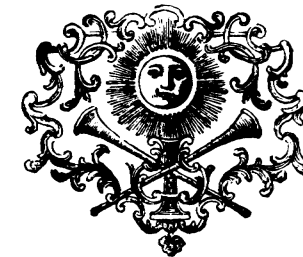


# THE FEDERALIST

a political review

*To look for a continuation of harmony between a number of independent unconnected sovereignties situated in the same neighbourhood, would be to disregard the uniform course of human events and to set at defiance the accumulated experience of ages.*

Hamilton, The Federalist



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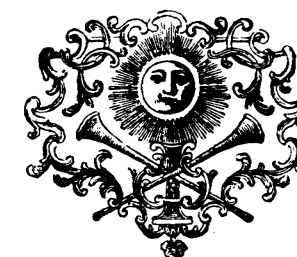
YEAR XLVII, 2005, NUMBER 3

# THE FEDERALIST

a political review

*Editor: Giovanni Vigo*

*The Federalist* was founded in 1959 by Mario Albertini together with a group of members of the Movimento Federalista Europeo and is now published in English and Italian. The review is based on the principles of federalism, on the rejection of any exclusive concept of the nation and on the hypothesis that the supranational era of the history of mankind has begun. The primary value *The Federalist* aims to serve is peace.



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## The Problem of Europe's Defence and the Federal Core

The results of the autumn survey conducted on behalf of the European Commission (Eurobarometer 64) give many indications as to the current mood and expectations of the European citizens, and of what it falls to Europe to do in order to avoid losing its identity permanently.

The picture painted by the survey is an entirely pessimistic one, showing citizens who are fast losing their faith in the European institutions. In autumn 2004, 52 per cent of those interviewed had complete faith in the Brussels Commission; a year later, that figure was down to 46 per cent, while those who had faith in the European Parliament dropped from 57 to 51 per cent. In the same period of time, the proportion who considered the European Union to enjoy a "positive" image fell from 50 to 44 per cent, while those who judged its image "negative" increased from 15 to 20 per cent. On the other hand, the percentage in favour of a European defence and security policy (78 per cent at the end of 2004, 77 per cent at the end of 2005) and of a common foreign policy (68 per cent versus 69 per cent) remained more or less stable.

It would be wrong to make too much of the results of a survey that may have been influenced by passing concerns or by fluctuating economic trends. However, considered globally, the replies of the interviewees reveal, quite clearly, that the citizens are placing less and less trust in *today's* Europe. And it is hardly surprising. The European Union has proved incapable of boosting the economy, which has now been struggling for years; it has failed to make any real headway with the very real problem of unemployment; it was unable to present a united front at the most critical stages in the Iraqi crisis; and it does not wield even minimal influence on the world political stage. The citizens' distancing of themselves from this Europe is the inevitable result of its impotence.

However, this pessimistic mood does not prevent them from seeing — more clearly than the politicians do — that Europe is essential if we are to avoid having to endure, passively, the consequences of global

political instability, international terrorism, the emergence of new world powers like China (and, before much longer, India), the looming energy crisis, a worsening of environmental problems, and so on. A large majority of Europe's citizens is perfectly aware that, in these areas, there exists no alternative to Europe. It is thus reasonable to assume that this majority would accept a relinquishing of national sovereignty in these areas, providing their management were to be handed over to an efficient European government. The real problem, therefore, is the means through which to turn today's faint-hearted Europe into tomorrow's resolute and efficient Europe.

The only rational answer, already prefigured as long ago as 1941 by Altiero Spinelli in the *Ventotene Manifesto*, is that of creating a European federal state and of transferring to it all the powers needed to fulfil the tasks that are now beyond the capacity of the nation-states. We came close to this outcome at the time of the EDC when, alongside the proposal for a European army, the question was also insistently raised of the political power that should control that army. On that occasion, the project was sunk by a combination of the shameful inertia displayed by some countries, the hostile reactions of the most hardened nationalists, and bad luck.

The subsequent stages in the process of European unification have followed a more tortuous course and the most important advances since then, such as the direct election of the European Parliament and the creation of the single currency, have all been achieved through force of necessity, to solve problems that demanded urgent solutions. Today, the problem to be faced is, once again, that of Europe's defence — not because there is an enemy on the doorstep (as was the case of Stalin's Soviet Union), but because, in a world dominated by violence and disorder, a credible defence is necessary to guarantee one's own security and independence, to be able to intervene effectively in areas that are in the grip of chaos, and to conduct a foreign policy that might favour the emergence of a less unbalanced world order.

The human condition can be furthered only through a global plan that tackles the full range of key problems (poverty, underdevelopment, environmental issues, peace, and so on); but such a plan cannot be realised in the absence of the power to defend it, everywhere and on all levels — also against those who would like to prevent its implementation. Defence is an essential part of this power.

\* \* \*

In the Gorbachev-dominated final years of the Cold War, there seemed to emerge the possibility of a peaceful transition towards a multipolar world order. Indeed, the great powers, the developing countries, the areas of the world engaged in processes of integration (primarily western Europe and Latin America), and the emerging powers all seemed destined to become active protagonists in the building and government of a new, more peaceful and more advanced global system. In the wake of the insane arms race of the early eighties, the world, very briefly, had the impression that reason might prevail over force.

But the fall of the Soviet Union, despite at the time raising hopes that the way to freedom and democracy was now clear — Francis Fukuyama called it “the end of history” —, in fact plunged the world into a state of uncertainty. The collapse of the Soviet pillar brought to an end the “global government” (albeit not founded on democracy) that the bipolar equilibrium, preventing the two superpowers from overstepping the mark and bringing a semblance of order to the world's hot spots, had somehow guaranteed. Its disappearance therefore created the conditions for the emergence of a dangerous state of anarchy. The United States, left as the sole superpower at the start of the nineties, and faced with an escalation of armed conflicts in the world, acts of international terrorism (culminating in the September 11<sup>th</sup> atrocity), and an accumulation of unresolved crises, has been induced increasingly frequently to rely on armed rather than political intervention. Finding itself — through no fault of its own — with no equal player on the field, the US has followed a dangerous, unilateralist course that, while often influencing this nation's conduct in the past, had never before emerged with quite the overt arrogance displayed in recent years.

There were already signs of this tendency during the Yugoslavian crisis, although they were, to an extent, masked by the shield of NATO. The same cannot be said in the case of the Iraqi crisis. In the months leading up to the United States' military intervention in Iraq, the American administration was quite prepared to manipulate the truth in order to scrape together some justification for this absurd war; it was quite prepared to heap disdain on the governments that would not support its policy unconditionally; and it set out, with determination, to drive a wedge between the countries of “old” and “new” Europe. That this transatlantic crisis — the worst in post-war times — has since abated is due not to the Americans' acknowledgment of “old Europe's” valid arguments, but to the fact that “old Europe” has gradually exited the stage, leaving it clear for the United States' most loyal allies.

If it is true that, as some commentators have put it, Europe has been the third victim of the Iraqi war, then it is even more true that it has been the first victim of itself. The United States did not create the splits that opened up in those difficult circumstances, it simply took advantage of divisions that already existed within the Union in order to end its growing state of isolation. If the Europeans — or a section of them — want to get back on top and continue the journey mapped out at the start of the 1950s, then they must look at how they can regain their independence, building their own autonomous defence, and they must accept all that this implies in terms of the new institutions that will have to be created. Defence — and its associated sectors of foreign policy and security — can therefore become the point on which to concentrate in the attempt to continue the journey that was interrupted after Maastricht and carry through the process of unification with the founding of a European federal state.

\* \* \*

In the past few years, the question of a European defence has often been raised, but few have tackled it with the clarity of vision shown by Karl Lamers (whom we have already mentioned in this journal and in other federalist publications) and Jean-Marie Le Breton, a high-ranking French diplomat and fine expert on twentieth-century European history, who has just written an article emblematically entitled “La défense des ‘Etats-désunis’ d’Europe” (which appeared in *Défense Nationale et Sécurité Collective*, December 2005). The entire web of debate on the need for a European defence has failed to address the contradiction inherent in any European defence strategy that involves the United Kingdom. To those who maintain that any credible European defence must include both France and the United Kingdom, the only countries with efficient armies, Le Breton replies as follows: “The difficulty lies in the fact that Great Britain favours its links with the [Atlantic] alliance and would like to set Europe’s defence within the framework of NATO, which is the same as saying that it does not want an autonomous European defence. Which is easier — to create a European defence where the political will to create it is lacking, or to create a European defence without exploiting existing military resources? No efficient army can ever be cobbled together, of course, particularly a multinational army. But let us not forget the speed with which, after 1941, the Western democracies managed to muster the men, the general staff, and the arms they needed to win the Second World War. Prior to their realisation of this

need, the resources that each of them had at their disposal had proved insufficient to stop the Nazis in their tracks. The will is thus manifestly more important than the means. Without a common will, a European defence is an illusion.”

The recent attempts to create European military corps — which, in truth, cannot really be defined European — bear witness more to a realisation of the problem than to a will to solve it. These corps dissolved into thin air not as a result of the technical difficulties of merging a number of armies, but because of the approach taken to the European problem as a whole. Le Breton, again, writes: “The ‘Monnet method’ worked very well as long as it was a question of creating a customs union and establishing the rules of competition — in other words, of creating a single market. It has proved less efficient with the single currency, which, lacking the support of a clear political will, has been abandoned to its fate. And it is entirely inadequate in areas that touch the very heart of national sovereignty, that is to say, in matters of foreign policy and defence. In these areas, there are only two possible alternatives: coalition or integration. In a coalition, the states do not relinquish their sovereignty definitively; they can reclaim it at any time. European history offers us countless examples of coalitions that seemed solid and lasting, but which fell apart in the space of a morning.”

Le Breton’s conception of the second alternative — integration — does not coincide with the usual, vague interpretation of the term. He sees integration as a process that must culminate in the creation of a new state. An objective as ambitious as this, he stresses, cannot today stem from an initiative that involves all the EU member states from the outset. On the contrary, the “leaders of ‘old Europe’ must come to an agreement to propose, to their peoples, a renunciation of part of their national sovereignty. And they can do this only through the presentation of a project founded on shared aspirations. Clearly, in this context, to recall the ‘Petersberg missions’ or the despatching to Africa of a few hundred or even a few thousand soldiers in a bid to restore peace and democratic liberties would be laughable. In just the same way as the ‘Monnet method’ failed to bring about a transition from single market to European federation, entrusting a part of the national armies to an authority with no legitimation would not lead to the creation of a European army.”

These remarks are music to the ears of federalists, confirming their philosophy and supporting their actions. From the time of the *Ventotene Manifesto*, federalists have systematically denounced all the expedients invented by the national governments in order to shore up their shaky

power, setting against these the constituent method, which is the necessary way forward for the foundation of a new democratic state. Now, it is no longer only federalists who think this way. An acute observer, in the person of Jean-Marie Le Breton, has appreciated, showing a clear-sightedness that is rare, the true nature of the alternatives before us, and has suggested a concrete way of reaching a definitive solution to the problem.

“The time has come,” he writes in his article, “to re-examine the projects of federal union and of a European army. As the crisis in Iraq has shown us, a not inconsiderable number of European countries have decided to place their own defence and autonomy in the hands of the President of the United States, just as Carlos IV of Spain placed his throne and his mission ‘in the hands of our great friend and ally, Napoleon.’ This group of countries has no desire to live an independent life. Yet, it is happy to be part of America’s clientele. Conversely, the states that have no intention of abdicating their responsibilities are beginning to appreciate that the only way they can achieve their objectives is by pooling their means... To continue to ‘exist’, and to play a role, France and Germany must join forces and appeal to the states that share their aspirations. In today’s world, France and Germany can no longer express their will, or reaffirm their independence, without a federal union.”

Le Breton’s conclusions are unequivocal, and they refer not only to these two countries that were at the very root of the European project, but also to the other countries that, heeding their appeal, made its partial realisation possible. “If the founding member states still want their destiny to rest on their own free choices, if they do not want this destiny to be decided in Washington by an “American Commission” as feared by Paul Valéry, or even, one day, in Moscow or Tokyo, then there is only one possible way forward: that of creating a union through the realisation of a federal pact.”

The crux of this question is all there in this formula. The exhausting rounds of negotiations that can serve only to patch up the torn fabric of the Union, the misleading proposals like the Delors Plan and the Lisbon Agenda (misleading not because they were, and are, utopian, but because the Union does not have the power to put them into practice), and the powerlessness of Europe in the face of the world’s tragedies, will inevitably only deepen the chasm that separates the European Union from its citizens, until the point is reached at which the siren calls of nationalism and ethnic divisions will once more become irresistible. Of course, it would not be easy to dismantle the European apparatus, to do away with

the single currency, to break down the mass of interests and expectations that, for so long now, have lain at supranational level. But no weak construction, unless it is securely anchored to solid foundations, can hope to stay up for long. And this is a rule to which the European Union is no exception.

*The Federalist*

# The Role of the European Budget in European Economic Policy

GUIDO MONTANI

## 1. A Federal Currency Without a Federal Fiscal System.

Nowadays Europe must face problems similar to those of the Thirties in the last century, when Keynes denounced the waste of resources provoked by an economic system that was not capable of guaranteeing full employment. For decades European economies have grown at much lower rates than their potential. Europe cannot keep up with the more dynamic American economy and faces heavy competition from the new world powers, such as China and India. The rate of unemployment in Europe is high, the labour market creates only short-term jobs and the *Welfare State*, the so called European social model, is subject to criticism for its unsustainable costs.

Economists are incapable of developing convincing plans of economic policy. The starting point of their analysis is the Monetary Union, which has finally been completed with the establishment of the Central European Bank and of the Euro. The Stability and Growth Pact (GSP) completes the picture by dictating limits to national budget deficits and the public debt. Almost all the literature on the issue criticises the limits of an economic system now unified on monetary grounds, but still functioning, as far as fiscal policy is concerned, with national systems. Nonetheless, the remedies are sought within the framework of the Stability and Growth Pact. The opportunities afforded by a federal fiscal system are deemed interesting, but not realistic in the short term.<sup>1</sup>

This essay will strive to overcome this taboo by explicitly taking into consideration the effects of a European Plan for growth and employment financed by its own resources, that is with an adequate European budget. The monetary Union is at a crossroads. Politicians, or at least some of them, faced with complex economic problems, choose to point at the monetary Union as being the cause of stagnation, instead of considering the opportunity of creating a European federal fiscal system. As a matter

of fact, there are no substantial differences between the U.S. Federal Reserve System and the European system of Central Banks. The euro and the dollar are two federal currencies. However, large differences exist between the two fiscal systems. The United States can rely on a sound federal fiscal system, whereas the European Union cannot. The monetary Union therefore may become the scapegoat of a shortsighted and conservative political vision.

Our aim is to point out only the broad direction of a European fiscal reform. The Union budget has a long history and plays an important role, under certain aspects, for regional convergence. As far as the relationship between monetary and fiscal policy is concerned, the European Commission has developed the so called *Broad Economic Policy Guidelines* (BEPGs) in order to coordinate national budgets within the framework of the Stability and Growth Pact and it publishes a yearly report (in *European Economy — Public Finances in EMU*) on the situation of European public finances without considering the Union budget vis-à-vis the national budgets. The Union budget is deemed as a mere administrative aid without any autonomous role in the Union economic policy. We propose that the financial guidelines include not  $n$  national budgets, but  $n + 1$  budgets. Therefore, the specific function of the European budget must be sought vis-à-vis the national budgets. The Union budget, in our opinion, must be reformed in order to provide some crucial European public goods.

This problem has not been ignored by economists.<sup>2</sup> A study promoted by the European Central Bank explores the possible institutional reforms that might increase the size of the European budget, currently modest, and its efficacy, thanks also to possibility of financing European public goods. The authors recognise a *trade-off* between efficiency and legitimacy. Their point of view is that the present financial situation of the Union is already on the external frontier of the relationship efficiency-legitimacy. In order to go beyond, it would be necessary to take a step forward with regard to the “present degree of political integration.”<sup>3</sup> This point of view can be shared. We need to be aware that the provision of European public goods makes it imperative to re-examine the “present degree of political integration.” If Europe wants to solve its serious problems of economic inefficiency, it must take a further step towards its political unification. In the *Conclusions* the institutional reforms necessary to implement the proposed European Plan shall be briefly presented.

Finally, in the *Appendix* the value added of a European public investment vis-à-vis the value of an equal amount made by national

governments shall be discussed. When one is dealing with the provision of European public goods, a euro spent by national governments produces less income than a euro spent by the European government.

## 2. *Historical Background.*

It is useful to briefly recall how the Community conceived the original relationship between monetary Union and fiscal federalism, because the current position of European governments — which would like to further reduce the already pathetic European budget (a little more than 1 per cent of the European GDP) — is miles away from the first projects of monetary integration. When the Bretton Woods system went into a crisis and then definitively collapsed, the European governments charged Pierre Werner with the task of drawing up a Plan for a monetary Union within a decade. The Werner Plan<sup>4</sup> envisaged that at the end of the ten year converging process, in 1980, once the exchange rates were declared irrevocably fixed, the Community budget would be increased substantially to allow the Commission to adequately face problems of social cohesion and of European economic growth. After the failure of the Werner Plan, the Jenkins Commission proposed the relaunch of monetary Union upon new bases and instructed a study group to draw up a report on the Community finances. The MacDougall Report<sup>5</sup> envisaged that the Community budget would reach 2-2.5 per cent of the European GDP in the pre-federal phase, that is before the creation of the European currency. The establishment of a real Federation and of a European defence policy would have further increased the budget to 5-7 per cent of GDP and with the defence, up to 7.5-10 per cent.

