Can You Bank on It? Italy's Response to the Second Banking Directive of the European Community

Jeffrey A. Orr

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I. INTRODUCTION


1. The European Council is composed of the heads of state of the member countries comprising the European Community.

2. The two principal methods for implementing European Community legislation are the regulation and the directive. Although the regulation is the stronger of the methods, the directive is required by law in specific areas, and may be the most effective tool in those areas. David Anderson, Inadequate Implementation of EEC Directives: A Roadblock on the Way to 1992, 11 B.C. INT'L & COMP. L. REV. 91 (1988). Mr. Anderson provides a clear explanation of what directives are and how they function.

The First Banking Directive was adopted in 1977. It identifies five basic categories that the European Council has targeted for harmonization:

(1) rules abolishing barriers along Member State borders with respect to the provision of banking services, (2) rules providing for the freedom of [European Community (EC)] credit institutions to establish branches in other Member States, (3) uniform rules concerning essential authorization requirements for credit institutions, (4) uniform rules concerning essential supervisory standards, and (5) rules providing for (uniform) treatment of non-[EC] credit institutions.


The First Directive does not provide the complete procedures for realizing these targets, but it does lay the groundwork for the internal integration of EC banking laws. Although the First Directive provides for registration of Community banking institutions in the home country, it leaves some areas unchecked. For example, under the First Directive a Member State could still require registration of a foreign banking institution within its territory as a prerequisite to doing business if it required the same thing of its own institutions. Moreover, the First Directive does not address the establishment of non-EC banks within the EC.

Together with other EC banking regulations already in place, the Second Directive is intended to “[r]emove the remaining barriers to freedom of establishment of branches; and ... grant full freedom to provide financial services throughout the EEC.” Gruson & Nikowitz, supra, at 210; see also Second Council Directive 89/646 of 16 December 1989 on the Coordination of Laws, Regulations and Administrative Provisions Relating to the Taking Up and Pursuit of the Business of Credit Institutions and Amending Directive, 32 O.J. (L 386) 1, 1 (first Whereas
"the essential instrument for the achievement of the internal market." This landmark legislation changes the fundamental nature of banking in the European Community in two significant ways. First, the directive allows Community citizens to bank with any financial institution in any country. As a result, Italian savings will be able to flow in and out of the country with relative ease. For the purposes of this comment, this flow of capital will be referred to as the liberalization of capital. Second, banking licenses, which are issued and regulated by the home country of the enterprise in accord with the provisions of the directive, will permit a financial institution to do business anywhere within the Community without the authorization of the host country. These basic changes or "twin shocks" will have a significant impact on Italy.

Part II of this comment discusses the impact of liberalization of capital and banking deregulation under the Second Directive on the Italian government and the Italian banking industry. Part III discusses Italy's initial response to the Second Directive. Part IV discusses what further steps Italy must take to confront the Second Directive and its effects.


6. Although this article focuses on Italy, the Second Directive will also have a substantial impact on other European countries, such as Spain and Greece.
ITALY'S RESPONSE

II. IMPACT OF THE SECOND DIRECTIVE ON ITALY

Italy is ill-prepared for both the liberalization of capital movement and banking deregulation—two elements critical to the Second Directive's goal of European financial integration.  

A. Capital Liberalization and the Italian Government

The imminent liberalization of capital within the Community presents significant problems for Italy. Italy's domestic savings provide a safe harbor for its government's fiscal policies. Because of extensive governmental control and regulation, the government has faced virtually no competition for Italian savings. "[This] lack of competition ... made it easier for the government to sell its bonds." In the wake of deregulation, the government fears that Italian savers will be lured to the more efficient and higher-yielding institutions of other Member States, whether they be located within Italy or in the other Member States. Thus, funds would be channeled from Italian government bonds into other areas and perhaps out of Italy altogether.

Numerous commentators have observed that the biggest problem Italy faces in relation to harmonization of the European financial market is its deficit. Italy's deficit approaches nearly two-thirds of the United States' deficit, yet the gross domestic product (GDP) is only one-seventeenth of the United States'. Italy's deficit is close to, if not over, its yearly GDP. The deficit problem has reached such proportions that

7. See Big Whimper?, ECONOMIST, February 27, 1988, at 14, 15 (Supp.) (Survey: The Italian Economy); The Japan of Europe? Italy is Enjoying Spirited Growth, BARRON'S NAT'L BUS. & FIN. WKLY., May 2, 1988, at 14 [hereinafter The Japan of Europe?].
10. Waddington, supra note 9; Public Profligacy, supra note 8, at 10; The Italian Economy; Living with Instability, ECONOMIST, Feb. 27, 1988, at 5 (Supp.) (Survey: The Italian Economy) [hereinafter The Italian Economy].
11. Public Profligacy, supra note 8, at 10; The Italian Economy, supra note 10,
if something isn’t done soon, the yearly interest payments on the deficit will exceed the amount the government can borrow.

