Europe and World Trade

The failure of the Seattle meeting of the World Trade Organisation, that should have culminated in agreement on the launch of the WTO's "Millennial Round" trade talks, has disclosed divisions in a number of areas. One of these, in which the United States and Europe are diametrically opposed, is that of agriculture and biotechnologies. On these particular issues, the United States styled itself as a champion of free trade, while Europe, anxious to safeguard the environment and the wholesomeness of foodstuffs, maintained that it could not abandon its common agricultural policy, even though the CAP constitutes, in many regards, a distortion of the rules of international competition. Europe also defended, in the name of biological diversity and the safeguarding of health, its restrictive stance on the importation of genetically modified organisms and related technologies.

A second split was that which emerged between the industrially developed world and the countries of the southern hemisphere. This time, however, the promoters of free trade were the governments of the poorest countries, while the rich nations insisted on the need to restrict imports of goods originating from these countries, in the hope that this will stop goods in the underdeveloped world from continuing to be produced at what is a very high cost in terms of environmental decay, violation of human rights, unacceptable working conditions and child labour.

A third schism opened up as the many NGOs present at Seattle launched an attack on the profit-making philosophy of multinationals and the governments that, in the name of the defence and improvement of the quality of life, support them.

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This does not mean, however, that the essential conflict emerging in Seattle was one of values (in particular the value of free trade, on the one hand, and values of a non economic nature on the other). In fact, what we witnessed in Seattle was a gross exploitation of all these values, while the real clashes that took place centred on clear-cut material interests. This is certainly true in the case of Europe, whose real concern was to defend the agricultural lobby (which enjoys very strong support in most of the Union's member states), and to protect an agriculture and food industry that finds itself at a severe disadvantage vis-à-vis the American industry due to the backwardness of European scientific research in the field of biotechnologies. And it is even more true in the case of the industrialised world as a whole — from which, moreover, all the NGOs and unions which so violently opposed the meeting originated — whose true purpose was to defend its markets against the competition mounted by countries with the capacity to produce certain goods at very low cost. In truth, the various positions on the freedom of trade, or its limitation, adopted by the governments represented at Seattle were determined in each case by the nature of their own interests.

It is also worth remembering that it is thanks to the level of economic development they have achieved that the rich nations are today able, to varying degrees, to defend non economic values and speak out on issues to which public opinion in these countries is sensitive (such as working conditions, the environment and human rights). And it is also important to remember that this level of development has been achieved in the past thanks to an exploitation of the workforce and of natural resources every bit as bad, if not worse, than that which is now occurring in most Third World countries. Just think of the role slavery played in the economic development of the United States of America, of the inhuman conditions in which, until the end of the 19th century, men, women and children were obliged to work in Europe's factories and industries, or of the sheer scale of the deforestation and the erosion of the soil provoked in Europe by the agricultural and industrial revolutions.

Remembering all this certainly does not indicate a failure to hold these values dear. On the contrary, if the quality of life is to be improved universally and, in the long term, if mankind is to survive, then they must be upheld, safeguarded and promoted.

Instead, what remembering all this really indicates is recognition of the fact that the best way to ensure the future survival of these values in today's economically backward countries is to create the material and cultural conditions that will allow them to advance and emerge from their state of backwardness. To do this, they must be in a position to produce and to export; in other words, they must be allowed to enter the circuit of world trade on favourable terms — not excluded from it because, being poor, they do not have the capacity to affirm the same values as the rich. It cannot be denied that the cost, in human terms, of the economic development of these countries will be a high one. But it is a cost which must be weighed up against that of their failure to advance, remembering that the alternative to child labour is often delinquency, prostitution, or starvation, and that the only alternative to violation of human rights is sometimes a total collapse of civil cohabitation and the outbreak of clan warfare. In this regard, what the world's developed countries could do is contribute, through the application of their own resources, to the reduction of this cost. In the light of these considerations, it is not easy to fault the argument of those who maintain that the real losers in Seattle were the poorest of the world's poor.

In truth, Seattle provided the setting for what was, in fact, nothing other than a clash between the conflicting protectionist stances adopted by the rich nations of the world. And it can legitimately be held that the deep significance of the spectacular failure of the meeting lies in the fact that it marked the start of a phase of out-and-out crisis in world trade.

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But what is the cause of this crisis? Before attempting to answer this question it is important to get a common misconception out of the way: the idea that freedom of trade is the same as deregulation. No idea could in fact be more false or more misleading. Free trade is based on the creation and maintenance of competitive conditions, conditions guaranteed by a series of rules that must not only be in place, but also enforced. Let us not forget that the birth (on January 1st, 1993) of the single market in Europe — an event preceded by over forty years of progressive harmonisation of the economies of the Community's member states — had necessitated the passing, by Community bodies, of almost 300 measures in order to make just a degree of freedom of trade possible (a degree which is still vastly insufficient, moreover). But there is more to it than this. The promotion of freedom of trade in a market characterised by major imbalances in terms of economic development also presupposes the application of compensatory policies which reduce the most dramatic gaps by transferring wealth from richer to poorer areas. It is thus impossible to consider deregulation as synonymous with a free market as all the former does is give rise to brutal power conflicts that have nothing whatsoever to do with freedom and that only allow the strong to get richer while the weak get poorer.

And part of this picture is the objective of rendering the free circulation of goods compatible with the safeguarding of health, of the workers and of the soil and environment, as the extent to which these needs are met in different countries constitutes one of the factors determining their competitiveness. Also part of this picture is, in another way, the problem (not raised in Seattle) of safeguarding and spreading the model of the welfare state which, one of the greatest achievements of European political civilisation, is today threatened by the spread of the culture of deregulation. There is no doubt that in a setting characterised by a high level of interdependence, by rapid technological progress and by vast social inequalities, the maintenance of international competitiveness on the part of industrialised countries necessitates a series of transformations, as well as increasing flexibility on the part of both entrepreneurs and workers. But it is also clear that this need must be tempered by another, opposing one: the need for safety and for the gradual planning of change. If it is not, the lawless international competition that will ensue will have very unhappy consequences: the workforce will become more mobile (leading to the uprooting of sections of society), companies will be more liable to fail, the section of the population living in desperate conditions of poverty and abandonment will increase (prompting a spread of delinquency) and entire cities, and sometimes entire regions, will become industrial wastelands: in short, the fabric of society will disintegrate. The alternative to these scourges, which after all constitute the dark underside to America's astounding economic growth, is a political course which regulates competition and guides technological progress, rendering both compatible with a high level of social stability.

If all this is true, the conclusion must be drawn that the free market that comes closest to the ideal model (where all operators act on an equal footing) emerges in a context in which more definite rules prevail and in which it is possible to achieve a sufficiently high level of social solidarity, in other words, within a state. But the same is also true of international trade relations, even though these cannot be governed by regulations of a legal nature, and even though the degree of solidarity that can be achieved in relations between states is immeasurably less than that which can be achieved within the confines of a state (the case of Europe's single market is an intermediary one: while its laws do not yet have the character of state laws, it is the result of a sufficiently intense and enduring level of collaboration between a number of states involved in a process of unification). The international "market" functions satisfactorily, and favours the expansion of trade and the diffusion of wealth, when the role played by the state in the domestic market is assumed and carried out, albeit far less effectively, by one or more hegemonic powers which have the capacity to impose on the rest of the world (or at least on that part of the world which plays a role in international trade) relatively stable and uniform guidelines. Despite not constituting, as mentioned earlier, enforcable laws or binding policies, such guidelines nevertheless render reasonably predictable the behaviour of the economic actors on the world stage. Although these directions are, of course, imposed by the hegemonic power in its own interests, this does not alter the fact that a condition fundamental to the efficient functioning of a hegemony is acceptance of the same by the states which submit to it (also because, in the final analysis, it coincides with their own interests to do so).

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In the past, expansions of world trade have occurred whenever a power has taken on this hegemonic role (as Portugal, Spain, the Netherlands and Great Britain did, in different periods, from the fifteenth century onwards); and the transition from one hegemony to another has always been marked by periods of crisis and unrest. The last, and most dramatic, of these crisis periods was the one prompted by the end of Great Britain’s dominion of world trade which coincided with the outbreak of the First World War. At the time, the United States had still to appreciate the new responsibilities that it would have to shoulder — full awareness of its new role was not to come until the start of World War II — and it cut itself off from the political, and to a certain extent, economic events unfolding in Europe. No reminders of what happened in that period are needed. It ended, at the close of the Second World War, with the United States assuming full responsibility towards the whole of the West, and thereby triggering half a century of expanding trade and increasing wealth in the industrialised world.

At the present time, it would appear reasonable to advance the following hypothesis regarding the real historical meaning of the collapse of the Seattle meeting: that it constitutes an indication that we have now reached another turning point, and that the US too, like others before it, is now about to lose its role as the driving force and regulator of world trade. This may seem a paradoxical affirmation in the light of the American economy’s high growth rate and lack of inflation, of the country’s low unemployment figures and unchallenged leadership in areas of advanced technology, and of the continuous boom of Wall Street.

But alongside these positive signs, two negative ones must be considered, too. One is America's huge trade deficit and the other is the escalation of trade disputes between the United States and the other economic areas of the world. Both are elements that point to the emergence, in the relations between the United States and the rest of the world, of opposite trends to those which characterised the first decades following the end of the Second World War. The latter was a period during which the United States' showed (logically enough, given the dollar's role as the currency of international trade) a structural trade surplus, and during it enjoyed easy trade relations with the rest of the world (which then was the Western world).

This weakening of the hegemonic role played by the American economy at world level is reflected in America's growing inability to impose, through the WTO, its own rules on international trade. And since there is no one else with the capacity to do this, the result is growing deregulation, in other words, an increasingly acute crisis of the world "market". And this explains the rebirth of protectionism, even though in most cases it is a protectionism which hides behind the respectable mask of moral stances on the defence of human rights, the struggle against exploitation of workers, and minors in particular, the safeguarding of the environment and of health, etc. And if this trend has not, so far, degenerated into chaos, then this is due to the fact that the United States uses its political and military power to make up for what its economic leadership lacks. The dollar and Wall Street continue to constitute resources whose reliability is guaranteed by the fact that the United States is today the only great power left in the world, a power to which there exists no realistic alternative: neither Europe (which is politically non existent and whose weakness, due to its division, was particularly in evidence in Seattle), nor Russia (on the verge of disintegration), nor China (battling with development and modernisation problems of gigantic proportions). And this is why, despite everything, Wall Street continues to attract foreign capital, and the rest of the world's money continues to be channelled into sustaining America's position of power, and paying off its debts.

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But this situation cannot persist for long without giving rise to a crisis of major proportions. A way out of the present difficulties needs to be found — in other words, a new world order that will allow new international trade rules to be defined and imposed, as well as giving the most backward economies the decisive impulse that they need in order, finally, to start moving. One thing seems clear: the hegemony of the United States is not destined to be replaced by the hegemonic domination of another major power in the way that, in the first half of our century, British hegemony was replaced by American hegemony. The time has come to set in motion a process by which the conditions will be created for the exercising of a form of collective responsibility in which more and more countries will share until such time as the era of hegemonic powers has been consigned definitively to the past.

It is important to make it clear from the outset that the engine of this process will not be the World Trade Organisation, however important this body may become as a forum for the conducting of multilateral negotiations. Being an organisation led, albeit imperfectly, by the United States, and in which the other countries, or the most important ones, have enough weight to be able to contest the American order, but not enough to create an alternative one, the WTO in fact does little more than reflect the unstable and unbalanced power situation that currently exists in the world. What is more, given the indissoluble link between trade and many other aspects of life, a specialised body, being totally ill-equipped to react to the contradictory claims advanced, often as pretexts for something else, by the member states and by a whole galaxy of different non governmental organisations, can tackle the problem of how to manage interdependence only in a precarious and unsatisfactory way.

Before any serious thought can be given to how the current state of impasse might be overcome, the true nature of the problem with which we are faced must first be recognised: it is not, or not only, a problem of trade, but a more general one of how to achieve sustainable development at world level; thus, it is not a technical problem that can be tackled with the instruments of functionalism, but rather a political one that must be tackled with the instruments of government. A process needs to be devised which, as it advances, allows the governmental institutions to grow in accordance with the exapansion of the ambits of interdependence.

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Clearly, it is only through a world federal government that rational management of interdependence can ultimately be guaranteed and — going beyond conflicting national interests and incompatibility between positions adopted in pursuit of different values — the general interest of mankind pursued. If it is truly our intention to seek to define a historical course that will allow, on a realistic basis, a better future to be envisaged and planned, then this objective — however distant it seems — must never be allowed to slip from view. It is an objective that must be broken down into stages: stages that will mark the progressive increase in, and expansion of, regional federal unifications. By this, we mean areas covered by major democratic states which have the capacity to generate — within their confines and through effective political mediation of conflicting interests, aspirations and values — the right conditions for true competition, and thus to create vast internal markets. As these unifications emerge, the sphere of international relations will, as a result of the progressive reduction in the number of actors on the international stage and the consequent strengthening of the same, begin to be characterised by the emergence of the conditions that will allow — until the time and conditions are ripe for the birth of a federal government for the whole of mankind — a global governance, and thus a world "market" which are considerably more stable and balanced than the present ones.

If this is to be the route, then the starting point can be none other than Europe. But the European Union today is not ready to shoulder the responsibilities involved. Its stance on the lifting of trade barriers and on the political choices on which this depends (i.e., a readiness to invest, particularly in infrastructures and in basic and applied scientific research) is protectionist and hesitant. This is not to be wondered at, since the divisions within the EU, so evident in Seattle — and which, prior to Seattle, had already exploded to the surface in the sorry saga of British beef — preclude the birth of a single trade and budgetary policy oriented towards the achievement of great growth objectives. The Union's governments thus find themselves obliged to embrace the philosophy of the Stability Pact, which is the inevitable consequence of division, and opt for the path of competitive deflation. In this way, Europe is reduced to little more than a weak protector of corporative interests, in spite of the fact that it is, given its production structure, naturally far more inclined, albeit in a framework compatible with environmental protection and with the maintenance of its social model, towards cooperation, development and innovation. Whether or not we needed one, Seattle has provided us with yet another, clear demonstration of just how crucial the political unification of Europe would be to the start of a new cycle — dynamic, fair and progressive — of world trade.

The Federalist

The Euro and the Dollar. Towards a World Monetary System

ANTONIO MOSCONI

1. *North-West Passage.*

The most important question of our time for economic science concerns the de-nationalization of Keynesian theory. The majority of economists amuse themselves by reciting its requiem, or calling for an impossible re-exhumation of it in national economic policies. The narrow and mysterious "north-west passage", which leads from national to regional and global Keynesianism, has never been explored.

The Golden Age, as the figures apparently show, really was a golden age, and the economy, which today appears "global" to us, is less open now than it was when the English fleet dominated the oceans.[1] This view is confined to balances of trade, without paying attention to the direct investments which have transformed the international division of labour from the traditional exchange of manufactured products for "colonial" products to the current transnational operations. It is true, however, that never has money creation, which Keynes wanted subject to human reason and not the superstition of gold, satisfied (in qualitative terms, despite quantitative superabundance) the objectives of development, well-being, happiness in life, full employment and a fair distribution of income, less than today. This stems from the fact that the national currencies with international function are governed by institutions the basis of whose democratic legitimacy is very limited compared to the extent of power exercise by them. In other words, states which have gradually come to enjoy the power of issuing international paper money, because of their military supremacy, have in fact, through their "seigniorage", contradicted the sacred principle of the American Revolution: "no taxation without representation."[2]

International single currency systems have constituted the monetary representation of balances of power, which have gradually shifted from the European concert of powers (the gold standard); to the empires founded on genuine economic supremacy (the gold-exchange standard), founded on the convertibility into gold first of the pound, and then of the dollar; to the empires of the "military-industrial apparati" [3] (inconvertible national currencies, like the pound, the *Reichsmark* and today Nixon's dollar). *Universal* systems have until now always been preordained to serve *particular* interests, which have been clearly exposed by economic historians. It could not be otherwise in a world divided into nation-states endowed with exclusive and absolute sovereignty. Every monetary system, indeed, is defined by the power base which makes it possible for confidence to be established (or any signs of distrust to be suffocated), and which imposes the terms of trade. All this does not mean that one should also throw away, along with nationalism, those instruments of control and management of capitalism which, tested within the limits and with the deformations of the nation-states, appear suitable for revision and application by future regional federations and by the world federation.

1.1 *Two Wars, Three Phases in Keynesian Thought.*

After the First World War, Keynes opposed the reinstatement of the gold standard. He considered it eccentric to entrust money creation to the vagaries of metal production and accumulation, instead of adjusting it to the needs of the economy; he had foreseen the deflationary effects which the return to gold, at pre-war parity, would provoke; he had realised how all this would shift the centre of the world from Europe to the United States, the sole holders of all gold reserves. In 1923, when "even gold coin had become a regulated money", (by the United States), Keynes denounced, in his *Tract*,[4] the survival of the "superstition of gold" and accused American policy of accumulating gold for its deflationary effects at world level.