As is known, the relaunch of the monetary Union in the seventies did not attain a European currency, but the EMS (European Monetary System), a system of fixed exchange rates among European currencies, without the creation of a European Central Bank. Europe remained in this quandary, between monetary union and non-union, for many years. Only after the collapse of the USSR and the German reunification, was the decision taken, at Maastricht in 1991, to pass from the EMS to the monetary Union. The then President of the European Commission, Delors, who led the Union towards the implementation of a single currency, in 1993 also proposed a Plan for *Growth, Competitiveness and Employment*.<sup>6</sup> The purpose of this plan was to implement, among other things, together with the European currency, of a series of structural investments in the fundamental sector of information technology and of

the trans-European communication networks with the aim of rendering Europe capable of answering the challenge of globalisation. A challenge set by the more advanced countries, such as the USA and Japan, as well as by the emerging countries with low labour costs. If the Union were not capable of increasing its productivity and international competitiveness, this being the main reason behind the Plan, it would have run the risk of heading towards a situation of dangerous stagnation and the temptation of protectionism (fortress Europe). On the contrary, the implementation of the Plan would have allowed Europe not only to face international competition, but also to create 15 million new jobs within the end of the century.

The Delors Plan was never implemented, notwithstanding the very favourable reception it received from Trade Unions and major European industries. The Council of Finance Ministers in a situation where the countries that had determined to build monetary Union had to implement restrictive financial policies, decided that there were not sufficient funds to finance it. Only some stretches of the programmed trans-European networks were implemented in the following years, but the Plan as a whole was abandoned.

Nevertheless, the problem that the Delors Plan was trying to address was not a figment of one's imagination. During the Nineties it became more and more obvious that the US economy was flying on the wings of the information technology revolution, while the European economy was grinding to a halt. In 2000, the European governments launched the ambitious Lisbon Strategy<sup>7</sup> which should have allowed the Union to become, within 2010, the world's most dynamic economy based on knowledge and innovation. It goes without saying that the Lisbon Strategy, in the middle of its course, is failing. The Union does not have an autonomous capacity to growth. Without an external thrust, the European economy cannot grow.

Some point out that the reasons for the scanty growth are due to the restraints of the Stability Pact or to the loss of national monetary sovereignty. Others maintain that the national governments have gone too far ahead in carrying out neo-liberal policies, by means of privatisation, modest public investments and excessive flexibility of the labour market. Others still hope that the national locomotives, in particular the German one, will start moving. Here we maintain that the Union, without a federal government capable of mustering the necessary financial resources for a European Plan for growth and employment, shall not succeed in competing with the most dynamic world economies. This is



not a choice between more State or more market. Some objectives are either achieved at European level or are just wishful thinking.

### 3. *The Peculiarity of the European Federal System.*

Resistance to the hypothesis that the European budget may carry out an autonomous role in economic policy, vis-à-vis the national budgets, derives from a hasty comparison with the American case. The budget of the federal government was equal to 19.9 per cent of the American GDP in 2003. Take the meagre size of the European budget into consideration and the conclusion is that the European Union cannot carry out the function of promoting an economic growth similar to that of the government of Washington. This is however, a hasty conclusion. Federal systems, provided that a good constitutional framework is established, allow for the organisation of tasks and responsibilities at various government levels in a very flexible manner. The US historical experience is exactly proof of this. In 1900, the federal budget represented 2.6 per cent of GDP, it was still 3.4 per cent in 1930, but it had already reached 10.7 per cent in 1934, with the start of the New Deal. It was 43.7 per cent in 1944; 15.6 per cent in 1950; 21.3 per cent in 1975 and 22.3 per cent in 1991 [source: *Statistical Abstract of the United States*]. In order to compare US finances to European finances it is necessary, however, to also bear in mind the total sharing of expenditure, among the federal, state and local government levels. The situation has thus changed in time: in 1902, the federal government concentrated 36.3 per cent of the total public expenditure (the states and local governments spent 63.7 per cent in 1902; 67 per cent in 1927; 33.4 per cent in 1950; 66.5 per cent in 1960; 63 per cent in 2003) [source: *Statistical Abstract of the United States*]. To sum up, the historical series show that the increase of the dimensions of the federal level compared to the other levels of government is mainly due to two factors: the responsibilities of foreign policy, which increased defence expenditure during the two world wars, and social expenditure, which began with the New Deal in the Thirties and has continued on to the present.

These historical developments have led the theorists of fiscal federalism to propose a model of separate federal functions that implicitly adopts as a reference point the US system or other very similar systems, which exist in Canada and in Australia. Richard Musgrave points out three main functions in a fiscal system.<sup>8</sup> The first function can be described as allocative. It concerns the provision of public goods, which

the market is not capable of supplying or supplies only at excessive social costs. The second function can be described as distributive, because it concerns the distribution of income and wealth among individuals, if the distribution arising from the market is considered unfair. Finally, the third function can be described as stabilisation, because it guarantees that all the economic resources are fully employed without inflation pressures. In a centralised state, the three functions are carried out by the central or national government. In a federal State, the question is at what government level should they be assigned. Among the theorists of fiscal federalism<sup>9</sup> there is substantial agreement on the fact that the function of income stabilisation and redistribution should be assigned to the central government, while the provision and financing of public goods should be carried out at government level where the needs of the citizens can be satisfied most efficiently. Let us now concentrate our attention on the issue concerning the distribution of income. In the United States, in the Thirties, this problem was particularly serious, together with that of stabilisation and mass unemployment. The States of the American Federation tried to implement, in an autonomous manner, social welfare programmes, as was being done in Europe. Nonetheless, their attempts failed, because of the high level of integration of the American market and of the strong territorial mobility of the workforce: the more generous States rapidly attracted unemployed workers and citizens with low incomes from the other States. It was therefore necessary, for the federal government, to centralise the building of the Welfare State. This structure of the federal budget still prevails. In 2003, social expenditure absorbed 65.7 per cent of the federal budget (defence 18.7 per cent).

The history of European unification explains why the structure of public expenditure is radically different from the US one. The Welfare State was created, in all European countries, before the unification process began, and, in any case, before the monetary Union. The distributive function is therefore assigned at national level and there are no evident reasons why the Union should build a *European Welfare State*, intervening in the interpersonal distribution of income or solidarity among individuals. Even if, with the internal market and the European citizenship, the migratory flux within the Union increased remarkably, the legal problem of the recognition of certain rights shall attract more attention (for example, the right to health care in all Union countries), rather than the economic problem of creating a centralised welfare system at European level. It can therefore be understood why the dimension of the European budget is limited to about 2.4 per cent of the average of the

national budgets (equal to 48.5 per cent of GDP in 2003 in the Europe of 25). Furthermore, a major part of the Community budget is absorbed by structural funds, to assure convergence between rich and poor regions of the Union (even agricultural policy provides some territorial convergence). The Union takes on, therefore, the responsibility of redistributing resources not directly among European citizens, but among the national governments and the local governments (in the USA, this function is assured by the federal government *Grants-in-aid* to the *States*. In 2003 the *Grants-in-aid* were equal to 3.6 per cent of the US GDP).

This specific structure of the European fiscal system makes the comparison with the US system very difficult. For this reason, the economists' attempt to compare the efficiency of the two fiscal systems is often inconclusive.<sup>10</sup> However, for our aims, it is important to highlight the fact that, since the social security systems are organised at national level, even the labour market continues to be structured at national level. The Trade Union negotiations basically make reference to national legislation, even though there are many problems that should be dealt with at European level (such as the harmonisation of working hours, the right to non-discrimination at work, etc.).

To sum up, the European Union does not have a budget of similar proportions to that of the United States because most of the resources necessary to finance social expenditure are concentrated at national level and there are no compelling reasons for them to be centralised. Going back to Musgrave's model, the Union budget does not carry out the allocative function, because it does not provide European public goods, nor the redistributive function among individuals, or the stabilisation function. Nonetheless, it is wrong to conclude, that owing to the limited dimensions of the European budget, the Union should not carry out any stabilising function, nor provide public goods. During the Thirties, the US federal government was able to adjust the dimensions of its budget in order to face the challenge of the Great Depression. A similar task, today, must be faced by the European Union. The challenge consists in guaranteeing an autonomous growth capacity to European economy. The issue does not so much concern the dimensions of public expenditure, but the recognition of an autonomous function (distinct from that of the national budgets) of European fiscal policy.

#### 4. *The Decline of European Economy.*

Before outlining the policies that the Union should launch to over-

come the crisis, it is necessary to mention the major causes of the decline of European economy. We do not intend to propose here an original diagnosis, but only to indicate two basic trends.

The first trend concerns the growing gap of labour productivity between Europe and the USA. The European per capita income, in the post war period, progressively increased approaching that of the USA, until the 1970s. Since then, it has stagnated at 70 per cent of the US one. The difference of per capita income between Europe and the USA is due for a third to lower labour productivity, for a third to lower working hours and for a third to lower employment rates.<sup>11</sup> According to a study promoted by the European Commission,<sup>12</sup> the explanation of these differences, in particular that concerning labour productivity, is to be found in the greater capacity of the US economy to produce and utilise new information and communication technologies (ICT). As a matter of fact, if changes in rates of labour productivity per hours are compared, it is possible to verify that the rate of increase of European productivity were, as from the Sixties, above the US ones, but declining. As from the second half of the Nineties, while the information technology revolution was in being, the increase in the US productivity rates surpassed the European ones and this trend continues on.

The roots of the superiority of the US information technology industry can be traced far back in time. It started in the period of the Second World War and consolidated in the Fifties, in particular, thanks to military procurements, because of deficient civilian demand. The dimension of public procurements was decisive for the development of this industry. "In the early 1970s, total R&D spending in the US's computer industry was about 5 to 6 times larger than the combined efforts in Japan, France and the UK. In the 1960s and early 1970s about 1/3 of all R&D spending in the US was publicly financed, while the French and UK share ranged between 10 per cent to 15 per cent. The Japanese share of public funding was in between. Thus in contrast to the popular view which saw the US as the least interventionist amongst the major industrial countries, it must be acknowledged that the US was strongly supporting industrial investment in technology directly in the formative years of the ICT industry."<sup>13</sup>

A comparative analysis between the USA and the EU-15 of 56 industries shows that the Europeans not only invest less than the USA in R&D (1.9 per cent of GDP for the UE and 2.8 per cent of GDP for the USA, in 2003), but they invest mainly in the low growth sectors, such as cars and chemical products. The US industry is dominant in the areas of

hardware production and of other electronic products, the industries with the highest productivity rate, where the investments in R&D are higher. These industries hardly exist at all in Europe. Furthermore, thanks to this supremacy, in the US economy information technology applications are spreading to new areas, such as biotechnology and computerised services. It is therefore inconceivable, as some suggest, that Europe can fill in the technological gap with the USA by simply importing information technology. It is necessary for ICT research and production to be part of a European growth strategy.

The second trend that should be taken into consideration concerns the decline of long term public investments. Their level, both in the USA and in Europe, is equal to a fifth of private investments. In 1970, in the EU-15, public investments were more than 4 per cent of European GDP; in the USA a little more than 3 per cent of GDP. Since then, they began to decline both in Europe and in the USA, but while, starting from the end of the Nineties, this trend was inverted in the USA, the decline continues on in Europe. In 2002, they were equal to 2.9 per cent in the USA and 2.4 per cent in the EU.<sup>14</sup> This underlying fall of the rate of public investments, therefore cannot be ascribed to the creation of the monetary Union. Governments tend to invest less when they are forced to face a high debt and a high charge of passive interests. In fact, after the Stability Pact was approved, investments in Europe recovered slightly. The long term decline probably depends on two factors. The first concerns a deliberate choice of economic policy aimed at reducing the public economic sector. For example, in the United Kingdom with the privatisation of telecommunications, of the companies that supply energy, of airports and the railway company, about 15 per cent of public capital was transferred to the private sector. The second factor concerns the more and more frequent resorting to operations named *Public-Private Partnership* (PPP), with which the governments finance only a part of the investment project and provide guarantees on the debt issued by the private companies that take part in the initiative. In some cases, these projects are not even considered in national accounts as public investments.

If these two factors can explain the declining trend both in the USA and in Europe, it is however necessary to realise that in the USA the trend towards a decline has been stopped, on the contrary to what is happening in Europe. In the post war period, the highest rate of public investments in Europe meant a major effort of the Europeans to build a Welfare State, infrastructures and public services which guaranteed a more equal distribution of income among citizens. It is now necessary to observe that

in some crucial sectors European public expenditure is no longer adequate. For example, expenditure for public education is greater in the USA (1.4 per cent of GDP) compared to that of Europe (1.1 per cent of GDP). The total expenditure for education, public and private, is more than double in the USA (3 per cent) compared to Europe (1.4 per cent). As a consequence, even the educational attainment rates are higher in the USA, especially as far as higher education is concerned (37.3 per cent in the USA and 23.8 per cent in Europe).<sup>15</sup>

##### 5. *The Failure of the Lisbon Strategy.*

In the Delors Plan the technological gap between Europe and the United States was pointed out as the major problem to be faced: the United States had a more dynamic and competitive economy because they invested at least 3 per cent (total of private and public investments) of their GDP in R&D, whereas the European Union did not reach 2 per cent. The European Council of Lisbon, in March 2000, decided to follow this indication and relaunch the strategy of economic growth on the thrust from scientific research and human capital. In Lisbon the European governments decided that within 2010, Europe was to become “the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion and respect for the environment.” The objective was without doubt very ambitious. In a decade, the Union should have surpassed the United States.

Unlike the Delors Plan, the Lisbon strategy did not assign any specific task to the Commission. It no longer meant the implementation of a European Plan, but the coordination of national plans. From this point of view, the Lisbon strategy is innovative, but it is an innovation that will soon lead the Union down a blind alley. Since the Commission has only to coordinate national plans, this new method has been named “open method of coordination.” Each spring, the Commission presents the national governments with the progress report, gives “advices,” and then the national governments “autonomously” decide what should be done. At this stage a series of indicators have been found (15 in a short list), such as the GDP per capita, labour productivity per person employed, the total rate of employment and female employment, the educational attainment rates, the public expenditure for research and development, business investments, etc.

The Lisbon Strategy initially aroused little interest in Trade Unions,

in the major European industries and, even less, in public opinion. It was only discussed when the European Commission began to report its failure. After five years, the major objective, that of reaching, for public and private expenditure for research, 3 per cent of GDP, was still at the starting level (1.9 per cent). In the proposal for the 2007-2013 budget, the Commission claims crudely that “the incapacity of the Union and its member States to reach such an objective reveal the inadequacy of the action adopted up to now.”<sup>16</sup> As far as the Commission is concerned, in the budget for 2007-13, it suggests a sound increase of funds destined to growth and employment. After this utterance, the European Council invited the Commission to create a study group. This group, chaired by Wim Kok could do nothing but confirm that, since 2000, the “gap with North America and Asia has widened” and that “the general performance of the European economy is disappointing.” The reason for this negative outcome, according to Kok’s report, is due to the fact that European economy entered a crisis first because of the explosion of the financial bubble which hit, in the USA and in Europe, the overvalued shares of information technology firms and, then, the terrorist attack on September 11, 2001, the Iraqi war, the slowdown of the world economy and the increase of the oil price. As a consequence, this is the conclusion, “many Member States have been caught in a conundrum. Because of structural weaknesses and low demand, national economic performance has been poor. As national economic performance has been poor, it has been more difficult to implement the Lisbon strategy. It has been harder in this low growth environment for some governments to keep their commitments.”<sup>17</sup>

The causes of the failure of the Lisbon Strategy could not be described better, even though the Kok report does not draw the necessary conclusions and proposes to continue along the old tracks of “coordination” and “advice.” Faced with the difficulties of the world economy (nonetheless, it should be noted that after the facts reported, the world economy has started to move again, also thanks to the thrust from China), the European Union does not have an independent capacity to react. Each national government is forced to face the difficulties on the basis of a “national” strategy, not a European one. And since each national government has its political priorities, since each national electorate is different and since the electoral cycles are different, it is easy to envision that the “advice” given by the European Commission are ignored. The solution, therefore, is not to improve the quality of the advice, by possibly assigning marks to the good and bad governments (as the Kok Group pathetically propose), but to allow the European Commission to implement a European Plan for

growth and employment.<sup>18</sup>

The European Union must begin to learn some lessons from its failures. The Delors Plan failed because the national governments refused to contribute the necessary funds. The Lisbon Strategy is failing because the only task assigned at European level is that of coordinating national plans. The way out is a European Plan financed with European resources. This does not mean giving up the coordination of national plans completely. Some coordination is necessary. But it is necessary to go from the “advice” strategy to that of “powers” suitable to implement some European public good. The Lisbon Strategy proposes to implement a European public good through national means. The problem is to find adequate European means to implement European objectives.

#### 6. *Two European Public Goods.*

There are two European public goods that appear on and disappear from the political scene depending on the juncture of European integration process. It is therefore necessary to concentrate on them and to discuss their structural economic aspect. The two public goods concerned are European defence and a European Plan for growth and employment. They must be discussed together, because they present the same characteristics as public goods. Furthermore, as we shall attempt to illustrate, the economies of scale which could be achieved by means of their joint implementation would be considerable. Nonetheless, politics follows its tortuous paths. Surely, European defence shall not be implemented only for economic reasons. Therefore, it is necessary to resign oneself to the fact that many possible synergies shall be lost. This is the cost of non-Europe.

European defence is a European public good. The goal of a European system of defence is that of guaranteeing security to Union citizens. It is therefore a good that has the peculiarity of non-rivalry in its utilisation. A private good is considered rival, because if individual X consumes it, nothing is left for individual Y. On the contrary, a European defence guarantees security equally to X and Y. Individual X shall be safer only if the European security system is improved. But, in this case Y shall also be safer. Furthermore European defence is a non-excludable good. If it is possible to exclude an individual from utilising the good in question, it is also possible to ask for a price for its utilisation (for example, a toll can be required for the use of motorways). However, for a pure public good, like security, it is not possible to exclude any citizen from

benefiting from enjoying the good “security” once a European defence system has been implemented. This means that pure public goods must be financed by means of taxation, because nobody would willingly pay the price of European defence, knowing that, if somebody else provides defence, he shall also benefit from it (a phenomenon called free rider). It can therefore be claimed that public goods must be provided by a public authority (a government) because of the market failure: the entrepreneur will have no incentives to produce a good from which he cannot obtain a profit.

European defence, besides the peculiarities we have just discussed, and which are widely recognised by the doctrine, has a more controversial feature, namely it is a supranational public good.<sup>19</sup> Supranational public goods are the answer to a dual failure: the failure of the market and the failure of national intergovernmental policy (the national governments behave as free riders: they wait for somebody else — like the United States or some other European country — to solve their problem). These goods must therefore be produced by a supranational government. Nonetheless, though it is difficult politically to make national governments admit that it is necessary to create a supranational government, as far as the doctrine of public goods is concerned, the fact that there are optimal levels at which public goods are provided should not be controversial: the municipal level provides goods to a local community of citizens, the regional level provides goods of regional interest (such as a local road network), the national level provides public goods useful to national citizens and the European federal government provides public goods useful to the European Union citizens.