One naturally asks how a country so laden with debt can survive, much less rank as the fourth capitalistic economic power of the world. The answer is that although the Italian people seem to live faithfully by the maxim carpe diem, they are ironically the world’s number one savers of disposable income. Italians save an incredible twenty-three percent of their disposable income compared to eighteen percent for the Japanese and only four percent for United States citizens.13

The increased competition that the government will face in borrowing money will likely force it to go outside of Italy to finance its debt. Finding such financing could be difficult considering current world and European financial conditions.14

The traditional softness of the lira and the current government debt structure justifiably worry foreign investors.15

Considering the lack of funds the Italian government may soon face, some fear that Italy may resort to restrictive adjustment measures to delay the full effect of the transition.16 Because Italy is “second only to [Greece] in ignoring EEC rules,”17 there may be cause for concern in regard to the Second Directive. Particularly since it expressly provides for limited exercise of “safeguard clauses.” Italy might use these clauses...
to circumvent Second Directive mandates. So far, however, Italy has not exercised these clauses and has substantially complied with the deadlines imposed by the directive;\(^{18}\) whether it will continue to do so remains to be seen as the effects of liberalization of capital and deregulation increase at the governmental and banking-sector levels.

**B. Banking Deregulation and Italy’s Financial Institutions**

Banking Deregulation under the Second Directive will substantially impact Italian financial institutions in both the Italian and European markets.

1. **Italian market**

The high rate of savings in Italy will attract vigorous competition from both Community and non-Community financial institutions.\(^{19}\) As Italy lowers its protectionist barriers, massive domestic savings will be fully accessible to those who are willing to pay higher interest rates to obtain Italian capital.\(^{20}\)

Italy may not be ready for the leaner and more competitive foreign institutions that will certainly move in when Italy is no longer a provincial market.\(^{21}\) At present, Italy has a more highly regulated banking industry than any of its European counterparts.\(^{22}\) The legislation governing Italian banks dates back to the fascist system.\(^{23}\) This antiquated financial system holds

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18. There are likely many reasons for the compliance, but principal among these is that Italy needs European monetary unity, and more particularly, a European Central Bank. "As a highly open economy that exports goods manufactured with imported inputs, [Italy] is especially vulnerable to external shocks in relative prices that are quickly translated into domestic price rises." Fabrizio Saccomanni, *Italy Needs European Union*, J. COM., Mar. 9, 1990, at 8A.

19. Negretti, supra note 9; Italy’s Debt Dilemma, supra note 15, at 87.

20. For example, the Japanese, who have the capacity to endure initial losses or low returns to gain major market shares, are moving quickly to set up branches in Rome and Milan. Gary Evans, *The Great Stampede into Italy*, EUROMONEY, Dec. 1988, at 43.


back Italy's thriving and modern industry.\textsuperscript{24}

Italian banking regulations are a quagmire of complex restrictions and rules.\textsuperscript{25} The product, and perhaps the aim, of such burdensome regulation is twofold: (1) to keep huge capital stores in Italy where the government can use them to finance its deficit; and (2) to protect a weak Italian banking industry.

One reason that regulation is so extensive is that Italian banks are mostly owned by the Italian government.\textsuperscript{26} Government ownership is a fundamental part of the oligarchical nature of government and business in Italy.\textsuperscript{27} Banking positions are awarded on the basis of political cronyism, known as \textit{lottizzazione};\textsuperscript{28} the top posts are awarded to members of the ruling political party who in turn staff their respective institutions with colleagues and friends.\textsuperscript{29}

