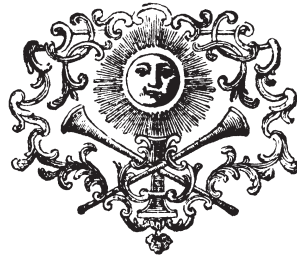


# THE FEDERALIST

a political review

*Editor:* Giulia Rossolillo

*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 European Project Faces its Day of Reckoning

In the face of the dramatic worsening of the current financial and economic crisis (which at the time of writing this editorial seems to be pushing Greece towards bankruptcy and is also hitting Italy hard) it is clear that, for the Europeans, the choice “to unite or perish” is not only very real but also imminent. It hardly needs to be pointed out that Greece’s default would have devastating effects on the whole of the eurozone and would, particularly in view of the weakness of countries like Italy, unleash a domino effect that would bring down the single currency and even the European Union itself. It is widely believed that, should this scenario materialise, the economic damage would almost pale into insignificance compared with the enormous political harm that would be done: for the Europeans, both as a whole and as single countries, it would mean exiting the global stage and losing all capacity to influence international negotiations and the redefinition of global power relations. Even German chancellor, Angela Merkel, has realised this, finally admitting, after much equivocation, that “if the euro fails, then Europe fails.”

In truth, there has long been a growing awareness in Germany (and also in France although in different ways) that Europe needs a sea change: a return to the ideals of the founding fathers whose original intention was to lay the foundations not of a market — this is what, over the past decade, the Union has wanted to represent — but of a federal political union. It is no coincidence that today we are starting to hear, in essence, echoes of various speeches made in the mid-1990s which called for the creation of a federal core within the Union through the immediate introduction of forms of political union between the most deeply integrated and most pro-European countries (one example is the proposal put to the *Bundestag* on September 1, 1994, by CDU/CSU parliamentary group chairman Wolfgang Schäuble, together with Karl Lamers). At that time, these interventions were insightful, far-sighted analyses that sought to highlight the risks Europe faced should it fail to find a rapid solution to the

paradox of a currency without a state, and should it prove unable to curb the risks of a watering down and renationalisation of Europe that were inherent in the pursuit of enlargement without the creation, alongside this process, of adequate European institutions. These warnings were not heeded (with results that are only too clear to see) and today, fifteen years on, the same ideas, precisely because they are the only ones that offer a reasonable outcome to the crisis, are returning to the fore. The recipe now advanced tends to be that of the creation of a *Federation within the Confederation*, starting with the Eurogroup countries.

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Every crisis, as we repeatedly hear nowadays, precisely because of the threat it represents, must also be seen as a stimulus, and therefore as an opportunity for change. What this means for the Europeans, for whom the need to overcome difficulties and stalemates has always been the stimulus that has allowed them to advance (sadly almost the only one), is that the current crisis is their biggest chance of making, at last, that fundamental leap towards political union, precisely because the alternative is no longer slow and tolerable decline, but rather out-and-out catastrophe. For the Europeans, this imminent catastrophe is spelled out primarily in the warnings coming from the rest of the world, which is horrified at the prospect that our continent will fail to take the path leading to true unity and, as a result, will implode, creating a chasm at the heart of the fragile international equilibrium that is currently struggling to emerge and triggering a series of largely unpredictable chain reactions. The messages coming from the United States and China, as well as from the rest of the developing world, are unequivocal, as are all the analyses, studies and reports produced by the various international institutions and think tanks, which, without exception, make it clear that the Europeans must create effective forms of political unity if they are to prevent the entire Community edifice from crashing to the ground.

Moreover, data documenting the level of economic and financial interdependence created by the single market and the euro show, beyond doubt, that the Europeans now share a common destiny. And the untenable nature of the present situation means that they have no choice but to seek new solutions — solutions that must inevitably target, as their final outcome, the creation of a European federal power.

Indeed, the various aspects of the emergency that the states are now called upon to tackle show that the birth of a European federation (or “United States of Europe” as many prefer to style it) within the present

Union must, necessarily, be the ultimate objective of the reforms that are so urgently needed. Four issues, in particular, can be deferred no longer.

The first is the need to find formulas capable of institutionalising (and “interiorising”) the mechanisms of reciprocal solidarity. For Germany, in particular, this is a very delicate point. Of course, Germany is not the only country to take a stand — several eurozone countries have opposed the decisions that have been taken in this regard —, but it is the key country given the decisive influence it wields in Europe and the fact that its support is the *conditio sine qua non* of any intervention. The Germans are, objectively, the main contributors to the various bailout funds that have been created to counter the attack on the sovereign debts of the most fragile EMU countries. Now, after twenty years of trying to set boundaries to prevent the monetary union from being turned into a transfer union, they are having to back down over the questions of the no-bail out clause and the ECB’s involvement in protecting the government bonds of the PIIGS countries. Every time the European governments are blackmailed by the markets into taking decisions in this direction, which they do slowly and with great difficulty, a fierce debate is reopened in Germany, which has recently even involved the German Constitutional Court. At the present time, the question of whether or not the emission of Eurobonds should represent the start of a process ultimately destined (regardless of the technical formula adopted) to pool the debts of the eurozone countries seems to be the front on which all the German fears are concentrated and crystallised. As well as being unwilling to grant help, blindly, to countries that have accumulated disproportionate debts, the Germans are also worried about the risk of being dragged down by the weakness of their partners. In many ways it is hardly surprising that these feelings should be widespread in German public opinion. After all, the national governments have never been willing to countenance a full political evolution of the eurozone, and the rules governing monetary union have neither unified the economic policies of the different states, nor created effective convergences between them. As a result, they have continued to be, basically, in competition with each other. And herein lies the structural anomaly exposed by the markets: the existence of a monetary union created in the absence of adequate political institutions. But as long as this intergovernmental/Community framework survives, the contraposition of national interests will continue to be the factor that prevails, and not always in a rational way (the idea that is better to go it alone will always have a certain appeal). The conflict between, on the one hand, the requirement (rational and politically far-sighted) to implement forms of

solidarity capable of preventing the domino-effect collapse of the weaker countries (which, as has been seen, could ultimately even include France) and, on the other, the severe internal tensions that this requirement is producing in Germany looks likely to last. It is a conflict that will require the German government to display remarkable agility, at least until it proves able to approach it with a different objective, namely that of injecting new “substance” into the process of European construction through the creation of a federation, a true state that, despite initially having to be (as is often rightly recalled) “slender”, will nevertheless have the capacity to turn the European people into a federal people living in a single political community, founded on institutions capable of governing in the interests of everyone.

The second issue is the need to limit the sovereignty of the eurozone countries in matters of budgetary policy. This, of course, immediately raises the question of the democratic legitimacy of the organ that would be given the power to intervene in this highly sensitive area. Under the pressure of the present emergency, it has been decided that the supervisory powers of the Commission should be increased and more effective sanctions introduced. The idea is to accomplish this through the activation of a Community mechanism that need make no provision for supranational forms of democratic control, given that the Commission would act as referee to enforce the decisions of the Council (wherein the European citizens, as such, are not represented, but the national governments negotiate agreements). The assumptions underlying this strategy are, first, that the sovereign debt problem of less virtuous countries is due *exclusively* to a lack of volition on the part of the governments in question; second, that the problem of the democratic deficit can again be glossed over, in this case by involving the national parliaments in the approval (basically *ex-post*) of the decisions taken by the Council; and third — and this is the crucial assumption — that all this is actually workable: in other words that the states, under protection, can reduce their debts and make the structural reforms that are needed to boost their productivity, growth and competitiveness, thereby allowing a narrowing of the gap between the virtuous and fragile economies within the eurozone.

It goes without saying that all this is highly unrealistic. Under pressure from the crisis, indebted countries can certainly take steps to balance their current budget (i.e. make cuts and bring in austerity measures, and not just because they are incapable of coming up with anything better: the urgency imposed by the markets leaves little room for alternatives), but they do so at the expense of their capacity to invest and support the

economy. And if this is all they do, then what is triggered is a vicious cycle, not a virtuous one. This is not to say that countries like Italy and Greece should not be taking this opportunity to set their accounts in order and, above all, to undertake a radical reorganisation of their politics and society. However, the necessary quantum leap is feasible only in a new *political* setting, i.e. not in a narrow *national* framework, but in the context of a process leading to the creation of a new democratic European *state*. What is more, the democratic deficit created by the restriction of national sovereignty in budgetary matters risks becoming untenable even for Germany. The boundaries that (as long as the nation remains the only democratic framework of reference) are imposed by the German Constitutional Court could in fact generate serious tensions: the conflict between democratic control left in the hands of a *Bundestag* entitled *only* to monitor German national interests and the growing need for European “government” could become explosive.