In 1936, when Hitler had already occupied the demilitarised Rhineland, thus infringing the Treaty of Versailles, Keynes re-evaluated mercantilist policies in the *General Theory*,[5] since they would first of all favour an increase in "effective demand", and only at a later stage favour an increase in prices. Keynes, unlike Robbins, had recognised the urgent priority of British re-armament against the Nazi threat.[6] In a world which was hurtling towards war, vital instincts led the liberal Keynes to re-evaluate trade surpluses, the accumulation of gold and even protectionism.

From this point of view the *General Theory* constitutes a backwards step compared to his previous positions. The world had regressed, and with it Keynes. Just as Stalin had rejected Leon Trotsky's federalist approach to socialist internationalism, because it would weaken the encircled Soviet Union, so Keynes practically ignored Robbins's contribution, which aimed to show how international economic order could be founded only on federalism.[7] In Robbins' opinion, it was nationalist reaction which was guilty of interrupting the liberal revolution. He criticized nineteenth century international liberalism for having considered that a supranational authority would prove superfluous. His critique referred explicitly to Hamilton and other founders of American federalism, and naturally also attacked monetary nationalism, stopping short, however, intimidated by the prospect of an international currency. Once the Americans and Soviets had won the war in fact, Robbins no longer considered the problem of European unity a priority for Great Britain, and spent the rest of his days defending himself for having misunderstood the Keynesian revolution.

After the Second World War, at Bretton Woods, Keynes vainly proposed the greatest of all his plans, for a world paper money pegged to gold: the *Bancor*. The aim was evidently to internationalise the power to mint coin, within the bounds of possibility; with the adoption of the White plan, this passed instead to the United States.

1.2 *The Post-Keynesian World.*

The countries defeated in World War II thus accumulated huge quantities of dollars, whose convertibility into gold became increasingly aleatory as the volume of dollars in circulation outside the United States became immeasurably greater than the quantity of gold available to cover them. This was the form assumed by the "reparations" following the Second World War. The convertibility of the dollar was "suspended" on 15 August 1971. There were two alternative monetary plans, both pure fantasy, on the table when Nixon imposed the dollar standard on the world. The French plan, by Rueff, was a flight into the past, and the Triffin plan, a flight into the future.

Rueff had enormous influence on De Gaulle's monetary policy. While starting from a precise diagnosis of the evils of a gold-exchange standard, which inexorably precipitated the slide towards the dollar-standard, he did not subscribe to the policy which corresponded to the course of history (in 1959, the Action Committee for the United States of

Europe, chaired by Jean Monnet, had proposed the creation of "a European reserve fund" to which the member states of the EEC would contribute at least some of their own reserves to be jointly administered); instead he committed himself to the impossible dream of a national response to American hegemony in the return to gold.[8] The only result achieved by the French policy of converting dollar reserves into gold was to hasten the declaration of the American currency's inconvertibility. The return to gold contained incurable contradictions. It would have run counter to the course of history, which pointed towards the affirmation of representative money; it would have led back to money creation ruled by automatism and superstition, rather than extending the control of its correspondence to shared human aims; and finally it could never have resisted American hegemony, based on economic and military supremacy. Rueff's denunciation of the "monetary sin of the West,"[9] after the American *coup de main*, was moving but useless.

The Keynesian idea of a world currency instead inspired Triffin's various monetary plans, whose political feasibility increased as their objectives became more limited. The first Triffin plan was to transform the International Monetary Fund into a bank of the central banks. The second suggested that balance-of-payments excesses should be turned into deposits guaranteed by the IMF and that this institution should be given the power of financing (or not) the currency deficits of individual countries. This grand plan produced one small result: special drawing rights (SDR's). These introduced into the international monetary system a pseudo paper money, convertible into gold only to the extent that it was convertible into dollars (whose convertibility into gold was suspended shortly afterwards); but they do not constitute a genuine world paper currency because their use is subjected to numerous limitations, and above all because the decision to issue must be taken by a majority quorum, so that both the United States and the European Union effectively have a right of veto. Having come into contact with the European federalists, on the initiative of Alfonso Iozzo, Triffin pursued a deeper analysis of the relationship between money and power, which changed the course of his life. He moved from the United States to his native Belgium to dedicate himself to his third and best plan, the creation of the European currency. In 1970 he was very struck by the ideas of Albertini.

1.3 *Albertini and the European Currency.*

Only Albertini,[10] in fact, was able to explain why the new monetary order could be based neither on Rueff's gold nor on Triffin's credit. He succeeded in this aim by higlighting the necessary relationship between money and power, and comparing gold to primitive law, which is characterised by self-defence, and paper money to developed law. Without a world power, world paper money would be a sham, a mask for the dollar. From the economic point of view, Albertini described the difference between national and international money as follows: " With national (paper) money, the economic aspects of terms of trade can manifest themselves autonomously. Parity, as an equal relationship for all between monetary resources and goods and services, is constantly ensured, or immediately re-established after serious crises, within restricted margins of variation. And the margins of variation (monetary policy) depend on the public will; they are a function of the characteristics and requirements of the national market, and can be considered right or wrong according to the criteria of the economic policy. With international money, on the contrary, the economic aspects of terms of trade are not manifested autonomously. Parity is established by the relationship of monetary resources between themselves and with international money, with only indirect reference to goods and services; the variations of this parity are manifested in fixed exchange rates, in their fluctuation, and in their disintegration into a range of parities. These variations can be considered right or wrong in relation to the requirements of international trade and not according to the criteria of a genuine economic policy. National money has a single aspect of power: the state. The power aspects of international money, on the contrary, vary according to the (unequal) distribution of political power in the world as a system of states, and depend in general on the balance of power manifested in the system, and in particular on the position of power of every state in the system."

This, Albertini concluded, may produce three different situations: international disorder, the dominance of one state, and the convergence of *raison d'état* between various states.

"World money — on the other hand — stands outside this context because its political base requires the elimination of the world system of sovereign states (absolute sovereignty), and its replacement with a world federation. There is no other way to transform the current relations of force between states (primitive law) into proper juridical relations , i.e. dependent on the public will. This is sufficient to assert that it is quite meaningless to accept the absolute sovereignty of the armed states — i.e. relations between the states as relations of force — and yet, despite everything, to conceive plans for a world currency; as it is, after all, to think that the UN, an organisation of sovereign and armed states, can guarantee peace."

Only European monetary unification could, under these circumstances, be put on the historical agenda as a defined problem, with a single solution.

"The economic aim is to transform a group of national currencies, with limited and subordinate international possibilities, into a *national* (European) currency which covers the whole area in question. It is therefore a question of using political means: a public will, constitutionally defined, on the same area. This is to say that *one cannot plan the monetary unification of Europe without planning the creation of a European federal state*... The crucial point seems to me this: one has to accept, and support, against all logic, a gradual operation of monetary unification, preceding rather than succeeding the creation of a European political power, because the protagonists in the execution of the process (the initiative is certainly not theirs), do not behave according to logical criteria... It is an expedient, but there are useful expedients. *Perhaps there are expedients which can push the political forces onto a slippery slope and allow the momentum to take over*."

This grand intuition of Albertini's was enough to re-direct the efforts of the high-minded avant-garde (Triffin's example goes for all) towards an objective, the European currency and European power, whose feasibility could be defined not by faith alone, but according to scientific criteria. Indeed, according to Albertini, Europe presented all the historical circumstances which Wheare considered necessary for the birth of a federation, apart from that of an effective *leadership*. Since it was a question of renouncing national sovereignty, one could not count on the action of national leadership, but only on the action of "a chance European leadership... on the sliding slope towards Europe.. towards a situation which could be called *a creeping constituent process*" operating on "a limited point", but decisive for the formation of the democratic public will, which he had identified in the "unilateral direct election of representatives to the European Parliament."

Guido Carli had developed the same conviction as Albertini concerning the currency, but had not recognised the possibility of putting monetary before political union.

"In order to reduce the influence exercised by American monetary policy over the rest of the world, we have to create monetary areas large enough to achieve an autonomous policy for the internal regulation of the economic cycle; this means that it should be recognised that the process of economic unification cannot continue beyond the levels reached unless there is progress towards political unification. It is this latter, now, which must act as the dray horse of the process, and not vice versa."[11]

Others, like Tietmeyer[12] and the majority of those in charge of the monetary policies of the European countries, resisted the idea that monetary union should precede political union right up until the signing of the Treaty of Maastricht (and perhaps even beyond).

With the failure of the Gaulliste policy the road opened which, as foreseen by Albertini, has led us to the creation of the euro. It has taken forty years to achieve this plan, overcoming the nationalist prejudice in Europe. A long delay was imposed by the "French heresy" and the need to demonstrate that the only alternative to the dollar's affirmation as "token" money lay in the political integration of Europe. The nation-states were out of the game. It was the European currency, not gold, which could modify the balance of power with respect to the dollar. It alone could bridge the gap which had opened between the continental structure of the economy and the political and monetary superstructure, anchored to the classical schemes of the 19th century nation-states, and allow Europe to face up to the process of globalisation. Albertini was right, and today we have the euro, which the federalists, against logic, consciously wanted as the "expedient" which might "push the political forces onto a slippery slope." How? Through the explosive effect of the contradiction. But there are still two possible outcomes: that which we federalists set ourselves as the objective and the other, unnameable. The attacks on the euro show that the more conservative interest groups, both European and American, have not resigned themselves to it. Blaming the euro for the high European unemployment is their principal propaganda argument.

1.4 *Keynes + Robbins for the New Federalist Economics.*

Just as unemployment after the First World War was attributed to the return to gold, so reactionary American forces and a few European parasites nestling under the wing of the imperial eagle, put current unemployment down to the Maastricht parameters. However on this occasion it is necessary to take account of the inversion of the relationship between power and money: we have entrusted the currency with the task of precipitating the foundation of the federal European state through its original contradiction. Therefore the policies of employment, development and restoring the territorial balance, can only be settled when the contradiction of a currency without government has brought about the creation of a democratic government of the euro. On that day we must unite the aims of Albertini with the instrumentation of Keynes by rediscovering in the latter precisely those thoughts, without national borders or short-term motivation, which he suspected would be revealed as useful only “when we are all dead.”

In a brief but effective essay[13] of 1978, Altiero Spinelli proposed a Keynesian programme to the European left wing.

“The most important point ... could and should be the adoption of a plan of global renewal and modernisation of the public administration which, following the bad government which has gone on for over half a century, has ways of formation, structures, and moral standards entirely inadequate to the requirements of a modern state... Companies are tending to become parasitic, unemployment is growing, the unions are tending to barricade themselves in the defence of those who have work, the political forces are feverishly manoeuvring, one minute making concessions, the next restrictions. To break out of this vicious circle we must ask ourselves in the first place not whether there is a possibility of a growing supply of products, but whether there is the possibility of identifying a large potential demand, capable of being converted into *real demand*, i.e. possessed of monetary resources... The consumer society went into crisis because of the economic imbalances which had developed within it, but it has also developed other woes... the large and growing ecological disorder, the growing densification of urban populations, while civilized life in the towns themselves has became impossible, the continual degradation of the quality of life... the concentration of the consumer economy in advanced countries... while developing countries (and backward areas of rich countries) have been the main losers in the consumer development of western societies.”

Spinelli’s exhortation to take another look at Keynes could not be more clear. It was Keynes who condensed the economic thinking of the inter-war period into a work specifically directed at offering the politicians a solution to the problem of structural mass unemployment which threatened to overwhelm democracy and peace in a large number of countries, as indeed it did. He considered economics to be *a moral science, founded on introspection and on value judgement, which is concerned with motivations, expectations and psychological uncertainties, and intended to demonstrate that the economic system could find itself in a condition of stable equilibrium below full employment* since the system did not contain any automatic mechanism capable of bringing the economy back to an equilibrium of full employment. In other words it was a question of demonstrating the evidence. What was clearly apparent to all should also be theoretically possible.

For the first time the capitalist system was at mortal risk, but the majority of economists were doing their best to demonstrate that what was happening was not theoretically possible. For the quantitative theory of money, *it was supposed that unutilised productive capacity did not exist*. In the hypothesis of a closed economy, income was equal to consumption plus saving. The latter therefore had to be equal to investment. There could be no investment without a preceding real saving, i.e. without a preceding abstention from consumption. The price which made saving and investment equal was the interest rate. Unemployment, therefore, depended only on the downward rigidity of money-wages, responsible for the reduction of the propensity to invest. In short, the trades unions were to blame.

Keynes undertook the intellectual task of dismantling this reassuring but impotent construct, turning the classical point of view upside down. The decisions to save and to invest were taken by different groups and on the basis of different assessments: no mechanism could guarantee their correspondence *ex-ante*, while *ex-post* the accounting equivalence was re-established only by means of the oscillations of income and employment. To arrive at this point it was necessary to deny the role of the interest rate as the price of equilibrium between savings and investments. Keynes explained the interest rate as the price of balance between money supply and demand, capable of explaining the decisions for saving but independent (although not entirely) of the marginal efficiency of capital, which instead determined investment decisions. Equilibrium would be reached, *ex-post*, corresponding to the equality between the interest rate and the marginal efficiency of capital. The demand for money, which Keynes called "liquidity-preference", depended on three causes: the transactions-motive (function in turn of the level of activity and of prices, i.e. monetary income), the precautionary-motive (people save money not to use it but for fear of the future) and the speculative-motive (the demand for money is high when the return on securities is lower than its expected level, and *vice versa*). In short, the demand for money was a function of income and interest rates.

The money supply, on the other hand, was the result of decisions by the monetary authorities. They controlled the entire money supply (circulating medium and bank deposits) both through policies designed to influence the three channels of paper money issue (for the needs of the Treasury, the Foreign sector and the Economy) and by imposing a limit on the multiplication of deposits and of credit through the discipline of the reserves and the discount rate: by increasing the money supply they could reduce the interest rate, if there were private individuals and companies willing to hold money according to the modalities described by the function of money demand. The money supply too therefore was a function of income and the interest rate.

The marginal efficiency of capital, for its part, was nothing other than the relationship between income *expected* from investments and the asking price of capital goods. If the marginal efficiency of capital were lower than the interest rate, entrepreneurs would not find it advantageous to invest. The trick, naturally, lay in the word "expected". The state of expectations, in fact, fed those animal spirits which moved the entrepreneurs to invest (and to disinvest) even against common sense, just as, from the side of the function of demand for money, it determined the state of confidence or panic on which depended "the reward for parting with liquidity" (p.167 General Theory), i.e. the interest rate. All this could only be recognised by conceiving, as Keynes did, of the economy as a branch of moral science, i.e. as the science of human behaviour faced with wealth and need.

Having demonstrated the theoretical possibility of a stable equilibrium of underemployment, Keynes naturally proceeded to the prescription of treatment, which was of more interest to that "practical visionary."[14] To break an equilibrium of under-employment, in the absence of any automatic mechanism, required, in his view, an external shock capable of modifying the state of expectations. A public expenditure advance, with respect to the formation of the necessary savings to finance it, would in the presence of unused productive capacity, generate the real additional supply necessary to make that advance non-inflationary. The closer one got to saturation of productive capacities, the greater would be the proportion of an injection of liquidity which would be resolved in an increase of prices and not of productive activity. Keynes's pupils completed the theory with the multiplier (Kahn) and with the accelerator (Harrod) of investments. In a society paralysed by fear of the future the propensity to save would be higher and the multiplier lower. The opposite would happen in the presence of a state of expectations charged with optimism. Thus the collective psychology constituted the basis of economic behaviour. Unlike the "hydraulic" Keynesians, who focused on tinkering with economic factors, the "fundamentalists" remained more attached to this vision than to the suffocating academy of econometrics. And it is precisely this vision which, together with that of Robbins, can guide the quest for the "north-west passage" which leads from national to federal Keynesianism.

2. *EMU and Keynesian Theory.*

The economic and monetary union is not only a matter for central bankers. It is a fundamental stage in the building of Europe, which is advancing by overcoming internal and international resistance. The single market could not survive without the single currency. Can both survive without a further step towards political unification? At the beginning the European left-wing tried (with the usual exception of Italy)[15] to consider the question as if it were a contradiction to be resolved between monetary Europe and social Europe, between monetary stability and employment. Yet this is not the case. Rigorous analyses, conducted in dozens of countries and over dozens of years, show how the monetarily virtuous countries have created employment and the inflationary countries have, by contrast, systematically destroyed it.[16] In the Union too, these two objectives, employment and monetary stability, are not conflicting, but mutually supportive. Fiscal harmonisation and reactivation of the Delors Plan can go ahead without raising either incurable contradictions or inflationary tensions within the Union; but only if a European political power, capable of adopting the decisions required by a world characterized once more, as in Keynes's day, by the combination of unsatisfied needs and unutilized resources, takes the place of the tired "Community method."

It is false, as the authors of this falsehood are well aware, to identify monetarist orthodoxy with monetary unification, and the latter with European unemployment. I will attempt to re-read this matter through the eyes of Keynes, to show how it has been the disunion of Europe, and not its tardy and incomplete union, which has acted negatively on the interest rate, on marginal efficiency of capital, on effective demand and on employment. It will be a "fundamentalist" reading, but supported by the econometric results reached by "hydraulic" Keynesians of the scientific calibre of Modigliani.[17] European unemployment, contrary to the popular "free-tradist, liberal and libertarian" cant, is not provoked, unless marginally, by rigidity in the organization of the labour market; but rather by *historically* high interest rates and by *historically* low marginal efficiency of capital. The economic and monetary unification of Europe allows both a reduction in the cost of money and an increase in the profits expected from investments.