Let us now consider the public good “European Plan for growth and employment.” Even in this case we are faced with a supranational public good. The explicit purpose of this Plan is to increase the rate of growth of European economy and, possibly, of employment. It is a non-rival good because, if work productivity increases as a consequence of the Plan, individual X shall obtain an advantage without necessarily limiting the individual Y’s advantages (such as for defence). The more effective the Plan, the greater the advantages for X and Y shall be. Moreover, it is a non-excludable good, because no Union citizen can be excluded from the advantages deriving from a general increase of labour productivity in European economy. The Plan, considered as a complex group of investments, cannot be produced by the market, because no individual or company has an interest in producing the set of public goods included in the Plan. The Lisbon Strategy is an example of a European public good

the provision of which has been assigned to the national governments. The problem now discussed is that of finding the level of government capable of providing it most effectively. Intergovernmental cooperation does not produce satisfactory results (it is a *second best* solution). A European public good must be provided by a European government, with European means. Even for the European Plan it is thus necessary to resort to taxation for its financing, though it is possible, for single projects, to associate private capital, as after all also occurs for defence.

A characteristic of the European Plan remains to be discussed. One could allege that a public good is not produced *una tantum*, but it must have the feature of lasting in time, as occurs for defence. It is necessary to admit that in the proposal here discussed there are conjunctural aspects, dictated by the emergency situation in which the European economy is plunged, and structural aspects. The public goods included in the European Plan all have the peculiarity of endurance. When, for example, the Global Monitoring for Environment and Security (GMES) shall be obsolete, it shall have to be replaced by a similar system, since the services rendered shall have become indispensable to guarantee the functioning of European economy. Many plans presented by the US government in anti-slump policies present these peculiarities (at times the expenditure for defence and scientific research are increased, but the occasional aspect of the investments is not perceived, because these sectors are already, contrary to Europe, consolidated jurisdiction of the federal government).

We can now summarise the economic advantages obtainable from the provision of European public goods of a federal European government. As far as the defence is concerned, the economic advantages derive substantially from the economies of scale obtainable thanks to a more efficient division of labour among the industries of this sector. A system of European public procurements that should not force companies to produce on the basis of national quotas is essential for this objective.<sup>20</sup> As far as the European Plan is concerned, the greater advantages should derive from the value of the European multiplier of public expenditure, because each euro spent by national governments in order to provide European public goods necessarily produces much more limited effects (see *Appendix*). Substantial advantages may derive from economies of scale generated by the contemporary implementation of investment plans among sectors that are complementary (as we attempt to illustrate in the following paragraph). Furthermore, it is in the context of the provision of European public goods that the European industrial policy takes on a

definite sense. The European Union, for many years, limited itself to considering industrial policy as a competition policy. It is time to proceed to an active vision of market intervention, even by means of the creation of proper public European industries. The introduction of *Public-Private Partnership* (PPP), already experimented for Galileo, is moving in the right direction. If the European Union want to keep abreast of the great world industrial powers it cannot adopt a passive attitude towards industrial policy performed outside Europe. Finally, the psychological aspects of the European Plan should not be at all underestimated. The calculation of the profitability of an investment does not depend only on factors that are certain and highly probable. The entrepreneurs' optimistic or pessimistic expectations are crucial. Keynes was convinced that the task of economic policy was also that of weighing upon the "state of confidence." So, a European Plan that puts forward a set of initiatives to allow the European Union to take on the leadership of world economic growth could attract to Europe capitals, scientists and workers who, on the contrary, would seek fortune elsewhere.

To sum up, it seems correct to claim that a European Plan for growth and employment would add value to European income, i.e. it would generate a greater increase of GDP, compared to the summation of national plans.

### 7. Some Chapters of the European Plan.

Since it is impossible to discuss a European Plan that does not yet exist, because it can only ensue from a proposal of the European Commission, let us now consider some European projects that already exist, so as to illustrate their complementarity if they were inserted in an coherent European plan. The four examples concern: European space policy; its extension to the military sector; the creation of a European research area; finally, the projects for trans-European networks of transport.

As far as space policy is concerned, the gap between Europe and the United States is serious. The USA dedicate six times more resources to space than the European Union. They explicitly follow the objective of a "space dominance" at world level. Their space expenditure is equal to 80 per cent of the world one (civil and military). The demand for the space sector, in the USA stems by 3/4 from the military sector, whereas half of the European demand stems from the commercial sector and the second half from national or European institutions.<sup>21</sup> Considering that only 30 per

cent of the world space market is open (the other major competitors, USA, Russia, Japan and China, have very protected markets), a public financial support is needed to develop the European space industry. The Commission has therefore made a series of proposals, taking funds for space also from other programmes already in existence,<sup>22</sup> strongly emphasising that an increase in funds for the space programme is absolutely essential to guarantee European independence. The scope of the activities that the European space industry covers is wide. It is sufficient to remember the main programmes: Ariane, to send satellites into orbit by means of rockets; the Cassini-Huygens probe for the exploration of Saturn; the Global Earth Observation System of Systems (GEOSS), for the study of land and maritime physical phenomena; Galileo, a satellite based-navigation system, with important commercial applications over the long term; the Global Monitoring for Environment and Security (GMES), to monitor the environment, pollution and environmental security. The Commission calculates that for each euro spent in space applications it can generate a turnover of 7-8 euros for new services. At present the total expenditure for space, including the national level, is equal to 0.06 per cent of European GDP. In the *White Paper* it is estimated that the public investments in this strategic sector can increase considerably only if the decision to also proceed on the front of European defence is taken. For this reason, the Commission's estimate is that from the level of 5,380 million euros in 2004, it shall be possible to reach (minimum scenario) 6,620 million in 2013 (with a 2.3 per cent yearly increase) or, maximum scenario, to 8,080 million euros (with a 4.6 per cent annual rate of increase). Even in the most fortunate guesstimate, not more than 5 per cent of the Community 2013 budget would be addressed to space policy.

From this brief overview of European space policy, its importance even for European military defence is clearly understandable. The end of the cold war, as far as defence is concerned, contributed to the development of the notion of dual-use technologies. In the new world scenarios, the traditional autarkic concept of the defence industry presents bigger and bigger flaws. In so far as military technology depends on civil technology for its development, as information technology and nano technology show, the reference framework is the world market, not the national one. Even the US army depends on Japanese industries for the supply of certain electronic components. This means that the technological and industrial defence base must more and more rest on military and civilian interdependency and public and private interdependency. Moreover, the innovative technological supremacy, even in the civilian sector,

becomes a crucial aspect of defence. This is why the government of Washington sustains a policy of US technological supremacy.<sup>23</sup>

The Galileo project is typically a dual-use technology. As a matter of fact, the European Union was impelled to produce a European positioning system also due to the US threats to prevent the Union countries from using the Global Positioning System (GPS) in situations of severe crises. The economic problem of European defence depends on the restraints that each country in the Union sets on an economic division of labour in the industries that supply military means. The United States spend half of the world total amount on defence. Their military supremacy is overwhelming. It is therefore easy to understand how the European industry is encompassed by the US one. The British BAE cooperates with the American Lockheed Martin for the production of the new fighting aeroplane F-35: Denmark, The Netherlands, Norway and Italy are also involved in this project. The market for the French Mirage is smaller and smaller. Some of the people responsible for the European military industry are convinced that “in a few years only two or three great world industrial groups shall remain with an *American dimension*.”<sup>24</sup> The inevitable consequence is that there shall no longer be an independent European industry. Indeed it is not possible to examine here the cost of a plan to conform European military means to face the Union’s challenges of foreign policy in world politics. The answer to this issue is impossible without a European government that can raise the issue explicitly. Nonetheless, we can examine a more limited problem: the adapting of a space policy to the military sector, as has been proposed in a French study.<sup>25</sup> The starting point of this study is the ascertainment that France, the European country which more than any other attempted to oppose the US supremacy, in the last twenty years has been forced to constantly diminish its resources dedicated to the space sector, because of pressing budget limits. Hence the only alternative is a European space policy even in the military sector, taking into account the fact that there are a great number of synergies between the military and civilian ones. The study analytically assesses the needs of the military sector in the field of telecommunication, positioning systems, electronic listening systems (Elint-Comint) of space observation and alerting systems, as well as of meteorological and oceanographic systems for military objectives. The study concludes that the adapting of the European military space system would have a total cost of 8,290 million euros that could be split in variable plans from 8 to 15 years (depending on the application) with an annual average cost of 730 million euros. To make a comparison, one

should bear in mind that that annual cost is equal to 33 motorway kilometres and that in Europe 1,200 km are built every year. Obviously, since the decision to be made is of political nature, the study acknowledges that the responsibility for the implementation of the programme should be assigned to “a European Commander-in-Chief” that responds to a Union “government organism.”

The third important sector is that of research and development, even though it would be more exact to talk about a group of public bodies, including university and entrepreneurial initiatives. The gap existing between Europe and the United States has already been mentioned. The urgency of an effective European policy, on this front, is proved by the fact that about 40 per cent of the R&D in the USA, according to the European Commission, is made up by personnel trained in Europe. It is necessary to create an institutional European framework, both public and private, capable of offering jobs and career opportunities to researchers. The Lisbon strategy estimates that the expenditure for R&D shall reach the level of 3 per cent of GDP, of which 2/3 spent by companies and 1/3 by the public sector (European and national). According to the Commission a 0.1 per cent increase in R&D expenditure would cause the increase of the per capita income of 0.3-0.4 per cent. The doubling of expenditure of the Seventh framework programme (FP7) would bring about an increase in the GDP rate of growth comprised between 0.69 and 1.66 per cent.<sup>26</sup>

Finally let us consider, as a fourth example, the investment programme in the Trans-European Networks of Transport (TEN-T). Originally these projects were part of the Delors Plans. Now some have been inserted in a greater plan, which comprises 30 projects. The Commission’s proposal is to participate with European public financing, added to national financing, to boost the construction of trans-border railway tracks or motorways. Thus speeding the construction of great communication networks between the North and South of Europe (like the railway corridor Halle-Palermo, via Kufstein and the Brenner) and between the West and East (like the Lyon-Turin-Venice-Budapest corridor). The total cost of the 30 projects is 600 billion euros but, since it is not possible, at present, to raise this huge amount of financial resources, the Commission proposed a more limited plan of six projects, for a total of 140 billion euros to be included in the 2007-2013 budget. The advantages deriving from these investments mainly consist in reducing the traffic congestion estimated in 8 billion euros savings per year, besides cutting down carbon dioxide and other harmful emissions. These initial investments should

cause an increase in the GDP yearly rate of growth of 0.23 per cent and would allow for the creation of a million new jobs.<sup>27</sup>

These chapters on a European plan are an indication of the potential earnings achievable by each one of them, but there are other advantages obtainable by the possible synergies and their simultaneous implementation. We cannot give a precise answer to this question, but we can suggest some scenarios on the basis of an econometric study carried out for the French Senate.<sup>28</sup> The study was based on the Nemesis econometric model and the assumption that the intensity of the European R&D reaches 3 per cent of GDP within 2010 as established in the Lisbon Strategy, starting from a level equal to 1.8 per cent in 2002. Moreover all the governments of the Union are expected to actually implement the commitments made in the framework of the strategy outlined by the Commission. The simulation envisions two scenarios. The first is that the private sector shall make the greater effort, reaching therefore 2 per cent of GDP, while the remaining part, 1 per cent, shall be guaranteed by the public sector. The projections for the year 2030 envisages an increase in the yearly rate of growth of 0.43 per cent, with a total increase of the gross product of 12.1 per cent and an increase of 8 to 14 million jobs. A second scenario is based, on the contrary, on the hypothesis that the public sector shall completely take on the extra effort, to reach 3 per cent of GDP. In this case the result would be a much greater multiplying effect. In 2030 the GDP would increase by 15.8 per cent and 17.1 million new jobs would be created. However, it should be specified that these calculations have been carried out without taking into account a possible crowding out effect, that is an increase in the rates of interest due to the greater demand of capitals to finance the budget deficits (which nonetheless, thanks to the growth, would be in balance at the end of the process).

A study promoted by the European Commission on the economic cost of non-Lisbon, draws even more positive conclusions. "If the effects of the increased knowledge investments foreseen within the Lisbon strategy were added in, the increase in EU potential growth could reach three quarters of a percentage point. Over a ten-year period, this would imply an increase in the GDP level up to 7 or 8 per cent."<sup>29</sup>

#### 8. *Own resources.*

The term "own resources," used to designate the financial resources that the European Union owns to implement its policies, is misleading. In truth, the European Union does not have its own resources due to the

procedures used for the approval of the budget and to the method for raising financial resources.

In order to discuss these statements, it is fitting to preliminarily specify the dimension of the Community budget which is necessary for the implementation of the policies discussed up to now, in particular the provision of public goods. Our aim is to determine an order of magnitude, not to present the detailed items of a European budget. We can, to this end, profit by the results achieved by the Sapir Report, which envisages a substantial reduction of CAP expenditure and their re-utilisation for growth. Nonetheless, it is necessary to remove two postulates that have been accepted by the Sapir Report, that is: a) the spending ceiling, fixed by the Council at 1.24 per cent of the Community GDP; b) the exclusion from the European budget of expenditure for defence and foreign policy. The two issues are linked, because if a European defence is to be created, the current expenditure in national budgets should be transferred to the European budget. This operation involves an increase in the European budget of 1.8 per cent of the Union's GDP and a corresponding lightening of the national budgets.<sup>30</sup> The unchanged amount, compared to the sum of the national budgets, of the joint expenditure for European defence is justified: a) by the economies due to a better integration of the European arms industry and by possible synergies with the civilian one, which could allow room to manoeuvre for technological improvement; b) by the hypothesis, that is not possible to examine here in depth, that the European Union should use its own military means and foreign policy to contribute to international stability and to the building of peace, without nurturing the ambition of becoming a new world superpower. The expenses for foreign policy should be added to these, in particular aid for development (which the Union has committed itself to taking it to 0.39 per cent of GDP). As far as the Lisbon strategy is concerned, the Sapir Report suggests that the European budget should contribute 0.25 per cent of GDP to R&D expenditure. Furthermore, new areas of high quality for pure and applied research should be created in Europe and a proper integrated European university system should be provided. In short, the chapter "Growth" should reach, according to the Sapir Report, 0.45 per cent of GDP. In view of the enlargement, the chapter "Convergence" (Structural Funds) should reach 0.35 per cent of GDP. The Report also suggests another chapter "Restructuring" (which we shall discuss in the next paragraph) equal to 0.20 per cent of GDP. To sum up, it can be affirmed that a European budget necessary to sustain the expenditure commitments of a federal government should be about 3.5 per cent of the



community GDP, including defence and foreign policy (growth 0.45 per cent; convergence 0.35 per cent; restructuring 0.20 per cent. Total 3.5 per cent). However, the Sapir Report envisages a drastic reduction of the CAP. If this objective were not reached, the budget should be larger. Moreover, even expenditure for research, for restructuring and foreign policy would probably be increased to allow the Union to face the challenge of globalisation more effectively. But, on the whole it seems reasonable to claim that a European budget equal to 3.5-4 per cent of the community GDP should be sufficient to finance the policies of a European federal government.

This rough indication of the dimension of the federal budget of the Union, is useful to show that even the European budget can be used for an anti-cyclical function. A European Plan for growth and employment corresponding to 1.5 per cent or 2 per cent of GDP, as was done in the past by both the USA and Japan, is not inconceivable. Since a European Plan would bring substantial advantages to the national economies and their budgets, a co-financed Plan between the EU and national governments is justified. For example, a Plan equal to 2 per cent of the European GDP, financed 1 per cent by the Union and 1 per cent by the national governments can be envisaged. At the same time, the European Union and the national governments could draw by half (0.5 per cent of GDP) from their budgets and by half from a public loan. It would therefore be necessary to abolish the restraint of a European balanced budget. It would be sufficient to show that the European budget, like the national ones, also should be "close to balance or in surplus," as required by the SGP. A European public debt that reaches the dimensions of the Community budget would not substantially change the Union's credibility in international markets. In 2005, total indebtedness of the EU-25 was equal to 63.4 per cent of the European GDP (of 70.9 per cent for the EU-12). If the process for the reduction of excessive national debts continued, it would not be very far from this amount also taking into account the European public debt. The interests to be attributed to the European budget for the service of the debt would amount to, at the present rates, about 0.01 per cent of the European GDP.

The transfer to the European budget of the defence expenses, while making the national budgets lighter, it certainly creates the problem of greater and different resources for the Union. The traditional own resources (TOR), as is known, are represented by the customs revenues, and the value added tax (VAT) on the one hand and on the other hand a third resource, the national contributions, proportional to each country's

GDP. The main problems, as far as the finance of the budget is concerned, stem from the use of the third resource, which is residual in character: it is used in so far as the other revenues are not enough to finance expenses. And since the customs resources continue to diminish and the VAT revenues are regressive in character (for this reason a limit equal to 50 per cent of GDP has been fixed), there has been a growing use of national finances. From an amount equal to 29.6 per cent in 1996, 74.5 per cent was reached in 2005.<sup>31</sup> The distortion introduced by this method of financing the Community budget is serious. Since each country finances an important quota of the budget and maintains the right of veto, it also expects a *juste retour*. The expectation of a national *just return* depletes the European budget of meaning: it is a chapter of the national budgets the implementation of which has been attributed to European officials. On the other hand, experience shows that the efficacy of European expenditure, for example for the Structural Funds, has been seriously compromised by the governments' expectations of a *just return*. The solidarity principle between rich and poor regions is ignored or underestimated. This concept of the European budget is incompatible with the notion of European public goods. A public good, like European defence, should be financed directly by European citizens, because their security depends on the efficacy with which the European government provides that good. The same observations should hold true for the European Plan for growth and employment. According to the theory of fiscal federalism, the principle of fiscal equivalence should be applied; in other words each government level should be capable of financing, with its own resources, obtained from its own political community, either national or supranational, the public goods it provides for the citizens.<sup>32</sup>

The European Commission is aware of these distortions, but its proposed solution cannot be shared because invalidated by ideological considerations. It suggests that at least half of the budget be financed with national contributions, since the European Union is a community of "States and citizens." This proposal only reduces the blackmailing power of the national governments concerning European expenditure, but it does not affect the roots of the anomaly. The political meaning of the expression "a Union of States and citizens" must be translated into a democratic procedure of co-decision between the European Parliament (which represents European citizens) and the Council (which represents national governments) for the approval of the Union budget. The current rules are in favour of the Council which attributed itself the power to fix the ceiling (now 1.24 per cent of GDP) of the Community budget. The

respect of the equal dignity of the Parliament and Council implies that also the possible expenditure ceiling be decided together (in order to overcome this impasse, a proposal shall be put forward in the *Conclusions*). EU financial resources must therefore be really its own, in other words independent, of any national influence. It is only in this way that the European Commission can steer its policies for the implementation of “European public goods” and not for the satisfying of the interests of this or that national government.