The third issue is directly linked to the second: the eurozone countries must find the instruments to promote, at European level, a plan for growth, development and employment. Precisely because the resources — not to mention, sometimes, the capacity — to address the issue of economic recovery are lacking at national level, yet economic recovery remains crucial for solving the debt problem, this plan must clearly be promoted at European level. To be successful, a European plan of structural investments designed to boost the economy in key sectors depends on the presence of essential political conditions: “minimum” conditions that, to date, have been absent in Europe. Over the past two decades, the European Commission has drawn up plans that could have provided strong foundations for the recovery of our continent, but they never got beyond the drawing board. The main reason for this is the failure of the states to invest directly, partly because these have been years of poor growth and limited funds, but above all because, in an area deeply integrated economically but divided politically, each state has preferred to wait for the others to make a move, so as to be able to enjoy the benefits to be gained from investments, without running the risks associated with being the first to make them.

Therefore, if a European plan is now to manage, at last, to move from the drawing board to reality, the first condition that must be met is that it be, in the main, financed by independent European funds. This raises the dual objectives of European own resources and a European budget offering (compared with the current EU budget) much more scope for structural investments. These are objectives that imply a political vision

of the process of European construction and they are feasible only if the governments genuinely wish to steer Europe in the direction of a federal union. European own resources were already envisaged by the Treaties, but it is no surprise that, under the pressure of material difficulties, they were gradually eliminated. This left the EU budget reliant on the member states and their direct transfers, which effectively distorted its purpose (in this regard, the analysis contained in the report by three MEPs, Haug, Lamassoure and Verhofstadt, is crystal clear). The introduction of the power of taxation at European level corresponds to the laying of one of the foundation stones of a fiscal union (the other being the unification of the public debt): it is, therefore, a political act, acceptable and implementable only to the extent that there actually exists the *political* will to accomplish it.

Finally, the need to implement profound transformations in the European setting in order to allow the birth of an economic and fiscal union cannot be divorced from the need to adopt the instruments that will enable Europe to have a single foreign and security policy, and thus to assume the role (and responsibilities) of a true global power. The false solutions attempted by the Europeans in recent years, particularly the latest reforms set out in the Lisbon Treaty — the introduction of the role of High Representative of the Union for Foreign Affairs and Security Policy and of the possibility of structured cooperations for countries wanting closer integration in the field of defence —, have shown once again that unless the issue of political unity is definitively resolved (through pooling, at European level, of the national sovereignties) then all forms of interstate cooperation, however structured and detailed, will inevitably fail to produce the necessary results. Indeed, rhetoric aside, the EU's dwindling influence on the global stage provides confirmation that it is in the political as well as in the economic sphere (given that the two are interlinked) that the future of our continent is at stake.

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While it is true that any plan that might be implemented at this stage immediately brings us back to the problem of the Europeans' lack of political unity, it is also crucial to appreciate that the framework in which this need for a plan could be addressed is not that of the 27-member European Union, but the smaller one of the Eurogroup. This is a decisive point, underlined by the fact that Germany and France are thinking about the need for a separate treaty for the eurozone countries, which would stand alongside the Lisbon Treaty. The real will to go beyond the limits



of the European Union in its present form and to take the process of European unification to a whole new level can now be demonstrated, initially, only by abandoning the idea that the changes needed should stem from the framework of the 27-member EU and from reform of the existing Treaties. Indeed, unless we can overcome the belief that a future eurozone economic government must be designed and negotiated with countries, like Great Britain, that are not even part of it and are, moreover, opposed to any strengthening of the European institutions (retaining, what is more, the power of veto in the EU framework), then we clearly remain trapped by the same contradictions that have led the EU to spend an entire decade discussing nominal reforms of the Treaties, only to then produce the Lisbon Treaty, which was immediately seen to be totally inadequate.

Thus, the first decisive battle will be fought not in the context of an assembly of the 27 EU member states, convened to discuss reform of the Lisbon Treaty, but rather in that of a newly created European framework, narrower than that of the European Union — a framework determined by the need to face, together, the same deadly threat and by the will to react in unison.

Many genuine supporters of European unification, and also the EU institutions themselves, might well react with apprehension to this idea, seeing it as a seismic change liable to rock the ground beneath the foundations of the European edifice that has gradually grown up over the years. In actual fact, precisely because the crisis has shown that the EU equilibrium is unsustainable, resumption of the journey towards greater integration is now the only chance of saving that which Europe has already constructed; and this is possible only starting with the countries that are most closely interdependent and most ready, politically, to take this step.

At this point, those who represent the EU institutions and those who really believe in the validity of the Community model could best contribute by taking part in the discussions on the provisions that would be necessary in order to make the rules of the new Eurogroup Treaty compatible with the Treaty provisions already in force in Europe, and on the redefinition of the institutions within the new dual framework. These are ideas that, albeit in a very basic form, have already been studied in the past, particularly in the mid-1980s, when the Spinelli draft treaty on European Union and the opposition from Great Britain raised the question of the need to examine, should the founder members ratify a Treaty-Constitution, the compatibility between the proposed Union and the rest

of the European Community, in which Great Britain, Denmark and Greece would undoubtedly have chosen to remain. In the mid-1990s, the problem was raised again, this time in political terms (as already recalled), in view of the imminent introduction of the euro and enlargement of the Union.

The conditions for the construction of a more cohesive Eurogroup *within the context* of the current EU were laid out in this very review as early as the 1980s (*The Federalist*, issue n. 2, 1986), albeit using the jargon of the time. Expressed in today's language, these conditions are the following: a) the core group must remain open to those countries that might subsequently express the desire to join it, on condition that they respect its terms and are ready to accept any new rules it might introduce; b) the core group must guarantee, in its dealings with countries that are only EU members (i.e. not members of the Eurogroup), full compliance with EU regulations and procedures; c) it must be decided whether, in the context of intergovernmental and community relations within the European Union, the members of the Eurogroup will act *uti singuli* or through common institutions (it nevertheless being accepted that in majority votes by the Council of Ministers and in the establishment of the number of Commission members each country can have, the Eurogroup will always count in proportion to the number of its member states); d) the composition of the institutions must be reviewed, bearing in mind that while they must not be duplicated, they may fulfil a dual function, acting as organs both of the new Eurogroup and of the Union. The Parliament and the Commission, in particular, could retain their present composition, although in situations in which they are acting as organs of the Eurogroup, the representatives of those countries that are EU members only would become mere observers, with the right to speak but not to vote; e) the budget of the Eurogroup must be separate from that of the European Union (which should keep its existing budget) and financed by own resources.

Obviously, in addition to these key points, a great many other questions were, and still are, raised, presenting various thorny technical-legal problems; but, in truth, provided there is the political will to solve them, they are certainly not insurmountable ones. Furthermore, compared with the past when ideas of this kind were considered, today there are other factors that have come into play, making a procedure of this kind more plausible and necessary than before — namely, the unifying influence, for the Eurogroup, of the single currency and the urgency imposed by the present crisis. These factors have also made it necessary to think about

drawing up the new treaty through a procedure that would initially exclude the non-eurozone countries — these would participate only in the definition of relations between the European Union and the Eurogroup — and, above all, would not give them the power of veto (which, under the terms of the existing Treaties, they retain).

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One of the criticisms that can certainly be levelled at France and Germany's proposal to create a new treaty for the eurozone is that such a treaty would be the result of yet another unilateral decision taken by the EU's two leading countries (i.e. a product of the Franco-German "directoriate"), and a further demonstration of their inability to go beyond intergovernmental-type solutions. This is, to an extent, a valid criticism. The European Union, precisely because it is still an intergovernmental-type organisation (as the German Constitutional Court never tires of repeating), acts basically in accordance with the initiatives and, above all, the will of the states. Therefore, the fact that today the impetus for change still has to come from the two countries that have traditionally been the main driving force of the process of European unification, and that the nature of this impetus is still confederal, must surely be taken as a sign of the real nature of today's Europe, and of its political limits. But we must not be fooled: the new entity that would come into being could not be anything other than a sort of provisional government, bound to bring to light all the limits of a solution that fails to address the issue of democratic legitimacy and the transfer of sovereignty. Paradoxically, however, its creation makes the democratic constituent battle for the foundation of a true federation within the European Union a possibility once again.