An additional complication affecting Italy's ability to comply with the Second Directive is that southern Italy is considerably less wealthy than northern Italy.\textsuperscript{30} The rich North may be ready to at least evaluate and confront the challenges of the Second Directive whereas the poor South may not. The South may impede progress toward realization of the banking goals which northern industry is eager to realize. Given that the gap between the two is ever-widening, the South's main concern seems to be simply keeping pace with the North.\textsuperscript{31} Implementing Second Directive mandates in the South may be practically

\begin{itemize}
\item \textsuperscript{24} \textit{The Italian Economy}, supra note 10, at 3.
\item \textsuperscript{25} \textsc{Mastropasqua}, supra note 23, at 115; \textit{see also} Humphreys, supra note 22, at 78.
\item \textsuperscript{26} The state not only oversees the system but almost completely administers it through the Bank of Italy. Statistics indicate that "80% of the banking system is state-controlled." \textit{Big Whimper?}, supra note 7, at 14. The remaining 20% is probably so heavily influenced by the other 80% that the Italian government has practical control over that also. \textit{See On to 1992}, supra note 23, at 20.
\item \textsuperscript{27} The control of most industry is in the hands of a few families, the Agnellis of Fiat being the most powerful. \textit{Europe's Japanese}, \textsc{The Economist}, May 26, 1990, at 26.
\item \textsuperscript{28} \textit{Lottizzazione} has been described as "the habit of filling top banking posts with political acolytes." \textit{Italian Banking: Political Princes}, \textsc{Economist}, June 2, 1990, at 82.
\item \textsuperscript{29} This is a problem that plagues Italy not only in the banking sector but in almost all areas of government and industry.
\item \textsuperscript{30} \textit{Mad Dogs and Mafiosi}, \textsc{Economist}, May 26, 1990, at 21. The North/South situation presents numerous problems to Italy, fraudulent banking practices being only one. As Italy prepares for complete European integration in 1992, it must realize that the Community will likely not tolerate Italy's apparent inability to eradicate these practices.
\item \textsuperscript{31} \textit{Id.} at 21.
\end{itemize}
impossible.

Italy now fears deregulation will make the financial products of foreign institutions much more appealing than its own. Until now, Italy’s investors and savers haven’t had many choices in financial services. Before the First and, more significantly, the Second Banking Directives, “Italian savers were forced to buy the only dish on the menu”; when they have more choices, they will most likely choose more lucrative opportunities.

Foreign institutions in Italy that attract depositors may divert or transfer those funds to their own or other European countries to finance more profitable ventures than the Italian budget deficit. Moreover, Italian investors may seek out investment and saving opportunities in other Member States thereby removing the funds directly from the reach of their own government.

Many analysts believe that when controls are lifted and Italian savers become more familiar with the financial services that institutions in other Member States offer, they will leave the government—and the banks—without a source of funds. Some say they have already begun to do so. “In 1988, out of a total of 180,000 billion lire ($138 billion) of new savings, 2% was invested in foreign securities.”

Italy stands to fare poorly against foreign competition. Heavy regulation has created an inefficient banking industry. The service that Italian banks offer to their customers is “grossly inefficient.” For example, waiting in line an hour or two for a simple transaction is routine. Banks are weighted down by excessive and ineffective personnel. Italian banks have fewer branch offices than the banks of any other Europe-

32. Humphreys, supra note 22, at 78.
33. Italy’s Debt Dilemma, supra note 15, at 87. One observer predicts that “Italian investors will become more sophisticated in investing overseas and will buy Japanese bonds and equities.” Evans, supra note 20, at 43; see also Family Credit, BANKER, Oct. 1989, at 25, 25-26.
34. Italy’s Debt Dilemma, supra note 15, at 87.
35. Banking, Italian Style, supra note 5, at 26.
36. Italy: The Odd Country, ECONOMIST, May 26, 1990, at 3. The author confirms these accounts by way of personal experience, having had, on one occasion, to wait two hours, in three different lines, to cash a traveler’s check.
37. Paolo Forcellini, Affari senza confini, L’ESPRESSO, Jan. 8, 1990, at 146. Italy averages 22.7 employees per branch office, by far the highest out of its European neighbors, Japan or the United States. Big Whimper?, supra note 7, at 14.
an country.38 The processing of checks and drafts takes markedly longer than anywhere else in the Community.39 Most Italians do not even accept checks.40 These difficulties dramatically increase the challenge Italy's financial institutions face as they try not only to maintain domestic market share—until now Italy's financial institutions have held virtually one hundred percent of the market—but also to attract foreign investors and savers.41

2. European market

Many of the same obstacles that keep Italy's financial institutions from being profitable domestically may also keep them from competing with other Member States' institutions in their respective countries. This means that Italy would certainly lose a significant opportunity. Furthermore, the very existence of Italy's financial institutions may be at stake. Given the economies of scale in an integrated market, European banks of the future may need to establish branches throughout Europe to survive.