As far as new own resources are concerned, the Commission proposes three options, not necessarily alternative ones. The first is a tax on energy, which could be an important lever for an environmental policy. The second possibility is a percentage on VAT, which should not cause a rise of the existing rates, but in a greater transfer at European level (1 per cent of EU VAT would be sufficient, according to the Commission, to cover at least half of the current budgetary needs). The third resource proposed, more difficult to carry out, concerns company taxation. A fourth proposal should be added to these ones: a tax on personal income. European citizens should become aware of the Union costs and of the need to contribute to their financing. In order for the Union to be close to the citizens this choice is decisive. During the European elections, the European parties must explain their programme to the citizens and how they intend financing it. European democracy, as national democracy, means that a circuit of confidence must be triggered between governments and governed.

### 9. *Employment.*

In the *General Theory*, Keynes proposed a “definite ratio” between the increase in investments, the increase in income (given the marginal propensity to consume) and the increase in employment. The relationship between investments, income and employment is one of the cornerstones of macroeconomics. However, the characteristics of contemporary economic growth no longer allow for a “definite ratio” between the increase in income and the increase in employment, for at least two reasons.

The first concerns the organisation of the labour market, which can no longer be considered a rigid institution as it was in Keynes’ time. Economic growth does not mechanically generate an increase in employment on the basis of existing technologies. It is necessary to keep into account the organisation of the labour market that can be more or less sensitive to the stimuli originating from the aggregate demand. In

Europe, starting from the Eighties, but especially during the Nineties, many reforms were introduced in the labour market to render it more flexible and sensitive to growth. In so far as it is possible to synthetically express this institutional index by means of the employment intensity of economic growth, that is the relationship between employment and the GDP growth, it is necessary to note that it has grown in the course of the last two decades, contributing thus to the reduction of the average unemployment rate of European economy in the long-term.<sup>33</sup> This institutional factor influences the relationship between production and employment not only in the expansion phase, but also in that of recession. For example, during 2004, in the European Union, “no jobs were lost in net terms in the recent downturn, while more than 2.5 million jobs disappeared in the 1992-93 recession.”<sup>34</sup>

The second reason concerns the peculiar organisation of European economy at different government levels. While in the USA, as has been mentioned, the federal government manages the majority of social expenditure, in Europe, these expenses are sustained at national level. The European budget is specialising, if the current tendency is maintained, on some decisive fronts such as growth and solidarity among the different regions and member States. In Europe, there are different models of Welfare States, so many that it is difficult to speak of a European social model. If we consider, for example, the level of welfare expenditure as regards GDP, not only are other European countries, such as Italy (22.3 per cent), placed between the ceiling of Sweden (30 per cent) and Germany (27.7 per cent) and the bottom part of Lithuania, Latvia and Ireland (15 per cent), but the USA too (24.5 per cent).<sup>35</sup> The performances generated by these different models of Welfare State are very different: the Anglo-Saxon model (UK and Ireland) have relatively low level of taxation and a relatively high dispersion of income; but it generates satisfying rates of growth and employment; the Scandinavian model (Denmark and Sweden) has a high level of taxation and a low dispersion of incomes, but it is equally capable of generating high levels of growth and employment. On the contrary, France, Germany and Italy, with relatively high levels of taxation, are not capable of achieving good performances neither in terms of growth nor of employment. This means that, in so far as the growth function is mainly assigned to European level, a uniform distribution of the advantages in terms of employment in the various national economies is not to be expected.

This does not mean that policies founded on the Keynes multiplier concept should be given up. It is only convenient to limit the analysis to

the relationship between the increase of investment expenditure and the increase of income. The relationship between the increase in European income and the increase in employment shall partly depend on how each single country will manage to exploit the situation. This truncation, or reduced concept of Keynes multiplier, does not mean, however, that the European Union delegates entirely the employment problem to national governments. There are unemployment problems that are manifest at a local level, but are generated by the interdependency of the national economies and the world market. The European Union must take responsibility for these external effects.

The problem is not at all new. It has been discussed in the literature on fiscal federalism since the beginning of the monetary Union. How to manage an asymmetric shock of a national economy, which belongs to a monetary Union? The answers have often been sought for by drawing from US teachings. Nonetheless, in the USA, as it has been seen, the concentration of the fiscal system, both as far as the revenue and expenditure are considered, is much greater than in Europe. Moreover, there exist a redistribution mechanism of the shocks, such as progressive taxation (a reduction of the per capita income causes, for example, a reduction less than proportional of the revenue), which cannot be activated in Europe, though even the European Union has envisaged a system of convergence, by means of Structural Funds. At present, in fact, the European Union is not equipped to face this type of problems, which appear with the delocalisation of the companies and the inter-European transfers of under-qualified workforce. Yet, in view of the monetary Union, the European Commission had already promoted a series of studies that have the merit of outlining a specific solution for Europe. If an *ad hoc* fund is created, its objective being the transfer of resources to the individuals hit by the shock, even a modest amount of resources can produce redistributive effects similar to those of a federation with a very centralised fiscal policy. For example, it is calculated<sup>36</sup> that an ad hoc fund equal to 0.2 per cent of the European GDP would be sufficient to face the effects of an unequal regional unemployment distribution.

More recently, in the Sapir Report<sup>37</sup> a similar proposal was made. In order to face unemployment problems caused by accelerated technological progress, international competition and the delocalisation of companies, a fund equal to 0.2 per cent of the Community GDP should be created to: a) help the workers who have lost their job with a subsidy (that is added to the national subsidy) equal to 5,000 euro per person, equivalent on average to about six months of a minimum salary, in the event that

a total of one million workers can draw from this fund; these funds can be used by workers for courses to re-qualify, for transfers to other places, to start a new activity; b) a subsidy of similar dimensions should be necessary to help farmers hit by the present restructuring of the CAP, by international competition and to introduce ecologically compatible methods of production.

To sum up, the European social system is strongly anchored to the national level, despite the need for a European Plan for growth and employment. The majority of expenditures necessary to finance social policies are included in the national budgets and convincing reasons for their centralisation in a European budget do not exist. This fact also implies that the Trade Unions negotiations system has a prevalently national structure, though there exist harmonisation problems that must be faced in the Union framework (such as some kind of employee representation in European companies, certain worker rights, the harmonisation of minimum wages, etc.). Nevertheless, this does not mean that a European Plan for growth would not have important repercussions on the social security system. European countries must relaunch public investments and reform the Welfare State due to the ageing of the population and to the need to guarantee better public services. Without economic growth and greater fiscal revenue these policies risk becoming impossible. As a matter of fact, each national government continues to postpone them. Furthermore, if the European Union includes in its budget a chapter to guarantee European solidarity to the workers hit by the industrial restructuring process and by global competition, it will indirectly make the charges of the national budgets lighter.

## 10. Conclusions.

If the European Union shall want to give itself a federal government with sufficient powers to provide European public goods three decisive reforms are necessary.

The first consists in including the Community budget in the Stability and Growth Pact (SGP), in order to outline in a coherent and unified framework the Union fiscal problems. This step is so much more necessary if the same margins of flexibility as the national budgets will be granted the European budget, fixing a ceiling to European indebtedness and a sustainable deficit, as has been done for the national budgets. At this point the Stability and Growth Pact should explicitly be part of the European Constitution and should be subject to reform with the same

procedure established for the European Constitution.

The second decisive reform concerns the creation of a European budgetary authority which takes its decisions on the basis of a democratic co-decision procedure between the European Parliament and the Council. Until the national right of veto survives and the possibility for the Council to fix a limit to the Community resources it shall not be possible to speak of the Union's own resources. The procedure for the approval of the budget must substantially reflect the will of the Union citizens; a will that is expressed through the European vote, when the European Parliament is elected, and through the national governments. Once the Stability and Growth Pact imposes constitutional limits to the Union maximum indebtedness and to its budget deficit there is no reason why the Council of Ministers should impose further restraints to the Community budget.

Finally, a Minister of Economy and Finance should be created within the European Commission. In the project of the European Constitution the creation of a Foreign Minister has already been envisaged, but as far as economy is concerned, the issue has not been decided. The present division of tasks in the Commission reflects a power void. Indeed, if the Commission could count on its own resources it could not do without a Minister politically responsible for the choices concerning the revenues and the expenditures of the Union. Only by activating this institutional figure within it, shall the Commission take on full responsibility before the European Parliament and the European electorate. European economy can really become the world's most dynamic economy, founded on knowledge and innovation, on condition that there is a clear political will and adequate means to implement this project.

## Appendix

### *The value added of a European public investment*

A significant index of the efficacy of the economic policy of a government is represented by the value of Keynes' public expenditure multiplier. The government expenditure produces a series of positive effects on the income, which increases not only of the value of the whole amount invested, but also of the infinite increases of expenditure which shall be carried out by the economic subjects that perceive the first payments and the successive ones. The series of positive effects will diminish more rapidly the greater the income not spent (saved) by the economic subjects and by the percentage of income spent in importations (which ends up outside the area administered by the government). Several empirical inquiries confirm that the value of the multiplier is inferior to

the unit or near the unit in the case of European countries, whose economy is very open to international trade.<sup>38</sup> For this reason, the expansive policies promoted in isolation by European governments, and not coordinated at European level, are not at all effective.

Let us now consider the European Union, ignoring its relationships with the rest of the world (as if it were a closed economy), and let us suppose that there is a European federal government that, alike the US one, can count on a federal budget financed with its own fiscal resources and that it can, if necessary, issue a European public debt. The responsibilities assigned to the federal government concern, firstly, the provision of supranational public goods. These are goods that present the peculiarities of non-rivalry and of non-excludability. In our case, we are interested in studying the effects of the production of two European supranational public goods: European defence and a European plan for growth and employment.

The analysis of the European situation, contrary to the US one, is complicated by the fact that a true European federal government, provided with its own resources, does not yet exist. The function of European government is carried out partly by the European Commission and partly by the European Council. The European Union manages to provide some supranational public goods, such as the satellite navigation system Galileo, but in the majority of cases it only provides surrogates of supranational public goods by means of intergovernmental cooperation. In this case we must speak of international public goods (or cooperative goods). European defence and the Lisbon Strategy are significant examples. In place of European defence, the member States have created military corps that act as allied forces in a coalition of national governments. The Lisbon Strategy proposes to increase the productivity of European economy by means of a series of national plans coordinated by the European Commission. In both cases, the surrogate of the supranational public good consists in a sum of national public goods.

Let us begin to consider the effects of an aggregation of national plans or, maybe it is preferable, the provision of an international public good. Let us suppose that the national plans are financed by means of the national public debt. In the hypothesis that a European fiscal policy does not exist and that the Union does not have foreign trade relationships, the new value of the gross European product ( $Y_{EU}$ ) shall be equal to the sum of  $n$  national expenditure plans ( $G_n$ ) multiplied by the Keynes national multiplier ( $k_n$ ), in the hypothesis that the marginal propensity to spend is the same in all the Union countries and that each country has an elevated propensity to import. The increase in value of the gross European product, which arises from this policy, shall be equal to the difference between  $Y_2$ , the value of the production after national investments, and the initial value  $Y_1$ .

Let us now consider a European plan, decided by a federal government, and financed by means of the issue of a European loan or with its own resources from the European budget. The goal of this plan is to provide European supranational

public goods, the specific function of which is to increase labour productivity throughout the Union. The total of the European Plan is equal to the sum of the national plans. The entire volume of the gross European product which shall be achieved, after this intervention of European economic policy, shall be greater than that obtained by means of intergovernmental cooperation ( $Y_3$  shall thus be bigger than  $Y_2$ ), for at least three reasons.

The first reason concerns the decisional method adopted to produce an international public good. The intergovernmental plan shall be financed by national resources, whether it resorts to taxation or public debt. Even if the national projects are implemented contemporarily, the resources that should be dedicated by the national governments to the financing of an international public good are structurally deviated towards national investments, with scarce effects on European productivity. In short, there is a preference for investments of the “motorway” type (with national productivity) rather than investments of the “Galileo” type (with European productivity).

Secondly, a European plan, financed with European resources, can completely concentrate expenditure in the provision of supranational public goods. If the main objective of the Plan is that of increasing productivity and competitiveness in the European economy, the European financial resources shall be concentrated in the production of European projects in its entirety, both private and public. The complementarity between these projects shall allow the attainment of considerable economies of scale.

Thirdly, a European plan for the production of supranational public goods, since it can take into consideration the advantages obtainable from the increase of domestic trade within the Union, shall generate an increase in income equal to the value of the European multiplier ( $k_{EU}$ ), which depends only on the European citizens' marginal propensity to spend, as regards the national multiplier ( $k_n$ ), whose lower value also depends on the dispersion caused by the propensity to import goods from the other Union countries. This statement contrasts with what is affirmed by some economists.<sup>39</sup> It is true that, if the central government (European) provides the public investment directly, the value of the multiplier shall be the same, whatever the State (or region) in which the investment is carried out. But this observation totally ignores the political problem in an economic area made up of a group of independent governments. National governments must necessarily take into account the efficacy of an investment financed with national public funds, since they have to answer for their action before their national electorates. A national plan of investments is generally not very effective in stimulating economic growth, if the expenditure dispersion for the purchasing of goods produced by other countries is elevated. One could object that this modest result would be obtainable only with an isolated national plan, without similar policies in the other Union countries. If all the Union countries committed themselves to *contemporaneously* implementing investment plans, the importations of a country would correspond to the exportations of another country and the final outcome would be equal to that of a European plan of investments realised

by a European government. This observation (on which the Lisbon Strategy is based) is, however, not realistic, because it assumes that the national governments are determined to give priority the European interest. The problem concerning contemporaneity is decisive. If some national plans were not implemented, there would be only better advantages than those relative to an isolated plan, but the effects achievable by a single European plan could not be fulfilled. The contemporaneity of national plans, on the other hand, could only be obtained if the European government (the Commission) could impose the execution of a certain public expenditure to each national government. But this power would correspond to that of a centralised State, with national governments that only represent a decentralised administration of the centralised power. The national budgets would be a local fraction of the European budget at the disposal of the Commission. On the contrary, in a federal system, the European government would have at its disposal budget resources sufficient to implement a European plan, without interfering with the expenditure decisions of the national governments. In this case, the economies external to the national plans could be considered as internal to the European plan, which would thus achieve results superior to the sum of the national plans. To sum up, European interests can be taken into consideration only by a European federal government which is responsible for its actions before the European Parliament, not by national governments that must, by definition, defend national interests.

We can now sum up the effects of a European plan on the economy by comparing them to those that derive from an international plan (or intergovernmental). The intergovernmental plan would generate at the most an income increase from  $Y_1$  to  $Y_2$ . Now, the same amount of financial resources, if used for a European plan of supranational investments can generate an income increase from  $Y_1$  to  $Y_3$ . We can therefore claim that the difference between  $Y_3$  and  $Y_2$  is the value added of the European plan as regards the sum of the national plans. If the same phenomenon is observed from another point of view, we could claim that the difference between  $Y_3$  and  $Y_2$  is the waste of European resources generated by the persistency of the national governments in pursuing ineffective policies of intergovernmental cooperation. If we imagine, to use Keynes' terminology, that  $Y_3$  is the level of full employment, the difference between  $Y_3$  and  $Y_2$  is the deflation gap generated by the intergovernmental cooperative policies.

## NOTES

<sup>1</sup> Cf. for example, the Beetsma R., Debrun X. review, “The Interaction between Monetary and Fiscal Policies in a Monetary Union: a Review of Recent Literature”, in Beetsma R., Favero C., Missale A., Muscatelli A., Natale P. and Tirelli P., *Monetary Policy, Fiscal Policies and Labour Markets. Macroeconomic Policymaking in the EMU*, Cambridge, Cambridge University Press, 2004.

<sup>2</sup> Cf. Buti M. and Nava M., *Towards a European Budgetary System*, RSC Working Paper, 2003.

<sup>3</sup> Enderlein H., Lindner J., Calvo-Gonzalez O., Ritter R., *The EU Budget. How Much Scope for Institutional Reform?*, European Central Bank, Occasional Paper Series, n. 27, 2005.

<sup>4</sup> Werner Report, *Report to the Council and the Commission on the Realisation by Stages of Economic and Monetary Union in the Community*, Supplement to the *Bulletin II-1970* of the European Communities, Brussels, 1970.

<sup>5</sup> MacDougall Report, *Report of the Study Group on the Role of Public Finance in European Integration*, Commission of the European Communities, Economic and financial series, Brussels, 1977.

<sup>6</sup> European Commission, *Growth, Competitiveness, Employment. The Challenges and Way Forward into the 21<sup>st</sup> century*, White Paper of the European Commission, Luxembourg, 1994.

<sup>7</sup> European Commission, *Report from the Commission to the Spring European Council. Delivering Lisbon. Reforms for the Enlarged Union*, Brussels, 2004.

<sup>8</sup> Musgrave R. A., *The Theory of Public Finance. A Study in Public Economy*, McGraw-Hill Kogakusha, Tokyo, 1959.