2.1 *EMU and the Interest Rate.*

Let us begin with the interest rate. According to “Triffin’s dilemma”, the adoption of the dollar as international money entailed the possibility of landing in one of two opposite situations: an active American balance of payments, with a shortage of dollars and possible deflation in the rest of the world, or an adverse American balance of payments, with an abundance of dollars and possible inflation. The former was the case only in the period of post-war reconstruction and recovery; the latter, which is still continuing today, has gone through two distinct phases: until 1982 the United States foreign debt was caused by capital movements, and in the successive years by the current account balance, with substantially different effects on the rest of the world.

Until 1982 the United States’ foreign balance, for the current account, was substantially in accounting equation. The capital which the United States attracted from the rest of the world could consequently be reinvested abroad. The United States operated like a bank: they collected savings from countries which accumulated an excess and invested them in those which, they presumed, held the greatest opportunities of development. In fact, they invested much more, creating credit at international level just as the banks create it within the states, but without being subject to any constraints. Even in 1971, in the midst of the Nixon presidency, the eurodollar market struck Carli as a “paper pyramid.”[18] The phenomenon became explosive when, at the beginning of the seventies, Richard Nixon and Henry Kissinger created the necessary conditions and instruments (the inconvertible dollar and price of a barrel of oil) to offload onto Europe and the rest of the world the cost of the American imperial policy.

From 1982, the United States began to register growing liabilities in their current balance of payments. They began to import more goods and services from the rest of the world than they exported. The deficiency was financed by capital which the rest of the world continued to invest in that land of Cockaigne, but which could no longer be reinvested abroad as had happened previously. For the non-oil exporting developing countries this was a disaster. Many of them were obliged, despite the unspeakable poverty of their populations, to become net exporters of real resources to lend credibility to the promise of repaying their debts, although in the longer term set by the rescheduling agreements.

It was then, just when the world needed a lungful of monetary oxygen, that Reagan decided to give priority to the fight against inflation. He adopted the most deadly cocktail of economic policy ever swallowed by

Europe and the world, with the declared objective of transferring wealth from poor to rich Americans, from the rest of the world to the United States, and from the public sector to the private sector. The theory was put into practice through a mixture of a restrictive monetary policy, entrusted to the new President of the Fed, Paul Volcker (a Friedmanite), and an expansive budgetary policy, based on the supply side economics made popular by the Laffer curve. The effects from the supply side and from the demand side were distorting. The restriction of the money supply guaranteed the United States a dollar with strong buying power, and propagated a regime of exceptionally high interest rates in the rest of the world. This resulted in the financial collapse of developing countries and the exponential accumulation of public debt in the European countries. Demand for money, on the other hand, was kept high by the expansive budgetary policy, realized both by increased public spending (with an eye particularly to military expenditure), and by reducing tax revenue. Through the so-called "supply policy" the American administration cut income tax (for the rich). In this way it claimed to stimulate supply and growth of national income, determining an increase of inland revenue and a consequent reduction of the initial budget deficit, despite the already high levels of inflation. As had been foreseen by the Keynesian economists, the United States budgetary deficit and the balance of payments deficit ballooned out of all proportion. This unhappy cocktail, known by the name of Reaganomics, turned the United States into the world's prime debtor and forced Europe to adopt extremely restrictive monetary policies. The oil counter-shock, the weakening of the dollar and the stock exchange collapse of 1987 were not sufficient to reduce real interest rates. What was needed was the euro. The United States thus succeeded in "exporting" inflation and unemployment, while Europe was obliged to accumulate an immense quantity of credit in dollars, for the most part collectable "on demand" (i.e. paper money). In short: the United States could invest in itself, in training, research, development, innovation, while Europe had to invest in greenbacks. The United States official currency reserves amounted to 50 billion dollars, those of the countries of the European Union 350. As we have seen, recalling with Albertini the power aspects of money, all this was made possible by virtue of the fact that the United States guaranteed the defence of Europe against the "reds" (who, according to prevailing opinion among historians, had no intention of attacking us). This delegation of our defence to a foreign power was determined, in turn, by the division of Europe into sovereign nation states and by the devastating outcome of the two European civil wars unleashed by nationalism.

Thus whichever way one examines the question, it is apparent that the division of Europe into sovereign nation states constitutes the ultimate cause of the excessive restriction of the money supply, the excessive demand for international liquidity, and the consequent and prolonged elevation of interest rates. These results had been foreseen by the English economists. Like Keynes, Hicks[19] too did not fail to observe that only in a very independent national economy could a national central bank be a real central bank; with the development of world markets, and particularly of the world financial markets, the national central banks come down a step; becoming individual banks in a system of world wide extension they are no longer at the "centre". Therefore the problem which had been partly solved with the institution of national central banks has reappeared, and is still unsolved (even though we are trying to solve it) at world level.

On the other hand, Hicks added, the public budget as alternative or additional stabilizer, the revolutionary idea to emerge from the *General Theory*, encounters a similar difficulty: state budgets are the budgets of national governments. They are a very odd instrument to control a monetary system which has become so international.

Today it is a French economist, Fitoussi, who is upholding the banner of Keynesian fundamentalism. He reveals how an excessive level of interest rates is not limited to discouraging investment and depressing employment, but has "more diffuse, more insidious, more structural consequences, which we could really qualify as cultural... The future finds itself depreciated a little at a time, and the temporal horizon of human decisions curtailed, by an implacable mechanism on whose terms the agents draw the consequences of the level of interest rates imposed on them. The interest rate is the rate at which is time is discounted, the barometer of value which we accord to the future. The interest rate is also the exact measure of the depreciation of our future... The current, i.e. present, value of future amounts decreases as the interest rate increases. It is therefore this which determines the terms of trade between future and present... The higher it is, the less society is capable of discerning anything beyond the short term, the less importance it gives to what it will possess in the future... Not investing today means living without prospects, as if we should die tomorrow... Intuitively, it seems that this is not unrelated to the decline of ideologies — in the noble sense of the term — in our society. What is an ideology if not a noble-minded construction towards the future, a system of values which implies faith in man, in a better future for him?... A society in which men behave as if they had no future, a society which tries to preserve rather than to build, can take the form either of avid enjoyment of the present or, on the contrary, of a neurotic attachment to the present. It is generally anxiety which dominates in a society of this nature, as is normal whenever the future is mortgaged, whenever it is denied, when it becomes the place of all dangers and too much uncertainty."[20]

The consequences, laments Fitoussi, spread in every direction: entrepreneurs, forced to extract a return at least equal to that of the financial markets, prefer liquidity to investment; wage-earners once more start to question the social contract, i.e. that collection of implicit conventions which limit the anti-egalitarian tendencies of the labour market; the link between the generations is weakened because the young, deprived of the prospect of a gradual increase in earnings, no longer have the time to wait for the compensation for their subsidising the old; companies no longer have the time to wait for internal training to take effect, so they select candidates on the basis of most immediately productive qualifications; unearned income yields an abonormally high return compared to that ensuing from work and from company activity; individualism has the advantage over collective action; precariousness, resignation and fear of the future contribute to the disenchantment of society.

We must therefore attribute enormous importance, not only economic but also cultural, to the reduction of interest rates made possible by the creation of the euro.

2.2 *EMU and the Marginal Efficiency of Capital.*

The marginal efficiency of capital is defined by Keynes as the relation between a series of annuities of prospective returns *expected* from an additional investment, and the current cost of production of that investment. With the modern name of "internal rate of return (IRR)", today it constitutes one of the methods most used for the evaluation of investments. The two concepts, however, correspond only when the estimate of outgoings and future proceeds deriving from the investment, really reflect the state of entrepreneurs' expectations. If, on the other hand, it is based on extrapolation from the past and not on genuine representation of the future, it is not explained by the Keynesian model, which is based on entrepreneurial expectations.

Hicks adds to the model a very convenient distinction between "defensive" and "new" investment. He argues that usually the marginal advantage of defensive investment will be high; it will be realised, if the necessary finance is available, on almost any condition. To block it will require a very strong pressure of liquidity indeed. New investment, on the other hand, is much more sensitive. Therefore, the reason why it is hard to control investment in a boom can be given by the fact that in the boom, investment has become defensive for the most part; and the reason why it is hard to start off investment in a recession is due to the fact that it is not possible to do so without stimulating new investment.[21]

It is *new* investment above all which requires a connection between Keynes's macroeconomic strategy and Schumpeter's microeconomic strategy. For the classical economists, in conditions of equilibrium, profit and unemployment do not exist. But the economy is a dynamic process, composed of a continuous series of imbalances, in the course of which entrepreneurs introduce innovations (new products, new productive technologies, new markets, new organisational models) which, if fortunate, allow them to acquire an advantage over competitors. It is this advantage, according to Schumpeter, which allows profit, as long as it is not eroded by imitation. To defend the advantage as long as possible the innovators deploy a broad range of defensive strategies; however, in the long term, only the companies which invest temporary profits to obtain a process of permanent innovation can keep ahead of their competitors. Hence the "creative destruction" of capitalism and the unshakeable tendency of the competition to transform itself into an oligopoly or a monopoly. The greater the degree of concentration of the supply, the higher are the market power of the companies, their profitability, and their capacity to distribute higher salaries, attract more qualified personnel and finance other innovations.[22] Although in the modern oligopolistic markets, investment decisions are taken less and less by Schumpeterian "entrepreneurs" and increasingly by Galbraithian "technostructures", it remains true nonetheless that those who take these decisions are different from those who decide to save.

European unification can increase the efficiency of capital and restore vitality to capitalism by fostering frequent and diffuse exchange of entrepreneurial talent, economies of scale and large joint investments.

The lack of a Paretian[23] circulation of *lites* is a common phenomenon throughout Europe and is explained by the freezing of class relations during the Cold War. Italy constitutes an extreme example of this. Despite the rigorous thinking and tireless work of men like Luigi Einaudi, Ernesto Rossi, Pasquale Saraceno and so many others, the reconstruction financed by the United States enriched not only the usual "steam lords"[24] who flourished in the autarkical greenhouse of fascism and on the profits of war, but also a new class of “buccaneers”. The response of this fine “entrepreneurial class” to the early reforms of the centre-left was to turn the endemic flights of capital into an epidemic. The most retrograde steam lords, namely the electrical industrialists, were lavishly reimbursed by the state for the cession of their companies to Enel. The use of such huge amounts of capital by the big family-run companies of the day, Centrale and Bastogi, had catastrophic results, confirming, at great cost to the country, the small-mindedness of that entrepreneurial class. Setting the “state enterprise managerial class”[25] alongside the steam lords produced no better results, except for the creation of ENI. Yet even today very few recognise that one of the causes for the low return on capital is the cultural and moral inadequacy of the economic ruling classes. One exception is Galbraith, who remarks that as the years go by he has never been so struck by the power of financial capital as by its lack of intelligence, and at times, by its stupidity. In his youth he was very worried by the power of the large capitalist companies. Now he is worried by their incompetence.[26]

The question of exchange of blood, i.e. turnover of those in charge of the companies, is today called corporate governance. It profoundly influences the selection mechanisms of those who evaluate and decide on investments, the checking systems before and after such decisions, and the speed of corrective actions, right up to the most severe of these, which is to change the management; in short it determines the confidence of the investors and the very possibility of capitalist development through the contribution of new risk capital. In this connection the Bank of Italy highlights how, in our country, a third of companies with more than 50 employees (equal to half of total activity) are controlled by pyramid groups, while another 42 per cent of companies (equal to a quarter of total activity) is under family or coalition control.

“The model of state ownership has produced ever-deteriorating economic results... At the same time, in privately-owned systems the instruments to exercise controls are fragile, solutions to conflicts between the management and minority shareholders are ineffective, there is vast commingling of private and company interests, and these problems present obstacles to company growth... Analysis of systems of ownership and control has revealed the notable diffusion of the pyramid group as organisational form... (which) poses special problems for the protection of the rights of the minority shareholders of subsidiary companies: the interests of the unitary management of the group may indeed differ from those of the non-controlling stakeholders, since the former are tied to the total return of the group as a whole, while the latter depend on the economic results of the individual companies... It therefore appears necessary to introduce legal recognition of the pyramid group and the adoption of special measures of transparency and protection of the interests of minority shareholders of subsidiary companies ... Apart from functioning as control mechanism, pyramid groups can fulfil at least four other functions: thanks to their legal autonomy, to reduce the responsibilities of the top level in cases where the units themselves are organised into divisions of a single company; to increase the incentives for the management; to offer instruments for co-ordination between companies controlled by different pyramids; and to reduce transparency to the disadvantage of private subjects or the state in order to obtain fiscal benefits, contributions or subsidies."[27]

Such crude language on the part of the Bank of Italy, which can hardly be counted among your run-of–the-mill professional revolutionaries, is possible because of the fall of communism and the economic and monetary unification of Europe. The Cold War and the division of Europe had in fact led to the entrenchment of managerial groups and the distortion of selection criteria. In the EMU and globally, competitiveness cannot be founded on the capacity to obtain aid and protection from the state. Separation between ownership and management, between investors and executives, needs to be taken seriously. Company management needs to be more competent and less greedy, selected and controlled by an equally professionalized ownership for the exercise of its particular job. The diffusion of shareholding, fostered by the administration of family savings by various kinds of professional operators, will release the bottleneck which family control has created for the development of many companies. Many of the institutes which regulate the life of companies and stock exchanges will have to be thoroughly reformed. The financial institutions will perhaps even have to "destroy what there is today in anticipation of what needs to be, and heaven alone knows if it will be, realized" rather than "to favour those in place over those who could be" in the attempt "to keep the top of the industrial structure linked to certain families or individuals."[28]

The fact that the progress of European unification has put the question of company administration on the agenda therefore constitutes the first reason to expect an increase in the marginal efficiency of capital compared to that achieved in the ambit of the nation-states.

The size of the market and the extent of the area of competition of the economy affect the level of profits, self-financing, accumulation of capital, new investment, innovations, and therefore of expectations of new profits. This is not only because they impose different selection criteria for management, but also because of the direct effects of scale, i.e. the possibility of enjoying greater external economies and spreading diseconomies more widely. This is the second means at the disposal of the EMU to increase the marginal efficiency of capital. American companies have enjoyed a much greater degree of concentration compared to European companies. They have been structured for a continental market from the beginning. The European supply, on the other hand, has long remained fragmented between the nation-states and in some cases, as in Italy, even internally, in particular for the industries which work to satisfy public demand. Catching up is expensive and often impossible. Thurow points out that the cost barriers at entrance are high and the time required to put oneself on a par with the sector leaders is long. To reach the levels of the United States aeronautical industry, for example, the European industry has taken more than two decades and more than 26 billion dollars of public finance.[29]

Biehl's approach[30] to the potential of regional development also shows how it is not the traditional factors of production, private labour and private capital, which are the principal determining causes of economic development, but the "factors of potential", all public goods: infrastructure; geographical position, (closeness or distance relative to the principal centres of continental or even world economic activities); agglomeration (spatial concentration of the population, of producers and of consumers within a region); and sectorial structure (relative size of the agricultural, industrial and service sectors; level of development in terms of per-capita income).

"Given the strong inter-regional disparities within the European Community... a transfer of resources (is necessary) between the regions in central position, agglomerated and well-structured with a high level of infrastructure, and the peripheral regions... This transfer should take place mainly through the structural funds of the European Community ... This implies, however, that the financial system of the European Community is reformed with the aim of providing the Community with a progressive source of income."[31]

It is moreover the competence of the states to revive efficiency, as far as possible, by taxing activities which generate diseconomies and subsidizing those which produce economies. The nation-states, however, are less and less able to fulfil the function of correcting imbalances generated by continental and global integration of the economy. Biehl's is one of the fundamental projects not realized by EMU.

From a Keynesian point of view, the freezing of the Delors plan constitutes the most serious episode, since a plan for European public investment is the third requisite to increase marginal efficiency of capital in Europe. Despite the twenty million unemployed, the nation-states still claim to be providing local solutions to the problem, instead of providing the Union with its own budgetary resources, sufficient to generate multiplier effects, by stimulating those investment which, on the one hand, are necessary to increase the productivity of private capital, and on the other, more efficient if "planned" at least for the continental scale. Capitalism, by its nature, suffers from two serious limitations: too short a temporal horizon and the absence of any vision of the social context in which individual choices are formed.