The Italian system has favored small banks that cater to the needs of the small investor. Consequently, several of Italy's banks are undercapitalized.42 Because of this, these banks will not be able to meet the requirements the Second Directive imposes as a condition to expanding banking operations in other countries.43 To compete abroad, many Italian financial institutions might consider merging with other financial institutions. However, mergers are costly and burdened by the intricacies of regional politics and cultural differences.44 Some commenta-

38. Big Whimper?, supra note 7, at 14.
39. Id. "A Bank of Italy study showed that the average [check] takes 29 days to clear compared to three to 10 days in other countries." Humphreys, supra note 22, at 76.
40. Big Whimper?, supra note 7, at 14.
41. Giuliano Amato, Italian Minister of the Treasury, stated that when an Italian realizes that he can accomplish in one day at a foreign bank what it takes a week to accomplish at an Italian bank, he will be induced to patronize the foreign bank. Salvatore Gatti, Deciderà il rigore, L'ESPRESSO, Jan. 8, 1989, at 140, 141.
43. Banking, Italian Style, supra note 5, at 27.
44. Big Whimper?, supra note 7, at 15. The importance of cultural clashes in banking administration and organization should not be overlooked. Hosking, supra note 14, at 9.
tors argue that even with the tightening of alliances, actual mergers will be rare.\textsuperscript{45} Such mergers are costly because most of the smaller banks are profitable given the Italian propensity to save.\textsuperscript{46} Italy faces a perplexing situation: mergers are necessary now to deal with the new European market that could lure away domestic savers while savers are keeping their money at home, making such mergers very expensive.

As previously mentioned, costs of banking are high in Italy compared to other Member States.\textsuperscript{47} Citizens of other Member States who are accustomed to more efficient domestic financial institutions will not buy Italian financial services abroad unless they are competitively priced.

III. ITALY'S POSSIBLE RESPONSE TO THE SECOND DIRECTIVE

In evaluating how Italy will respond to the mandates of the Second Directive, it is useful to first review Italy's past response to problems posed by European integration.

A. Traditional Response to Problems

As each new phase of European integration has approached, many have doubted whether Italy would be willing or able to meet the deadline. Just when such compliance seemed all but impossible, Italy somehow managed to overcome its impediments and perform.\textsuperscript{48} As one commentator noted:

Every time Italy has been faced with meeting the demands put on it by its fellow-Europeans, at the birth of the European Economic Community in 1957 or at the start of the European Monetary system in 1979, doom-laden voices have predicted the worst; Italy, they have declared, would not be up to it. Each time they have been wrong. Italy has not only been up to it, it has excelled. So when Italians voted in a referendum last June on European integration, they endorsed it on a grand scale.\textsuperscript{49}

Thus, Italy has frequently proved its ability to overcome

\textsuperscript{45} Forcellini, supra note 37, at 148.
\textsuperscript{46} Lane, supra note 42, at 64; Big Whimper?, supra note 7, at 15.
\textsuperscript{47} Forcellini, supra note 37, at 148.
\textsuperscript{48} Perhaps this ingenuity helped transform the nation from its post World War II ruin into the industrial giant that it is today.
\textsuperscript{49} On to 1992, supra note 23, at 19.
what have seemed insurmountable obstacles. The obstacles that the Second Directive has created in the financial sector seem to be particularly insurmountable. Italy may, however, be up to the challenge.

Italy is a prosperous nation. This prosperity is founded upon Italy's recovery from the recession of the 1970s and its tremendous economic growth in the 1960s. Italy's industry demonstrates high growth rates in productivity and an ability to cut costs; this industry is modern and recently retooled. In the past decade, Italy had the fastest growth rate of all European economies. Its GDP ranks fourth among the world's top capitalistic economic powers, ahead of both Great Britain and France. Some suggest that if Italy's black market were taken into account, its GDP would rank third among the world's top economies.

One commentator has suggested that Italy is economically stable and that now the major questions are political. If these political questions are resolved satisfactorily, Italy will not only prosper and flourish economically, it will become a thoroughly modern state in every sense. If they are not, Italy will continue to achieve much less than its economic potential, and at the same time continue in political terms to be an odd-man-out in Europe.