<sup>9</sup> On the theory of fiscal federalism see Oates W. E., *Fiscal Federalism*, New York, Harcourt Brace Jovanovich, 1972; Musgrave R. A. and Musgrave P. B., *Public Finance in Theory and Practice*, McGraw-Hill Kogakusha, Tokyo, 1976; and for a recent review, Oates W. E., "Toward a Second-Generation Theory of Fiscal Federalism", in *International Tax and Public Finance*, 12, 2005, pp. 349-373.

<sup>10</sup> For example, Fatàs A., "Does EMU Need a Fiscal Federation?" in *Economic Policy*, 1998, n. 26, pp. 165-192; and, for a recent survey, Pacheco L. M., "Fiscal Federalism, EMU and Shock Absorption Mechanisms: A Guide to the Literature", in *European Integration Online Papers* (EioP), 2000, vol. 4, n. 4; [eiop.or.at/eiop/texte/2000-004a.htm](http://eiop.or.at/eiop/texte/2000-004a.htm).

<sup>11</sup> Sapir Report, *Report of an Independent High-level Study Group Established on the Initiative of the President of the European Commission*, European Commission, Brussels, 2003.

<sup>12</sup> Denis C., McMorrow K., Röger W., Veugelers R., *The Lisbon Strategy and the EU's Structural Productivity Problem*, European Economy, Economic papers n. 221, 2005.

<sup>13</sup> Cf. Denis C., McMorrow K., Röger W., Veugelers R., *op. cit.*, p. 56.

<sup>14</sup> Turrini A., *Public Investment and the EU Fiscal Framework*, European Economy, Economic Papers n. 202, 2004.

<sup>15</sup> Cf. Sapir Report, *op. cit.*, pp. 31-2.

<sup>16</sup> European Commission, *Building our Common Future. Policy Challenges and Budgetary Means of the Enlarged Union 2007-2013*, *Commission Communication to the European Parliament and Council*, Brussels, 2004.

<sup>17</sup> Cf. Kok Report, *Facing the Challenge. The Lisbon Strategy for Growth and Employment*, European Commission, Brussels, 2004, p. 10.

<sup>18</sup> For an evaluation "in contrasting hues" of the Lisbon Strategy cf. European Central Bank, "The Lisbon Strategy: Five Years on", in *Monthly Bulletin*, n. 7, July 2005.

<sup>19</sup> On supranational public goods see Montani G., "The European Union, Global Public Goods and Post-Hegemonic World Order", in *The European Union Review*, vol. 8, n. 3, 2003, pp. 35-63.

<sup>20</sup> The inefficiency of the current European defence system, organised on intergovernmental basis, is widely recognised by the organisms of the EU and NATO. A recent report (Flournoy M. A. and Smith J, *European Defence Integration: Bridging the Gap between Strategy and Capabilities*, CSIS, Center for strategic and international studies, Washington, 2005), despite the fact that it was drawn up based on the hypothesis that national sovereignty in defence matters should not be discussed, recognises that the creation of the European

Defence Agency (EDA) shall help the Union member states to "eliminate waste and duplication in their defence budgets, thereby freeing up resources for collaborative research, development, procurement, and improving interoperability" (p. 57). Furthermore it claims that, as far as the industrial basis of European defence is concerned, "there are three key challenges to achieve greater European defence cooperation: fragmented defence demand, existing rules of intra-European defence trade and the fact that industrial capabilities continue to be focused on weapons systems developed during Cold War. ... The resulting collection of primarily 'national' defence markets keep Europeans as a whole from reaping any significant economic savings from a 'common' defence and security market. ... Insistence on using a *juste retour* approach means that programs are divided up not by engineering of economic logic but by political expediency" (pp.73-4).

<sup>21</sup> European Commission, *Green Paper on Space*, Brussels, 2003.

<sup>22</sup> European Commission, *White Paper on Space: a New European Frontier for an Expanding Union. An Action Plan for Implementing the European Space Policy*, Brussels, 2003.

<sup>23</sup> On the relationship between European industry and European defence see Versailles D., Mérimond V., Cardot P., *La recherche et la technologie, enjeux de puissance*, Paris, Economica, 2003

<sup>24</sup> See *Le Monde*, 19 marzo 2003.

<sup>25</sup> Gavoty D., "L'espace militaire, un projet fédérateur pour l'Union européenne", *Défense nationale*, mars 2005, pp. 79-96.

<sup>26</sup> European Commission, *Why Europe Needs Research Spending*, Memo, 9 June, Brussels, 2005.

<sup>27</sup> European Commission, *Memorandum to the Commission from President Barroso in Agreement with Mr Barrot. Implementing the Trans-European Networks*, Brussels, 2005.

<sup>28</sup> Bourdin J., *Rapport d'information au nom de la délégation du Sénat pour la planification sur les incidences économiques d'une augmentation des dépenses de recherche en Europe*, Procès-verbal du 30 Juin, Paris, 2004.

<sup>29</sup> European Commission, *The Economic Costs of non-Lisbon. A Survey of the Literature on the Economic Impact of Lisbon-type Reforms*, European Economy, Occasional Papers, n. 16, 2005.

<sup>30</sup> In point of fact, the Sapir Report proposes a structure for the Community budget that excludes European defence (cf. Sapir Report, *op. cit.*, pp. 167-8). It could be asserted that not all national expenditure for defence should necessarily be transferred to the European budget if the countries of the European Union accept a clause that obliges them to assign the supreme command of their troops to a European General Staff and to a European government, in some circumstances expressly envisaged by the European Constitution. Nonetheless, here we consider, for simplicity, the traditional solutions adopted by the existing federal States.

<sup>31</sup> European Commission, *Financing the European Union. Commission Report on the Operation of the Own Resources System*, Brussels, 2004.

<sup>32</sup> Olson M., "The Principle of 'Fiscal Equivalence': the Division of Responsibilities among Different Levels of Government", in *The American Economic Review, Papers and Proceedings*, 1969, pp. 479-87.

<sup>33</sup> European Commission, *The Economic Costs of Non-Lisbon. A Survey of the Literature on the Economic Impact of Lisbon-type Reforms*, *op. cit.*, fig. 1.

<sup>34</sup> European Commission, *European Economy*, n. 2, Economic Forecasts, Spring 2005, p. 5.

<sup>35</sup> European Commission, *The Economic Costs of Non-Lisbon. A Survey of the Literature on the Economic Impact of Lisbon-type Reforms*, *op. cit.*, fig. 2.

<sup>36</sup> Italiener A. and Vanheukelen M., “Proposals for Community Stabilization Mechanisms: Some Historical Applications”, in *European Economy, Reports and studies*, n. 5, 1993, pp. 493-510; Majocchi A. and Rey. M., “A Special Financial Support Scheme in Economic and Monetary Union: Need and Nature”, in *European Economy, Reports and Studies*, n. 5, 1993, pp. 457-80.

<sup>37</sup> Sapir Report, *op. cit.*, pp. 148-9.

<sup>38</sup> Hemming R, Kell M, Mahfouz S., “The Effectiveness of Fiscal Policy in Stimulating Economic Activity. A Review of the Literature”, in *International Monetary Fund, Working Paper* 208, 2002.

<sup>39</sup> For example, H. Richardson asserts that “with equal marginal propensity to consume [in each region], changes in the regional allocation of government spending (or other autonomous expenditures) will not change the level of national income but will only affect regional income levels” (cf. H. W. Richardson, *Elements of Regional Economics*, Harmondsworth, Penguin Books, 1969, p. 23).

## The Crisis of the Urban Order and the Thought of Jane Jacobs

MARIO ALBERTINI

### Editor's Introduction

The recent unrest on the outskirts of many cities, which began in France but spread to other European cities, has been interpreted in different ways. Some have focused on the social aspects, attributing these revolts, above all, to the problem of immigration, or more generally to that of social marginalization. Others have considered structural aspects, related to urban management.

Although, in reality, both these factors are present and interwoven, and although the understanding and the actions that are needed to tackle the problem of urban unrest must take both of them into account, on a purely analytical level, the strictly urban aspects and the broader social aspects (complete with their psychological, sociological, moral and historical implications) can, and must, be kept separate.

From this perspective, we feel that this is useful to propose to our readers an essay written by Mario Albertini in 1984 and which, at the time, enjoyed only limited exposure as a “Quaderno de *Il Federalista*” (a special paper for *The Federalist*). In it, Albertini identifies, taking as his starting point Jane Jacobs’ book *The Death and Life of Great American Cities*, an interesting connection between the conception and planning of cities, on the one hand, and the social behaviour of a city’s inhabitants on the other.

This connection allowed Albertini to relate this question — albeit as a preliminary reflection on a topic he does not develop here — to the community aspect of federalist thought, thereby linking the problem of city-planning with the sphere of politics. In considering Jacobs’ main themes — in particular, the neighbourhood and the spontaneous surveillance of the citizens in the streets and on the sidewalks — it is possible

to see the feasibility of a “limited but real form of direct democracy, of informal self-government” at the level of power that is closest to the citizens, in the context of the federative model, based on a number of levels of government, that Albertini envisaged as an alternative to the traditional American bipolar model.

Indeed, in other writings, what Albertini refers to as “participatory democracy” and considers a guarantee of good government of cities, is based both on the distribution of power (different levels of government, independent and coordinated from district level up), and on information and communication; in other words, on that “flow of spontaneous information” that springs from the exchanges and contacts that take place in daily life and also from an urban order that, by not permitting the physical or psychological isolation of a city’s inhabitants, or of a section of them, favours the manifestation of feelings of identification and thus of participation.

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## I

Towns and cities, which by definition should be considered places of security, are nowadays characterized, particularly on their outskirts, in their run-down centres, and in other critical zones, by environmental situations in which insecurity, violence and fear prevail. As a result, in addition to dangerous streets that people cannot safely walk down at night, we now also have whole areas that are fenced off and closely monitored to protect them against the threat of violence — a threat that no longer comes from the outside, but rather from within the town or city. These new situations (new in relation to the elements of insecurity of the past) are often believed to derive from modern ideas on building and on the position of buildings in relation to each other. It is a view that merits serious consideration, seeming to be obvious and also to highlight the peculiar nature of today’s urban crisis, which cannot, therefore, simply be considered part of the crisis of the early industrial cities (mentioned by Engels as long ago as 1845 in the chapter of his work *The Condition of the Working Class in England in 1844* that examines the problem of large towns and cities).

Indeed, while recognizing that caution is warranted, given that it is sometimes difficult to distinguish between the violence a town itself generates and the violence to which it is subjected, it nevertheless has to

be admitted that one look at most of the new buildings erected in and around towns today is enough to make the normal observer liken the inhabitants of these buildings — stripped of all individuality and humanity — to rabbits, forcibly holed up in enormous, crazy warrens. There can be no ignoring this impression. And the incredible thing — and this only emphasizes the gravity of this situation — is that although such reactions are becoming increasingly common, this style of building continues to be accepted and adopted, the world over, as though it enjoyed general approval.

One situation, in particular, shows very clearly just how deep-rooted in our society this contradiction is: one need only consider the fact that the top political power can denounce these evils while at the same time continuing to produce them, thinking, as one does so, of France under the presidency of Giscard D’Estaing, for example, and reading the following affirmations in his 1976 book (or manifesto) *Démocratie française*: “Among the great achievements of the Fifth Republic we can count the considerable feat of building seven and a half million residences...But at the same time, how can we ignore the fact that many of these new buildings have generated deep dissatisfaction? The building industry over the past hundred years has not, with a few worthy exceptions, practised the policy it preaches. We have built, or we have allowed the building of, tenements inspired by collectivistic ideals — monotonous and oversized constructions that spawn violence and solitude. Today, we should be favouring ownership over rental, individual properties over tenement buildings, the renovation of old buildings over the construction of new ones, the small town over the megalopolis; equally importantly, we should be putting a stop to gigantism. In this way, men will be able to live in a framework that is tailored to their dimensions and respectful of that which exists, that favours the organization of life on an individual level, and that encourages the development of social communication and good neighbourhood relations.” He goes on: “In private life, it is a question of giving men access to individual dwelling places that look as little as possible like concrete rabbit warrens and as much as possible like homes.”<sup>1</sup>

Although this seems to be clear enough, and there appears to be nothing further to add, this is not the case at all. In fact, in this regard, in France, and elsewhere, absolutely nothing has changed. The very fact that a growing number of people can reach the conclusion that instead of creating “homes” we are erecting buildings “that spawn violence and solitude,” and that the new areas of towns and cities can no longer be



regarded as frameworks “tailored” to the “dimensions” of men has served no purpose at all, not even to set alarm bells ringing. Must we, then, declare our towns and cities in danger and say that man, in his colonization of the territory, is no longer able to control the forces he himself generates — that we no longer have any means of distinguishing the city from its opposite, the non-city, that is growing up around us?

## II

According to some scholars, the cause of urban decline is economic (and, on a secondary level, legal). Mitscherlich, for example, attributes it quite definitely to the “sacred character of ownership, particularly land ownership.”<sup>2</sup> But even were we to accept the validity of this interpretation (which is probably true only in part), the fact would nevertheless remain that those involved in city-planning need to know what they have to do — and what they must not do — in order to restore to cities and towns the physiological character they have lost; and this means that city-planning, like the study of all mankind’s important behaviours, must be granted relative autonomy.

On the other hand, if it were really true that land ownership is the root of all these evils, then surely we could have expected to see the best representatives of science and culture (in this case that of city-planning) coming out in opposition to the current approach to building and planning, and in support of the physiological development of towns and cities. But, in fact, this kind of opposition was not mounted, or not in these terms at least. To a great extent, the current approach to building stems directly from the ideas prevalent in city-planning (which thus emerges as a cultural sphere in crisis). The capacity, in terms of design, needed to rise to challenges of the current stage in the process of urbanization is lacking, and this is a statement of fact. What we need to do, then, is tackle, first, the aspects of the problem that are related specifically to city-planning, and only then, having decided which features of the city need to be safeguarded (or promoted, etc.), examine the aspects of urban policy — i.e., economic, legal, political and cultural — that are not related to city planning. In this regard, the contribution made by Jane Jacobs<sup>3</sup> is, in my view, decisive.

## III

It is worth looking briefly at the method adopted by Jane Jacobs. The

urban crisis is a problem that can be tackled from one of two starting points: either from an idea of the city (whatever this may be) or from a close observation of real life. In the first case, the object of our reflection is established in advance. And there is more. Since, given the state of current thought, this idea cannot fail to assume the character of a historical typology, it will inevitably be highly complex in a cultural sense, and also highly abstract. In particular, this approach focuses on the social behaviours of a city’s inhabitants, that is, on the vehicle through which the urban crisis is actually expressed, without first examining these behaviours directly. In the second case (i.e., starting from a close observation of real life), these behaviours are, instead, the primary and preliminary object of our investigation, whose first stage becomes, as a result, empirical and descriptive; the aim is to get right inside the area we want to examine, so as to be able, later, to submit it — a reality closely observed and not merely intuited or, worse, prefigured — to rigorous theoretical analysis.

This is the approach of Jane Jacobs, and it is an approach that clashed with the ideas prevalent in city-planning. In her view, city-planning is still “in the same stage of elaborately learned superstition as medical science was early in the last century;” and she likens it to the ‘science of blood-letting’: “With blood-letting, it took years of learning to know precisely which veins, by what rituals, were to be opened for what symptoms. A superstructure of technical complication was erected in such dead-pan detail that the literature still sounds almost plausible.” She comes to the following conclusion: “As in the pseudo-science of blood-letting, just so in the pseudo-science of city rebuilding and planning, years of learning and a plethora of subtle and complicated dogma have arisen on a foundation of nonsense... Blood-letting could heal only by accident or in so far as it broke the rules, until the time when it was abandoned in favour of the hard, complex business of assembling, using, and testing, bit by bit, true descriptions of reality drawn not from how it ought to be, but from how it is. The pseudo-science of city planning and its companion, the art of city design, have not yet broken with the specious comfort of wishes, familiar superstitions, over-simplifications, and symbols, and have not yet embarked upon the adventure of probing the real world.”<sup>4</sup>

For the most part this is true (as the results show), albeit with a limitation that can be clarified later on; it is also true that what Jacobs embarked on was, in fact, the difficult but useful task of exploring reality. And it is precisely this that allowed her to see things to which habit usually renders us blind, that allowed her, in other words, to see what lies behind the tendency to confuse what is known with what is truly known. She

writes: “The way to get at what goes on in the seemingly mysterious and perverse behaviour of cities is, I think, to look closely, and with as little previous expectation as is possible, at the most ordinary scenes and events, and attempt to see what they mean and whether any threads of principle emerge among them.” She goes on, “Most of the basic ideas in this book come from things I first noticed or was told in other cities [i.e., cities other than the one in which she lives, New York] ...most of the material for these musings was at my own front door, but perhaps it is easiest to see things first where you don’t take them for granted.”<sup>5</sup>

#### IV

On an empirical level, Jane Jacobs’ most important achievement was that she managed to demonstrate the existence of a close link between certain essential urban functions (urban in a broad sense, because not exclusively dependent on the urban factor) and certain characteristics of the city understood as a physical and organizational setting (in this case strictly urban because they do depend exclusively on the design of the city and on its intended uses). The functions in question — to be more precise, the ones that can immediately be fitted into this analytical scheme — are: security, the development of human relations, and the assimilation of young people, whereas the urban characteristics relate, first of all, to the streets and the sidewalks, or rather to the role they fulfil beyond that of merely allowing the flow of traffic and of pedestrians.<sup>6</sup>

The fact, clearly observable (and indeed universally noted, even if not expressly, given that it is considered obvious), is this: if there exists a clear demarcation between public and private places, in particular between sidewalks as places of collective life and houses as places of privacy (a demarcation that has been lost in large residential complexes where everything and nothing — and in the final analysis, nothing — is shared with others), if the streets are watched by their “natural owners,” traders and so on (therefore, if the streets are home to a sufficient number of shops and other public venues), and if the sidewalks are sufficiently full of people throughout the whole course of the day (not only because of the presence of a variety of public venues and commercial outlets, but also because a lively street will always attract people, who will not only use it, but will also want to look out onto it, and to stop on any benches it might have, etc.), then the streets will be safe, the potential for human interaction will be realized to the full, and the youngsters will naturally adopt the ways of life and habits of the city.<sup>7</sup>

But this is not enough. This relationship between social behaviours (examined within the context of the city, and thus as urban functions) and the urban characteristics mentioned above can and must be extended to the whole of city life. Indeed, in her book *The Death and Life of Great American Cities*, Jane Jacobs entitles the chapter that contains this analysis “The Peculiar Nature of Cities.” And it is, in fact, on this basis that she manages to clarify the question of city parks (by which she means parks in a broad sense, including tree-lined squares), which can play a positive role only in the urban framework outlined above (i.e., only if they are within the range of action of the network that guarantees the safety of the sidewalks and streets), and also to set out, realistically, as we shall see, the function of the neighbourhood (that of the city, of the district or quarter, and of the street).