On this subject Thurow argues that each generation takes decisions which from the point of view of capitalism are correct, but the end result is collective suicide... At a profound level the values of capitalism are in conflict with capitalism itself. The success or failure of capitalism depend on the investments it realises, and nevertheless it preaches a theology of consumption. The technical infrastructure (roads, airports, aqueducts, electricity networks etc) and social infrastructure (public order, access to education, research and development) are indispensable for economic progress, but the theology of capitalism does not provide for that necessity. Historically capitalism has resolved its own internal contradictions by exploiting the public sector for the realization of most investment in infrastructure, research and education, with which it did not wish to be concerned. Private capitalism was able to count on the 'secondary applications' of the public sector. But far from admitting that it needed help to function efficiently, capitalism has expected the state to justify its activities, usually in reference to some military threat. But now there is no longer any threat. In part the problem is linked to the fact that any admission along these lines would almost automatically lead to something very like an industrial policy... In the capitalism of industries with a high human intellectual energy content, public technological strategies are essential. These industries will be concentrated where it is possible to organise intellectual energies so as to "capture" them. No-one can hope to succeed without a transport and communications infrastructure at world level... but since these activities are not recognised, they receive neither aid nor support from capitalism. When the atrophy of the public sector reaches a certain threshold, the supports collapse and the cathedral of the private economy collapses together with them.[32]

If this is the situation of the United States, what then can be said of Europe? The old nation-states have buried themselves in public debt, but without contracting significant foreign debts; on the contrary, over time and in the majority of cases accumulating positions of net credit abroad. The very modest Community budget has so far gone mainly towards supporting agricultural prices. The maintenance of widespread small-scale farming was of the same order as the anti-communist obsession, both for strategic reasons and for political reasons. The farmers provided the majority of the infantry and, as smallholders, constituted the hard core of the moderate vote. No wonder that, together with the shopkeepers, they have benefited from the welfare state much more than they have contributed to it, unlike the workers, always considered as a potential danger and chosen to pay for all. The result was to keep prices of agricultural products permanently high (instead of directly and temporarily supporting the income of farmers as indicated in the Mansholt Plan); to artificially raise the cost of living and, through the mechanism of wage indexation, the labour-cost per unit of output; to reduce imports of more competitive agricultural products from the rest of the world; and to prevent developing countries from building up the stocks of currency they needed to buy industrial products and services from Europe. To include the production of agricultural surpluses in order to then destroy them on the list of Keynesian policies is an insult to common sense. When Great Britain found itself in the position of first commercial power of the world, a position which today is occupied by the European Union, it adopted the opposite policy, known as economic liberalism of the Manchester school.

There are certain "current" expenses which in reality constitute investments, which in Europe it is considered must remain national, like social security (investment for cohesion), and state education (investment for the future), and which the American right wing would like to transfer from the federal level to that of individual states. Thurow rebels against this prospect, citing the states as the least appropriate administrative level to tackle a question of this nature. "The richest families and companies, which offer good well-paid jobs but have no intention of paying much tax, need do no more than move to the states where these are less high ... Moreover the states are conscious of the fact that many of their young people will end up going to work elsewhere, therefore any attempt to raise the quality of state schooling would be a waste of money ... Spending on education is easier to cut than other items of expenditure, because in the short term this provision has no consequence. To trust the individual states with the task of generating greater equality means deciding that that task will be abandoned."[33]

In conclusion: the division of Europe into sovereign nation-states has permanently lowered marginal efficiency of capital through a multiplicity of effects. With high interest rates and reduced expectations of profit, investments tend to be lower than savings. The *ex-post* equilibrium between saving and investment is therefore obtained at a sub-optimal level of employment, production and income, precisely as explained by the theory of effective demand.

2.3 *EMU, Effective Demand and Employment.*

We thus come to effective demand and employment. It is necessary to state at the outset that the systems of national accounting developed to realize the macro-economic policies suggested by Keynes, curiously enough are concerned only with the profit and loss account and not with the corresponding balance sheet. Gross domestic product, as is well-known, is measured from two sides: production and destination. The production of income is composed of that from consumer goods, investment goods, public goods, and the difference between exports and imports. The destination of income consists of consumption, savings and taxes. Since the two measures lead, on aggregate, to the same result, one can also say that, when the state budget and the balance of payments are balanced, the investments and savings are equal. An excess of savings over investments may therefore be compensated for by a deficit in the state budget, (Keynesian policy), by a surplus in the balance of payments (mercantilist policy) or by a combination of the two. *Vice versa,* an excess of investments over savings may be compensated for by a budget surplus, and/or by a balance of payments deficit.

The question posed by Keynes is whether this accounting equilibrium *necessarily*, as held by the classical economists, constitutes an equilibrium of full employment. In the third chapter of the *General Theory,* introducing the principal of effective demand, he debunks this conviction.[34] Fundamental assumptions of the classical theory are the equality between the real wage and the marginal disutility of the existing amount of employment, the equality between the aggregate demand price and the aggregate supply price for any level of output and employment, and the non-existence of involuntary unemployment. But wages, Keynes observes, at one and the same time constitute cost for production and demand for product. Aggregate demand and aggregate supply constitute two *different* functions of employment. Should one entrust the realization of a primary objective like full employment to their accidental coincidence or to a deliberate policy? The expansion of public spending was legitimized by Keynes to bridge a deflationary gap, looking mainly to the short term. Having made excessive use of this argument in the absence of those conditions in which it applies, the governments were led back (however reluctantly) to strict respect for the dogmas of the central bankers, in their turn under pressure from the neuroses of the globalized financial markets. Capitulation was therefore the necessary outcome of the level reached by public debts and the consequent loss of sovereignty of the states with regard to the markets; not of a failure of Keynesian theory. That it is a question of a failure of the nation-state and not of one theory or another, is borne out by the parallel failure of the Friedmanite policy of fixing monetary supply objectives, carried out in Germany by Otmar Issing.[35]

The principal objections to the current relevance of the Keynesian theory are based on the differences between the economic context in which it took form, and that of today. Montani highlights four basic points: 1) It "was conceived as the economic policy of the closed nation-state. Today, the nation-state must act in an open international context, highly interdependent." 2) The Treaty of Maastricht and the Stability Pact require that monetary policy does not generate inflation and fiscal policy not cause deficits. "This means that the world market imposes certain constraints on national economic policy which did not exist in Keynes's day. Keynes could think of a relatively independent monetary policy, in which the Central Bank would propose the objective of reducing the interest rate until it reaches a level sufficient to stimulate investments. And if the stimulus of monetary policy was not sufficient, a more energetic fiscal manoeuvre might be considered, to increase effective demand by means of a plan of investment financed by a public budgetary deficit." 3) The relationship between money-wages and prices today shows the effects of the reduced importance of the national level of negotiation, while, "in the thirties, in a closed nation-state, one could assume... that the area of the national currency would coincide with the area of trade union organization." 4) Finally, Keynes "could conceive a stable and constant relationship, in the short term, between effective demand and employment", undermined today by technological change.[36]

Fortunately the problems of adapting the theory to the broader economic area and the new technological paradigm are not such as to oblige us to tackle the problem of mass unemployment without the help of Keynes. As Ciocca points out, in fact, "the institution appointed to the task, the market, does not guarantee full employment", not even "in an idealised labour market, with full flexibility of wages and of other negotiating conditions", and the basic reasons for this failure of the market "remain those indicated by Keynes... In every brief period the effective demand is pushed to explore the limits beyond which is found *a condition of prices gradually growing as employment grows,* and, *a fortiori*, those beyond which *aggregate employment is inelastic in response to an increase in effective demand for its product.*"[37]

The reasons which today prevent the adoption of Keynesian measures on the part of individual states would constitute easily surmountable obstacles for a European economic government. On the other hand, in the extreme hypothesis, a world government would find itself managing a closed economic system, like that in the *General Theory*. The Union is *potentially* able to recover freedom of manoeuvre both in the monetary and in the fiscal field, and therefore to put into practice Keynesian policies. Not only that, but it is in fact in urgent need of doing so: Delors has estimated that it would be necessary to bring the European long-term rate of growth from the current 2.2 per cent to 3-3.5 per cent in order to halve the unemployment rate in the space of 5-7 years, i.e. to bring it to the United States level.[38]

It is true that prices and wages today are more exposed to international competition and to the pressure for levelling out within the Union. Differences in wage levels, fiscal systems and contributory systems in fact perpetuate competition between nation-states within the Union and prevent the latter from making European companies more competitive on the global market. That said, however, the relationship between money-wages and money-prices has not changed, as was highlighted by the Advisory Group on European competitiveness.

"Starting from 1993, wages control in Europe went beyond the objective fixed in the White Paper on *Growth, competitiveness and employment,* in other words the increase in earnings was one percentage point lower than the growth in productivity. Control of wage dynamics ought to mean the politicians responsible for this keep to policies which support growth, otherwise wages moderation only causes a weakening of aggregate demand, and not growth in employment and production... However, spending for investment and for private consumption remains relatively low. This is due to uncertainty regarding public investment programmes, a restrictive fiscal policy and wages control... From the point of view of the European Union as a whole it is important to guarantee that wages moderation does not become synonymous with wages competition and /or give rise to deflation; it must be considered as an element of global economic strategy."[39]

It is also true that Keynes considered the function of production constant in the short term, but he certainly did not ignore the phenomenon of technological innovation and its growing speed. He commented that the effects were being felt of a new disease, whose name some readers might not even know, but which would be spoken of increasingly in coming years: *technological unemployment.* This meant that unemployment due to the discovery of labour-saving instruments was proceeding more rapidly than new uses could be found for that same labour.[40]

Today the object of a deliberate stimulation of effective demand should not be the market for consumer goods, already saturated, but those of non-marketable social needs,[41] the organization of the "third sector" market,[42] investments (prevalently non-material) necessary for the adaptation of society as a whole to the "dominant and pervasive role of information and communications technology"[43] and of those (prevalently material) necessary to improve the Union's infrastructure. The Delors Plan provided among other things for: the European network, to capitalize on the new information and communication technologies; the high-speed railway network and new stretches of motorway, which were to unite western and eastern Europe as far as Moscow; protection of the environment; reform of the educational system; organization of the markets for services of a social nature; and innovative experiments in exemption from social security taxes and reduction of working hours, which should have enjoyed public support, only in relation to objectives of general interest, and would have started a more general shifting of the burden of taxation from production and labour to use and consumption, particularly those of non-reproducible resources. All these plans have remained on the drawing board, not because Delors had neglected to strictly specify non-inflationary means of financing them, but because the nation-states have not yet resigned themselves to ceding that part of their powers, (and only that) which they are no longer in a position to exercise. In conclusion, the Delors Plan did not fail because it is Keynesian, as indeed it is, but for the basic reason denounced by Montani: "the reasons for the failure of the Delors Plan lie in the ideology of 'coordination of national policies', encouraged by Delors himself. According to this point of view, the approval of the European development plan, specifying the tasks to be undertaken at European, national and local level, would be enough to obtain the necessary commitments without any substantial modification of the Union's institutions. But, as experience has shown, this is not true. A European development plan cannot be realized unless it is supported by a precise political will. This means a European government."[44]

Unsatisfied needs in the presence of permanently unutilised resources constitute a failure of the market and provide fresh evidence of the absence of any economic policy aimed at preventing or correcting such an outcome. The nation-states can no longer intervene and Europe is not yet willing to. The single market is thus reduced to a pre-Keynesian economic jungle just when there appears to be a pressing need for stimulation of demand; there is a clearer idea of where to direct public investment; internal and external circumstances are favourable to intervention compatible with monetary stability; and there is a more evident opportunity to redistribute some budgetary competences from the nation-states to local governments and to the Union.

Unlike the United States, the European Union records a high propensity for saving, a balance of payments in equilibrium, and a net foreign balance with a large margin of credit. Inflation has been brought under control and the cost of money dramatically reduced. To reduce the debt/GDP ratio the budgets of the European nation-states (the Italian case is extreme) have registered and continue to register substantial primary surpluses. The diffusion of public securities as a form of savings has meant families have a greater interest in the solvency of the state as debtor, but has also made the propensity to consume directly sensitive to rate variations, so that the Bank of Italy considers it probable that there has been "an increase in the propensity to liquidity consequent on the reduction of public securities rates."[45] If this is true, it means that today's economy is more Keynesian than that seen by Keynes himself, because now much more than then, it is a "monetary economy." The reduction of interest rates, apart from not being sufficient on their own to stimulate new investment (you can't make the horse drink), may suggest further caution with regard to consumption, because families may also feel the contraction of financial gains to a degree amplified by the money illusion.

The amount of additional budgetary resources necessary for the Union to counterbalance these deflationary pressures is limited. Today the states spend more than three times as much as the community budget on subsidizing unemployment alone, which they could save by re-directing these resources towards European development. The Union budget can be relatively modest for various reasons.

First of all the fundamental welfare functions can remain the competence of the nation-states, on condition however that their execution does not produce distortions of competition. Income taxes and social security contributions weigh exclusively on national production, while taxes on consumption bear no regard to the country of origin of the goods and services; it is evident therefore how easy it is, having demolished customs tariffs and having made competitive devaluation impossible, to continue to pursue objectives of national competitiveness through fiscal and contributory policies.

Secondly, every Union intervention produces effects amplified by the credibility which it lends, on the capital markets, to projects approved by it. The long and positive experience of the European Bank for Investments, and more recently of the European Investment Fund, and the financing capacity on the market shown by specialised agencies, make a very high financial leverage foreseeable for every initial Union holding. In many cases the mere certification of community interest in projects will be sufficient to guarantee and attract private capital. Union expenditure, moreover, should be financed to a greater extent by its own tax revenue, which should be directed (like the carbon tax proposed by the Commission) at encouraging productivity per unit of energy and the reduction of environmental pollution. Since the financial credibility of the Union is greater than that of the member states, it should also enjoy a margin of elasticity for budgetary deficits at least equal, in proportion, to that allowed to the states. Federal securities should be underwritten by the market, excluding monetary financing by the Union. However, monetary policy should in any case be in step with economic policy, if for no other reason than because it is unthinkable that the “technical” independence of the European Central Bank could be extended to the point of excluding the future government of the Union from decisions which would influence the exchange rate of the euro against the dollar and other currencies.

Finally, it is time to stop speaking only of debt and GDP, as if companies only looked at the liabilities side of their budget without considering investments carried out and their income-generating capacity. As is pointed out by Tommaso Padoa-Schioppa, with reference to the Italian debt, “to evaluate the riskiness of the public debt one would have to consider this net of assets facing it, as a private individual would do; this does not happen, partly because of the difficulties which make it hard to draw up a complete real account for the state. Since 1980, in compliance with law no. 468/1978, the State Auditors Department has annually made a statement of national assets and liabilities, which however is incomplete and not directly usable for the purposes of economic analysis. In 1987, a Committee of Enquiry chaired by Sabino Cassese estimated (taking the lower approximation, according to the final Report) that the value of nationally-owned real estate alone (thus excluding state-controlled enterprises) equalled about two-thirds of the public debt of the same year. In 1990, the Committee for privatization chaired by Carlo Scognamiglio estimated the value of the five state companies indicated as prime objectives for privatization (CREDIOP, ENEL, ENI, IMI, INA) alone at 70-90 thousand billion (5-7 per cent of GDP)."[46]

The concept of social wealth, moreover, should include "assets" never before valued and yet to be considered as investments because they produce income in the form of enhanced efficiency of private capital. At *any pre-existing level of public debt,* a new investment should be accepted if it promises a return capable of reducing the initial debt. Eliminating the excess of *real* current expenditure over revenue preserves future financial equilibrium, allows interest rates to be reduced, lessens the prevalence of consumption over investments, and restores full budgetary sovereignty to the states. The reduction of *real* public investments, on the other hand, lowers marginal efficiency of capital in the long term, depresses the incentive to invest, restricts income and employment, necessitates social amortization, extends the area of the illegal economy, raises the cost of social control and causes a further increase in the public debt. And yet reduction of public expenditure is still held up as the right course to take, without any distinction being made between consumption and investment.

If public intervention is intended to set off a virtuous circle, it can no longer be directed at altering the respective position of the individual nation-states. It must on the contrary aim to increase the overall efficiency of the European economy, and to prevent or correct the ecological, social and territorial imbalances caused by the joint operation of supranational capitalism and the national policies which are necessarily subordinate to this. Precisely this subordination highlights the need for supranational governments to rein in a capitalism which knows no boundaries. It is possible (as always, by trial and error) to pursue the goal of a much higher rate of long term development of the European economy than the current one, without generating inflation, without worsening the state of the environment, without destroying the links of social, intergenerational and territorial solidarity, and preserving openness towards other economies to the utmost.

As Albertini saw clearly at the time of the EMS crisis, "the problem, then should be tackled in this fashion: there can be no European policies without dealing with the currency issue; the currency cannot be created without dealing seriously with the problems of unemployment and economic growth."[47]

3. *The Euro and the Dollar.*

It is not possible that the euro has been created, and yet expectations of economic growth and employment cannot be satisfied. It is not possible that the euro has been created, and yet Europe has not attained equal partnership with the United States in leading the process towards a new world economic and monetary order. In short, as the federalists knew before committing themselves in this undertaking and as their adversaries still hope, the euro will prove to be a bluff in the absence of a European government.

Clinton rightly considers that "an integrated Europe is America's natural best partner for the 21st century."[48] The "animal spirits" across the ocean, however, have not yet reached their President's level of awareness. The recurrent American attacks against the euro, in support of which a vast array of Nobel Prize-winning economists has been enlisted, manifest fears that run counter to this: fear of a closed "fortress-Europe", corresponding to the European apprehension regarding American isolationism; fear of a competitive devaluation of the euro, as if its creation could be reduced to a trick to make the mark competitive; and the obsession, not entirely unfounded, that the euro might become so strong as to threaten the dollar as world currency.