This is the battle for which we must now prepare, and there is no time to lose: it is necessary to lend support to the creation of a new, narrower framework in the complete awareness that this is the groundwork prior to the real political struggle. The political and social forces, associations and civil society can no longer stand by and watch: the time for thinking about the problem in vague, future terms is over. In order to move beyond the current intergovernmental model of organisation and respond to the need to establish a new form of democratic legitimacy, it is necessary to get the people involved, and this means mobilising the consensus of the citizens around a specific project (that of a federation within the confederation) that is underpinned by strong and clearly defined political motives and ideals. It is the European people who will legitimise the new European state power that must be brought into being, thereby providing, at last, a

point of stability. And, in the process of so doing, the people will gradually assume a true federal identity; indeed, the unfolding of this whole process should eventually lead the people to demand, from the national governments, the creation of European sovereignty, and thus the possibility of creating a new political power. The sooner politics and the social forces realise that they must strive actively to steer the mobilisation of public opinion in this direction, indicating an objective that is at once concrete and ideal, the sooner it will be possible to reverse the process of degeneration that is under way in our countries, a process that is destined to continue until a credible project for the future can once again be placed at the heart of political debate and struggle.

With this in mind, the federalists are preparing to launch a European Citizens' Initiative (as provided for by the Lisbon Treaty) to request a European sustainable development plan for growth, economic recovery and employment, to be supported by funding for infrastructure investments drawn from EU own resources (revenue from European taxes). It is a proposal that tackles one of the issues that the Europeans cannot escape, and its real objective is the mounting of an initiative within the Eurogroup. But since, at present, we lack the tools to move towards a narrower framework than the present one, it is necessary to appeal to the European Union to highlight the importance and benefits of such a plan and, at the same time, the impossibility of implementing it in the current 27-member framework. The evolution of institutional debate will be one of the factors deciding the ambit in which the above request is pursued, but the basic fact remains the same: if there exists the determination to begin directing the will of the citizens towards European solutions capable of giving the Europeans a future once again, then there is no reason not to act now. There are no more excuses: the sooner this cultural and political leap forwards is taken and the work is started, the sooner we will be able to start averting the nightmare scenario of the definitive collapse of the European edifice.

*The Federalist*

# Towards a European Federal Fiscal Union

ALBERTO MAJOCCHI

## *I. From the financial to the sovereign debt crisis.*

1. The greatest crisis that the world economy has had to endure since the end of WWII started in 2007 with the collapse of the housing bubble in the United States. The origin of the crisis was financial: the American banks had granted mortgage loans for the purchase of houses also to low-income families, with the declared aim of giving everybody access to home ownership. The result was an ever-increasing demand for real estate and this favoured constantly rising house prices; for the banks, the value of properties became the guarantee of repayment of the loans: should the new owner fail to make his mortgage payments, the banks could always repossess the property and put it on the market at a purchase price higher than the amount of the mortgage itself. Furthermore, the increase in home ownership favoured the granting of further loans to families, enabling them to purchase, on credit, not only furnishings, but also cars and other consumer goods. The widespread use of credit cards for everyday purchases, far above families' economic means, represented a further step in the expansion of demand and, by consequence, of production. A land of plenty built on a house of cards: the continued expansion of credit. At a certain point, when the housing bubble burst and the banks were forced to demand repayment of the loans, the pyramid collapsed. For many banking institutions this was the start of a period of growing financial difficulties that culminated in an event that revealed the full gravity of the crisis: the bankruptcy of Lehman Brothers on 15 September 2008.

But the financial crisis has also laid bare the structural weakness of the American economy. For many years, internal demand has exceeded domestic production, with the difference being made up by net imports of goods from abroad (i.e. imports exceed exports). Furthermore, to this

external deficit must be added the federal budget deficit. And these imbalances are managed through capital imports not only from China, but also from other industrially developing countries: in order to put to use the huge balance of payments surplus and consequent accumulation of foreign exchange reserves, these capitals are invested on a large scale in American Treasury bonds. At the same time, imports of consumer goods, at prices much lower than the American ones, help, on the one hand, to guarantee a huge outlet market for the industrially developing countries' products, and, on the other, to sustain the standard of living of American families in spite of the containment of per capita income growth, especially for the middle-low classes. The American dream of unlimited growth, sustained by the housing bubble, by unlimited domestic credit, by the dollar's role as an international currency, and by the financial centre of New York, capable of attracting capitals from the rest of the world, came to a rude end with explosion of the financial crisis.

Rapidly, the crisis, born in the United States, went global. The American banks had been packaging "toxic" securities (i.e. ones that have no chance of being covered by the payments from those that received the loan) into other securities of different kinds which were then sold on the international markets. Very soon, the European banks, too, were dragged in with the American banks, forcing the European States to intervene in support of the banking system, through large injections of public money. At the same time, the banks, facing serious financial difficulties, were forced to impose a credit squeeze on their customers and in particular on the production system. Struggling companies had to reduce their production and the resulting shrinking of family incomes had a further impact on the demand for consumer goods. At this point, the crisis spread to the real sector, involving, albeit to different degrees, all the other industrialised areas of the world.

2. Faced with the risk of a global recession, the states reacted decisively. Overcoming the growing tendency to restrict public intervention, which had prevailed since Reagan and Thatcher, they heavily financed the real economy, while also — this applies to Europe in particular — guaranteeing levels of employment through the extensive use of social safety nets. The reaction to the crisis was stronger and more immediate in the United States than in Europe, where only the ECB, which is a federal body, is in a position to take the decisions that are needed in the face of this crisis, the greatest of the postwar period. The reactions of the EU and the countries of the eurozone were slower and weaker for two

reasons, which actually reinforce each other: first of all, as far as economic policy is concerned, the European Union is a confederal institution. Accordingly, its interventions in this area must necessarily be based on coordination — slow and inefficient — of decisions taken at national level; furthermore, its decisions on interventions of a fiscal nature have to be reached unanimously, which, inevitably involving lengthy and difficult compromises, gives rise to further delays.

The second reason for Europe's weakness is the fact that in a closely interdependent economic area, it is in each country's interests to act as a free rider, i.e. to leave it to other countries to take the initiative, given that the positive effects of interventions in other countries quickly spread to the whole area. In short, no single country is inclined to burden its citizens with the cost of financing a recovery of the European economy from which all the countries of the economically integrated area would benefit; furthermore, EU interventions are slowed down not only by the Union's institutional weakness, but also by the limited dimensions of its budget. In conclusion, the United States, which has a federal government and a substantial budget, can strongly support the economic recovery; any intervention in Europe, on the other hand, being entrusted to the member states, is more limited (also because of the Maastricht Treaty's budget-deficit rules) and has the sole aim — hugely important, but totally inadequate given the scale of the phenomenon — of preventing the crisis from turning into a recession of catastrophic proportions.

3. Thanks to the measures implemented by several countries, family incomes held steady and gradually the pace of production picked up once more. The newly industrialised countries, in particular, started to grow again at high rates and the expansion of world demand helped to support the exports of strong countries, especially Germany whose growth was also sustained by its livelier domestic market. But it immediately became apparent that the crisis had moved from the private to the public sector.

The case of Ireland, for years held up as the model to imitate, was the most emblematic. To save its beleaguered banking system, the Irish government was forced to make huge funds available to the domestic banking system and the result of this increase in public expenditure was a 2010 budget deficit of 32.3 per cent of GDP. In Greece, on the other hand, the conservative government had been sweeping the dust under the carpet; eager to enter the single currency, it had presented a budget deficit below 3 per cent of GDP, in line with the restrictions imposed by the Maastricht Treaty. When the new government, led by socialist Papandreu,

came to power it discovered, and publicly denounced, a huge hole in Greece's public finances (the country's budget deficit reached 10.5 per cent in 2010 and its debt stock 142.8 per cent). The financial markets immediately reacted to this news with a loss of confidence that made placing newly issued Greek bonds more difficult. The sovereign debt crisis was born.

The weak countries of the eurozone (Portugal, Ireland, Greece and Spain, often referred to by the disparaging acronym PIGS) were greatly penalised by the market, which had begun to doubt their ability to meet their obligations. To issue the new bonds necessary to finance their deficits they had to pay increasingly high interest rates, which had a hugely negative impact on the balance of public finance. The risk of default of these countries provoked a reaction in the other eurozone countries which, after long and extensive negotiations, provided for a loan of 110 billion euros to Greece; a further loan of 109 billion was subsequently approved at an extraordinary meeting of the Heads of State and Government of the euro area held in Brussels on 21 July 2011 to avoid forcing Greece to turn to the market for help before 2014. This second loan was granted in exchange for a package of serious restrictive measures in a country whose GPD had decreased by 4.5 per cent in real terms in 2010 following a 2.0 per cent drop in 2009. Furthermore, following the granting of 85 billion euros in aid to Ireland (35 billion of which was earmarked to rescue the banks), Portugal received a 78-billion-euro bailout.

The political impact of all this has been considerable. For example, the German government lost important regional elections, a clear sign of German taxpayers' aversion to rescue operations in favour of countries considered guilty of mismanaging their public finances, even though they perhaps forget that a huge quantity of the bonds of those countries now facing a serious financial crisis were bought by German banks, attracted by the high interest that can be earned from these bonds (data from the Bank for International Settlements show that German banks hold 62 billion dollars' worth of securities of peripheral eurozone countries, including Greek bonds worth 22.7 billion dollars). And during the recent Finnish elections, a new anti-European party obtained 19 per cent of the vote.