#### V

If one considers the life of the city from this perspective one finds that it is made up of a set of behaviours (urban functions), the possibility or impossibility of which depends on the urban order, and that these behaviours present two fundamental characteristics: organic unity and spontaneity. Furthermore, examination of these two characteristics allows one to begin to see, in concrete terms, the difference between that which is broadly urban (because it is not exclusively dependent on the urban factor) and that which is strictly urban (because it is exclusively dependent on the urban factor).

The urban behaviours highlighted can be viewed as an organic unit because, despite being perfectly distinguishable from one another and possessing their own peculiar natures, they only ever manifest themselves together. It is equally true that — in conditions universally present in daily life — these behaviours are unable, except in precarious, inadequate and distorted ways, to manifest themselves separately, or singly. It is important to remember that this set of behaviours derives not from the human inclinations that underlie the behaviours, but from the urban factor, in other words, a) from the fact that these behaviours cannot manifest themselves in the absence of an adequate city setting (in the absence of security there is no trust, without regular opportunities for general swapping of experiences there will be no general swapping of experiences, and so on), and b) from the fact that the city does not cater for each of these inclinations singly, only providing, as we have seen, a single organic and unitary setting (the city as a whole) that can cater for

all of them together.

It is thus the urban factor in a strict sense that, being characterized by organic unity, projects this unity onto human inclinations at precisely the moment in which these inclinations are translated into effective behaviours and assume the character of urban functions. All this constitutes the field of those realities that depend on the urban network, and should thus be the focus of the science of city-planning.<sup>8</sup> This observation, in fact, allows a clear demarcation line to be drawn between that which should above all be studied (or examined, or designed, etc.) on an urban planning level (the design of the city and its intended uses, which at this point emerge as the material structure of certain human behaviours); and that which, despite having an urban dimension (i.e., a broadly urban character), must instead be studied, first of all, on a psychological, sociological, moral and historical level.

It is the confusion between these two levels that prevents rigorous, controlled thought in city-planning and keeps this cultural sphere bogged down in "elaborately learned superstition". The city — in a concrete sense — is, at once, a strictly urban physical and organizational reality (this is, in a sense, the synchronic element of this analysis) and the life that flows through this network (and this, in a sense, the diachronic element). But clearly this network cannot be understood using the theoretical instruments needed to study the historical life of the city, and neither can this historical life be understood applying the theoretical instruments needed to study the urban network, even though any effective intervention on the city must take into account the results of both these analyses.<sup>9</sup>

## VI

We come now to the other essential characteristic of urban behaviours: their spontaneity, and this is an aspect clearly highlighted by Jane Jacobs' analysis of the problem of security. All that has been said in section IV about the relationship between urban characteristics and the social behaviours of citizens (urban functions) shows that security in towns and cities — and this includes security vis-à-vis strangers — depends at least in part on the existence of a spontaneous, and in many ways unconscious, surveillance network. I am referring to the network of traders and pedestrians who people the streets throughout the whole course of the day.

It must be remarked that this surveillance network can be defined spontaneous not only because it is not organized, but also because there

is nothing specialized about it. Jane Jacobs writes: "On Hudson Street [which is where she lives], the same as in the North End of Boston or in any other animated neighbourhoods of great cities, we are not innately more competent at keeping the sidewalks safe than are the people who try to live off the hostile truce of Turf in a blind-eyed city. We are the lucky possessors of a city order that makes it relatively simple to keep the peace because there are plenty of eyes on the street. But there is nothing simple about that order itself, or the bewildering number of components that go into it. Most of those components are specialized in one way or another. They unite in their joint effect upon the sidewalk, which is not specialized in the least. That is its strength."<sup>10</sup>

It must also be remarked that there exists no alternative to this type of surveillance. To appreciate the truth of this, one need only compare it to the level of surveillance that the police alone might be able to guarantee. Again, I quote Jane Jacobs: "The first thing to understand is that the public peace — the sidewalk and street peace — of cities is not kept primarily by the police, necessary as police are. It is kept primarily by an intricate, almost unconscious network of voluntary controls and standards among the people themselves, and enforced by the people themselves. In some city areas — older public housing projects and streets with very high population turnover are often conspicuous examples — the keeping of public sidewalk law and order is left almost entirely to the police and special guards. Such places are jungles. No number of police can enforce civilization where the normal, casual enforcement of it has broken down."<sup>11</sup>

## VII

It can thus legitimately be affirmed that in the context of an efficient city order, urban surveillance, or the control of public behaviour, is, to a great extent (I am referring to the part where police intervention would be unnecessary and ineffective), carried out through the collaboration of everyone and without anyone being ordered to do anything: in other words, purely through the spontaneous and occasional expression of people's inclinations.

It is also legitimate to affirm that this observation applies, in general, to all the important urban functions, which are also — at least in part — the result of spontaneous (i.e., unplanned) acts and behaviours. Having appreciated all this, one need only remember that these behaviours include those relating to the establishment of human contacts and the

assimilation of young people to begin to perceive, in concrete terms, the relationship between the city and culture. The urban order (providing it is physiological) can be recognized as a great material and structural expression of culture precisely because it is the indispensable means of establishing contact between the greatest possible number and diversity of experiences and, through the assimilation of young people, of perpetuating this rational process over time and of guaranteeing it its spontaneous and therefore novel dimension, without keeping the swapping of experiences within pre-established boundaries (as occurs, for example, within cultural institutions).

Equally warranted is a series of considerations that takes us out of the cultural sphere and into the political one. We have seen that security, as an urban function, amounts to the exercising of control by all over all, without any distinction between the watchers and the watched (and without any loss of privacy, thanks to the demarcation between public and private places). In political-social terms, this means that people's behaviour in the streets and on the sidewalks is largely controlled through a limited but real form of direct democracy, or informal self-government. And what makes this observation significant is that this, too, can be generalized.

Just as the absence of spontaneous surveillance allows only inadequate and distorted forms of security, if there is no informal, or spontaneous self-government there can be no efficient formal government of the city. This is easily demonstrated. The first point to consider is this: "There exists no inconceivable energetic and all-wise 'They' to take over and substitute for localized self-management... Among those responsible for cities at the top, there is much ignorance. This is inescapable, because big cities are just too big and too complex to be comprehended in detail from any vantage point — even if this vantage point is at the top — or to be comprehended by any human; yet detail is of the essence."<sup>12</sup>

The problem then, in the first place, is one of information and communication, and secondly one of power. Good government of cities (which must include all aspects of city-planning) is clearly impossible in the absence of: a) a flow of spontaneous information relevant to everyone, in other words that springs directly from the contacts and actions of daily life, and b) a power situation that admits the possibility that formal government decisions might be made to coincide with the needs and problems highlighted by this kind of information. It is immediately clear that, when we talk about this spontaneous information and this wide-

spread power, we are talking about something very similar to that which is conveyed by the term "neighbourhood". And this impression is further strengthened if, like Jane Jacobs, we realize that it is through the concept of self-government that the nature of the "neighbourhood" can be defined.

Indeed, like the concept of self-government, the neighbourhood has three levels: the street (the information "database"), the district or quarter (the first level of power, which mediates between the neighbourhoods of the street or the city, etc.), and the city (the power). Moreover, one can immediately see that this classification corresponds to a real subdivision of the concept of neighbourhood, which is experienced by all at the level of the street, and by some also at the level of the district and of the city (in the case of those who regularly encounter one another at city level and establish relations at this level). At this point, on the other hand, it has to be borne in mind that (as our consideration of the problem from the perspective of urban order has allowed us to show) it is only through their integration that the various levels of the neighbourhood (the urban order's organic unit) can fulfil their specific roles, also through the direct channels constituted by those who belong to the neighbourhood of the street (because they live there), and to that of the quarter or of the city (because of work or other forms of contact). Jane Jacobs also adds, correctly, that a proper neighbourhood of the street, fostering a sense of identification, is possible only if the street is not isolated, physically and psychologically, from the district and from the city.

These cultural and political references bring into view certain aspects that deserve further and close analysis, but this is not possible in the context of a preliminary reflection. My aim, after all, was just to draw attention to the fact that mankind's colonization of his territory is another a process that seems to have escaped political control, and also to the fact that Jane Jacobs' thought is, if I am not mistaken, one of the first important steps towards the development of the scientific approach that is needed in order to tackle rationally the urban crisis.

## NOTES

<sup>1</sup> V. Giscard D'Estaing, *Démocratie française*, Paris, Fayard, 1976 pp., 84-5 and 72.

<sup>2</sup> A. Mitscherlich, *Die Unwirklichkeit unserer Städte*. Frankfurt a. M., 1965.

<sup>3</sup> It is difficult to examine the broad debate that Jane Jacobs' ideas provoked. Given that there still exists no clear theoretical framework within which to consider city-planning, no recourse can be had to definite, effective (and, potentially at least, broadly acceptable)

criteria on the basis of which to form a judgment. Mumford's attitude to Jane Jacobs constitutes a typical example of these difficulties. Despite recognizing this difficulty, he does not seem to have understood that Jane Jacobs is interested mainly in the urban fabric and its relationship with daily life (one might use the term *microubanistic*) and he continues to set in opposition to Jacobs' criteria facts (which she would not comprehend) and criteria that have nothing at all to do with the urban fabric but are, instead, related specifically to the problem of the current dimensions of the process of urbanization (and in this regard, one might use the term *macroubanistic*). On the other hand, it is true that Jane Jacobs pays little attention to this problem (see L. Mumford, *The Urban Prospect*, New York, Harcourt, Brace and World, 1968 in particular, the essay on Jacobs, entitled "Home Remedies for Urban Cancer.")

<sup>4</sup> J. Jacobs, *The Death and Life of Great American Cities*, Harmondsworth, Penguin Books, 1977 (the first edition appeared in 1961), pp. 22-3. This opinion, expressed by Jane Jacobs, is not paradoxical even though it might initially seem to be. It is worth recalling, in this regard, that similar opinions are also expressed in other studies, historical and sociological, of the city. Philip Abrams, for example, expressing a view shared by other scholars, regards city-planning as an "illusory theory" (see P. Abrams, "Towns and Economic Growth: Some Theories and Problems" in P. Abrams and E.A. Wrigley (ed.), *Towns in Societies*, Cambridge, Cambridge University Press, 1978).

<sup>5</sup> J. Jacobs, *op. cit.*, pp. 23 and 25.

<sup>6</sup> "A city sidewalk by itself is nothing. It is an abstraction. It means something only in conjunction with the buildings and other uses that border it, or border other sidewalks very near it." (J. Jacobs, *op. cit.*, p. 39).

<sup>7</sup> J. Jacobs, *op. cit.*, pp. 44-5.

<sup>8</sup> J. Jacobs writes: "I think... that the science of city planning and the art of city design, in real life for real cities, must become the science and art of catalysing and nourishing these close-grained working relationships" (*op. cit.*, p. 24).

<sup>9</sup> This interpretation finds direct confirmation in Abrams, in what can be considered the most coherent attempt to examine the theories of the city that does not draw a distinction between that which is broadly and that which is strictly urban. Abrams goes much further than Jane Jacobs, in the sense that: a) he calls into question not only city-planning, but also historical and sociological thought, and b) in his view, not only does there exist no theory of the city that can have "any degree of general application" (*Towns in Societies, cit.*, p. 1), but no such theory is even possible, given that the city is not what it is believed to be "a social entity sui generis," that is, something that can be theorized (p. 9).

Abrams' thought is founded on the conviction that the term "city" is used without really knowing what it means. Having affirmed that "an authentic sociology of the town" should "reject the idea of the social reality of the town," he goes on to say: "All this is not of course to deny that many people apart from sociologists and historians do treat towns as social realities — just as they treat magic as a real force and the national interest as a real interest" (p. 27).

Abrams clarifies his opinion thus: "Urban history, and to a greater degree urban sociology, have been haunted by the idea of generalizing about the town. To an impressive extent both types of work have rested on the belief that, as Braudel has it, 'a town is a town wherever it is'. *The material and especially the visual presence of towns seem to have impelled a reification in which the town as a physical object is turned into a taken-for-granted social object*" (p. 9). This reification apart, there seems to be nothing that can be socially characterized, nothing, that is, save the physical reality of a collection of buildings and objects.

The framework within which Abrams believes he can prove this affirmation is vast, and

in some ways pertinent. He begins by criticizing the idea of the separation of town and countryside ("Classical political economy, whether represented by Smith or by Marx, took it for granted that the foundation of the progress of the division of labour lay in the separation of town and countryside"), and points out that the town has been seen as both a stimulus for (Sombart, Pirenne etc.) and an obstacle to (in some aspects of Max Weber) the growth of capitalism. He also remarks that "Most younger English historians [he cites, in particular, Martin Daunt who appears in the volume of essays in question] have chosen to emphasize the ways in which the persistence of essentially feudal patterns of social control within towns acted as a decisive disincentive to economic innovation, stressing the rural rather than the urban origins of capitalism" (p. 1).

Having thus rejected the idea of the separation of town and countryside, which sets forth something that, according to the author, does not exist (the town as a "special social entity" purely because of its diversity from the countryside), he seeks to demonstrate that, with regard to the historians and sociologists who have studied the city to date, it is possible to make two observations: a) in attempting to theorize the processes examined in relation to the idea of the town as "a special social entity", these scholars, in fact, ran into the idea of *types* of towns (classifying these, however, in order to explain the characteristics of historical processes rather than the reverse) and found themselves able neither to identify the nature of the town as such (given that "certain structural elements are universal for all urban centres,") (p. 14) nor to indicate anything "that could be accepted as empirically constituting a dual economy" (p. 4); b) on the other hand, in successfully reconstructing some historical-social facts they have however, consciously or otherwise, shifted the framing of the facts away from the idea of the city and towards historical-social frameworks of reference such as "the 'society', the 'culture', the 'economy' and the 'mode of production'; or... 'medieval Europe', 'Renaissance Italy', 'feudalism', 'capitalism', 'imperialism', 'pre-industrial England' and so forth" (p. 31) (this is true of Max Weber, Dobb, Hoselitz, Sjoberg, and so on, and also of Braudel himself, according to whom, Abrams recalls, the town — despite being mistaken for a social entity — is, in fact, viewed as the reality that "society, economy and politics allow it to be", p. 24).

Nevertheless, this is not enough to explain the global nature of Abrams' demolition, which would appear quite inexplicable had he not cited, alongside evidence based on a critical examination of the literature on the city — which, strictly speaking, would allow him only to affirm that the problem of an adequate theorization of the city remains to be resolved —, other, far more radical evidence. He suggests that empirical evidence shows that cities, as social entities, do not exist: "But the task of social analysis is to say something about why and how such seeming realities are constructed socially, *which is not likely to happen if they are accepted at their face value*" (p. 27). At the same time, when examined extremely closely, the city does *not* emerge as a social entity, and, "when attended to, the town disappears to be replaced first by numerous particular towns and then by a complex of market, political and cultural relations which are as it were enacted in towns but not in any exclusive sense of the town" (p. 12).

In my view, it was on the basis of this supposed empirical evidence that Abrams felt able to affirm, quite clearly, what the city is not, and what it is. We may recall, in any case, with reference to the first point, that he praises Weber because — even though "he frequently appears to be engaged on the construction of a theory of towns" — he never considered the city as an "empirical entity". ("The town appears in *Economy and Society* not as an empirical entity such as the party or the sect, not as a necessary analytical construct indicating a distinct type of social action such as the traditional legitimation of authority or rational economic action", p. 28). Abrams also maintains that the city is not an "agent in its own right" (p. 19), nor a "historical factor" proper: it would thus appear to be "an

*explanandum*, not an *explanans*" (p. 30); and even as such it would seem to amount to very little, given that Abrams questions the possibility that the city can be theorized as a "dependent", and even "occasional variable" (p. 20). Moreover, with regard to the second point (i.e., what the city is), Abrams says only that cities are "*sites* for historical and sociological analysis" (p. 32) and that their reality is merely their reality as legal and institutional expressions — the exterior form of the real and concrete impositions of power agreed by clearly defined social groups ("the town is an institutional expression of power", p. 25. On p. 24, he refers to London "as an arena for a particular system of class and status and party").

All this is manifestly absurd. It is true that the city is the site of social phenomena whose origins are *also* to be found elsewhere, but it is certainly not true that human behaviours, within the context of the urban network, do not assume a specific character (do we not, justifiably, talk of urban physiology and urban pathology?); neither is it true to say that there do not exist human behaviours rooted in the city (the novelty and fecundity of Jane Jacobs' analysis stem from this very point). But, that said, it must also be acknowledged that Abrams' criticisms — and here we are perhaps looking beyond their intended message — in relation to the claim that it is possible to build a theory of the city that embraces both the reasons why the city is the result of historical processes and the reasons why it contributes to their creation are not only valid, but also help to show the extent to which this confusion has rendered contradictory the whole theoretical debate on the nature of the city. This is perhaps the reason why — as Abrams recalls — Wirth in 1938 stated that "in the rich literature on the city we look in vain for a theory systematizing the available knowledge concerning the city as a social entity" (p. 10), and why "actual urban history, and to a lesser degree actual urban sociology, have proved graveyards of generalizations about the town" (p. 9).

<sup>10</sup> J. Jacobs, *op. cit.*, pp. 64-5.

<sup>11</sup> *Ibidem*, p. 41.

<sup>12</sup> *Ibidem*, pp. 127 and 131.