3.1 *Fortress Europe.*

Indeed the euro radically changes the international monetary system, which is no longer based on a single reserve trust money, but on two. Volcker,[49] who promoted the free flotation of exchange rates, now observes the results of this with concern.

"Today, the dollar/mark and the dollar/yen are surely the most important exchange rates. In the three countries, a high degree of price stability has been maintained over a good many years. Yet, contrary to the expectations of most economists and textbook orthodoxy, those exchange rates have continued to fluctuate widely, sometimes by 50 per cent or more over a year or two. ... Markets remain volatile in ways that simply cannot be consistent with careful calculations of comparative advantage, optimal investment decisions, and market efficiency. ... A world in which the rates of exchange among the principal currencies can swing so widely, and so seemingly capriciously, is not a world that will maximize the efficiency of world capital markets or the potential for world growth."

He clearly outlines the two opposing potential dangers that underlie the attempt to limit the pernicious effects of exchange rate volatility: on the one hand, that of restoring extensive and permanent controls over movements of capital, thus impeding the process of integration of the world economy without being able to prevent the possibilities of evasion created by the spread of new information and telecommunication technologies; and on the other hand, that of permanently over-exposing the financial markets to crises, with the consequence of reinforcing the demands for protection within the regional blocs, which would tend to close in on themselves.

"So far," Volcker argues, "the clear tendency toward regional free trade or customs areas has been generally benign, despite the inherently discriminatory character. That is because they have taken place within the general context of a global reduction in trade barriers". To preserve the benefits of liberalization, it therefore "needs to be accompanied by much more attention toward monetary reform on a global scale."

The fear of Europe becoming a fortress, protected by customs tariffs, a weak euro or both, is unfounded, but must be understood. The mistrust of many Americans, who prefer to forget the history of their country as a stronghold of protectionism[50], as opposed to European economic liberalism, may originate in the similarity of the European unification process to that of the German states in the last century (first the *Zollverein*, then political union), and in its consequent dissimilarity to the model of the American federation, based on an *advance* political constitution. List, advocate of a Franco-German alliance to be a match for British supremacy, went so far as to forecast the need for "a European coalition against American supremacy"[51] since, he maintained, free trade between countries of unequal development produces the world monopoly of the stronger parties. He, however, was a protectionist with discernment, just as Keynes was the most reasonable of all Keynesians. List recommended temporary protectionism, limited to a few strategic sectors, adjusted according to whether the state and market were large enough to undertake industrial development, and designed to achieve cultural, technical and professional evolution, so that the state benefited from protection. After all, even Adam Smith had admitted exceptional protection of "infant industry", and List, like the Classical School, was firmly against agricultural protectionism. Convinced that progress was accompanied by the unification of peoples and the overcoming of the natural and social barriers which divide mankind, he would never have recognised himself in the autarkic follies of nationalism at its most extreme. Similarly, Keynes would have scarcely believed that his theory would, for a while, become the mother of all inflation.

Just as we are well aware of the power of the American lobbies, so the United States distrust the protectionist tendencies which are spreading through the mire of European non-competitive sectors, parasitic classes and arrogant corporations. These interest groups, while continuing to beg help from the nation-states, have not neglected to develop lobbies at European level, the only level relevant for decisions regarding common external customs duties, for issuing regulations which can be turned into non-tariff protection measures, for setting monetary policy and the euro exchange policy, for harmonization of national fiscal policies, and so on. It is in the common interest that such groups do not prevail, either in Europe or in America; and they will not prevail if the EU and the USA act in their common interest.

For an unforeseeable period, but which conscious political leadership should make as short as possible, war and peace will still depend on the convergence of *raisons d'état.* In the case of the European Federation (the inevitable evolution of the Union) and of the United States of America, this could play a decisive role for the rest of the world as well.

The end of the Cold War and the creation of the euro have re-opened the prospect of "Manchester economics", this time on a global scale. Many developing countries are today in a position to successfully export not only raw materials and agricultural produce, but also consumer durables, and to play an advanced research and development role by integrating in transnational technological production lines. The European Union, which has the largest market share in international trade, has no interest in the introduction of trade restrictions. The improved expectations of the financial markets and economic operators stem from the forecast of greater European openness, not from the contrary. The euro increases expected profits because the operators associate it with a growing liberalisation and with economies of specialization, which will be made possible by the "neo-Manchester" mechanism evoked by Iozzo.[52]

3.2 *Euro über Alles.*

Iozzo's considerations assume a strong euro and lead us thus to examine the opposite, but less widespread, fear from across the ocean. Bergsten[53] outlined a scenario which many Americans still find hard to believe: the euro would rapidly include all the member countries of the Union; it would be a strong currency from the very beginning; it would have all the requisites to play a global role; it would be able to cause a shift of funds (official reserves and private portfolios) from the dollar to the euro up to a trillion dollars (similar in magnitude to the United States' net foreign debt). Bergsten notes five essential factors for a currency to play a global role: the dimension of the underlying economy and the share of participation in world trade; independence from external constraints; freedom of movement of capital; the breadth and liquidity of the financial market; and the strength, stability and external position of the economy. The euro will satisfy all these conditions. Any country which found itself in the financial situation of the United States, on the other hand, must sooner or later pay the penalty of a financial and currency crisis, and consequently submit to the strict discipline of the IMF. But, as Thurow severely remarks, in the case of the United States, with debts contracted in dollars, it is not the American debtors who suffer losses when the dollar is devalued, but the foreign creditors, whose credits lose value once reconverted into their national currency: *but they cannot vote in the United States...* Some politician should explain how it is that the increase in imports compared to exports, which currently gratifies the American consumer, is not worth the cost which is due to be paid. Sooner or later, in fact, the debts deriving from this must be paid, by selling off American financial assets (the United States capitalist heritage, if you will), and thus losing influence and power within the world economy, both in the public and in the private sector. But from a political point of view an argument of this nature would not be very effective, since the Americans have come to believe that international leadership is their birthright, as it has been so far, and yet they are not even sure they want to keep it.[54]

A strong devaluation of the dollar, apart from making a mockery of the creditors, would make it impossible to finance the United States' power politics. Perhaps for this reason they are anxiously seeking new lines of conflict in global politics, even to the point of forecasting a clash between different cultures and civilizations.[55] The need to still put their trust in American military supremacy would, in such an extreme hypothesis, make other countries accept the further accumulation of credits denominated in dollars. The opposite scenario, of putting American capitalism into liquidation in order to repay the foreign debt, provocatively evoked by Thurow, represents an equally paradoxical extreme. And yet these two poles delimit and define the range of reasonable solutions. While Volcker plans a reform of the world monetary system, Bergsten analyzes the necessary political condition to attain such an ambitious objective and identifies it in closer co-operation between the United States and Europe.

3.3 *Why the USA and EU Must Take Converging Paths.*

The fact that the United States has balanced the federal books, thanks to the bipartisan agreement, means it is in a better position to improve the state of its external accounts. Reserve productivity still to be recovered in the USA and greater exploitation of its decisive acquired advantage in the financial services and telecommunications sectors would contribute to this. Yet the American deficit, in the current mono-polar model, also constitutes the "engine" of world development; therefore, although in a co-operative context its reduction would constitute the precondition for any re-equilibrium or new order, in a logic of struggle for supremacy it would spark off a spiral of competitive deflations. Which of these roads is taken could depend on the capricious results of international speculation, or on one of those conscious decisions which sometimes, as long as there are institutions able to deliberate, manifest the pre-eminence of politics.

The efforts undertaken by the United States to restore balance to their public finances and to reduce the external imbalance could contain the measure of the shift of funds from the dollar to the euro and influence the relative diffusion of the two currencies outside their respective areas. Europe has a starting advantage with a much higher market share than the American share in all the principal geopolitical regions of the world[56] and, if one can say so, by the preference of its partners for the "community method", co-operative, contractual, and directed at fostering the birth of autonomous regional federations on the model of the European Union, compared to the American approach, often suspected of hegemonic, if not imperialist intentions. On the other hand, the United States enjoys military supremacy, a greater high-tech content in its exports, *integrated* domination of "know-how" in the sectors which contribute most to support globalization transversely (finance, information technology and communications) and a strong capacity for unitary political initiative. In short: the advantages of the United States come from having been a superpower; those of Europe, on the other hand, from not having been one. With the introduction of the euro it is reasonable to expect that the United States' position in the world will be based less and less on military supremacy, and more and more in proportion to their actual economic importance. It is equally reasonable to expect that Europe will make the investments necessary to catch up technologically, if it does not want to see itself condemned to a subordinate role and to purely cost-based competition in sectors increasingly exposed to international competition; and that it will participate more incisively and more visibly in the construction and maintenance of the new international order. The evidence of these two complementary reasonable assumptions makes the establishment of a climate of co-operation between the United States and the European Union possible and even probable. This is the indispensable condition for the opening of a cycle of economic development which is less neglectful of such fundamental human needs as fair distribution, environmental sustainability, security and peace. Naturally co-operation between the United States and the European Union, while corresponding to the lessons of the past and considerations of the future, will not come about unaided. Political institutions will have to intervene on both sides of the Atlantic, institutions capable of rescuing history from that hopeless deterministic inevitability which always ends up justifying the abuses of "particular" interests over collective interests and of present interests over those of the future.

Friedman[57] ventured to predict that European monetary unification would make political unification impossible. Although the United States also constitute a single monetary area, he argues that it was able to overcome asymmetrical shocks (like the oil crisis, which impoverished the car-producing states of the Midwest and enriched oil-producing Texas) thanks to the use of instruments other than that of exchange, which are not yet available to Europe: the federal budget (redistribution of financial resources), strong internal mobility (redistribution of employment), extreme flexibility of the markets (rapid adjustment of prices and wages) and a central bank, the Fed, which is authoritative and credible but much less insensitive than the Bundesbank to the demands of the political powers.

The fact is, as has been said, that we are proceeding "à la List" and not "à la Hamilton" because, like German unification and unlike the American constitution, the European process has to overcome strong pre-existing nation-states. The *Zollverein* nevertheless led to German political unity, just as EMU will lead to European unification. To prolong the phase of maximum risk would however be crazy. Friedman, for once, warns us that there is a need for more state, and we Europeans, in this case, must agree.

4. ***For a World Federal Reserve System.***

The surviving superpower cannot govern the world alone, as has been demonstrated once again by the Asian crisis. It has been very apparent that this crisis has generated two kinds of reaction. On the one hand, the nervousness of the United States has increased, as proved by their hostility to an Asian solution to the crisis through setting up a regional monetary co-operation fund; their readiness to entrust the debtors to the treatment of the International Monetary Fund, which often kills the patient without saving the creditors; and their return in grand style to the anti-euro offensive. On the other hand, there has been a clear acceleration in demand for an international monetary reform and in the search for a balance of power that is not so far removed from the actual distribution of economic power in the world. The sequence of events in Asia is similar to that of other tragedies, in Europe as in the United States, also provoked by the periodic predominance of the presumption that capitalism can do without regulatory institutions (as if the market itself were not only one of these institutions).

4.1 *National Sovereignties, International Institutions and the Market.*

In the nineteenth century there was a run-in between capitalism, which was evading the rules by going beyond their geographical area of application, and the states, which were trying to re-assert forms of control. When the states tried the reactionary route of rescuing themselves from international disorder by confining capitalism within national enclosures, as happened in Europe between the two wars, the results were more catastrophic than those they were trying to avoid. When the states tried the progressive but illusionary way of assigning particular tasks to international institutions without transferring to them the corresponding sovereignty, the results were unsuccessful, as in the case of the League of Nations, and, to a lesser extent, of the UN.

With “globalization”, capitalism has launched a watchword which challenges the planetary order. Indeed there is no institution more distant from federal legitimization than the UN, while the “failures of the market" (and also, more prosaically, those of the western banks) are placed in charge of a technocratic institution, the World Monetary Fund, dominated by the United States. Only when their economic and monetary unification is complete will the European countries speak with one voice in the WMF, as now happens only in the World Trade Organization. Since the Second World War, the IMF is the institution through which the United States has governed not only its own capitalism, but also that of the "free world", and then of the whole world. As Harrod[58] notes, the dependency of the Bretton Woods institutions (Fund and Bank), on the United States is congenital. But then why should the only country then in a position to make loans to the rest of the world, the real winner of the war and with its productive apparatus still intact, have delegated the creation of international liquidity to a supranational institution? The United States kept its hands free to grant loans and aid to individual European countries without intermediation of any sort. The IMF, on White's initiative, was born as an inspectorial and consultative body. The only concession to Keynes's vision was putting the World Bank alongside the Fund. After the war the Bank contributed to the reconstruction of destroyed productive capacity; starting from the seventies, under the leadership of McNamara, it mainly financed underdeveloped countries; from the eighties it increasingly made its intervention conditional on the debtor countries adopting policies of deregulation and privatization. Its President is *traditionally* of United States nationality, although the United States' stake in the Bank's capital has dropped from an initial 37.5 per cent to less than 20 per cent.

Over 170 countries belong to the IMF, including China (since its break with the Soviet Union) and Russia (since 1991). Member countries in difficulties with their balance of payments *have the right* to use the technical advice and financial assistance of the Fund (in fact its judgement is indispensable for weaker countries to gain access to the financial markets). Financial assistance is automatic within the limits of the country's reserve tranche, but must be negotiated if it wants to draw a multiple of that quota (stand-by credit line). Despite the introduction, with the 1967 Rio de Janeiro agreement, of a fiduciary instrument called the special drawing right, the Fund has never fulfilled the function of central bank of the international monetary system, which first Keynes and then Triffin hoped for, substantially for two reasons. In the first place, this function is not recognized by the Fund statute and would be strongly opposed by the preponderant weight of the vote, linked to the value of their stake, of the principal industrialised countries. In the second place, the United States weakens the leadership of the Fund by fostering the spread of bilateral political relationships, particularly since the number of members with the right to designate an executive director has enlarged to include, in addition to the "big five" (United States, Great Britain, Federal Germany, France and Japan), Saudi Arabia (1979) and China (1980). Basically the United States, apart from enjoying the advantage of settling their own deficits in dollars, take advantage, through the Fund, of the equally unjustified opportunity to influence the destination and conditions of loans effected with others' capital.

The introduction of the euro will raise a number of questions, substantive and operative, with regard to the Fund. Only balance-of-payments deficits on current account of the Union towards the rest of the world will have to be considered as such. Moreover, since the transactions of a large number of countries will be regulated in euros, the use of the dollar by the euro area will be reduced to an insignificant amount (it is foreseeable that much of the "oil bill" can also be paid in euros, thus enabling the portfolio diversification desired by the oil-producing countries).

In the hypothesis that the United States can achieve substantial success in rectifying its external account, growth in the external circulation of dollars would slow down to the point of stopping. Perhaps a virtuous path might be taken of reducing the American net external debt, which would necessarily involve the transfer of real resources from the United States to creditor countries. Europe could contribute to the achievement of such a result by applying one of Keynes's maxims: "reserves are made for spending." In the case under discussion, reserves denominated in dollars, which have become excessive due to the elimination of currency imbalances among member states, could be spent in the United States on acquiring technologies in which they are more advanced (acquisition of products or know-how, capital investment in American companies, joint-ventures etc.); co-operation in these sectors would among other things eliminate the need for the Union to protect infant industries. The use of the dollar and of any other "national" currency, the euro included, as world currency, would be further limited if other regional areas were developed, particularly in Asia and in Latin America, capable of resolving internally many of the problems which are currently devolved to the USA/IMF. Thus would be realized the permanent decentralization of IMF operations, which Triffin considered a fundamental objective of regionalization.[59]

4.2 *USA/EU Responsibilities for a New Regionalized World Order.*

The European Union and the United States should therefore promote and support the formation of regional free trade areas which are already intrinsically inclined to develop into economic, monetary and political unions. It is fair to assume that the “creeping constitution” of new regional federations will, as in Europe, follow List’s route rather than Hamilton’s, because of the strong national heritages from which they start. This should not prevent the United States from adopting a favourable attitude towards regional groupings, as Europe does. During the Cold War the United States encouraged the formation of a European regional bloc against the Soviets. Since the collapse of the USSR there has been an evident revival of the “divide and rule” tendency in American politics. It is Europe’s responsibility, because of the revolutionary novelty introduced into the political world by its unification, to propose and agree with the more enlightened sections of the American leadership, suitable courses of action to achieve the reduction of disorder in a world which certainly, and rightly so, rejects any unrealistic monopolar logic.

The decline of American supremacy leaves behind it an inundation of dollars which makes the memory of how sterling balances painfully dragged on after the end of the British empire, pale in comparison. And yet, if the principal regional groupings are able to resolve the majority of monetary problems internally, and if the fundamental balance-of-payments imbalances between the groupings tend to assume manageable proportions, the realization of the project to reform the international monetary system, outlined by Keynes and developed by Triffin, will become technically simpler and politically more realistic. In the process of bringing peace to the human race, the USA and EU could exercise a role comparable to that played by the Franco-German “directorate” for European unification.

