectation of “no change” (see Table 1). However there was also a relatively high amount of uncertainty about the net effect of the euro on sales. Four groups anticipated higher total revenues as a direct result of the euro.

When broken down by market location we find substantially different responses. The majority of the respondents expected “no change” in revenues coming from the national market. The expectation of “no change” was largely the case for the extra-EU market. Only a few groups expected either an increase or a decrease in sales in the national and extra-EU market. It was in the EU market where we find the greatest optimism for higher sales. Eight groups projected higher earnings, in comparison to only two that expected a decrease in EU sales.

Table 1
The Effects of the Single Currency

	National Market	E.U. Market	Extra-European Markets	All Markets
An increase in revenues	2	8	3	4
No change	12	5	10	8
A decrease in revenues	3	2	1	0
Uncertain	2	4	5	7
Total	19	19	19	19

B. Marseilles and Provence-Alpes-Côte d'Azur

In PACA, representatives of none of the sectors reported having any significant concerns about the initial costs of the euro. The metals and machinery sectors, like their national associations (*Agence France Presse*, March 6, 1998), anticipated no major problems with the conversion. Freight forwarders also expected no major difficulty with the conversion, although they did indicate that “transparency [of prices] is another issue” (Interview, May 26, 1998).

In general, the French business sectors were optimistic about the economic impact of the euro. In several sectors, business groups were eagerly looking forward to the single currency. The tourism association was supportive of the single currency--“it should be a good thing”--believing that it would produce a general increase in business and holiday travel to the Riviera (Interview, May 28, 1998).⁶ The chemical association president was even more enthusiastic--the euro will be “very good for member firms”, he proclaimed (Interview, May 28, 1998). This comports with generally favorable chemical industry expectations about the beneficial effects of the euro.⁷ The chemicals association, the agriculture association, and the banking group all said that they favored monetary integration because it would mean the end of competitive devaluations of Spain and Italy.

The major concerns raised in PACA about EMU were regarding the high cost of social wages in France, and the consequent disadvantage of French firms in competing with firms from countries with lower taxes and benefits. The highly labor-intensive construction sector emphasized this concern, but it was also raised by representatives from the capital-intensive chemical industry (Interviews, May 1998).

Banks, of course, are directly affected by the introduction of the euro. Two types of short term costs would be incurred. Most immediately was the cost of converting to the euro. This was projected by French banking officials to be about one to two percent of annual revenues, and the costs would be borne primarily in 1999. Each bank pays its own conversion costs; no state aids were provided for this purpose. The second direct cost involves the loss of commissions on currency exchanges. For banks in Marseilles, this is about 0.3% of revenues. Banks in Nice, close

⁶ One of the largest service sectors in Europe, tourism is especially important in PACA and Liguria. The tourism industry was expecting a general boost from the single currency. Tourism operators would benefit from having more transparent single pricing in a larger market. Business and recreational travelers will benefit from the convenience and savings of not exchanging currencies (World Tourism Organization 1998). The precise effect, of course, is highly variable, depending on location.

⁷ The European chemicals industry is large, highly multinational, and relatively well-prepared for the euro. One business reporter proclaims that, “the EU chemical industry is welcoming the euro. Fluctuations in exchange rates will have less effect on pricing, and transaction cost should decline substantially. Above all, it will bring the EU closer to creating an authentic single market” (*Chemical Market Reporter*, December 28, 1998). The greatest concern is that the price transparency accompanying the introduction of the euro would generate downward pressures on chemical prices (*Chemical Market Reporter*, February 2, 1998).

to the Italian border and therefore more active in foreign exchange transactions, would lose about 0.6% of revenues. The regional banking association was not very concerned about the short term costs associated with the euro. Rather, they were hopeful that costs would be offset by an increase in business activity. Overall, the banking association did not expect the euro conversion to produce significant fluctuations in revenues or profits. Member banks had not met to formulate a common strategy on the Euro (Interview, May 28, 1998).