4. As a means of tackling the sovereign debt crisis, Daniel Gros and Thomas Meyer, in a CEPS policy brief, suggested creating a European Monetary Fund, an idea subsequently taken up by German Finance



Minister Schäuble in an interview in *Die Welt*. Gros and Meyer start from the consideration that since the eurozone countries are required to adhere to the principle of reciprocal solidarity and can, accordingly, expect to receive aid from the other countries were they themselves to be facing financial difficulties, they should be obliged to create a fund containing the resources necessary to meet possible requests for support. To avoid the moral hazard risks inevitably associated with any insurance mechanism — eurozone countries knowing that they can, if necessary, count on external support might be induced to act financially irresponsibly —, the two authors suggest that the European Monetary Fund should be exclusively financed by countries that break the fiscal rules of the Maastricht Treaty. In particular, the contributions would be calculated on the following basis: 1 per cent per annum on debt stock exceeding the 60 per cent limit and 1 per cent per annum on any budget deficit over the 3 per cent limit. In this way, in 2009, Greece, with its debt/GDP ratio of 115 per cent and its deficit of 13 per cent, would have had to pay 0.65 per cent of its GDP into the Fund (0.55 per cent for the debt excess and 0.10 per cent for the deficit excess).

The intervention of the Fund vis-à-vis a state in difficulty could take one of two forms: either the granting of a loan or the granting of a guarantee of newly issued public debt bonds. A state's drawing on the Fund would be unconditional as long as it remained within the limits of the contributions it had previously made; beyond these limits the state in difficulties would be required to present an adjustment programme, which would be evaluated by the Eurogroup and by the Commission. The concrete execution of this plan would be guaranteed by the enforcement tools available to the EU. First of all, the guarantee granted by the Fund could be withdrawn or the disbursement of structural funds could be suspended. Ultimately, the ECB could decide to stop accepting, as collateral for the new liquidity, the bonds of the defaulting country. Ultimately, the Fund could support the country in difficulty, which, however, would lose its sovereignty in the management of economic policy, which would be brought under the control of the European tier of government that granted the aid.

Another proposal that envisages the issue of a European bond as a means of tackling the sovereign debt crisis is that of Depla and von Weizsäcker. In a policy brief of the think-tank Bruegel, these two authors suggest that, on the one hand, the European states should pool part of their public debt (a part not exceeding 60 per cent of the GDP: approximately 5,600 billion euros) through the issue of a European bond (Blue Bond),

thereby significantly reducing the cost of this share of the debt. Instead, issues for the part of the debt exceeding 60 per cent would remain a national responsibility (Red Debt), and they would have higher costs that should prove to be a strong incentive for stricter fiscal discipline. On similar lines is Juncker and Tremonti's proposal to issue European bonds through a European Debt Agency in a measure that should progressively reach 40 per cent of the GDP of the member states, thereby financing at least 50 per cent of the member states' new debt issues. Furthermore, the Agency could exchange national bonds for European bonds, enjoying a discount on the face value that would increase with the growing indebtedness of the country from which the bonds were bought. This would represent a strong incentive to reduce the deficit, as indeed would the Red Debt in the Depla and von Weizsäcker proposal. A similar hypothesis involving conversion of the national debt and the financing of a European New Deal through the issue of euro bonds was put forward by Amato and Verhofstadt, supported by Baron Crespo, Rocard, Sampaio and Soares.

5. A more advanced proposal aiming to further develop the European Debt Agency was put forward in Belgium, both at political level, by prime minister Yves Leterme — his idea was also taken up by the president of the Liberal-Democratic Group in the European Parliament Guy Verhofstadt — and at academic level by Paul De Grauwe and Wim Moesen. In an interview published in *Le Monde* on 5 March 2010 Leterme points out that “the recent market tensions expose the limits of a monetary union that has no economic government” and suggests “creating a common Treasury in the eurozone or a European Debt Agency. The Agency would be a European Union institution with responsibility for issuing the government debt of the eurozone, under the authority of the finance ministers of the Eurogroup and of the European Central Bank. The European Investment Bank would act as the Agency's secretariat.” The Agency could take on the burden of existing debt, but each state would continue to pay market interest rates according to its level of solvency. This way, De Grauwe and Moesen remark, the risk of weak countries behaving as free riders, shifting the burden of their debt onto the financially stronger countries, is avoided. The new issues would instead benefit from a uniform interest rate, and as the existing debt became due, the eurozone government debt would take the form of a unified debt “which means that each member state would implicitly guarantee the debt of all the others.”

During a first phase, once the debt level for each state within the

Eurogroup had been established, the Agency would gather the corresponding resources and lend them to the state in question, which, should it fail to meet the deficit target, would be forced to turn directly to the market, paying higher interest rates as a consequence of its failure to respect the rules of the pact. And this penalisation would be a strong incentive to respect these rules. Subsequently, a real, unified European public debt market would be established, offering significant advantages in terms not only of liquidity, especially for the smaller countries and for those more exposed to the risk of a financial crisis, but also of a reduction of interest rates, which would also benefit the larger countries. Finally, in the longer term, Leterme suggests, the Agency could become “a financing organ for the great trans-European infrastructure projects and a means of achieving an anti-cyclical fiscal policy.” This is clearly a proposal with political relevance since, beyond the short-term advantages favouring a positive resolution of the Greek crisis, it prefigures the creation of a fund to finance a European development policy and, ultimately, the creation of a federal fiscal union alongside the national anti-cyclical stabilisation policies.

6. De Grauwe, in a recent paper, offered a clear analysis of the origins of the sovereign debt crisis in the countries of the eurozone. This analysis takes, as its starting point, a comparison between the English and the Spanish economies. The UK, in 2011, had a public debt stock amounting to 89 per cent, which is 17 per cent higher than that of Spain (62 per cent). However, the financial markets picked on Spain, not on the UK, as shown by a gap between the respective interest rates that, at the start of 2011, reached 200 basis points (this means that in order to sell its state bonds, Spain must offer two percentage points more than the UK).

According to De Grauwe, this differential behaviour on the part of the markets is due to the fact that Spain is a member of a monetary union, while the UK still controls the currency in which it issues its debt. “National governments in a monetary union issue debt in a ‘foreign’ currency, i.e. one over which they have no control. As a result, they cannot guarantee to the bondholders that they will always have the necessary liquidity to pay out the bond at maturity. This contrasts with ‘stand alone’ countries that issue sovereign bonds in their own currencies. This feature allows these countries to guarantee that the cash will always be available to pay out the bondholders.”

In such a situation, were investors to perceive a risk of default by the United Kingdom, they would immediately sell the UK national bonds in

their possession, causing the price of these bonds to fall and, in parallel, interest rates to rise. But those who sold the bonds would not want to hold onto the pounds thus obtained and would, most probably, sell them on the currency market, thereby reducing the value of the pound. As a result, pounds would remain available on the internal market and the currency stock would remain unchanged. At this point, part of this currency might be reinvested in state bonds. But were this not to happen, and the government to have difficulty selling its bonds on the market at reasonable interest rates, the Bank of England would be forced to buy these new bonds, in this way preventing the liquidity crisis from triggering a default of the British government.

Similarly, were default risks to emerge in Spain, the investors would sell their share of Spanish bonds, causing interest rates to rise. In this case, however, they would probably use the currency acquired from the sales (euros) to buy German bonds. Consequently, the potential sovereign debt crisis would become a liquidity crisis and the Spanish government would have ever-increasing difficulties in selling new issues at reasonable interest rates and, on the other hand, it would not have the power to elicit a support intervention either from the Bank of Spain or from the ECB, which is the only institution able to control the liquidity level within the monetary union. Therefore, a country within the monetary union is strongly conditioned by the behaviour of the financial markets.

Similar considerations are made by De Grauwe with regard to the problem of the differences in competitiveness between the countries of the monetary Union. If unit labour costs were to grow more in the Pigs countries than in the rest of the eurozone and the countries involved could no longer have recourse to currency devaluation, the only alternative, to render the economy more competitive, would be to start a deflationary process which would lead to wage and price reductions. But a situation of recession leads endogenously to a worsening of the deficit through a shrinking of revenue induced by reduction of the growth rate of the GDP. The worsening deficit reduces further the confidence of the financial markets, which can increase the risk of default, and also have negative consequences for the other countries of the monetary union due to the high level of financial integration existing within the area.