B. Response to the Second Directive

Although much remains to do in regard to the Second Directive, Italy has begun to make significant progress.

1. Capital liberalization

Although there may be problems in financing the deficit, the Government bond market in Italy is the third largest in the world. Perhaps this fact, along with the likely future dependence on bond financing for years to come, will make the mar-

52. *The Italian Economy*, supra note 10, at 3.
54. Id. It is reported that Italy's black market ranges from 20% to 30% of its GDP. Id.
55. *Italy: The Odd Country*, supra note 36, at 3.
ket attractive to foreign investors and make Italy's search for future financing less intense.

2. **Banking deregulation**

In 1989 major legislation was proposed to help streamline the banking sector.\(^{56}\) This has given banks and companies "more scope in foreign currency dealings.\(^{57}\) Italian savings banks are becoming stronger by increasing their capital ratios.\(^{58}\)

Privatization is one of the key features that Italy has undertaken to improve its banking sector and meet the mandates of the Second Directive. Privatization has made one bank, Mediobanca, very profitable.\(^{59}\) It was previously owned by three banks that were owned by the Italian government.\(^{60}\) Wring Mediobanca control from *lottizzazione* and political wrangling was difficult, but it was done.\(^{61}\)

The progress of Italy's financial institutions is also evidenced by the provision of more efficient means of conducting transactions. Italy is participating in linking systems that allow customers to gain access to their accounts in all of Europe through automatic teller machines.\(^{62}\)

Although Italy faces many negative effects of regulation under the Second Directive, "the parochiality of Italian banking has protected it from over-exposure to U.S. real estate or Third World debt."\(^{63}\) In fact, Italy has virtually no third-world exposure.

There may be a "lag time" within which Italy's banking industry can make the necessary reforms under the Second Directive. Some even argue that Italians haven't sought invest-

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58. Lane, *supra* note 42, at 64.
60. IRI, Industria per la ricostruzione italiana (Industry for Italian Reconstruction), the holding company of the Italian government, was originally formed to aid economic restructuring after World War II. As is true for many governments, this agency grew beyond its original scope and became a method of strict government control over services and industry.
ment opportunities abroad, nor will they do so.  

IV. FURTHER STEPS ITALY MUST TAKE

Although Italy has several points of strength and has made significant progress, there are further steps that it must take to prepare for an integrated European financial market.

A. Liberalization of Capital Movement

In order to meet the challenge of the liberalization of capital movement, Italy must reduce its deficit. What Italy now faces makes the United States' Gramm-Rudman goals look simple. Yet, according to one commentator, Italy has something more effective than Gramm-Rudman—it has the European Community.  

Unity is imminent, and even if parity with the other Member States is not possible, Italy must begin to reform its fiscal policies. Italy must take two significant steps to implement the needed reform: it must (1) raise more revenue by increasing taxes or by improving its collection procedures; and (2) reduce government spending.

Italy's tax revenue could best be increased by improving collection, rather than by raising taxes. Better collection procedures could solve many of Italy's fiscal problems. Tax evasion is a way of life in Italy. One commentator asserts tax revenues are collected with a colander. Some estimate that forty-five

64. See Maurizio Maggi & Maurizio Valentini, Conti Aperti, L'ESPRESSO, May 13, 1990, at 140, 145. Maggi and Valentini interviewed Alvise Cicogna, director of Chase Gestioni (controlled by Chase Manhattan Bank), who opined that the Italian saver will not go abroad because of the good returns on government bonds, the saver's increased ability to physically control his capital when it is in Italy, and the increased liquidity of domestic savings and investment. Id. Maggi and Valentini also interviewed Milvia Groff, director of Banca Euromobiliare and the officer in charge of the external markets of the merchant bank Euromobiliare, who said that she has only had one client come to her interested in investing abroad, and that if a client came to her with a hundred million lire, she would sincerely counsel him to invest in Italy. Id. Mr. Cicogna's and Ms. Groff's observations may be correct in the short run. However, given the extensive liberty and access to capital that the Second Directive prescribes, it is likely that Italians will eventually learn to invest their money abroad and do so with minimal difficulty as to control, liquidity, and higher rates of return. Fortunately for Italy, there will likely be a period before this happens within which it can streamline its banking sector and prepare itself to compete both domestically and in foreign markets.