C. Genoa and Liguria

The Italian, and Ligurian, economy began growing at a faster rate during the second quarter of 1998. Business representatives were cautiously optimistic that the recovery could be sustained, but they were also apprehensive after several years of poor economic growth. One great source of concern was the future of some of Genoa's largest, state-owned, firms, which had been losing money for years. Private firms relied on contracts from the state sector for a considerable portion of revenues, and the future of public giants like Ansaldo, Elsag, and Fincantieri was uncertain.

Business was generally supportive of monetary integration, but this support was accompanied by a number of clear reservations. The president of Confindustria Liguria, Attilio Oliva, voiced concerns about European integration that were similar to those articulated by national Confindustria. For Italy to realize benefits from deeper integration was believed to be contingent on whole scale institutional and behavioral change. Oliva singled out public finances as an area in which fundamental reforms were essential for Italian success in Europe (Oliva 1998).

Riccardo Garrone, the president of the Industrial Association of Genoa, had the same type of conditional approval of the monetary union. Garrone saluted Prodi for Italy's first round entry into the monetary union, and for his stated intention to liberalize further the economy. But Garrone also demanded that the government reduce the tax burden on business, and take strong deregulatory measures to end the "suffocation" caused by "bureaucratic congestion" found at all levels of government. Garrone called for further privatization of state holdings in Genoa, especially at the Port of Genoa. In order to "enter Europe with dignity", he argued, Italy must undertake basic structural reforms, including of the educational system and of other public services (*Genova Industria*, March-April 1998).

Only one-half year before the start of EMU there remained considerable uncertainty about the euro's impact in Liguria.⁸ The president of one of Genoa's largest firms had a typical response: "The consequences of the single currency...are still to be seen. What is certain is that they will be of great importance..." (*Qualeimpresa*, June 1998). Only a few of the Genoese business representatives participating in the survey were able to project with any great confidence the impact of the euro on their sectors. For example, in the construction sector, where the

⁸ A representative of the business consulting association really had no idea about the euro's impact, and said the group was now starting to think about organizing a conference on the subject.

recession lingered, there was a sense that the region was unprepared for deeper European integration, but that it was too early to assess the likely impact of EMU (Interview, June 1, 1999).

Some groups were optimistic about their prospects under EMU. The commercial agents, for example, believed that Italian firms, long accustomed to an uncertain business environment, easily adapt to such changes. They were “sufficiently optimistic” about the single currency, especially because of the expected reduction in inflation rates (Interview, June 2, 1999). The tourism industry also was generally favorable toward the euro, although they did raise the concern about Italy’s new inability to rely on competitive currency devaluation for price advantage (Interview, June 1999). Other sectors raised concerns about price transparency (chemicals)⁹, and Italy’s inability to compete in a more integrated European market. The various reasons for this were the traditional complaints of business in Italy: high taxes (freight forwarding and tourism), high labor costs (tourism), high regulation (chemicals and freight forwarding), and the inflexibility of the labor market (machinery).

Banking faces clear effects from monetary integration, and in Liguria there was sufficient cause for uneasiness. The banking sector has been described as, “...one of the most inefficient sectors of the economy... For decades, Italian banks were content to remain small and fragmented, allowing profits from the country’s high interest rates to hide their inefficiency.” (*Economist*, Nov. 8, 1997). The banking sector is consolidating rapidly (*The European*, August 10, 1998), and national banks much larger than the regional banks of Liguria have been taken over in mega-mergers and privatization deals supported by the government. The representative of the regional banking association indicated that the Ligurian banks were unprepared for the euro. Regional industry was expected to benefit from the predicted lower interest rates, but the local banks may not end up being the beneficiaries of regional economic growth. Liguria has undeveloped capital markets, and the regional banks are facing more competition, not from the creation of new branches of foreign banks, but from an increase in foreign bank lending. Because of the anticipated increase in foreign competition, it was expected that regional bank revenues would fall as a result of the euro (Interview, June 2, 1998).