De Grauwe's conclusions are important, not least for evaluating the recent decisions of the European Council on the issue of governance. "Like with all externalities, government action must consist in internalising them. This is also the case with the externalities created in the eurozone. Ideally, this internalisation can be achieved by a budgetary

union. By consolidating (centralising) national government budgets into one central budget, a mechanism of automatic transfers can be organised. Such a mechanism works as an insurance mechanism transferring resources to the country hit by a negative economic shock. In addition, such a consolidation creates a common fiscal authority that can issue debt bonds in a currency under the control of that authority. In so doing, it protects the member states from being forced into default by financial markets.” He concludes: “This solution of the systematic problem of the eurozone requires a far-reaching degree of political union.” The nature of the problem to be solved is not technical, but political, and it is therefore necessary to single out the course to follow in order to achieve, at last, a real federation. As Amartya Sen rightly points out in a significantly entitled comment in *The Guardian* (Europe’s democracy itself is at stake), “monetary freedom could be given up when there is political and fiscal integration (as the states in the USA have).” And even more clearly, Joschka Fischer concludes that “at the heart of resolving the crisis lies the certainty that the euro — and with it the EU as a whole — will not survive without greater political unification. If Europeans want to keep the euro, we must forge ahead with political union now; otherwise, like it or not, the euro and European integration will be undone.”

## II. *The recovery plan and the creation of a federal fiscal union.*

7. With the worsening of the sovereign debt crisis and the slowness of the European economic recovery, the EU member states are clamped in an increasingly tight vice: on the one hand they have been forced to adopt measures, very tough and with immediate effect, to avert the risk of collapse of whole sectors, financial as well as industrial; on the other hand, they have been forced to meet the unavoidable need to support workers who have lost their jobs and, in general, people in lower income brackets who have been particularly hard hit by the crisis. All this in a situation in which public finances are not only deteriorating endogenously as a result of shrinking revenues due to falling income, but also constrained by the need not to significantly exceed the threshold set by the Maastricht Treaty in order to avoid being strongly penalised by the markets.

In view of the budget problems that are weighing down the countries of the eurozone, and making it seemingly impossible for them to launch effective recovery policies, it is now widely felt that the European Union

should take decisive steps to promote recovery, reducing the social tensions that are becoming unbearable in many countries and loosening — through automatic expansionary effects on tax revenues — the constraints on national budgets. But the budget resources of the Union are limited and, in any case, at the present time the governments seem to be more intent on discussing bailout provisions than concerned about the need to implement a wider ranging plan. Therefore, to find a way out of this impasse, it is up to the federalists to promote without delay an initiative to start — fully in line with similar initiatives that are taking off within the European Parliament — the implementation of a political project envisaging the creation, by stages, of a federal finance in Europe, along the lines followed in the past to arrive at the single currency. And the starting point for the elaboration of this plan is the realisation that the current crisis marks the end of the growth process of the European economy and that the current crisis will not be overcome through a policy exclusively aiming to boost demand for consumer goods.

Instead, to launch Europe's recovery, it is necessary to promote the realisation of an economically, socially and environmentally sustainable development model; consequently, this new phase has to be driven by public investments in the production not only of material goods — necessary ones such as infrastructures (transport, energy, broadband) — but also of immaterial ones, in particular basic research and higher education and investments aimed at supporting technological innovation, with a view to increasing the productivity and competitiveness of European industry, which has now reached the technological frontier. But in Europe and in the member states, public investments cannot be relaunched in this way on account of the budget constraint: as a consequence of the financial restrictions placed on all the eurozone countries, from 1980 to 2010 the ratio of public investments/GDP fell from more than 3.5 per cent to less than 2.5 per cent. As recently pointed out in the report "Europe for Growth. For a Radical Change in Financing the EU", presented by three MEPs, Haug, Lamassoure and Verhofstadt, the revival of the European economy demands a sharp reversal of the current trend in the form of new public investments amounting to approximately 1 per cent of the European GDP, that is 100 billion euros.

8. From this perspective, in order overcome the financial crisis that is holding back the growth of investments, and thus GDP growth, in Europe, and as a result generating serious social tensions and difficulties balancing public budgets in a stagnating economy, the first step of the plan is to

create a European Fiscal Institute, responsible mainly for arranging the bailouts of the countries at risk of being swept away by the sovereign debt crisis, and for paving the way for the subsequent evolution towards a federal finance and the establishment of a European Treasury. In this context, the Fiscal Institute could serve as an intermediate stage in the establishment of the Treasury, rather in the way, in the creation of the Monetary Union, the European Monetary Institute served as as prerequisite for the start of the ECB.

An important step in this direction was the decision of the European Council, with its resolution of 24-25 March 2011, to go ahead with the creation of a European Stability Mechanism (ESM), also through an amendment to article 136 of the Treaty which makes it possible to activate this support mechanism whenever this is necessary to guarantee the stability of the eurozone. The ESM will have a lending capacity of 500 billion euros and should be operational from June 2013, replacing the European Financial Stability Facility (EFSF), launched by the eurozone in May 2010 and in operation from the beginning of the following month. The EFSF is a company that places bonds and other debt instruments on the market to fund the states of the area in difficulty through loans guaranteed by the other member states and conditional upon implementation of a plan of debt reduction by the countries receiving the loans. In the meeting of the Heads of State and Government of the euro area, held in Brussels on 21 July 2011, the lending capacity of the EFSF was substantially increased — to 440 billion euros — and, furthermore, the right to purchase bonds of every eurozone country on the secondary markets was guaranteed, with limited constraints (as was the possibility of improving considerably the conditions under which loans are granted and of extending repayment periods).

These decisions support an in-depth change of the EFSF, previously just an instrument for granting loans to avoid the risk of default of countries facing a sovereign debt crisis, but now effectively starting to look like a lender of last resort, having the power to purchase bonds of these at-risk countries on the secondary market. But a further step forwards has been taken in the institutional field, too, with the agreement to launch the ESM, an intergovernmental institution created with a treaty ratified by the eurozone countries. It will be led by a Board of Governors comprising the finance ministers and will take decisions by a qualified majority vote. Only the granting and conditions of a loan to a country in financial difficulties and variations in the size and composition of the instruments available to the ESM will have to be decided by mutual

agreement, which implies that the decision will have to be taken unanimously by the countries that are taking part in the vote, and an abstention will not be prejudicial to the taking of a decision.

The limitations of this institute are obvious, given that every decision on the allocation of funds requires the unanimous agreement of the governments taking part in the decision; furthermore, it will grant loans at punitive interest rates (the provision cost plus 200 basis points) and subject to a fiscal adjustment that will be not only costly on a social level, but also unrealistic in the absence of a European policy able to guarantee the start of a renewed phase of growth. But this first phase of the process — providing it is clearly announced to the market as a political decision representing a prelude to the creation of a true federal fiscal union — should nevertheless guarantee the financial stability of the weak countries and, by consequence, reduce the spread versus the bonds of the stronger areas, as was the case in the 1990s when the interest rates were reduced for the countries engaged in creating the conditions for their entry into the single currency.

In a second phase it will be necessary to start issuing eurobonds in order to boost European productivity and competitiveness and, at the same time, promote a transition towards a sustainable economy. The European Investment Bank, through the issue of eurobonds, could fund investments capable of guaranteeing a yield on the market, using the income generated from these investments to cover the costs of the interest and the repayment of the capital. But to finance the investments earmarked for the production of those European public goods that represent a *conditio sine qua non* for guaranteeing long-term sustainable growth of the European economy (i.e. secondary education, research and innovation, new technologies, renewable energies, soft mobility, and conservation of Europe's environment, natural resources and artistic heritage), it is necessary not only to provide the funding, through the issue of eurobonds, but also to guarantee the European budget the tax revenues necessary to service and repay the debt.

To be politically manageable, the European budget must be increased only by a very moderate amount. Indeed, as already suggested in 1993 by the commission of experts who studied the role of fiscal policy in a monetary and economic union and produced the report "Stable Money – Sound Finances. Community Public Finance in the Perspective of EMU", it should not exceed, in the medium term, 2 per cent of the GDP. Clearly, should the need for investments financed by the European debt grow, the need to reform the structure of the European budget will become more



pressing. Obviously it is necessary, first of all, to envisage a return to a system of veritable own resources. In fact, the so-called fourth resource is not a real own resource at all, only a national contribution proportional to the GDP which could be replaced by a European surtax on the national income tax — this would not be affected by the reform — paid directly by the citizen to the European budget, thereby guaranteeing greater transparency of the levy and at the same time increasing the responsibility of those who use the resources.

9. A new resource for the European budget could be found by approving the Commission's recent proposal to introduce a carbon/energy tax as from 2013. In a situation in which the risks connected to climate change are increasingly apparent and the need to replace fossil fuels with alternative energy sources is becoming more and more pressing, a tax in line with the carbon content of energy sources would seem to be an adequate instrument for triggering virtuous processes of energy-saving and fuel-switching to renewable energy sources, thereby reducing the negative environmental impact of energy consumption and facilitating the introduction of less energy-intensive production processes. In this context of budget reform, the introduction of a tax on financial operations of a speculative nature could be taken into consideration, also with a view to guaranteeing a more orderly development of the international financial system. At the same time, part of the yield of this tax could be earmarked to finance the production of global public goods through a European contribution to a world fund for sustainable development, agreed with the United States and the other G20 countries.