67. Id.
percent of Italy's total value-added tax goes uncollected. Higher taxes would not increase revenue rather tax evasion, further eroding what little faith is left in the system. In addition, tax increases are highly unlikely because they would produce serious political repercussions. The solution is to enforce the tax codes as they presently exist not raise taxes.

Reduced government spending is also essential to reducing Italy's deficit. Political patronage has contributed to exaggerated governmental spending. Typical examples are health care and disability pensions. In Italy local governments provide health services, but they usually can't pay for them; the bill is simply sent on to Rome for payment, thus contributing to the increased deficit. Furthermore, there are a large number of disability pensions in Italy. In fact, more disability pensions are given than old-age pensions. These pensions are given not because work in Italy is particularly dangerous, but rather to secure votes or political favors from able-bodied workers.

In sum, Italy must drastically cut government spending. There are some encouraging signs. The Italian cabinet recently approved a measure that calls for sweeping spending cuts and increased revenues.

B. Banking Deregulation

The task of banking deregulation presents many challenges for Italy because Italy's entrepreneurial spirit and high rate of domestic savings, coupled with an elitist domination of industry, have traditionally favored small enterprises, especially in the financial sector.

Most Italian banks are still geared to the traditional idea of selling their services primarily to current account customers. "[T]he emphasis of a bank's business must shift from money transmission (making payments) to selling products. Banks are in the business of selling financial services rather than

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68. Id.
69. The problem can be traced to the generous social legislation of the 1970s. Id. at 12.
70. Id.
71. Id.
72. Id.
73. Waddington, supra note 9.
74. Rags to Riches, Low-tech Niches, ECONOMIST, Feb. 27, 1988, at 21 (Supp.) (Survey: The Italian Economy).
than banking. Once they fully appreciate this fact, banks will have to imitate non-banks' sales methods.\textsuperscript{76} One example is the credit card market; Italy's financial institutions have significant room for expansion in this area.\textsuperscript{77} The market is ripe: Europeans, particularly Italians, still use cash to transact most business.\textsuperscript{78} Italian bankers must search out and pursue these types of opportunities to gain a foothold in European banking.

Italy's banks must also be freed from heavy governmental regulation. The answers to the challenges that deregulation poses do not lie in new political parties or ideas; as one observer candidly points out, Italy suffers from too much democracy.\textsuperscript{79} Voting patterns shift nominally from year to year.\textsuperscript{80} The real answer to Italy's political problems and heavy regulation lies in reform of the existing parties and the policies that an overly pluralistic system has fostered. Those currently in power must demonstrate the discipline and self-will necessary to alter the current state of the deficit, heavy governmental control, and political patronization that have characterized Italian politics from the immediate post-war period to the present.

As inefficient practices are abandoned and regulation liberalized, Italian financial institutions will probably begin to invest in other related areas such as insurance or investment services. "In preparation for the single market, each bank must look at its customer base and its operating position within the market to ascertain its business goals and formulate its strategies and plans."\textsuperscript{81} This advice is particularly important for Italian financial institutions because they have long had the luxury of a state-controlled monopoly on financial services; they must become more responsive to customer needs if they are to keep speed, or actually even compete, with leaner and more aggressive European financial institutions.

Accordingly, Italy must privatize its banking industry. This could provide the rapid solution that Italy needs. The Italian government owns an extensive amount of most major industries and at least fifty-one percent of nearly all banks.\textsuperscript{82} The

\begin{small}
\begin{enumerate}
\item Id.
\item Europeans average just over one credit card per person while United States citizens average four. Hosking, \textit{supra} note 14, at 9.
\item Id.
\item The Case for Reform, \textit{ECONOMIST}, May 26, 1990, at 29.
\item Birth of the Thing, \textit{ECONOMIST}, May 26, 1990, at 5.
\item Privatisation in Fits and Starts, \textit{ECONOMIST}, Feb. 27, 1988, at 28.
\end{enumerate}
\end{small}
government has signaled that it will get out of all industries where its involvement is unnecessary.\textsuperscript{83}

Results from the limited amount of privatization that has already occurred in other sectors are encouraging. Productivity has increased and jobs are now given on the basis of skill and ability rather than as political favors or by \textit{lottizzazione}.