In 1982, when the United States for the first time recorded a total balance-of-payments deficit due not only to capital movements as before, but also to trade in goods and services, thus accelerating the exponential growth of its own external debt, Triffin highlighted the “triple scandal”: the unrestrained inflationary creation of official reserves; the redistribution of international buying power in favour of rich countries through the revaluation of gold; and the disavowal of any responsibility towards the poor countries. With regard to the triple scandal, European monetary unification offers two possible routes. The Europeans could decide to contend for the right of seigniorage which so far has been the exclusive privilege of the USA, in order to then share it, thus prolonging the scandal; or to contribute to the (re)foundation of bodies capable of governing the globalized economy. The second route is required, but this does not mean we can be certain that it will be adopted *before* fresh catastrophes induce the states to see sense. This is one of those opportunities when man is free to make a conscious decision to affect history, i.e. to take political action.

The monetary objective coherent with the value of peace is that of creating a fiduciary instrument, a world reserve currency, to replace gold and the national reserve currencies, allowing the IMF to adjust the creation of reserves to the optimal non-inflationary potential of trade and world production.[60] The European experience indicates the importance of: an initial convergence of reason of state; the choice of the first step to take; and the setting of intermediate targets, if the course of history is to be shifted onto the "slippery slope" towards the main objective.

The hypothesis that the convergence of American and European *raisons d'état* is the most mature of all seems least contrary to common sense. The United States and the European Union count for barely 11.2 per cent of the world population (respectively 4.7 per cent and 6.5 per cent), but for 52.5 per cent of gross world product (25.7 and 26.8) and for 40.5 per cent of world trade (19.6 and 20.9). The citizens of Europe and those of America, together with the Japanese, Australians and New Zealanders, occupy the prime positions in the world classification by human development index, the UN indicator which combines GDP per capita, adult literacy and life expectancy. They also make the highest per capita contribution to environmental pollution. In this case, however, the American contribution is far higher than the European (another reflection of the lack of importance attached to the values of solidarity among those which inspire that great country). By contrast, the American contribution to a collective good such as security appears more efficient than that of Europe, although its efficacy has sometimes been cancelled out by improvident policies. The Fifteen, overall, employ two million men in the three armed services; the United States, one and a half million. In both cases, this represents 0.5 per cent of the population; however only the United States is in a position to decide and carry out an international military initiative. It is in the common interest of the United States and the European Union to act jointly in many crucial fields: to foster the stabilization of the area of the former Soviet Union and the Balkans; to support the development of the poorer countries; to accelerate the necessary investments to replace polluting technologies and sources of energy with compatible ones, through balanced sacrifices; to share out, between themselves and with the other large states or regional groupings, the responsibility for decisions concerning security and the cost of putting them into practice. Can we hypothesize that there is a "convergence of reasons of state?"

4.3 *What next?*

In identifying the first step to be taken, one must take account of the current obsession with competitiveness. The states meet with ever greater difficulty and resistance in adopting good policies which involve increased costs for companies: it costs more to produce using less polluting technology, therefore it can only be done if competitors are subject to the same discipline; security involves a heavy tax increase, better to stay under someone else's security umbrella; research is investment with the most distant return, therefore it is worth waiting for someone else's results in order to then copy them. In this way, all the collective and long term aspects of human progress are devalued. This is why the first step should consist in the realization of a Euro-American free-trade area, within which the principal factors which influence competition between companies can be made equal. The organization of the market constitutes the principal capitalist institution. If this institution were common to the United States, the European Union, and the countries associated to them by free trade agreements, already operative or planned, the setting of intermediate targets in the direction of a world token money would be made inevitable. As soon as the free trade area came into force, a deadline should be set for fixing the exchange rate between the dollar and euro, at least to the extent that exchange rates were fixed during the brief period when international co-operation prevailed and the Bretton Woods system consequently worked well; the routes towards economic convergence should be agreed; a beginning should be made towards concerted organization of the ECB and the Fed, to keep exchange rate fluctuations, in the intermediate term, in line with the needs of the real economy, sterilizing speculative movements. When exchange rate fluctuation was imposed on the European states by the prevailing American point of view, it proved incompatible with the unity of the market, threatened the loss of the *acquis communautaire* itself and in any case prolonged the process of European integration by at least twenty years. The experience of the EMS, an attempt to limit the negative effects of fluctuation, came up against Padoa-Schioppa's "irreconcilable quartet".

"The second phase of the EMS is marked by the emergence of a fundamental challenge for the system: the removal of controls on capital and residual non-tariff barriers to trade in goods and services as a result of the realization of the fiscal programme of the Single European Act. Unless new commitments are added to the integration agenda, the Community will have to attempt the impossible task of reconciling: I) full freedom of trade; II) complete mobility of capital; III) fixed (or at least governed) exchange rates; IV) national autonomy in the conduct of monetary policy. These four elements form what may be termed the "irreconcilable quartet": economic theory and historical experience have repeatedly demonstrated that they cannot co-exist, and that at least one of them must be abandone."[61]

The European states finally decided that the element to be abandoned was the fourth, i.e. national autonomy in the conduct of monetary policy. The United States should begin to reflect on this idea, which no project to reform the international monetary system can ignore.

A free trade area, establishing a common external tariff with regard to other countries, then imposes the quest for coherence between the commercial, financial and foreign policies of the countries associated in it, coherence which in the end will prove obtainable only through a joint foreign and security policy. It is above all in the Atlantic context that the primacy of law over violence must be asserted. If NATO is to be used as an instrument of international policing, the effective participation by a federated Europe in the decision-making processes of the Alliance can no longer be put off. The time has come, for the United States too, to bury the post-war period and participate in the responsibility for decisions which affect the whole world to an extent not exceeding their own importance.

A Euro-American common market, a fixed exchange rate between the euro and dollar, and a joint security system: these would constitute the pillars of the new western order. When the west is in order, the whole world is more likely to be in order, because the west, precisely because of its greater economic development and by the action of the principles of thermodynamics, is the greatest exporter of disorder.

If highly competitive relations were to prevail between the United States and the European Union (with their respective monetary zones), they could hardly be expected to provide a strong impulse towards transforming the IMF into a world central bank, capable of issuing a world token reserve currency to replace gold, the dollar and the euro, and towards a corresponding democratic reform of the UN. And yet these objectives are absolutely necessary to govern globalization. A joint USA/

EU determination would on the other hand meet with quick responses, not only in countries already close to them, in NAFTA, Latin America, Eastern Europe and Oceania, but also from other regions of the globe: the Russian Federation and the other former soviet Republics, which need more than bilateral financing for an ordered transition to the market economy; the Middle East, which shows a strong demand for Europe; China, economically still backward, but developing at speed and already a military power in a position to decide on order and disorder in Asia; Japan, first creditor of the United States and their tributary for security; India and the countries of South East Asia, the most dynamic protagonists of globalization; Africa, desperate and despairing, which having been, like Asia, the theatre of so many hot wars fought in the name of the Cold War, is now waiting for a world Keynesian plan which brings it peace and at least a subsistence level of human development.

The objective of a world token money is made relevant today by the technological revolution and the world mode of production. A possible proposal on the technical/ organizational level would be to fuse the International Monetary Fund, the International Settlements Bank and the World Bank into a World Federal Reserve Bank. Apart from being directly responsible for specific functions, along the lines of the Keynes and Triffin plans, this would be the umbrella organization for specialized agencies: in particular, an Agency for the Environment, one for Security and one for Human Development. They would raise private capital, among other things, to finance such projects as can prove effective only if they involve the whole world. The formula of Agencies, with sub-agencies sometimes involving only the states concerned in particular projects, would allow the greatest financial leverage with respect to an initial public intervention. Apart from the Fed and the ECB, other regional central banks or individual national central banks would also participate in the WFRB. Its assets would consist of loans granted to countries in deficit, stakes in the Agencies and the financing accorded to them; the liabilities would be the deposits of countries in surplus and token money issued; total equity, the stakes lodged by the stakeholders, in financial resources or in rights to exploit strategic resources (e.g. raw materials and energy sources) and in rights to conserve environmental resources (e.g. forests), so as to also allow an adequate stake to countries which have natural but not financial resources. Recourse to natural resources cannot however eliminate the need for a substantial free distribution of shares to the benefit of the poorest countries.

The (federal) states of regional dimension simultaneously represent a phase in the course of history, which allows liberation from the old ideologies, without falling into anomie; an intermediate organizational level between the nation-states and the world federation, which is also required by the principle of subsidiarity; and an engine of the process which leads to the unity of the human race while respecting diversity, since it is hard to see how the world federation can be born from the initiative of innumerable quarrelsome states rather than from that of a few peaceful regional aggregates. The regional federations do not yet allow full coherence to be affirmed between the political, legal and economic areas (sovereignty, property and power of utilisation and disposal).[62] However, they resolve the majority of problems internally and put world federation on the historical agenda. With the construction of the new federal European state, the completion of the grand historical experiment of overcoming the nation-states constitutes the specific responsibility of Europe, towards itself and towards the whole world, in the process which will lead a growing number of states, starting with the United States and the Russian Federation, to realize that "their security is guaranteed more by co-operation than by power politicy."[63]

NOTES

[1] Paul Hirst and Grahame Thompson, *Globalization in Question.*

[2] Lucio Levi, *Alexander Hamilton e il federalismo americano*, Turin 1965, p.21. The "sacred principle" was enounced by Patrick Henry, a young member of the legislative assembly of Virginia, on 30th May 1765.

[3] John Kenneth Galbraith, *The New Industrial State*, Boston 1967.

[4] John Maynard Keynes, *A Tract on Monetary Reform*, London 1923.

[5] John Maynard Keynes, *The General Theory of Employment, Interest and Money*, London 1936.

[6] Robert Skidelsky, *John Maynard Keynes*. *II. The economist as Saviour 1920-1937*, London-Basingstoke 1992.

[7] Lionel Robbins, *Il federalismo e l'ordine economico internazionale*, Bologna 1985 (original texts 1937-40).

[8] Jacques Rueff, "Un danger pour l'Occident: le gold-exchange standard", in *Le Monde*, 27, 28 and 29 June 1961.

[9] Jacques Rueff, *Le péché monetaire de l'Occident*, Paris 1971.

[10] Mario Albertini, "Le problème monetaire et le problème politique européen", in *Le fédéraliste,* XIV (1972), p. 77 ff.

[11] Guido Carli, "Prospettive di sviluppo nelle relazioni monetarie internazionali" in *Euromoney*, London, March 1970.

[12] Matt Marshall, *The Bank*, London 1999, Chap. 3, "The guardian of German

orthodoxy".

[13] Altiero Spinelli, *Pci che fare?*, Turin 1978.

[14] Skidelsky, *op. cit*., p. 531.

[15] On Italy's consistent "difference", see: Donald Sassoon, *One Hundred Years of Socialism*, 1996.

[16] I would like to single out that of Michael Bruno, *Inflazione, crescita e controllo monetario: lezioni non lineari dalla crisi e dalla ripresa*, Banca d'Italia, Lezioni Paolo Baffi di Moneta e Finanza, Rome 1994.

[17] The many theoretical and research works in the field are summed up with a felicitous dash of populism in his intellectual autobiography: Franco Modigliani, *Avventure di un economista*, Bari 1999.

[18] Guido Carli, "L'eurodollaro: una piramide di carta?", Rome 1971, reproduced in *Scritti di economia internazionale*, Rome 1993.

[19] John Hicks, *Essays in monetary theory*, Oxford 1967.

[20] Jean-Paul Fitoussi, *Le Débat interdit. Monnaie, Europe, Pauvreté*, Paris 1995.

[21] Hicks, *op. cit*., pp. 48-49.

[22] Paolo Sylos Labini, *Oligopolio e progresso tecnico*, Turin 1964.

[23] Tr.: From Vilfredo Pareto (1848-1923), whose theory of the superiority of an élite class was associated with the development of fascism in Italy.

[24] Ernesto Rossi, *Padroni del vapore e fascismo*, Bari 1966. [Tr.: The expression "steam lords" originally denoted 19th century industrialists; like nouveaux riches, it bears connotations of unwarranted arrogance.]

[25] Eugenio Scalfari – Giuseppe Turani, *Razza padrona. Storia della borghesia di stato*, Milan 1974.

[26] Galbraith, 1993.

[27] Banca d'Italia, "Proprietà, modelli di controllo e riallocazione nelle imprese industriali italiane", Report no. 1 to the Convention on *Assetti proprietari e mercato delle imprese*, Rome 24-25 March 1994; contributions from: F. Barca, M. Bianco, L. Cannari, C. Gola, G. Manitta, G. Salvo, L. F. Signorini.

[28] Mario Sarcinelli, *Capitalismo, mercati, banche*, Milan 1997, pp. 57-58. This opinion was given in response to the question: "In what sense do you consider that the Mediobanca has played a conservative role?"

[29] Lester C. Thurow, *The Future of Capitalism*, 1996.

[30] For a very concise account of the results of econometric research see: Dieter Biehl, "L'infrastrutturazione come determinante dello sviluppo regionale", in *Sintonia*, No. 3, Milan, March 1992.

[31] *Ibidem*.

[32] Thurow, *op. cit*., pp. 330-333.

[33] Thurow, *op. cit*., pp. 277-278.

[34] Keynes, "The General Theory...", *cit*., p. 29.

[35] Matt Marshall, *op. cit*. Chap. 5 "The Monetary Jesuit".

[36] Guido Montani, "The European Government of the Economy", in *The Federalist*, XXXIX (1997) pp. 126-176. Quotations from pp. 149-152.

[37] Pierluigi Ciocca (ed.), *Disoccupazione di fine secolo*, Turin 1997, p. XVI.

[38] Jacques Delors – Giorgio Ruffolo, *Sinistra di fine secolo*, Milan 1997.

[39] Carlo Azeglio Ciampi (ed.), *Sfida alla disoccupazione*, Bari 1996, pp. 98 and 105-106.

[40] Keynes, 1930.

[41] Giorgio Lunghini, "Politiche eretiche per la piena occupazione", in Ciocca (ed.), *op.*

cit., p. 270.

[42] Jacques Delors, “Per un nuovo modello di sviluppo”, speech presented at the congress of the European Socialist Party at Malmoe from 5 to 8 June 1997, published in Delors-Ruffolo, *op. cit.*

[43] Sergio Mariotti, “Il paradigma tecnologico emergente”, in Ciocca (ed.), *op. cit.*, p.116.

[44] Montani, *op. cit.*, p.156.

[45] Economic bulletin of the Banca d’Italia, December 1997.

[46] Tommaso Padoa-Schioppa, *Il governo dell’economia,* Bologna 1997, pp. 79-80. See also: Francesco Giavazzi and Luigi Spaventa, *High public debt: the Italian experience*, Cambridge 1988.

[47] Albertini, “The Crisis in the EMS”, in *The Federalis*t, XXXV (1993), p. 121.

[48] The President’s statement is quoted by G. Jonathan Greenwald , former delegate to the European Union, in “Getting to know you. The US should adopt a more positive attitude towards the European Union”, the *Financial Times* “Survey Italy”, 10/12/97. In the *Financial Times* of 22 October 1997, Larry Summers, US deputy secretary of the Treasury, declares: “if Emu works for Europe, it will work for us”, in “American eyes on Emu”.

[49] Paul Volcker, *Remarks at International Conference of Banca Nazionale del Lavoro*, Rome 19 November 1997, pp. 3-4 and 20.

[50] Paul Bairoch, *Economics and World History*, Harvester Wheatsheaf, 1993.

[51] Friedrich List, *Das nationale System des politischen Ockonomie*, 1841.

[52] Alfonso Iozzo, “The Challenge for Europe: Reducing the Working Week”, in *The Federalist*, XXXVI (1994), pp. 138-147.

[53] C. Fred Bergsten, “The dollar and the euro”, in *Foreign Affairs,* Vol. 76 no. 4, July/August 1997, pp. 83-95. See also: Wolfgang Munchau, “Dollar’s domination could be ended by the euro”, in *Financial Times*, 9 September 1997.

[54] Thurow, *op. cit.*, pp. 162-164.

[55] Samuel P. Huntington, *The Clash of Civilizations and the Remaking of the World Order*, New York 1996.

[56] The European Union is by far the foremost supplier of the Republics of the former Soviet Union, the Middle Eastern countries, China, India, and the African countries. In the rest of Asia, American penetration exceeds that of Europe only in countries which sided with the United States during the Cold War or were militarily subdued by them: Japan, the Philippines, Malaysia, Singapore, Taiwan, and South Korea. In Latin America, the Americans predominate only in Venezuela and the Andean countries, while the European Union has a higher market share in Brazil and Argentina and therefore a stronger position in the whole Mercosur (which includes Paraguay, Uruguay, Chile and Bolivia). In Oceania, European penetration exceeds American by a few points.

[57] Quoted by Federico Rampini in “Gli euro-timori dei signori del dollaro”, *Affari e Finanza di Repubblica* of 24 November 1997.

[58] Roy Forbes Harrod, *The Life of John Maynard Keynes*, London 1951.

[59] Triffin, “The World Monetary Scandal: Sources... and Cures?”, Siena 1982, in Robert Triffin, *Dollaro, euro e moneta mondiale,* Bologna 1997, Chap. 10, pp. 254-255.

[60] *Ibidem*, p. 245.

[61] T. Padoa-Schioppa, *L’Europa verso l’unione monetaria*, Turin 1992, pp. 116-117.