During the last phase, geared at creating a federal fiscal union, the budget, financed with EU own resources, should be run by a federal European Treasury, responsible for implementing a sustainable development plan and for coordinating the economic policy of the member states. This would increase the attractiveness of the debt instruments issued by the Union, which would be guaranteed by levies flowing directly into the federal coffers. After making this institutional change, it would seem realistic to think of introducing a European finance minister, as proposed by ECB President, Trichet and, later, by Dutch central bank governor Wellink, by Belgian finance minister Reynders, and by Jacques Attali.

The plan to create a federal fiscal union and institute a European Treasury should be subject to a decision by the European Council, which would decide the timing of the different phases and, most of all, the final

date that will mark the effective start of the tax union. But a decision of this kind, important as it may be, is not sufficient. There is a basic difference between the future fiscal union and the monetary union. The ECB is a constitutional organ whose independence is ratified by the Treaty of Maastricht and whose task — important but limited — is to guarantee price stability through interventions decided in full autonomy. The Treasury, on the other hand, would be a different kind of constitutional organ, given that the fundamental principle of democracy is “No Taxation without Representation.” The Treasury, to operate efficiently, would have to have consensus and therefore must be under the democratic control of the Parliament and act within the framework of a government that represents the will of the people. In conclusion, the decision to go ahead with the construction of a fiscal union, with a Treasury and a federal public finance, must be backed by a simultaneous decision fixing the date for the start of the complete federation, and therefore also envisaging, ultimately, a European foreign and security policy.

10. A plan including, from the outset, the objective of arriving at a federal fiscal union would presumably have the same impact on the market as the single currency did on interest rates. Several proposals for the creation of a European debt have been put forward, but, as was the case with the single currency, they have, so far, been rejected, most notably by the German and British governments. The latter objected on principle, being perfectly aware that advancing in the direction of European public finance will mean the Union evolving towards a federal structure. For its part, the German government rejected the idea of a common European bond because its issue would imply an additional cost for Germany.

The validity of this latter notion is linked to the idea — questionable insofar as the creation of a European debt is connected with the step-by-step creation of a federal fiscal union — that the market must necessarily incorporate into the price of the European bond the risk of the emissions issued by the weakest countries. Furthermore, the German government fails to take into account the negative effects that a deterioration of public finance (fuelled by rising issue costs triggered by a widening of the spread) and the risk of default of these countries would, in any case, have on the German economy and, more generally on the prospects for the development, and even the very survival, of the eurozone. Also, the debt financing of a European economic recovery plan can no longer be avoided since, given the interdependence of the economies of the monetary

union, each country is tempted to act as a free rider, failing to take steps to boost the economy at national level on the grounds that it can benefit from the positive effects of recovery policies implemented in the other countries.

11. Two final remarks can be drawn from these considerations. First of all, Europe, following the crisis, is increasingly seen not only as something unrelated to the citizens' everyday life, but even as something hostile, imposing restrictions and sacrifices without guaranteeing a better and more secure future. It is therefore time to bring about a change, rapidly setting up, in the eurozone, a development plan to relaunch the European economy and employment. The plan can be financed by issuing bonds denominated in euros, guaranteed by the European budget and bound to attract the huge money stock circulating in the world market. With new prospects for development and the solution of the problems connected with the sovereign debt crisis, the citizens' confidence will be restored, favouring the evolution towards a federal outcome of the European unification process through the creation of a federal Treasury responsible for management of the budget and coordination of European economic policy to promote sustainable development. In this way, after the single currency, the second arm of a federal state will have been created, with a view to completing the process by assigning the Union decision-making power in the field of foreign and security policy too.

The second consideration concerns the setting within which this process can be started. The point of departure is certainly the eurozone, where an ever-increasing interdependence is manifest and where it is possible to foresee further development in a federal direction. Within this setting — whose boundaries cannot be defined a priori, but which certainly does not correspond to the framework of the 27-member EU — it is necessary to establish which countries are capable of taking the initiative. Historically, advances have always stemmed from Franco-German initiatives, with Italy pushing for a federal outcome of the process. The federalists' task, as at the time of the struggle for the European currency, is to devote themselves to mobilising the political and social forces, with the aim of getting the eurozone governments to take the political decision, also encouraged by the support of the European Parliament, to create a European Treasury and a federal fiscal union, a decision that would represent an important step towards full European federation.

Although it is, at the moment, difficult to predict how the sovereign

debt crisis will develop, it has already had the effect of exposing the inadequacy of the present EMU setup. After a decade of growth of the euro area, all doubts about the efficiency of the Maastricht rules and the restrictions of the Stability Pact seemed to have been swept away. But then, the financial tsunami that hit the world economy, followed by the Greek crisis and its knock-on effects in other countries, revealed the true weakness of the institutional structure of the EMU. The eurozone governments managed to prevent the economy from collapsing by bailing out the banking system and guaranteeing a minimum of support to the production system, also in order to avoid a loss of social stability. But it has proved impossible, both within Ecofin, and within the Eurogroup, to introduce a serious strategy to guarantee, in a short time, significant economic recovery and to boost the competitiveness of the European industrial system.

What is more, the Greek crisis highlighted a further weakness of the structure of government of the European economy. While the ECB, being a federal body equipped with decision-making power, acted immediately to promote financial sustainability, guaranteeing the system a liquidity supply, even using the Greek public debt bonds as collateral, the Eurogroup's decisions on financial support mechanisms have been slow and most probably inadequate. The reason for this weakness clearly derives from the confederal nature of Europe in economic policy management, which favours free rider behaviours and, with the right of veto, guarantees unjustifiable privileges particularly to the stronger states.

As seen in the past, there are two sides to every European crisis and this one is no exception: on the one hand it makes disintegration of all that has already been achieved a real possibility. Today the most concrete risk is that of speculative attacks against the other countries of the eurozone, capable of jeopardising the very survival of the single currency. But, at the same time, each crisis opens the way for new advances towards greater integration within the Union, particularly for those countries which already show a higher level of integration. Indeed, after the Greek crisis, a debate started up between those countries that intend to carry on with the integration process, creating new institutions and introducing new policies, and those that instead wish to strengthen the decision-making power held at national level, thereby preventing Europe from finding a solution to the crisis.

Lately, the pendulum between the nations and Europe has swung strongly in favour of a returning of decision-making power to the national governments and the body through which they are, at the highest level,

co-represented in the Union, i.e. the European Council, which many consider the natural depository of decision-making power on economic policy management. But some proposals recently put forward instead envisage significant steps towards more efficient government of the European economy, less bound by the national powers. But it has to be understood that the decisive point is essentially political: it is a question of transferring to European level the power — until now jealously guarded by the member states — to make, independently, key decisions on economic policy, thereby completing the construction of the Economic and Monetary Union through not only the creation of a federal Treasury, but also the possibility of guaranteeing effective coordination of national policies through a power, limited but real, at the European level of government.

In the sovereign debt crisis that started in Greece, the first thing that surfaced was the serious behaviour of the Greek government, which was found to have manipulated data on its public finances. But the crisis also stems from a steadily growing divergence between the real trend of the economies of the weaker countries and those of the other EU states. In this sense, even a tightening of the restrictions of the Stability Pact, as recently proposed in various quarters, appears totally inadequate. What needs to be strengthened, rather, is the possibility of starting a development policy at European level through the availability of greater funds to boost productivity and, by consequence, the competitiveness of the eurozone economic system. But there is also a need for greater powers to coordinate national economic policies in order to prevent the diverging trends of the different economic systems within the eurozone, which cannot be offset by exchange rate variations, from causing the eurozone to implode. *Hic Rhodus, hic salta*. The Greek crisis has shown that the modest institutional progress obtained with Treaty of Lisbon is totally inadequate to achieve the establishment of a European federal state, with competences initially limited to the sector of the economy and currency management, among the EU countries where the degree of integration is most advanced, in particular those of the eurozone.

# Mario Albertini. Politics between Science and Philosophy

LUCIO LEVI

## 1. *The New Era of Federalism.*

As the figure of Mario Albertini recedes slowly into the sphere of history, the publication of his complete writings<sup>1</sup> provides future generations with an opportunity to benefit from the body of his thought, which was extraordinarily innovative both in the area of the historical social sciences — particularly political science — and in that of political and philosophy of history. But more than anything, Albertini provides an example, rare in history, of how it is possible to succeed in the difficult task of coupling an innovative theory with a successful political project.