## Notes

### THE MESSINA CONFERENCE AND THE ADVANCE OF EUROPEAN UNIFICATION

On 1 and 2 June, 1955, Messina (and Taormina) provided the venue for the conference of the foreign ministers of the six member states of the European Coal and Steel Community (ECSC) — convened by Italian foreign minister, Gaetano Martino — that marked the start of the procedure that culminated in the signing, in Rome on 25 March, 1957, of the Treaties of the European Economic Community (EEC) and of the European Atomic Energy Community (Euratom).<sup>1</sup> The fiftieth anniversary of the Messina Conference presents an ideal opportunity to reflect on the importance of this event within the framework of the history of European integration. In this regard, I feel it is important to draw attention to two fundamental choices made in Messina: that of the sector within which to carry forward European integration by means of the Community method, and that of the method for drawing up the new Treaties.

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As far as the first of these choices is concerned, we must begin by recalling the profound reasons for which, following the dramatic collapse (before the French National Assembly on 30 August, 1954) of the European Defence Community (EDC) and the associated European Political Community (EPC), and despite the disappearance of the factors favouring European integration — Stalin was dead and American pressure had abated —, the Six were still driven to press forward with the process of building Europe. The main reason was the historical crisis of the European nation-states, in other words, the conflict between the nation-states' growing economic (and not only economic) interdependence, induced by the advanced Industrial Revolution, and their own narrow and stifling dimensions. A previous attempt to resolve this

conflict had taken the form of the imperialist expansionism that had produced the two World Wars, or put another way, the attempt to unite Europe by the “sword of Satan”<sup>2</sup> in a totalitarian empire. Then, the collapse of the power of the nation-states had turned the choice “unite or perish” into a crucial and permanent political consideration,<sup>3</sup> strengthening the determination of European governments and democratic forces to pursue the peaceful unification of the continent. The impasse reached in 1954 was never going to be enough to get in the way of this determination, which in the Six — these countries shared a particularly deep level of interdependence and an acute sensitivity to the widespread phenomenon that was the crisis of the nation-states — was particularly strong.

Added to this, there was the pressing need to fit Germany — strengthened after 1954 by the country’s re-armament, albeit under the umbrella of NATO, — into a framework of increasingly deep supranational integration. It was precisely this need, stemming from America’s decision to rebuild Germany, that had allowed the birth of Jean Monnet’s Community system, which was based on the implanting of federal embryos into a structure of international cooperation.<sup>4</sup>

Whereas, on the one hand, the reasons feeding this determination to proceed with the Community building process were strong — and to these we must also add the success of the ECSC — , on the other, it was, for the governments, unquestionable that this process should involve only the economic sphere. The economic sphere, unlike the political and military sphere, would not present, from the outset, the problem — a difficulty into which the EDC-EPC project ran — of the need to transfer national sovereignty to a fully federal system. The question, therefore, was whether to pursue vertical economic integration, i.e., within a limited sector, along the lines of the ECSC model, or horizontal economic integration, which would involve the economy as a whole. The first option was favoured by Monnet, who considered the idea of total economic integration too ambitious, and proposed the Euratom project, which he felt would be more acceptable to the French government, not least because of the latter’s interest in national atomic armament. On the other hand, the common market idea was supported, mainly, by Willhelm Beyen, Paul-Henri Spaak, and Joseph Beck (respectively, the foreign ministers of Holland, Belgium and Luxembourg), and their memorandum was approved by the German and Italian governments.

Thus, although Monnet’s proposal was not dismissed, the Messina Conference decided to focus, essentially, on horizontal economic integration. This choice proved to be one of enormous historical significance,

because whereas no major developments arose from the Euratom project,<sup>5</sup> the EEC, instead, went on to become the key structure in the furthering of the process of European integration, provided the framework for such achievements as the Common Agricultural Policy, the single market and, monetary union (which have brought about a continuous enlargement of European integration), and has, ultimately, led to an explicit raising of the question of a European constitution, that is, of political union. To understand these developments, one must analyse the powerful, dynamic force inherent in the project to build, on the basis of the Community system, a European common market.

It must first be underlined that the growth of economic integration, despite not being accompanied by a comparable growth of political integration, was possible because the American hegemony within the framework of the bipolar system ensured an extremely strong convergence of the EEC member states’ foreign and security policies, and thus undermined the protectionist forces generated by the power conflicts between these states.<sup>6</sup> That said, the key point is that a common market is not a simple customs union, but involves the four liberties (of movement of goods, people, capital and services), that is the creation, within the EEC, of a situation comparable to that of the single domestic markets. The implementation of this design depended on the presence of a broad and effective supranational legal system. In this regard, a decisive role was played by the Court of Justice, which ruled that Community law should come into immediate effect and automatically prevail over national law. This started the process that led to the introduction of the Charter of Fundamental Rights, which had become essential in order to prevent the guarantees established by the national constitutions from being forfeited in the framework of the Community system to which these constitutions were being rendered subordinate.

On the other hand, in building the common market, negative economic integration (the removal of obstacles to the four freedoms) had to be accompanied by a growth of positive integration (that is, by the development of the European public policies needed to tackle the regional, social and sectorial imbalances that market automatism cannot correct). Thus, the growth of European integration (involving sectors of fundamental importance in the life of the states), and subsequently of Community law, threw into sharp relief the problems of the Community’s institutional system: the efficiency deficit (resulting from the prevalence of decisions taken by unanimity) and the democratic deficit (or the absence of democratic legitimisation of the increasingly important deci-

sions taken at supranational level). This situation prompted a progressive enlargement of the areas subject to majority decisions by the Council of Ministers and a drive for democratic legitimisation, through the direct election of the European Parliament (EP) and a strengthening of its powers. The process of forming the common market (later referred to as the single market) inevitably led to monetary unification (without which it would have become unsustainable), and highlighted the need of the European countries to tackle, together, the problems of domestic security and of foreign policy and external security.

In this way, the process of European unification has now reached a point at which it is faced with two alternatives: either to proceed in the direction of full federal unification, or to jeopardise all the results, in terms of integration, thus far achieved. And one cannot sit on the fence indefinitely. This is the setting in which concrete attempts have been made to tackle of the issue of the European Constitution, which is progressing amidst enormous difficulties, but which is, at least, on the table.

Let it be noted that the dynamics triggered by the common market project did not produce an automatic growth of European integration. In truth, the fundamental advances in the process of European integration have been made thanks to the decisive intervention of courageous and farsighted politicians and European officials, to major international crises (one might consider, as a highly significant example, the relationship between the end of the bipolar system, German reunification, and monetary union), and — not least — to the movements for European federation. In this regard, the main examples are the direct election of the EP and the Spinelli draft Treaty, approved by the EP in 1984. In reference to the first of these, it is true that the Treaties made provision for the direct election of the EP and that the need for democratic legitimisation became increasingly apparent as the process of integration advanced. But it is also true that the relentless and systematic action on the part of the federalists (who, in 1969, even introduced a popular bill for the direct election of Italy's EP members) was a crucial factor in the actual bringing about of European elections.<sup>7</sup> Similarly, the Spinelli draft Treaty, also the fruit of a federalist initiative, although rejected by the governments, proved to be a crucial catalyst for the institutional reforms subsequently introduced.<sup>8</sup>

Having said this, it is necessary also to appreciate that these factors were able to play a role precisely because the common market project threw up a series of profound contradictions, and thus created the conditions that allowed them to be effective.

Having clarified, through the above observations, the historical

importance of the decision, taken in Messina, to opt for horizontal economic integration, it is also useful to analyse why this choice was made. In addition to a general factor — I refer to the historical crisis of the nation-states, discussed earlier, which prompted the creation of an economy of continental dimensions<sup>9</sup> —, there was also a specific factor that must be emphasised here. I refer to the connection between the failure of the EDC and the re-launch, in Messina, of the process of European integration.

It is necessary, at this point, to recall that the EDC, placed on the agenda by the problem of German rearmament and initially conceived as a project for sectorial integration, along the lines of the ECSC model, was transformed, thanks to the intervention of De Gasperi and the European Federalist Movement (MFE) led by Altiero Spinelli, into a much broader project for general European unification along federal lines.<sup>10</sup> The federalists and the Italian prime minister, in fact, made a very strong case for political union, underlining the impossibility of creating a European army without also building a European democracy, a solid common European economy, and a European homeland — in short, a European federal state. It was because of this that — under Article 38 of the EDC Treaty — the Parliamentary Assembly of the ECSC (temporarily enlarged by nine members and referred to as the Ad Hoc Assembly) was entrusted with the task of drawing up a draft statute of a European Political Community. The text adopted by the Ad Hoc Assembly was a plan for federal union whose main objectives included — this is where Beyen's proposals had proved decisive — European economic unification, and this had generated great expectations in the more advanced economic circles. As a result, the collapse of the EDC (and, with it, the draft statute of a European Political Community), created the problem of how to quell all these frustrated expectations, and this was a factor that influenced the decision, in Messina, to choose the economic part of the EPC project as the mainstay of efforts to further the process of integration.<sup>11</sup>

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We now come to the second decision of great historical importance taken by the Messina Conference, that regarding the method for creating the legal-institutional framework within which to further the process of integration. The key point to underline here is that, rather than immediately instructing a classic intergovernmental conference to draw up the new Treaties, the Conference instead decided to entrust a committee with



the task of making proposals for closer economic integration. The Spaak Committee<sup>12</sup> was a group of experts, appointed by the governments and the European institutions, but led by a “political coordinator”. Its mandate was to study the feasibility of the two projects on the table, that is, the creation of a joint organisation for the peaceful development of atomic energy and the constitution, in stages, of a European common market, through the progressive reduction of quantitative restrictions and the unification of customs regulations. The strong political guidance of the Committee was provided, as its name indicates, by Paul-Henri Spaak, who, as president of the European Movement from 1950-1954, had, with Spinelli, led the battle for the EPC, fulfilling, among other things, the crucial role of President of the Ad Hoc Assembly.

The groundwork done by the Spaak Committee concluded with a report (the content of which was very advanced and detailed) presented to the meeting of the Council of Ministers in Venice on 29 and 30 May, 1956. Spaak, as its president, had contributed greatly to this work, adopting an approach highly reminiscent of the one previously used by the *Comité d'études pour la Constitution européenne*, that is, by the committee that, under Spaak and Spinelli, had done the groundwork for the Ad Hoc Assembly.<sup>13</sup> Indeed, the debate within the ambit of the Spaak Committee focused on working papers, for the most part “pre-packaged” by loyal collaborators of the president, primarily Pierre Uri and Hans von der Groeben, and it closed with resolutions intended to provide the basis for the sections and paragraphs of the future Treaties. The Spaak Committee’s final report had a decisive influence on the work of the IGC that approved the texts of the Treaties of Rome and this can be attributed not only to the extreme depth of its content, but also to the fact that this content had been made known in advance to public opinion, winning widespread consensus and generating considerable expectations that strongly conditioned the intergovernmental negotiations, and thus curbed the nationalistic tendencies that are structural manifestations of such negotiations.

To appreciate fully the extent to which the Spaak Report influenced the content of the Treaties of Rome, I feel that it is useful to consider the two opposing models proposed since the very beginnings of the European adventure as methods for creating the legal-institutional framework within which to carry forward the process of integration. On the one hand, there is the model of the intergovernmental conference, open only to government representatives and, in particular, diplomats, whose decisions are taken by unanimity and in secret, and whose proposals must be ratified unanimously. On the other, there is the European constituent

assembly model, proposed by the MFE and inspired by the Philadelphia Convention, which, in 1787, drew up the Constitution of the United States of America — history’s first federal state. In this second model, the assembly entrusted with working out the legal-institutional framework within which to realise European integration is a parliamentary assembly, its decisions are taken by majority and transparently, and, finally, its proposals are adopted in the ratifying states even when unanimity is not reached.

To the MFE, this kind of procedure represented the only possible way of obtaining a federal constitution that, involving a definitive transfer of sovereignty, would lay the foundations for democratic, efficient and irreversible European unification. In the case of the intergovernmental method, dominated by the national governments (which are prompted by the crisis of the nation-states to pursue a policy of European integration, but are structurally inclined towards conservation of their own power) and where the unanimity rule imposes the least common denominator, the choices that inevitably win through are ones of a confederal nature that leave the basic decision-making power in the hands of the governments. With the democratic constituent method, on the other hand, a dominant role is played by the representatives of public opinion (which, in the historical context of the structural crisis of the nation-states, is induced to favour supranational unity), and the paralysis induced by the unanimity rule disappears.<sup>14</sup>

On the basis of this conviction, the action of the MFE has always been shaped by its determination to promote the democratic, constituent alternative to the intergovernmental method, gaining leverage from the contradictions and crises that arise from the democratic and efficiency deficits structurally inherent in integration founded on prevalently confederal institutions. In this context, we can recall the European People’s Congress, which was active from the time of the Messina re-launch of the process of European integration through to the early years of the EEC. Based on popular mobilisation, it was a campaign for a directly elected constituent assembly<sup>15</sup> — between 1957 and 1962, the votes of 650,000 European citizens in favour of a supranational congress were collected — and, when it was started, it criticised not only the democratic and efficiency deficits that characterised the Community system, but also the EEC’s founding fathers’ declared belief that integration based on Community method was bound to increase almost automatically. But this critical approach was rather rigid and, at the time, the campaign failed to appreciate fully the great dynamic force inherent in the

common market project. Having said that, the popular campaign for a European constituent assembly does deserve recognition for keeping this demand very much to the fore, and for later making it instrumental in securing the direct election of the EP and the EP's commitment to the democratisation and strengthening of the Community system.<sup>16</sup>

From this comparison of the democratic constituent model and the intergovernmental model, it seems, to me, clear that the decisive steps forward in the process of European unification have been taken at precisely those times in which some element of the original (Philadelphia) model intervened, modifying the purely intergovernmental process and limiting the dominant role played by the national diplomatic services. This was obviously true in the case of the Messina Conference, in whose wake the intergovernmental conference that defined the Treaties of Rome was clearly conditioned by the groundwork done by the Spaak Committee. But also in the case of the procedure that led to the founding of the ECSC, it is significant that Schuman, to get round the predictable resistance of the French diplomatic service, involved the latter only after his plan (drawn up by Monnet with the prior agreement of Adenauer) had been formally presented to public opinion, and won a level of consensus that left the Quay d'Orsay with its hands tied. Furthermore, the EDC project, which, as we have seen, strongly influenced the choices made in Messina, was drawn up by a parliamentary assembly, even though the governments retained the final word on it.

In the wake of the Treaties of Rome, parts of the Philadelphia model were introduced, with the direct election of the EP, which, by approving the Spinelli draft Treaty, paved the way for the subsequent institutional reforms, and with majority decisions on some crucial issues.<sup>17</sup> In particular, we might recall: the decision of the Rome European Council, in December 1975, to proceed with the direct election of the EP, in spite of the reservations expressed by the United Kingdom and Denmark; the convening, by majority, of the intergovernmental conferences that drew up the Single European Act and the Maastricht Treaty; and the majority decision, taken by the Rome European Council in October 1990, to accept the Report of the Delors Committee (a body similar to the Spaak Committee) on economic and monetary union as the basis for the work of the IGC that led to the Maastricht Treaty. Finally, the European Convention was composed, mainly, of parliamentary representatives and had a transparent mode of operation that included the systematic consultation of civil society; this made it practically impossible for the final IGC to reject the most advanced proposals it put on the table.

Clearly, leaving aside the uncertainty over the ultimate outcome of the process of ratification of the European Constitution, in the context of which there has emerged a crucial confrontation between those who support the principle of ratification by majority and those who refuse to accept the overcoming of the unanimity rule, no entirely democratic constituent method has yet been established. The problem has, however, become unavoidable, because if full federalisation of the European Union cannot be achieved within a reasonable space of time — and unless the method that will allow this can be introduced, a method that must necessarily include the possibility of federation among those ready to take this step — then the process of European integration is destined to undergo a fatal regression.

Sergio Pistone

#### NOTES

<sup>1</sup> A good reconstruction of this stage in the process of European integration can be found in Enrico Serra (editor), *La relance européenne et les Traités de Rome. Actes du colloque de Rome 25-28 mars 1987*, Brussels, Bruylant, 1989.

<sup>2</sup> With this image, Luigi Einaudi interpreted the two World Wars as the imperialistic response to the crisis of the nation-states, which must be set against the federalist response, that is union by "the sword of God." See L. Einaudi, *La guerra e l'unità europea*, Introduction by G. Vigo, Bologna, Il Mulino, 1986, pp. 43 onwards. Along the same lines, L. Dehio, *The Precarious Balance. Four Centuries of European Power Struggle*, New York, Knopf, 1962. In general, with regard to the concept of the crisis of the nation-state as the fundamental historical factor at the root of the process of European integration, see: A. Spinelli, *La crisi degli stati nazionali*, edited by L. Levi, Bologna, Il Mulino, 1991; M. Albertini, *Il federalismo*, Bologna, Il Mulino, 1993.

<sup>3</sup> This phrase is contained in the proposal for European unification presented by Aristide Briand to the United Nations' General Assembly in 1929. See: S. Pistone (editor), *L'idea dell'unificazione europea dalla prima alla seconda guerra mondiale*, Turin, Fondazione Luigi Einaudi, 1975; S. Minardi, *Origini e vicende del progetto di unione europea di Briand*, Caltanissetta, Salvatore Sciascia Editore, 1994; Fondation Archives Européennes, *Le Plan Briand d'union fédérale européenne. Documents*, edited by O. Keller and L. Jilek and with Introduction by A. Fleury, Geneva, Fondation Archives Européennes, 1991.

<sup>4</sup> For more on the connection between the German question and Community integration, see: S. Pistone, *La Germania e l'unità europea*, Naples, Guida, 1978.

<sup>5</sup> This is not to detract from the enormous historical merit that must be attributed to Monnet as creator of the Community system. This system, by managing to plant embryos of federalism in an institutional framework dominated by the national governments, allowed the achievement of a level of integration that would have been impossible with a purely intergovernmental mechanism. See: Mario Albertini, "La grandezza di Jean

*Monnet*", in *Il Federalista*, XIX (1977), n. 1.