[62] Franois Perroux, *L’économie du XXme siècle*, Paris, 1964.

[63] Lucio Levi, “Le quattro globalizzazioni”, in *Federalismo nel mondo,* Turin, April 1998.

Notes

EUROPE AND THE NEW LOME’ CONVENTION

1. *The Stakes: the Overcoming of the Disparity between North and South.*

The end of September 1998 saw the start of negotiations between the European Union and seventy countries of sub-Saharan Africa, the Caribbean and the Pacific (ACP) which should lead, by the end of the year 2000, to a renewal of the Lomé Convention on new bases such as, for example, the creation of free trade areas between the European Union and regional aggregations of ACP nations.[1] It is a development that will mean the gradual overcoming of the current system of preferences, in other words, the system that allows products originating from ACP countries free access to the European market, while at the same time protecting them against European competition on their own markets. The EU proposals thus represent a sharp change of direction in relation to the past, and they are profoundly influenced both by the new world political balances that emerged in the wake of the fall of the Berlin Wall, and by the wave of support for free trade that gained momentum with the disintegration of the former Soviet Union.

Indeed, the end of the Cold War altered radically the power relations that prevailed at the time of the birth of the Lomé Convention (and earlier still, of the two Yaoundé Conventions). From the mid-1940s to the start of the 1990s, Europe’s concern was to keep Africa within the sphere of influence of the West, and while the task of bringing the African continent into line with the Western alignment was entrusted to France’s military presence in Africa,[2] the support of the rest of Europe for this policy was guaranteed through the granting of financial aid (via the European Development Fund) and, above all, through bilateral national contributions. While granting aid, Europe was, in this period, substantially indifferent to the scant respect that was shown in these countries for human rights and for democratic principles and to the coups d'état which, with the start of the decolonisation process, led to the establishment of military dictatorships in many African countries. The main concern was to prevent Soviet influence from spreading to Africa. Mitterrand's speech at La Boule, which marked the end of this period, was delivered in 1990, and the ACP-EU Joint Assembly was not to adopt its first pro-human rights stances until the start of the 1990s.

The end of the Cold War resulted in a series of changes. The United States, itself becoming progressively weaker, is now the only superpower left on the world stage, and there has been a radical modification of the general economic picture: the emergence of new areas of development, in Asia and Latin America, has meant an increase in the number of countries contributing to the evolution of the world market. Then there was the advent of the WTO whose objective is to eliminate all obstacles to world trade (both tariff barriers and non-tariff barriers to trade), and which has begun to object to the rules that govern the current Lomé Convention, maintaining that they are incompatible with those of the Uruguay Round, and demanding that the preferential treatment currently reserved for ACP nations be extended to all developing countries. For its part, the disintegration of the Soviet Union opened up the way for new applications for EU membership, first from the countries of central Europe, and then from the Baltic states, and when these countries ultimately obtain effective membership, an increased proportion of the Community budget will have to be set aside for them, and for Russia itself, a country currently on the brink of an economic-financial crisis of enormous proportions. Finally, the European Union has been forced to recognise the partial failure of the sole policy of public aid which has until now been implemented in favour of the ACP countries, a policy which public opinion is tending increasingly to reject, especially when the distribution of funds is carried out indiscriminately.[3] The European Union's available resources are thus being put under considerable pressure, highlighting a major budgetary constraint.

It is these considerations that have spawned the EU proposals which aim, through the progressive opening up of the African market to European and world competition, to provide incentives for the inflow of private capital. Indeed, following the positive contribution made by private capital to the economic success recorded by the countries of Asia and Latin America — a practical demonstration of the fact that public funding alone is not enough to guarantee the development of the economies of the countries which are beneficiaries of it — the increased involvement of private capital is positively viewed in a number of quarters.[4] It is a view which fails, however, to attach sufficient importance to the political conditions that allow private capital to fulfil a constructive function. In fact, the economic success of the countries of Latin America, like the Asian countries which in the space of a generation have managed to move clear of the poverty threshold, is due to their political stability. The stability of these areas is guaranteed by the presence of America which has, in its turn, favoured the inflow of private capital from Europe and Japan, as well as from the United States itself. Without the contribution of this external factor, it is unlikely that significant amounts of private capital would have been attracted and unlikely too, therefore, that domestic policies alone, however far-sighted, or public funding, however generous, would have been sufficient to sustain the economic development of these countries.

In the case of Africa, the weakness of the European proposals lies in the fact that if (given the state of perennial military conflict that characterises the African continent) they are to have a structural effect, then they need to be sustained by a European foreign policy — a European foreign policy that currently does not exist and to which only a European government could give voice. As far as the domestic policy of the countries of Africa is concerned, the intention is certainly not to maintain that, as is still the case in many Asian countries, internal stability must be guaranteed by an authoritarian regime; indeed, if this were the mainspring of development, Africa would, as pointed out by *The Economist*, already be a world economic giant. Instead, it is essential that political stability, both external and internal, is achieved (meaning an end, in the first instance, to military conflicts between states, and in the second, to the constant civil wars) and that the governments and parliaments of the African states be founded on popular consensus and remain in power for a guaranteed minimum term.

Before analysing the proposals for reform of the Lomé Convention — even a cursory examination of which is enough to show that the European Union lacks the power to realise the objectives it has set itself — it is opportune to recall what stands to be gained from these negotiations between Europe and the ACP countries. It is important to remember that the problems to be tackled actually extend far beyond the mere renewal of a convention that is about to expire, that the stakes concern the bridging of the traditional gap between the industrialised northern part of the world and the developing southern hemisphere.

Indeed, in recent decades enormous progress has been made in the sphere of development, so much so that it has led to the claim that, “in the last ten years alone, at least three billion people, in the midst of a thousand contradictions, have set out on the road towards wellbeing and security. From Latin America to Africa, entire populations have drawn closer to the market economy and encountered new opportunities. Life expectancies have been increased; requests for assistance, training and income have been forthcoming; unions have been emerging and political representation has, slowly, been taking on its irreducible plurality.”[5]

While these changes are hard to contest, constituting evidence that the possibility of participating in world politics has now been extended to new populations, it must be recognised that Africa is, as shown by UN surveys, the only continent in which development cannot yet be said to have assumed a structural dimension.[6] Obviously, this does not mean that those regions of the world where development has become a reality (regions such as Asia and Latin America) do not still present areas of poverty — such an idea is quickly dispelled by thoughts of Colombia, Bangladesh, Afghanistan and parts of India itself, or China. What it does mean, however, is that these areas of underdevelopment will ultimately be carried along on a wave of growth by the vast areas of new development that are being established in these world regions. Africa, on the other hand, is the only continent in which (with the partial exception of South Africa and a few other areas) there are no signs that the emergency of underdevelopment is set to be overcome.

Having said that, it would be wrong to view Africa solely as a continent ravaged by endemic armed conflicts, both internal and external. In truth, the objectives of regional integration which the Union intends to pursue through renewal of the Convention are not fanciful, but founded instead on a very real receptiveness within Africa that has been seen in repeated attempts to bring about economic and monetary integration, attempts whose failure to bear fruit can be attributed to the absence of the support that would be generated by a strong political will outside the continent. For example, at the last summit of the Organisation of African Unity (OAU), held as recently as September 1999 in Sirte, Libya, the African leaders returned to the content of the Treaty of Abuja of 1991, which made provision for the creation of a single African market, a parliament, a central bank, an African monetary fund and a federal court.[7] The leaders gathered at Sirte agreed to postpone, until the OAU summit due to be held in Lomé in 2000, any decision regarding the establishment of a schedule for the implementation of the programme agreed at Abuja.

However, whether Lomé will see the umpteenth postponement of the programme, or whether Africa will decide to proceed resolutely, albeit in gradual stages, towards the political integration of the continent, will depend above all on the policy Europe will feel able to adopt towards it. If, when this time comes, Europe still does not have its own foreign and security policy, and still has not developed broad measures that can be applied to Africa, then it is likely that the Lomé summit will culminate in yet another postponement or, at most, in the reaching of decisions of minimal import. What Europe needs to do, therefore, is seek to implement, this time from a European and democratic standpoint, the same political direction that France attempted to follow just prior to the start of the process of decolonisation, an attempt that was unsuccessful both because it constituted a national policy which failed to overcome relations of a colonial nature, and because it was conditioned by the policy to restrict Soviet influence in Africa. In many ways, it is a question of making up, through a European initiative, for what is, in relation to the objectives that the France of the late 1950s intended to pursue, a historical delay. The aim of this note, therefore, is not to present a historical reconstruction of the various attempts at regional unification, but rather to help to awaken Europe's political forces to the fact that neither an evolution of relations between Europe and Africa, nor a European effort aimed at resolving, within the space of a generation, the problem of underdevelopment in Africa, are unrealistic prospects.

2. *Globalisation of the Economy and the Underdevelopment of Africa.*

As mentioned earlier, the process of global unification of the market is involving all the continents of the world, except Africa. Furthermore, in the African continent, public capital accounts for a higher proportion of the total capital inflow than anywhere else, which indicates a high level of dependence on public aid.[8] This is contrary to the trend in other world areas in which there has been an increase in private capital inflows.[9] Closer examination of the reasons for Africa's failure to become drawn into the developing world economy reveals that the peculiarity of this continent extends to its position on the world market, the internal integration of the African market, and the unattractiveness of this market to private investors. According to GATT figures, the African nations' total exports for 1991 amounted to 99 billion dollars, the same level as ten years previously. The share of world trade accounted for by African exports dropped from 5 per cent in 1981 to 2.8 per cent in 1991: the African economy, therefore, despite the fact that many African countries export a large share of their GDP, has been progressively losing shares of the market at world level and is, today, more closed in relation to the rest of the world. But the African countries are also closed in relation to one another, as evidenced by a series of figures that allow comparison of the scale of intra-regional trade in the principal world areas. For example, still according to GATT, while intra-European trade accounted for 72 per cent of total European exports in 1991, and intra-Asian trade for 46 per cent of total exports recorded by Asian countries, and while the corresponding percentages recorded in north and south America were 33 per cent and 16 per cent respectively, only 6.6 per cent of the total exports by African countries were generated by intra-African trade.[10]

More important, however, are the results of a UN survey of direct foreign investments by transnational corporations (TNC) which show that the African market is no longer sufficiently attractive to foreign investors. In the period 1981-85, Latin America attracted direct foreign investments from TNC totalling 6 billion dollars, and in 1992 this figure rose to 16 billion; in the corresponding years, direct foreign investments in South East Asia (not including Japan) rose from 5 billion dollars per year to 21 billion dollars. In Africa, on the other hand, the 1992 total of 2 billion dollars showed that investments, concentrated in only a few countries, were still at the average annual level recorded in the first half of the 1980s.[11] While it is true that the action of the multinationals gives rise to problems of democratic control at world level, it is also true that these concerns are instruments of economic development and of market unification, and with this in mind, these data relating to intra-African trade and private investments give rise to particular concern. Indeed, according to the UN, the so-called TNC generate more than 70 per cent of world trade; in particular, it is estimated that exchanges between companies belonging to the same multinational group account for 25 per cent of world trade.[12]

The conclusion that must clearly be drawn from this is that the African continent is, in so far as it is unable to attract investments from TNC, destined to remain excluded from the globalisation of the markets, a process that is leading to an increasingly international division of labour, and to the birth of a world economy. But it needs to be noted that the reasons for the limited flow of private capital into Africa are not economic, but political. According to a study carried out by the World Bank, the profitability of direct investments in Africa is, on average, twice that of those made in other developing areas of the world: this difference, then, only throws into greater relief, and can even help to quantify, the extreme selectivity shown by investors, a selectivity that is attributable to the heightened political risk in Africa which they must take into account and which influences and limits the flow of private capital into the continent.[13]

With the end of Lomé IV (early 2000) rapidly approaching, the directions favoured by the European Union with a view to a renewal of the Convention are changing. The mandate to commence negotiations, received by the European Commission at the end of 1998, bears witness to Europe's intention to insert the African economy into the world economy. However, without the support of a strong political will, which only a European government can guarantee, the European policy runs the risk of turning into an economic disaster for Africa.[14] The proposals that best illustrate this point include: that of linking the new Convention to the provision of support for processes of regional unification; a gradual liberalisation of trade exchanges between Africa and Europe, and thus the progressive abolition of the system of preferences that has, until now, benefited African companies; the development of private enterprise, an aid policy no longer based on the funding of individual projects, but rather on the funding of the national budget of the African states that are to be the beneficiaries of aid, leaving it to the states in question to implement their own development plan, with annual checks to be carried out by Europe in order to guarantee that effective use is made of the aid provided. The other objective that the European Union has set itself is political — to channel more resources into conflict prevention, strengthening above all the capacity to act of African organisations, like the OAU, and sub-regional organisations.[15]

3. *A "Delors Plan" and a European Policy for African Political Unity*.

In the area of development support policies, the potential of Europe as a whole is undoubtedly decisive. Europe is the leading supporter of developing countries, contributing over 50 per cent of all the funds made available by the industrialised world. This figure has, however, only potential value, in that it includes bilateral national contributions.[16] Indeed, on its own, the European Development Fund (EDF) accounts for only a fifth of all development aid and it is, furthermore, still a fund for which no provision is made in the EU budget. (In other words, it is dependent upon national contributions and thus conditioned by the political will of national governments). Finally, with regard to the policy of aid for Africa, it must be pointed out that, of the total aid granted to third world countries, the percentage covered by European funds has, in the past few years, fallen from 65 per cent to 42 per cent in 1990 and to 33.5 per cent in 1995.[17]

Therefore, the question must be asked whether, in this new world setting, today's Europe, lacking a government and without its own foreign and security policy, can sustain this new orientation in favour of African development. It is, after all, an orientation which fails to take into account the existence of constraints, both political and budgetary, which, unless they can be overcome, will render it extremely difficult for Europe to prove equal to the challenge that the economic development of Africa represents; and yet, perhaps it is the opposite (that is, failure to act) that could represent the real risk: if the African continent were left to drift, this would inevitably have negative effects on the European economy, for example, a drop in European exports, an increase in the rate of immigration from Africa, etc..[18]

As far as the budgetary constraints are concerned, the scale of the challenges which Europe faces is such that it is hard to imagine that sufficient public funds can be gathered to cope with the rebuilding of the Balkans, as well as with the provision of support for Russia, the Mediterranean, and sub-Saharan Africa, not to mention all the other areas of the world in which Europe is involved. From this derives the European Commission's awareness of the need, mentioned earlier, to mobilise private capital and, in more general terms, to prompt the intervention of market forces. This awareness must not, however, overshadow the fact that, in order to sustain its foreign and cooperation policy, Europe must, necessarily, be equipped with the power of direct taxation. Or the fact that, however solid the economic foundations on which this policy is built, it runs the risk of proving ineffective if the European Union fails, first of all, to give public opinion a concrete demonstration of its intention to pursue a European policy in favour of Africa — by doing away with the policy of national contributions. For as long as the Union continues to manage just one-fifth of development aid, and the EDF continues to be funded by national contributions, the individual African countries will continue to compete with one another in their efforts to cultivate relations with individual European countries, rather than with the European Union, and they will go on failing to follow up the undertakings they have made over the years to work out programmes for the creation of customs and economic-monetary unions. On the other hand, until such time as national funding is channelled into the Community budget, Europe is destined to remain unable to voice an effective and credible aid policy in Africa's favour.

The political constraints, meanwhile, are due to the absence of a European foreign and security policy which, in turn, renders the establishment of a vigorous European policy towards Africa impossible. Until this obstacle is removed, it is hard to imagine the hypothetical European policy, outlined in the proposals for Lomé V, having any chance of success. On the other hand, the problem of a foreign policy for Africa is one which Europe can no longer avoid. Upon the creation of the euro, Europe, like it or not, became linked to the two CFA franc zones, which group the states of western and central sub-Saharan Africa, and towards which a European support policy is needed, drawing if necessary upon foreign-exchange reserves exceeding those needed to sustain the progress of the euro on the international exchange market.

The aggregations with which Europe might, hypothetically, establish relations could be the economic unions set up from the mid-1990s onwards, in other words, CEDEAO (the *Communauté Economique des Etats de l'Afrique Occidentale*) and CEMAC (the *Communauté Economico-monétaire de l'Afrique Centrale*). These communities are not made up solely of the CFA franc zones, but are broader. Indeed, reference to these broader aggregations would ensure the inclusion of Nigeria, in the case of western Africa, and the Democratic Republic of Congo in central/equatorial Africa. Not only would the exclusion of these two countries, whose populations equal those of the corresponding CFA franc zones, fail to provide a means of overcoming the armed conflicts in which they are involved, it could also become a pretext for future and more violent clashes. The same applies to eastern and southern Africa, where COMESA (the Common Market of Eastern and Southern Africa) and SADC (the Southern African Development Community) are the potential interlocutors. This does not mean that, as is the case in Europe, those countries which wished to progress more quickly than others along the path towards unification should not be allowed to do so, such as, for example, countries in the CFA franc zones, or those belonging to the East African Community: the important thing is that the process moves, ultimately, towards the broadest unification possible.