Furthermore, mergers and networking among Italian and other European Community banks may better enable those banks to capitalize on the opportunities presented by the Second Directive; additionally, mergers and networking must be considered as part of the solution to many of Italy's current banking problems.\textsuperscript{84} Some predict a "merger surge."\textsuperscript{85} Italian banks must become bigger quickly in order to meet the capitalization requirements and the organizational demands of doing business on a European scale. A general manager of a large Italian bank opines that "banks with ratio and capital deficiency problems should be absorbed by stronger banks."\textsuperscript{86} The Bank of Italy is encouraging such mergers.\textsuperscript{87}

Perhaps networking among Italian and European Community banks is a viable alternative to actual mergers, given the immense capital and organization required to accomplish a merger. Unity is forthcoming but nationalistic ideals run deep throughout the European Community; perhaps loosely formed alliances or "constellations" will provide for a smoother and faster transition process.\textsuperscript{88}

V. CONCLUSION

Italy has not acted, nor typically does it act, until a crisis forces it to.\textsuperscript{89} Some say that Italy can't afford to wait that long this time.\textsuperscript{90}

Italians have long proved their ingenuity in the face of apparently insurmountable obstacles; just think what they might achieve if they could exercise their talents free of red tape, in a stable financial and political climate, and with a

\textsuperscript{83} Id. at 31.
\textsuperscript{84} Big Whimper?, supra note 7, at 15. see also Hosking, supra note 14, at 9.
\textsuperscript{85} Young, supra note 81, at 52.
\textsuperscript{86} Lane, supra note 42, at 67.
\textsuperscript{87} Id. at 64; Big Whimper?, supra note 7, at 15.
\textsuperscript{88} Hosking, supra note 14, at 9.
\textsuperscript{89} Rome Fiddles While The Economy Burns, ECONOMIST, Feb. 27, 1988, at 32 (Supp.) (Survey: The Italian Economy).
\textsuperscript{90} Id.
public sector which was just half as efficient as private industry. Italy could well become Europe's leading economy.\textsuperscript{91}

Italy must make progress quickly and it has the ability to do so. Since the end of World War II the Italians have demonstrated, individually and as a nation, the ability to marshal resources and capital to create jobs and prosperity. The banking sector must do the same within the limits that the current situation has imposed on it to assure its very survival.

The Italian government has recognized the deficit problem and has taken significant preliminary steps toward resolving it. The government must continue the trends it has established by curbing its appetite for domestic savings, thus permitting industry and financial services entrepreneurs to offer higher investment returns.

Privatization has been slow in coming but a good trend has been established. Given the impetus for efficiency created by European unity, the Italian government must eventually divest itself of non-essential enterprises. This will, among other benefits, alleviate some of the significant inefficiencies in the banking sector.

Italians may begin to invest some of their money abroad, but this will likely be delayed until the average Italian investor becomes more familiar with the financial services offered by foreign banks. In the meantime, Italy's financial institutions can reorganize and make the changes necessary to remain attractive to the Italian investor.

An immediate gain of market share for Italy in other European countries is unlikely. However, if Italian financial institutions succeed in maintaining a significant portion of their domestic market, they can use their solid base of domestic savings to reinforce their infrastructures for eventual expansion.

Even though compliance with the Second Directive is an arduous task, Italy seems to be implementing the legislation according to the timetable established in the Second Directive. Italy must not only comply with the requirements of the Second Directive, but it must also amplify the measures it has undertaken to reduce the deficit and make its banking industry more efficient and competitive. There is no viable alternative. The very survival of the Italian banking industry is at stake.

In sum, the problems in this area are greater for Italy than

\textsuperscript{91} The Italian Economy, supra note 10, at 4.
most of the other Member States of the European Community. However, Italy has initiated reforms, and present trends suggest that these reforms are gaining momentum. The aggregate effect of the reforms, and the gradual augmentation of Italian savers' knowledge of what foreign institutions and markets offer, could give Italian banks an opportunity to strengthen themselves and prepare for the challenges of doing business in a single European market. Italy could accelerate its process of reform and demonstrate its traditional ability to turn a crisis into huge success. Can we bank on Italy's response to the Second Banking Directive of the European Community? Only Italy can answer that question.

Jeffrey A. Orr

92. One somewhat fatalistic commentator suggests that Italy's problems are so grave that it has no hope of playing a major part in a United Europe. Giuseppe Turani, *Ma la sfida è già persa*, L'ESPRESSO, Jan. 8, 1989, at 139.