6. THE POLITICAL STRATEGIES OF REGIONAL BUSINESS ASSOCIATIONS IN MULTI-LEVEL EUROPE

A. Normal channels

Business groups were asked the question: “which channels do you normally use to propose, or to demonstrate support of, a law, a decree, or an administrative act.” Respondents could select from five governmental levels (communal, sub-regional, regional, national, and European), specific institutions at each level, as well as various other activities. Responses were coded on

⁹ The transparency impact will be greater for end-use products, than for industrial chemicals, where prices are much narrower already (*Chemical Market Reporter*, December 28, 1998). Most, although not all, of the Ligurian firms are specialized in end-use products, such as paints and varnishes.

a four-point scale to have consistency with earlier surveys of this type (LaPalombara 1964 ,Wilson 1987).

Italian groups contacted all five of the governmental levels more frequently than the French groups (see Table 2). The regional and central governments were the levels used most frequently by business associations in France and in Italy. The greatest difference between the two countries is that Italian groups contact communal, sub-regional, and European levels much more frequently than the French groups. French groups reported that they “rarely” contacted the city and departmental levels. French business associations also contacted the EU infrequently.

Table 2
Normal Lobbying Channels

	France n=9	Italy n=10
Government		
Commune	1.6	2.7
Department/Province	1.8	2.6
Region	2.6	2.9
National	2.8	3.3
European Union	1.5	2.7
Other Channels		
Political party officials	1.7	3.3
National business association	3.3	3.7
European business association	2.1	2.8

Coding: 4=often, 3=occasionally, 2=rarely, 1=never

As we might expect, regional business associations are in regular contact with their national associations regarding policy matters in the capitals. Italian groups were more likely than French groups to contact a European business association.

The demise of Italy’s postwar party system led to questions about whether this signaled the end of partitocrazia (party, rather than executive, dominance of the state) in Italy. The survey indicates, however, that Italian business associations continue to look to the parties when seeking

policy outcomes. Frequency of party contact is the second most-favored channel (after contacts with the national business associations, and tied with direct contacts with the national government). Contact with parties is much higher in Italy than France.

B. European Affairs

In order to determine whether the EU generates a different set of political strategies, the business associations were also asked about the frequency of various political activities regarding European issues. The question asked of the presidents was: “On European matters (e.g. regulations and competition), which channels do you use?” Since EU programs are administered at a variety of levels, it is possible that groups would be in contact with any level on EU matters.

The communal and sub-regional levels were used as lobbying channels infrequently by groups in both countries (see Table 3). Once again, Italian groups reported a higher frequency of contacting each governmental level in comparison with their French counterparts. Whereas the French groups were in most frequent contact with the regional and central governments, the Italians preferred going to the region and the EU (directly) over the central government. In the case of business lobbying, the preferred road was not through Rome!

Table 3
European Affairs

	France n=9	Italy n=10
Government		
Commune	1.0	1.8
Department/Province	1.2	1.9
Region	2.2	3.0
National	2.2	2.7
European Union	1.7	3.1
Other Channels		
Political party officials	1.9	2.8
National business association	3.4	3.2
European business association	2.3	2.6

Coding: 4=often, 3=occasionally, 2=rarely, 1=never

C. Multi-level lobbying

Do interest groups engage in multi-level lobbying? This is a fairly easy empirical test. One definition of multi-level lobbying could be “lobbying at more than one governmental level”. However, this would not be a very meaningful test of the multi-level lobbying model because regional groups are frequently the lowest level administrative unit, and therefore they have responsibility for public affairs at the regional, sub-regional, and local levels. Therefore as an alternative operational definition we can say that multi-level lobbying occurs when groups are politically active at multiple levels, including at least one level for which it does not have primary competence. Using this definition, *every one of the groups in the study reported engaging in multi-level lobbying.*

The responses of the chemical producers’ association of Italy, Federchimica, to the single currency illustrates the need for multi-level lobbying. Deeper integration, it feels, poses substantial risks to the Italian chemical industry because of the high costs of regulation. New investments are low, and the association blames the fifteen or so reports that are carried out by ten different government agencies. Federchimica is compelled to use multi-level lobbying because approvals are required from at least five national ministries, as well as from regional, provincial, and communal offices. The association has lobbied the national level, and Public Function Minister Franco Bassanini in particular, for a revision of proposed legislation for “one-stop” authority to include environmental and sub-national approvals (*Business Italy*, September 1998).