If the creation of free trade areas between regional aggregations and the European Union can be seen as an important turning point in relations with the countries of Africa, it is important to realise that the success of this new direction (measured in the capacity of these countries to attract private investments, and thus capital inflow into the continent) depends, as mentioned earlier, on whether or not its political stability can be guaranteed. The importance that is attributed to the role of private capital gives rise to some thorny problems in that, as shown by the example of South East Asia and Latin America, regulation of its intervention cannot be left only to the forces of the market; indeed, while private capital has certainly played a decisive role in the development of these areas, it was also responsible for aggravating the economic and financial crisis which rocked these areas from mid-1997 onwards. What is needed in order to prevent a similar situation occurring in Africa is the presence of a European government equipped not only with a European foreign and security policy, but also with an economic policy towards Africa that will serve as a clear signal of Europe's willingness to support the development and, in the future, the political unification of the continent: this signal can be nothing other than the launch of a "Delors Plan" for Africa, in other words, a broad programme targeting the continent, accompanied by a clear link between the two CFA franc zones and the euro, and the prospect of an enlargement of the euro's zone of influence to the Mediterranean basin and the Middle East.

It is only within the framework created by these choices that the policies in support of the processes of regional unification already under way can be put into practice. If a plan of this kind were to accompany the new Lomé Convention, it would guarantee, alongside the flow of public aid, the necessary inflow of private capital, and the correct use of the same. From this latter perspective, an important role could be played by the Joint Parliamentary Assembly: it could become the guarantor of the stability of the African continent, of the launch of the processes of democratisation and of the correct use of the funds employed. With the European Union equipped with effective powers, the role of the Joint Assembly (which is currently only consultative) could indeed evolve: the Assembly could become the seat for the discussion and agreement of policies relating to economic development and cooperation on matters of security. An Assembly might be created in which the Unions of States would be represented. This Assembly would become a sort of chamber of the regional federations in which, in addition to the European Union, the African regional unions would also be present. It would also be possible, in an institutional framework of this kind, to insert a policy of collaboration with the Mediterranean countries of northern Africa — countries which have, until now, been more interested in joining the European Union than in adhering to the Lomé Convention. This divergence of interests between the north African countries and those of the sub-Saharan part of the continent could be overcome were the EU's proposals, which aim to favour the processes of integration, also to make provision for the inclusion of the Mediterranean countries in a renewed Joint Assembly which would have political functions.

Finally, it is necessary to remember that in order to ensure the political stability of the African continent, it is not sufficient to place conditions on the provision of economic aid at the start of the processes of regional unification, as the United States did with the Marshall Plan after the end of the Second World War. In Africa, active intervention is needed to bring to an end the civil wars that are in progress. In fact, the preparatory document drawn up by the European Commission indicates the need for Europe to "develop a European policy of conflict prevention and resolution."[19] However, the revision of the Maastricht Treaty, approved in Amsterdam in June 1997, has still not led to the development of a European foreign and security policy, in other words, to the creation of the instruments which are essential if a policy of conflict prevention in Africa is to be rendered credible.[20]

This need to create the essential instruments was also stressed by the European Council at Helsinki (this time in relation to the instruments Europe must have in order to carry out its responsibilities at world level) when the decision was taken to create a common European army. However, the essential problem remains unsolved, in other words, the lack of an effective and democratically controlled European government — an indispensable condition if Europe is to contribute effectively to the elimination of armed conflicts in the African continent and to the start of a process of democratisation of the African states, an approach which would constitute the basis for the launch and consolidation of their economy and would lend substance to the projects for regional unification.

Domenico Moro

NOTES

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12 UNDP, *op. cit*., p.97.

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14 Commission Européenne, *Orientations en vue de la négotiation de nouveaux accords de coopération avec les pays d'Afrique, des Caraibes et du Pacifique,* Communication to the European Council and European Parliament, COM(97)537 final, 29 October, 1997 e J.d.D. Pinheiro, *Présentation du mandat de négotiation de l'Union européenne pour la future Convention UE/ACP*, Comité des Ambassadeurs ACP, Brussels, July 1998.

15 Commission Européenne, *Livre Vert, cit.*, p. 10.

16 Commission Européenne-Directorat Général pour le développement, *Understanding European Community Aid*, September 1997, (europa.eu.int/comm/dg08/publicat/odi/fr/Osummary.htm).

17 A.-M. Mouradian, "Menaces sur le Convention de Lomé (L'Union européenne divisée sur ses rapports avec le Sud*)"*, in *Le Monde Diplomatique*, June 1998, p.7.

18 A.-M. Mouradian, *op. cit*.

19 Commission Européenne, *Livre Vert, cit.*, p. 45.

20 To appreciate just how impotent the current European Union is, simply read the text of the speech given by European commissioner J. de Pinheiro at the International Peace Academy (*Six Principles for Conflict Prevention in Africa*, New York, June 1997), whose proposals are, given the gravity of Africa's problems, totally inadequate. (europa.eu.int./comm:dg08/speeches:970624.htm).

Discussions

DOES INTERDEPENDENCE EQUAL UNIFICATION?

In the last two issues of this journal, two comprehensive articles have been published presenting, in an organic manner, the terms of the debate that has, for some time now, been running within the Movimento Federalista Europeo. It is a debate which presents both convergent and divergent views on the role of federalists in the current phase of world history.[1]

It goes without saying that, in the ambit of this debate, there is agreement over the value that federalists should be pursuing (peace) and over the means of its affirmation (world federation). Likewise, there is agreement over the need to use analytical criteria based on the concepts of the course of history, historical materialism and *raison d'état*. The political line — which derives from the theoretical one, and amounts to a cataloguing of the answers that federalism puts forward in response to the problems on the table, both at European and at world level — is, in its general terms, shared.

What is it, then, that separates the two positions that have been emerging? And why does the debate seem incapable of evolving in a constructive manner; why the failure to establish a point of contact, an essential prerequisite if we are, on the one hand, to avoid infinite repetitions of the respective positions and, on the other, to prevent the confrontation of ideas from turning into an exchange of accusations?

Both of these questions concern the search for the roots of these differences, in the first case the objective roots, and in the second the subjective ones.

* * *

In order to answer these questions, it is necessary to bear in mind a crucial question: the question of language, and of the meaning to be given to the terms that are used.

We know how difficult it is, when faced with problems of a historical-political nature, to maintain constancy and stability of language, because the use of language is conditioned not only by the complex nature — not manipulable through experiments, moreover — of the reality that it must describe, but also by the wishes, aspirations and values of men. In the ambit of physical and natural sciences, once a theory has been established, scientists can ascribe unequivocal meanings to the terms they use. The same cannot be said, as yet, of the ambit of the so-called historical-social sciences. And the purpose of Albertini's enormous efforts to develop a scientific approach to history, through the theories of historical materialism and *raison d'état* , was precisely to overcome the impasse created by directionless and arbitrary thought, and by uncertain and ambiguous language.

These efforts were not systematically set down in writing and this can, objectively, give rise to difficulties. It is not enough, in fact, merely to affirm that the criteria according to which we interpret history are historical materialism and *raison d'état*, we also need to know how and when these criteria should be applied. If their application leads to diverse and opposing positions, this can only mean one of two things: either that the criteria are not sufficiently clear, or that they are applied in different ways.

* * *

We have always pointed to world federation as the objective that must be pursued in order to realise the value of peace, and the world framework as the only dimension within which solutions might be found to the problems of environmental safety and of the economic and social inequality between the peoples of the world.

But we have always been aware that being revolutionary means not only being able to identify a revolutionary political objective, but also taking determinations into account. Of these, the first, and more general ones, are without doubt those of a social nature, which can be illuminated through the concept of historical materialism, according to which, changes in the mode of production, and thus in production relations, underlie changes in power relations. But it must always be borne in mind that historical materialism is a model for producing general historical descriptions, descriptions which then allow us to detect an evolutionary law of history. As such, it cannot be used to work out the "here and now", or to explain a single historical event with all its specific characteristics (this is a task which falls within the sphere of concrete historical analysis); likewise it cannot be used to predict what will happen tomorrow or to establish that the course of history will inevitably lead us to world federation.

We can certainly examine past events and ascertain whether or not trends towards this end have emerged, or are emerging, but examinations of this kind can offer us nothing more than conclusions based on plausibility. It is possible to think in terms of predictable trends, of certain outlets, only when a historical event is so highly developed that it can be considered irreversibly rooted in reality (but here again, if we refuse to accept, as indeed we should refuse to accept, the prophetic stance, then the possibility of being proven wrong must be taken into account). If one goes beyond this interpretation of historical materialism, and considers the model as a description of reality, then this inevitably leads to a mechanistic conception of history — and this, being incompatible with the idea that there must be a manifestation of will and thus of freedom, in order to introduce new elements into history, goes against revolutionary thought entirely.

In the political sphere, the free action of men is manifested in the domains of power and power relations, whose scope for modification is conditioned by two factors: on the one hand, they are subordinate to the social determinations brought to light by the concept of historical materialism (a given mode of production corresponds to certain production relations, and thus certain power relations), and on the other, they are subordinate to the factors disclosed by the theory of *raison d'état*, and in more general terms, of "reason of power." And it is on the basis of an awareness of these latter factors that political projects can be developed in reference to the sphere of international relations.

In short, historical materialism allows us to see the major transformations that have taken place within the global historical-social framework, and to place political objectives within the bounds of possibility. But the concrete identification of these objectives and of the right strategy for achieving them, is dependent upon analysis of the existing power situation.

* * *

These considerations provide us with a basis on which to examine one of the problems that have emerged in the course of our debate, which on a purely superficial level appears to be language-related. The problem concerns the affirmation that the process of *world unification* is already under way, an affirmation based on the expansion and acceleration of the process of global interdependence.

It is an affirmation that requires careful examination, given that it lies at the root of the identification, even now, of objectives that are regarded as strategic, and of the application at world level of the strategic idea incorporated in the concept of "constitutional gradualism."

Albertini, examining the process of European unification, emphasised particularly strongly the difference between *unification* and *integration*, defining the unification of states as "a historical entity of outstanding significance, with a markedly political character."[2]

If one affirms that a process of world unification is under way, one must also be able to point to markedly political events — that is, events linked to the power sphere — that indicate that a concrete project is under way on the basis of an increasing level of integration. In other words, it must be possible to verify the *will* of the states to relinquish, albeit progressively, their power with a view to creating, at world level, a new supranational power.

If this objective is not in sight, then to talk in terms of world unification means to affirm that interdependence equals unification. This is entirely mistaken, as the two terms are not synonymous: one reflects a "process", and the other, a "project"; one, in a sense, falls within the "realm of necessity" in a Kantian or Marxian sense, while the other belongs to the "realm of freedom."

The phenomenon of interdependence clearly affects the "behaviour" of the states, in the sense that it prompts them to collaborate more closely in certain sectors crucial to their survival (hence the proliferation of international bodies), and this process could, according to the criteria of federalism and historical materialism, result in a phase of unification. The final objective, then, is not in question. What must be questioned is the current interpretation of collaboration as an indisputable sign that unification is in progress and, as a result, that strategic actions are possible.In fact, accepting that interdependence equals unification could mean placing oneself on the same wavelength as the globalists whose aim is not the creation of a word state, but rather, *global governance*. And it could also constitute the precondition for falling into the trap of functionalism, which regards every little step forward in inter-state collaboration as an advance in terms of unification.

* * *

International cooperation *cannot* be an objective of federalists: criticism of internationalism has always been a pillar of their theoretical analysis and strategy. However, faced with an increase in international cooperation, it is right that we should examine our position, and whether there exists the possibility of a political strategy, at the same time remaining aware, however, that it is not up to us to focus on objectives of international collaboration when there is no power situation as yet in place that might allow such objectives to be regarded as gradual constitutional steps towards our final objective.

Clearly, an increase in international cooperation is to be hoped for, and equally, all policies that heighten conflicts are to be condemned. There are phases in international relations in which we, as federalists, must judge positively acts or processes which, while remaining within the restricted framework of simple inter-state collaboration, will nevertheless create, in the long run, the conditions that will allow us embark on a more advanced political battle. This attitude is exemplified by the reasoning and position of Albertini when, in the Gorbachev era, he drew a distinction between "traditional détente" and "innovative détente", seeing the latter — and in the concept which underlay it, that of so-called reciprocal security — as a possible step towards the surpassing of power politics.[3] In that particular context, we can note the emergence, in fact, of a tendency towards convergence of *raisons d'état* which was to spur the two superpowers on towards a prospect of collaboration of which one could only approve.

In spite of this, no new strategic front was opened up at world level; instead, the hope was born that a future European federation, created in a less conflictory international setting, would eventually be able to implement a more advanced policy of collaboration with the other powers, in order to tackle the problems of underdevelopment and extend democracy to "all the families of the human race."

Having said that, we, being federalists and not internationalists, can only condemn simple collaboration, which heightens governance, as ineffective. Our task is to present the surpassing of the sovereignty of states as the necessary condition for the achievement of international peace and democracy. At the same time, we must remain aware that as long as collaboration, an inevitable passage, continues to work, then our role cannot be a strategic one.

* * *

The strategy cannot be divorced from the theoretical line and the political line, but in a political battle, its foundation and function are different. First of all, it is not “autonomous”, by which we mean that it must be formulated in relation to a *possible political objective.* And a revolutionary political objective is possible, and can be pursued, if, and only if, the institutional or power order which one seeks to modify is entering a crisis, in other words, giving clear and definitive signs of its incapacity to continue carrying out its role. European federation became a *political objective* in the wake of the Second World War; until then, it had been an *ideal* shared by believers in the value of peace.

Thus, in order to plan a strategy at world level, consensus is needed not so much on the fact that global problems demand global answers, but on the fact that the power situation in today’s world renders world federation a political objective which can, starting now, be pursued directly.

Before approaching the problem of transition, it is necessary to establish whether or not world federation is a political objective that can already be pursued; otherwise, transition appears a vague and ambiguous concept. Indeed, according to the criteria of the course of history and historical materialism, the various phases of history must be considered a transition towards world federation. But, in truth, we have never used the term transition in a historical sense, but in a political one, referring instead to the phase in which a well-structured battle is possible, or in progress; the phase in which all the forces involved play their own precise roles, or the roles which it is up to them to play, in accordance with an explicit political goal that can, objectively, be pursued and that is regarded as such subjectively, even by those who, like governments, have an ambiguous awareness of it and who will, right up to the end of the process, continue to be diffident and stubborn over the relinquishment of power. It is this framework that provides the basis of constitutional gradualism as a strategy of transition.

* * *

The problem of strategy is probably the crucial one on which to reflect in an attempt to identify, and understand, the subjective, psychological source of current differences.

The commitment of those who have long been involved in the battle for European federation has always been rooted not only in their support of certain values, but also in the fact that there existed conditions (eclipses of national sovereignty, de facto unity, and so on) that made it possible "to give battle" on the basis of real strategic objectives. And it certainly becomes more difficult to hold the field if these real strategic objectives are not clearly in sight: hard to accept the prospect of starting another long march in the desert, of being few in number, of being active in politics and while remaining outside the realm of power, of not being able to envisage gratifying results.

But this must not induce us, paying little attention to the reality of the situation, to look for immediate strategic objectives just in order to marshal energies — something which is easier to do the more loaded with emotive overtones the objective is (and thus the more likely to give rise to easy consensus). In practice, we must beware of pointing to world federation as a political objective that we can already begin to pursue, merely *in order to* present a strategy, or to take advantage of strategic opportunities which, in reality, cannot be regarded as such since, contrary to appearances, they do not modify the power situation at all.

This strategic vacuum could trigger a negative psychological mechanism of anxiety and unrest which could, in turn, undermine the realism that is indispensable in a political battle. On the other hand, kept under control, this same vacuum could prove beneficial, prompting us to be alert to the opportunities which could present themselves, and which must not be allowed to catch us unprepared.

We must also be aware that one of our tasks is to make sure that federalism thrives, realising too that this is a long-term mission which, unlike the strategic one, is not subject to political vicissitudes. But in order to make federalism thrive, it is essential that we remain steadfast in our denunciation not only of its enemies — nationalists — but also of the errors of internationalism and functionalism.

Europe's federalists are the first to have actually taken the field and faced up to the challenge that is the overcoming of the absolute sovereignty of states, and this is because history has provided them with the opportunity to do so. The capacity for theorising that was displayed by the avant-garde group of European federalists led by Mario Albertini can certainly be attributed, in part, to their contact with a process of unification that was actually under way. And it is precisely to this accumulated experience that we must look in order to discover what, in pursuit of the Kantian objective of perpetual peace, our future tasks are to be. But, as Albertini was wont to say, revolution does not marry well with impatience: the true revolutionary is the one who couples it with patience.

Nicoletta Mosconi

NOTES

[1] Francesco Rossolillo, "European Federation and World Federation", in *The Federalist*, XLI (1999), pp. 76-105; Lucio Levi, " The Unification of the World as a Project and as a Process. The Role of Europe", in *The Federalist*, XLI (1999), pp. 150-193.

[2] Mario Albertini, "L'unificazione europea e il potere costituente", in *Nazionalismo e federalismo*, Bologna, Il Mulino, 1999, p. 291.

[3] "Traditional détente and innovative détente", in *The Federalist*, XXX (1988), pp. 159 onwards.