Albertini's work stands as a monument to federalism, understood as a new theory of the state and of international relations and as a political project to unify Europe and the world. The affirmation of federalism dates back more than 200 years, to when the Philadelphia Convention drafted the Constitution of the United States of America; this was also the era that saw the birth of the liberal-democratic movement, of which federalism has long been considered a variant. In the wake of the Second World War, there opened up a new phase in the history of federalism, in which Spinelli and Albertini played leading roles. At that time, federalism appeared not just as a new formula for organising the state, but also as a new form of international organisation, whose aim was to build peace, in Europe first of all, but also in other major world regions and in the world as a whole.

Now, several decades on, we have sufficient perspective to assess the extent of the cultural innovations which Albertini gave us, and the importance of the political results he achieved.

## 2. *The Publication of the Complete Works.*

The publication of Mario Albertini's complete works coincides with an era of tumultuous change ushered in by the scientific revolution, which is transforming the forms of access to knowledge and the methods of

processing and transmitting knowledge. The new technologies are supplanting books and printed media, taking away their dominant and previously unchallenged role as the repository and vehicle of knowledge. The current revolution is every bit as important as the two that preceded it: the invention of writing and the invention of printing. Thanks to the internet and online digital libraries, the channels for disseminating culture are increasing. The internet enables us to cut costs and access texts more easily, and allows thousands of texts to be condensed into a tiny space. In other words, a change is under way that is impacting on centuries-old cultural habits: we are witnessing a progressive abandonment of the printed page and of the reassuring and empowering feeling that is derived from picking up and leafing through a hefty and awe-inspiring tome.

When it came to deciding how best to transmit, to future generations, the works of Italy's two leading federalists of the last century, two different media were chosen: the internet for Spinelli and the printed page for Albertini.

The publication of the complete writings of Albertini was made possible by a combination of two unique factors, which were missing in Spinelli's case. First, there was the total dedication of the editor of the volumes, Nicoletta Mosconi, who, in the space of just four years, which sadly proved to be the last ones of her life, succeeded, thanks also to the constant support of Giovanni Vigo, in bringing out a total of nine volumes, each about a thousand pages long. Second, the project was affordable thanks to financial support provided by the Centro Studi sul Federalismo and the Fondazione Europea Luciano Bolis. As regards Spinelli's works, on the other hand, it was decided, following discussions, that they could not be published in full on account of their sheer dimensions (around 40,000 pages); in the end, it was considered best to settle for online publication of his complete works and printed publication of several volumes of selected writings. The body of the works of the founder of the European Federalist Movement (MFE) will thus be entrusted to the internet. Both Spinelli and Albertini were aware of the innovative character of the cultural heritage they left us. Thanks to the work of their closest collaborators — it is worth recalling, in particular, Giovanni Vigo's work, over thirty years, on the writings of Albertini — we now have well-ordered collections of the writings of both of them.

However, they had different ideas on how best to document their work for the benefit of future generations. Spinelli wrote an autobiography, never completed, and a lengthy diary. Nothing of this kind is found

among the writings of Albertini, who, while appreciating the literary quality of Spinelli's autobiography and the usefulness of the political opinions expressed in his diary, nevertheless felt that this preference for the memorialistic genre distracted Spinelli from the imperative to give priority at all times to political practice, and regarded it, ultimately, as a yielding to narcissism.

### 3. *Albertini's Contribution to Federalist Thought.*

Mario Albertini provided the political and intellectual point of reference for the generation of federalists to which I belong, and he did so in a different way from Spinelli (founder of the MFE and the initiator of federalist behaviour in political life). Spinelli's fundamental contribution was that of bringing federalism within the field of action. Through him, for the first time in history, federalism became a political priority, the objective of a political movement, independent of other political currents, that pursues European federation seen as an alternative to the organisation of the continent into nation-states, and as a step towards a world federation. The future European federation represents a far deeper political transformation than the changes of government or regime pursued by the other political currents (from liberalism to communism). In short, it is an alternative form of state or political community.

Despite sometimes feeling the need to explore federalist theory in greater depth, Spinelli always behaved as though it were already fully developed in the works of the classics. Albertini, on the other hand, made an important intellectual contribution to the definition and renewal of federalist theory. In this sense, he filled a gap in Spinelli's federalism. His theoretical work was based on important premises: Spinelli's thought and action. In other words, he picked up where Spinelli left off. What the two shared was a willingness to allow their whole lives to be conditioned by one single project — a specific characteristic of men of action engaged in political undertakings of historic significance. It is important to note that Albertini never regarded theoretical reflection as an end in itself, but rather as a means of improving the federalist movement's capacity for action. Everything Albertini wrote sprang from the pressure of events and the political needs of his time.

### 4. *The Intellectual and Politics.*

Albertini was not only a political scientist and political philosopher.



He felt impelled to leave the safe and comfortable terrain of pure theoretical speculation in order to travel the uncertain route of political action, accepting the risk inherent in direct engagement geared at governing the events of our time — engagement which demands concrete results and confirmations, here and now. He also became a man of action, in the fullest sense of the word, because his commitment to theoretical elaboration proved instrumental in achieving advances in the direction of what is, as remarked by Machiavelli in the Chapter VI of *The Prince*, the most difficult change that can be planned in the political sphere: the unification of several states.

Spinelli's discovery and updating of federalism is the product of his exceptional talent that led him to become a historic figure and the founder of the federalist movement. However, he was, first and foremost, a man of action. There is a remark of Hegel that provides a particularly appropriate description of Spinelli's personality: great men of history [...] "have no consciousness of the Idea as such. They are practical and political men."<sup>2</sup>

Albertini, on the other hand, convinced that a great political project demanded a new culture, a new political thinking, concentrated his efforts on widening the scope of federalist theory towards the global dimension. His approach to federalism was the fruit of rigorous studies and represented a tough intellectual achievement. The truth that permeated his words, spoken and written, reflected the seriousness of his commitment. He did not have a political vocation. He was a great intellectual, more a theorist than a politician. However, he was driven by an ethical imperative to pour all his energy into politics. In a letter, written in 1976, he explained how he saw his life choice: "engaging in politics in order to prepare for the day when men will no longer be obliged to engage in politics." That day will come only when the world is ruled by reason, that is to say, when the world is governed by federal institutions, thereby putting an end to the social violence constituted by man's exploitation of man, and the political violence stemming from the clash of power between states. "Therefore", Albertini explained, "my federalism has moved away from Hamilton's rigorous, but also limited, institutional perspective to Kant and Proudhon's global one." And he concluded with a confession, which shows us the intimate substance of his humanity: "Perhaps you will understand why I am forever saying that I want to quit, that I cannot wait to quit."<sup>3</sup>

Whenever the federalist project is discussed, even in the limited sense of a European federation, it must not be forgotten that it remains an

unfinished construction. What is more, its building is destined to last well beyond the lifetime of its framers, given that it cannot be achieved through acts of war, rapid and violent, which were the vehicle for the unification of states in the past. The European federation cannot be built this way. There is no state in Europe that can play the role that Piedmont and Prussia did in, respectively, the unification of Italy and of Germany. European unity must necessarily be brought about through the slow and difficult process of building consent among governments and citizens.

Albertini was the inspiration behind two fundamental advances towards the construction of the European federation: the direct election of the European Parliament, and the creation of the single currency and the European Central Bank. But these nevertheless remain just two milestones in a long journey.

A dispute with Norberto Bobbio in 1955<sup>4</sup> gave Albertini an opportunity to clarify his position on the role of the intellectual in politics. He naturally shared Bobbio's view that, for the intellectual, involvement in politics does not imply abandonment of the criteria of scientific analysis. After all, the need to know reality is not, in itself, an element that separates the intellectual from the politician.

What Albertini could not accept was Bobbio's choice to defend the various elements that could be deemed true and right within the different political positions, in short, his wish to be, at once, both on one side and on the other. There is no doubt that partial truths and positive values can be found on the different sides of the political spectrum. But if one chooses to play a political role, one cannot support all the opposing parties at the same time. According to the laws of politics, one should be seeking to influence the political scenario, pursuing the objective of maintaining or of changing the balance of power. Politics is governed by an absolute priority: the conservation and extension of power. This is, indeed, an iron law and a priority to which all other goals must be subordinate. Even the formation of ideas is conditioned by the need of political players (parties and states in conflict with each other) to increase their respective power. Since ideas are instruments of the political struggle, they become vehicles of partial and often distorted truths.

For this reason, the vanguard, which questions the established powers with a view to creating new powers, is the only means through which the intellectual can escape the logic of the ongoing political balance. Through the vanguard, it is possible both to arrive at a better understanding of political reality and to transform the political structures within which normal political activity is conducted. Thus, the truth, through intellec-

tuals, can be made to influence the political balance of power, provided the intellectuals comply with the rules of the political game. For example, they may exploit the critical function that they exercise in relation to the established powers and/or propose, like the federalists, to create new political balances and new forms of political organisation. This is the only way in which intellectuals can play an active political role. Any other way, and they end up becoming subordinate to first one and then another different political position.