D. Other Actions

Consistent with the findings of earlier research (Wilson 1987), the survey indicates that the interest groups use a wide variety of actions to indicate their support or disapproval of government policies (see Table 4). These actions include participating in regional commissions,

Table 4
Other Actions

			EU Affairs	
	France	Italy	France	Italy
Participation in regional public committees	3.3	3.6	3.0	3.3
Public relations	3.8	3.4	3.3	3.1
Legal actions	3.0	3.1	2.3	2.6
Demonstrations	3.1	2.6	2.9	2.4

Coding: 4=often, 3=occasionally, 2=rarely, 1=never

public relations, legal actions, and demonstrations. Scores for most of these actions were higher than for the frequency of reported contacts with government officials. Living up to their reputation, French groups had a much higher rate of participation in demonstrations than the Italian groups. All of these activities were reported at lower frequencies when they concerned European affairs.

7. DISCUSSION AND CONCLUSION

Economic and monetary union presents numerous opportunities and risks for firms and for a variety of other economic and political actors. Perhaps one of Europe's most awaited dates, January 1, 1999 heralded the arrival of the single currency. The political battles over the policies taken to meet EMU's convergence criteria were fierce, and they produced numerous casualties. In France and in Italy business groups felt themselves to be on the losing end of their numerous skirmishes with the left and center-left governments over the budgets and the shorter work week.

In both countries, the leading business associations launched intense public relations campaigns against government positions. At the regional level, affiliated business associations typically had similar positions as their national organizations, or at least they took the "party line" in the public positions. This survey indicates that the national business association remains the most commonly used channel for influencing public policy. Nevertheless, the regional business associations did not leave political matters entirely in the hands of the central organizations. Regional business groups lobbied all levels of government, and they engaged in numerous other political actions on "European" and non-European issues. Regional groups were in regular contact with national and European officials, despite organigrams that do not recognize these "extra-territorial" contacts. Every one of the nineteen groups contacted at least one level of government outside of their jurisdiction on an "occasional" or "frequent" basis. The study provides additional empirical support to justify the use of a "multi-level lobbying" model in multi-level political systems. In other words, our empirical research must be designed so that we are able to observe completely the patterns of interest intermediation in multi-level Europe.

One of the findings of this project is that groups don't look at EMU in a narrow manner (even groups that are directly and precisely affected, like banks). Virtually every group discussed the impact of EMU in light of the country's political and bureaucratic capacity and economic and fiscal structure, and how these factors compared with their competitors' business environments.

Another clear finding is the relative lack of preparedness of firms and regional interest groups on EMU. Business groups had an expansive understanding of EMU for the nation as a whole, but they did not have a precise understanding for the regional sector. Only a few of the groups had conducted any kind of analysis of the projected impact of EMU on the regional sectoral economy. This is surprising since the field work was conducted over six years after Maastricht, and just a little more than six months before the arrival of the euro.

The study was designed to observe differences between France and Italy. An earlier study on the SEA found that lobbying patterns correlated with the degree of political decentralization in the two countries; regional groups in France were contacting the national government at a higher frequency than the Italian groups. This finding was not repeated in the present study. The Italian regional groups reported using almost every political channel more frequently than the French. The Italians may indeed be more politically active, perhaps precisely because they spoke of many more concerns about the impact of the euro....or, they may simply be prone to exaggeration.

Certainly there are limits on the conclusions that we may draw from a study of two regions with a small sample size. A systematic test of explanatory variables must await additional rounds of surveys in additional regions. Subsequent rounds are also necessary to discover how firms and business associations adjusted to monetary union after its inauguration.

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