<sup>6</sup> Mario Albertini offers the most convincing explanation of why European economic integration was able to progress in spite of the postponement *sine die* of the creation of a fully democratic, federal European political authority. According to his analysis, this progress was rendered possible by the fact that, in the absence of a European democratic power, there intervened, as a decisive factor for integration, a *de facto* political power based on the "de facto eclipse" of the national sovereignties and on the "de facto unity of the *raisons d'état*." Basically, he was referring to the endemic weakness of the European nation-states, which forced them to cooperate in order to survive, and the strong convergence — ensured by America's hegemony — of their foreign, defence and economic policies. And he pointed out, moreover, that this political basis for European economic integration was structurally unstable, not least because the relative strengthening of the nation-states, produced by their economic integration, was destined, in the long run, to undermine the foundations of the convergence of their *raisons d'état*, unless this convergence could be stabilised through the creation of strong supranational institutions. See: M. Albertini, "La 'force de dissuasion' francese", in *Il Federalista*, II (1960), n. 6; Id., "La Comunità europea, evoluzione federale o involuzione diplomatica", in *Il Federalista*, XXI (1979), n. 3-4.

<sup>7</sup> See L.V. Majocchi and F. Rossolillo, *Il Parlamento europeo. Significato storico di una elezione*, Naples, Guida, 1979.

<sup>8</sup> See R.A. Cangelosi, *Dal progetto di trattato Spinelli all'Atto unico europeo*, Milan, F. Angeli, 1987; J. Delors, *L'unité d'un homme*, Paris, Editions Odile Jacob, 1994; A. Landuyt and D. Preda (editors), *I movimenti per l'unità europea 1970-1986*, Bologna, Il Mulino, 2000; L. Angelino, *Le forme dell'Europa, Spinelli o della federazione*, Genoa, Il Melangolo, 2003.

<sup>9</sup> At this point, it should be explained that the botched Suez adventure at the end of 1956 was one of the main reasons why France (at the time the most protectionist of the Six) accepted the EEC. This circumstance strengthened the position of those who felt that it would be in France's best interests (in terms of development) to become part of a European economy rather than cling to a crumbling colonial empire.

<sup>10</sup> For more on the EDC and EPC, and the role played by De Gasperi, Spinelli and Ivan Matteo Lombardo, see: G. Petrilli, *La politica estera ed europea di De Gasperi*, Rome, Cinque Lune, 1975; M. Albertini, "La fondazione dello Stato europeo. Esame e documentazione del tentativo di De Gasperi nel 1951 e prospettive attuali", in *Il Federalista*, XIX (1977), n. 1; S. Pistone, *L'Italia e l'unità europea*, Turin, Loescher, 1982; D. Preda, *Storia di una speranza. La battaglia per la CED e la federazione europea*, Milan, Jaca Book, 1990; Id., *Sulla soglia dell'Unione. La vicenda della Comunità politica europea (1952-1954)*, Milan, Jaca Book, 1994; Id., *Alcide De Gasperi federalista europeo*, Bologna, Il Mulino, 2004.

<sup>11</sup> Also, the fact that article 138 of the EEC Treaty entrusted the EP with the task of making proposals for its direct election retrieves part of Article 38 of the EDC Treaty which gave the European Parliamentary Assembly a similar task, in addition to that of proposing a draft EPC Treaty.

<sup>12</sup> See: Luigi V. Majocchi (editor), *Messina quarant'anni dopo. L'attualità del metodo in vista della Conferenza intergovernativa del 1996*, Bari, Cacucci, 1996.

<sup>13</sup> See: Daniela Preda, *Per una costituzione federale dell'Europa. Lavori preparatori del Comitato di Studi presieduto da P.H. Spaak 1952-1953*, Padua, CEDAM, 1996.

<sup>14</sup> See: Altiero Spinelli, *Una strategia per gli Stati Uniti d'Europa*, edited by Sergio Pistone, Bologna, Il Mulino, 1989.

<sup>15</sup> See: Cinzia Rognoni Vercelli, "Il Congresso del popolo europeo", in S. Pistone

(editor), *I movimenti per l'unità europea 1954-1969*, Pavia, University of Pavia, 1996, and *Ibid.*, S. Pistone, "I movimenti per l'unità europea in Italia", in which he traces the campaign for the Voluntary Census of the European Federal People, through which the MFE, under Albertini, from 1963-1966 campaigned for a constituent assembly. From 1967 onwards, this campaign was continued as a campaign for the direct election of the EP.

<sup>16</sup> See: S. Pistone, "Il Movimento Federalista Europeo e i Trattati di Roma", in E. Serra, *op. cit.*

<sup>17</sup> See: B. Olivi and R. Santaniello, *Storia dell'integrazione europea*, Bologna, Il Mulino, 2005.

## Viewpoints \*

### THE CREATION OF A EUROPEAN VANGUARD \*\*

Europe today is at a crossroads: either we relaunch the construction of a political Europe through a vanguard, or else Europe will end up on the road to economic, political and demographic marginalisation. The alternatives are, on the one hand, a Europe-market, a vast free-trade area fatally subjected to some protectorate or other, and on the other a political Europe capable of playing a role in the world which has by now become multipolar. The logic of a Europe-market goes hand in hand with the logic of an endless enlargement, which is not preceded by a deepening in political cooperation. The logic of a political Europe passes through the formation of a hard core. On this strategic question of a hard core there is a dividing line in most political parties: there are as many supporters of the hard core on the right (Jacques Chirac, in the debate of 26 October 2005 published on 26 European dailies, Dominique de Villepin, Jean-Louis Bourlanges, Alain Juppé, Guy Verhofstadt, Karl Lamers, Wolfgang Schäuble) as there are on the left (Dominique Strauss-Kahn, François Hollande, Johan Van De Lanotte, President of the Flemish Socialist Party, Joschka Fischer and Günter Verheugen). In light of this very hot topic the Forum Carolus<sup>1</sup> has taken part in seminars,<sup>2</sup> has a dedicated Internet site (<http://apres-le-non.forum-carolus.org>), is due to publish a book in 2006 and intends to organise some discussions in Strasbourg, a city that seems destined to obtain a position of privilege, being at the centre of the countries that could become part of the hard core.

#### *Europe-Market or Europe-Power?*

Time is running out when it comes to choosing between being a Europe-market and being a Europe-power, because we need to obtain the

\* This heading includes contributions which editorial board believes readers will find interesting, but which do not necessarily reflect the board's view.

means of escaping Europe's economic, political and demographic crisis. Powers are emerging in Asia with which it will often be in our interest to cooperate. History is speeding up and to the east of Europe strategic alliances are being created, as shown by the Turko-Russian meetings in the Kremlin over the problems of Central Asia last June, the project for an Indo-Iranian oil pipeline that traverses Pakistan, the formation of the China-India-Russia triangle following the meeting, again last June, of the Foreign Ministers of these three countries, the reinforcement of the Shanghai group, etc. Faced with all this the European countries risk being left out of history if they do not also organise to take charge of their own strategic interests. And to do that they must realistically take into account the concrete facts of the European and global situation, that is to say the setback that the constitutional treaty has suffered, the impossibility of constructing a twenty-five nation political Europe, and the foreign policy of the United States. Furthermore, after the end of the bipolarity which followed the sudden collapse of the Soviet Bloc, essential issues were addressed, for the first time and in all their importance, such as the final form that the Union ought to take, i.e. its institutional form and its frontiers, European defence, strategic cooperation with Russia, China and India, and the redefinition of transatlantic alliance.

I believe that on the one hand the creation of a political Europe, or of a Europe-power, requires the activation of a vanguard, of a group of so-called pioneer countries, in line with the current terminology, and, on the other, the start of a strategic partnership with Russia. As the commissioners Lamy and Verheugen have often reminded us in joint press conferences, a credible and active hard core other than one based on France and Germany is not conceivable, reasonably speaking. Besides what is usually said about the symbolic value, which goes for the whole of Europe, of the Franco-German agreement, it is worth remembering that France and Germany together have 142 million inhabitants and account for 41 per cent of the budget of the Union. The issue of the hard core and of Euro-Russian cooperation on the basis of the Franco-German-Russian motor (Paris, Berlin, Moscow) are two sides of the same coin, because they are the key to the control of Europe's strategic interests and the driving force for a truly European policy. Paris and Berlin, furthermore, are able to decisively inspire the policies of the Union towards Russia. For example, Russia could subscribe to the Common Foreign and Security Policy (CFSP) and take part in decision-making on strategies and common action within the PSC (Political and Security Committee, already provided for in the Nice Treaty) — something that would not

involve high costs and which would be symbolically and strategically decisive — and it would also be able to take part in the Union's rapid response force. This important issue of strategic relations with Russia, but also the one about relations with the United States, and that of the nature of relations with Turkey are currently splitting the political class as a whole, as is happening over the issue of the hard core. We find both advocates and opponents of a strategic cooperation with Russia, as much in the Socialist Party as in the UDF or in the UMP, and, as already mentioned, left-wing politicians (like Dominique Strauss-Kahn, Jack Lang, Pascal Lamy, Günter Verheugen, Joschka Fischer) and conservatives (like Dominique de Villepin, both when he was Foreign Minister, and after becoming Prime Minister, Alain Juppé, Edouard Balladur, Jean-Louis Bourlanges, Jacques Chirac) very clearly declared themselves in favour of the core. The President of the Commission José Manuel Barroso himself ironically commented on the text, already mentioned, of the French President, stating that he could have written the same article without the part about the pioneer groups. Supporters and opponents of the hard core can also be found within the PS, the UMP, the UDF, the Greens, the CDU-CSU, the FDP, and in general in most European parties.

But there is another line of division to consider: if the Europe of the Six, at the start of construction of Europe, effectively corresponded to a form of hard core, since the project of the Founding Fathers was not exclusively economic but also political, along the path towards the construction of Europe this vision was shared less and less by the new arrivals.

#### *The Progressive Erosion of the Project of the Founding Fathers.*

Immediately after the Second World War, six countries, which corresponded to Carolingian Europe, traditionally centrally placed and more developed than the others, decided to give birth to a customs union, with the aim of transforming it into a political project. With the three subsequent waves of membership, the political union project of the six founding countries was shared less and less by the new arrivals.

The initial project of the Europe of the Six only concerned a small part at the centre of Western Europe, a homogenous bloc which neither the more atlantist Northern countries nor the poorer Southern ones joined. The British Isles and Denmark joined this bloc in the '70s. The old EFTA countries adhered to it (they were almost compelled to) for economic

reasons, and have always been distinguished by their delay in taking steps towards integration, compared to the Six. In 1957 they were not ready, thirty year later they did not accept the single currency and for the time being they are opposed to a political Europe. The Mediterranean countries, in the '80s, joined above all for economic interests, whilst the Northern countries, in the '90s, did it in order to escape their marginal geopolitical position, accentuated by the construction of Europe. Here, Austria is an exception since it shares a large part of the initial ambitious European political project, and would be inclined, like Benelux, to be part of the Franco-German hard core, which would allow the political construction of Europe to be relaunched. The countries of Central Europe, having just regained their independence, are not prepared, for now, to renounce their reappropriated sovereignty; they are therefore not ripe for the European political project. The crisis of the construction of Europe is all the more acute and significant since it is the very countries that will profit most from European assistance that are rejecting the political project.

Even the various subsequent memberships were not motivated by the political project of the Founding Fathers. Rather, the new adherents were moved by the conviction of not having any other choice, since neither EFTA nor the Nordic Council turned out to be realistic alternatives. After the first enlargement of 1973, therefore, the new memberships were based exclusively on economic interests, and furthermore the countries that would not have had anything to gain from this point of view, like Switzerland or Norway, decided not to join the Union.

Today most of the countries of the European peninsula are part of the Union, except Norway, Switzerland and Iceland, which are closely associated to it through the European Economic Area. At the beginning of this process, the driving role of France and of Germany (General de Gaulle chose to give this priority as from the end of the Second World War), and then of the six founding countries, was decisive. Since 1993, with the Maastricht Treaty and the three innovations of economic and monetary union, of common foreign and security policy and of the Schengen system, Europe has had a variable geometry. In 1994 Karl Lamers and Wolfgang Schäuble launched the idea of the hard core, taken up once again from those Europeans preoccupied with giving birth and political weight to Europe. Shortly after the recent defeat of the constitutional treaty in France, the same Karl Lamers maintained that the time had come to launch the Europe of Defence through a hard core ("L'Europe de la défense en priorité", in *Le Figaro*, 31 May 2005). Since the Union had

not proceeded to carry out a reform of the institutions before the enlargement from 15 to 25, this prospect is the only one today that can save the dynamics of the construction of political Europe, and the only credible hard core, even if it is open to the rest of Europe, is that based on France and Germany.

### 3. *Which Countries in the Vanguard?*

The heart of the hard core, therefore, is made up of France, Germany, Belgium and Luxemburg. Belgium and Luxemburg, thanks to their position and their twin culture, integrate naturally into the Franco-German tandem. These four countries often have very similar positions on economic (Rhenish model) and fiscal matters, on the problem of defence (April 2003 Tervuren meetings) or foreign policy (common position on the war in Iraq). As regards the remaining two out of the six countries that started the process of European construction, Italy and the Netherlands, one needs to ask oneself if they, in the current situation, have the inclination to unite with the starting group. The Netherlands, as much on economic matters as on those of foreign policy, are much closer to the British position, which limits itself to considering Europe as a free trade area without political weight. As for its own defence, they do not give preference to EU military production and, for example, recently they chose the future American fighter plane (JSF). The question of Italy is more complex: certainly a large part of its political class and of its public opinion shares the European political project, but the fundamental tendency of Italian foreign policy after the end of the Second World War does not tend towards a hard core as a base for a politically independent Europe. This tendency is even starker in the Berlusconi government, very close to the British positions, to the point that the press often refers to the London-Rome axis.

Moreover it is essential to find a way to allow Central Europe to take part in the project for a political Europe. Following an Article of mine published in *Le Figaro* on 15 June 2005 (“Une alternative au non à Strasbourg”), the Forum Carolus advanced the proposal of the creation of a vanguard of six countries,<sup>3</sup> open to any that want to join, composed of France, Germany, Belgium, Luxemburg, Hungary and Austria,<sup>4</sup> despite underlining that only the Franco-German motor (with the addition of Belgium and Luxemburg) would give credibility to the European political relaunch project.

After the European Council of December 2003 and the partial failure

of the IGC over the project for a Constitutional Treaty, and after Dominique de Villepin, when he was Foreign Minister, made the plans under development for Franco-German union public,<sup>5</sup> Hungary, during a fringe press conference at the European Summit, officially took the position (voiced by its Prime Minister, Peter Medgyessy and the Foreign Minister Laszlo Kovacs, current European commissioner) and demonstrated its will to participate in a vanguard with France and Germany at the base. With the participation, along with these latter, of four small countries of the Union, two in the West and two in Central Europe, an equilibrium would be created in the group of the pioneer countries (Vienna is to the east of Prague, even if, for the record, the Viennese talk about “Osterweiterung”, i.e. eastwards enlargement). Given that Franco-German cooperation is viewed with apprehension by the smallest countries, and particularly by those of Central Europe, it is worth making a credible gesture of openness towards these countries. Hungary and Austria tackle issues linked with Central Europe together officially and systematically. Therefore, Vienna and Budapest, ensuring geographical continuity, could be said to project the vanguard towards Central and Eastern Europe. Furthermore Budapest has been the true centre of gravity of the old Austro-Hungarian Empire, whilst even Austria was part of the historical Carolingian core, and was not able to take part in the European political project of the six founding countries due to its ambiguous situation, midway between East and West, immediately after the Second World War. Besides that, as already underlined, Austria has been the only country that, over the course of the subsequent enlargement, shared the original European political project of the Founding Fathers.

### *The Role of Strasbourg for the Vanguard.*

Strasbourg, at the centre of this design, and in collaboration with the other cities that host European organisations, is ambitiously proposing to renew the project inspired by the ideals of the Founding Fathers, constituting a bridge, culturally and economically speaking, between the Latin and Germanic worlds, projected towards Central Europe. As an MEP reminded me recently, a Slovak, a Croatian, an Austrian or an inhabitant of Lvov feel at home in Strasbourg. The main European think tanks in Brussels, or elsewhere, cannot conceive of Europe, and the necessary departure from the crisis, outside of the present form of the Union, confirming that the places and the environments within which one thinks and acts are decisive. Beyond the Kehl bridge, the Republic of Berlin laid

the Republic of Bonn to rest. In Strasbourg, instead, Europe is not confused with the Union: The Europe of Strasbourg is contained within and at the same time goes beyond the Union. This city is at the centre of future relaunches based on a vanguard, starting from the Franco-German axis, but it is also the historical, cultural and economic port of entry to Central Europe, across the Rhine, the Danube and the Saône-Rhône axis (and we must not forget that it is also the seat of the Council of Europe, which includes all the countries on the continent, Russia included, with 46 members, and the Assembly of European Regions, with 250 members).

The aspiration of the Forum Carolus is to turn Strasbourg into a place where strategic European issues are debated. Over the course of the centuries this city was at the same time a haven and a military bulwark; today, given that the relaunch can only go through a group of pioneer countries based on the Carolingian core, it can become, if we want, an economic crossroads and a centre for political decision-making. For the first time in its history, as Tomi Ungerer reminds us, Strasbourg finds itself in the right place at the right time, and also has the proclivity to host the hard core's future centres of decision-making.

*Henri de Grossouvre*

## NOTES

\*\* This is taken from the intervention in the seminar on the subject: "After the failure of the European Constitutional Treaty, how to relaunch the Project for a European Federation with a group of States?", organised by the Committee for the European Federal State in collaboration with the UEF-Alsace section and held in Strasbourg on 12-13 November 2005.

<sup>1</sup> The Forum Carolus is a European think tank based in Strasbourg ([www.forum-carolus.org](http://www.forum-carolus.org))

<sup>2</sup> The next one will be held in Budapest on 18 and 19 November 2005 on the theme: "Europe of the future, the future of Europe", organised by the International Centre for European Training of Budapest.

<sup>3</sup> <http://apres-le-non.forum-carolus.org/>

<sup>4</sup> Henri de Grossouvre, "Alternative au NON à Strasbourg", in *Le Figaro*, 15 June 2005, and Karl Lamers, "L'Europe de la défense en priorité", in *Le Figaro*, 31 May 2005.

<sup>5</sup> Henri de Grossouvre, "Strasbourg, l'Union franco-allemande, et la relance de l'Europe politique", in *Revue Défense Nationale*, 2005, no. 3.

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