Consideration of the question of dialogue between different political positions, which Bobbio defended unconditionally, brings us to the real crux of the problem. The defence of dialogue is all very well on a cultural level, but it is wrong in politics, where one needs to be either on one side or on the other. After all, we vote for one party; we do not give bits of our vote to all the parties. Practising the virtues of dialogue with someone like Hitler would be like speaking to deaf ears and would, ultimately, serve only to encourage our interlocutor's aggression and imperialistic aspirations.

There is one wonderful page in Albertini's writings where he illustrates the merciless harshness of politics, which is an unpleasant and inescapable necessity: "It is one thing to say: there is right and wrong, and quite another to declare 'this is wrong' and strike [...]. But in politics this is precisely what is required — by the force of law in the normal political context and with the rigor of the ethics of responsibility in the context of the vanguard, otherwise the vanguard is just a game. This is the harshness of politics. And without accepting this harshness, one cannot accept politics; if one never finds oneself making hard and bitter choices, then one is not operating in the ambit of politics. Because politics is no place for compassion. This was the lesson taught me by antifascism. I learned that we had to strike, that it was wrong not to strike, and that it was hypocritical not to admit this to ourselves; I learned that politics does not coincide with Christian or Kantian ethics, but with the morality of responsibility (which I subsequently encountered in Weber), according to which, provided the end is good (not personal), the Machiavellian maxim of the end justifying the means holds true. Since I did not want, and do not want, to be in any part responsible for fascism (in the broadest, ever-present sense), I accepted this maxim."<sup>5</sup>

Albertini's relations with the academic world were contentious. Even though he himself belonged to this world, he considered himself alien to it, because academics — like the idealist philosophers criticised by Marx — mostly confine themselves to contemplating reality, leaving the

responsibility for changing it to the politicians. For this reason, they end up being subordinate to the dominant powers.

The stance Albertini chose was that of the intellectual who adopts an active attitude towards politics, who wants to know reality in order to change it. His political commitment followed on from the philosophy of praxis developed by the young Marx, whose eleventh *Thesis on Feuerbach* says: “Philosophers have hitherto only *interpreted* the world in various ways; the point is to *change* it.”<sup>6</sup> The truth of thought lies in its capacity to change the world. The decisive proof of the validity of a theory is provided by its conversion into practice, its successful transformation of reality.

The following observations aim to bring out the profound coherence between Albertini’s thought and his action, between his theory and his practice. They are divided into three parts: the scientist, the philosopher and the man of action. A more extensive treatment of the first two of these parts can be found in my essay entitled “Federalism from Community to the World”<sup>7</sup>, published a decade ago in this journal. Here, the relative concepts are merely outlined.

### 5. *The Scientist.*

Bacon, the founder of modern empirical science, believed that knowledge was power. In line with this idea, Albertini saw science as the power to use technology to control reality. The sciences do, indeed, have eminently practical purposes. Just as the objective of medicine is health, so that of political science is good government. Ultimately, it is society that decides the significance and value of the criteria of knowledge and action.

The boundaries within which science operates are those of sentient experience. Through the scientific method, it is possible to offer everyone empirically verified knowledge, based on the observation of facts. The social sciences give us access to precise and controlled knowledge of individual sectors of reality (politics, law, economics, psychology, etc.), which are specific systems governed by their own laws. Even though they cannot be clearly separated from the functioning of the global system, these areas of social reality can be studied independently.

Albertini was perfectly aware that politicians are almost always forced to make decisions before acquiring an adequate knowledge of the situation on which they intend to intervene. However, the political action that is necessary to carry out the federalist project, being designed to bring

about profound institutional change, demands, compared with all other political actions, a much broader and more accurate knowledge of reality. In accordance with this premise, Albertini applied, uncompromisingly, the scientific method, calmly probing reality and accepting without hesitation those disappointing instances in which the events fail to corroborate the scientific hypotheses formulated.

Albertini knew, of course, that there are aspects of reality that are not accessible to scientific knowledge: the sphere of values. Indeed, the choice of method underlying the sciences rests on acknowledgement of the logical heterogeneity between facts and value judgements. Consequently, it is necessary to distinguish between the observation of facts (the scientific level) and the affirmation of values (which belongs to the spheres of politics, morality, religion and philosophy).

Since the social scientist, unlike the natural scientist, cannot conduct laboratory experiments, there are areas of social reality that are not susceptible to experiments, because they are unprecedented in history. A perfect example of this is provided by Spinelli's key innovation, namely his project for unifying a group of states through democratic action, as opposed to the traditional means of war. Spinelli's definition of federalist strategy was his great political masterpiece. In cases like this, the testing of new schemes of action is possible only through active involvement in political life.

Albertini took, as the starting point for his political reflection, the social sciences, which study mighty, impersonal forces, i.e., the structure of the means of production and of political power, and represent the objective conditions within which social actors operate.

Mankind can use his freedom to influence the course of history, but only if this is possible within the constraints of reality. In other words, if we are to succeed in shaping the future, we must conceive of, and want, what is possible within the confines of reality. Albertini's ambitious plan was to elaborate a theoretical model of political analysis that that might contribute to a better understanding of our times and serve as a basis for designing the profound political change pursued by federalist action. He set out to develop a very broad and abstract theory, aimed at identifying the driving forces of history, so as to be able to define the objective conditions in which the action for the creation of a European federation could unfold. The lens through which Albertini studied the objective course of history was that of politics, because only by using the instruments of politics is it possible to realise a great political project such as the federalist one.

Albertini's model is a reformulation and synthesis of three major theories developed by different schools of thought: historical materialism, the *raison d'état* theory and the theory of ideology.<sup>8</sup>

Albertini uses historical materialism, first of all, because this scientific theory makes it possible to identify the profound dynamics that determine the course of history and affect the whole of society, the economy and politics. This conceptual framework makes it possible to demonstrate that the evolution of the mode of production is the social factor gradually weakening the nation-states and paving the way for the formation of new, federal-type powers at international level. According to this interpretation of history, the second phase of the industrial mode of production (characterised by the assembly line and the development of the aeronautical industry) determines the loss of the decision-making power of the nation-states and places the formation of federations in Europe, and in other major regions of the world, on the historical agenda. On the other hand, the scientific mode of production (characterised by automation and information technology) erodes the sovereignty of the larger, regional states and brings out the need for a world government. In the light of this interpretation of history, the overcoming of the division of Europe, and of the world, into sovereign states is seen to be an unavoidable necessity, imposed by economic, social and technological evolution. Whenever history changes course, the safe old points of reference are lost and the existing order declines; this opens up opportunities for revolutionary intervention that are not present in normal circumstances. But institutional change becomes possible only if there emerge political groups that choose to pursue it.

Second, the *raison d'état* theory, which analyses politics in terms of the evolution of the balance of world power, shows that the present power structure is not capable of governing either European integration or globalisation; it shows that mere international cooperation is no longer enough, and that federal-type reforms are now necessary both in Europe (where, as shown by the European elections and single currency, part of the federalist design has already been implemented), and globally (at world level, the International Criminal Court represents a first step towards affirmation of cosmopolitan law).

Third, the theory of ideology shows that political ideas are instruments of the power struggle and often mask reality, or give a distorted representation of it. Federalism aims to demolish the ideology of the nation, which portrays mankind as composed of natural entities divided by national hatred; it aims to show that the nation is an illusory concept,

serving to strengthen the cohesion of the national group, whose existence is constantly threatened by the military and political pressure on its borders exerted by other nations; finally, it aims to break the bond of loyalty that is formed between citizens and their nation simply by virtue of being born in a certain place, and to restore legitimacy to the ties of belonging that bind individuals to communities both smaller and larger than the nation.

Even though Albertini failed to develop this model systematically in a work of synthesis, it is nevertheless applied in all his works. The quality of Albertini's political analyses, which never allow the threads of the present to become detached from those of history, provide evidence of the validity and originality of his choice of method. Hegel, in reference to Machiavelli, wrote that those who have dealt with the practical problem of building a new state have striven to understand, more deeply, the laws of politics.<sup>9</sup> This is true both of Spinelli and of Albertini.

Albertini's theoretical work is important because he showed that a change as profound as the one promoted by the federalist blueprint demands a scientific analysis of social reality and that the federalist point of view is the best perspective for understanding the contemporary world.

## 6. *The Philosopher.*

The empirical approach peculiar to political science does not allow a complete analysis of politics. Indeed, the key concepts found in the political lexicon (state, power, legitimacy, freedom, equality, peace, etc.) represent, at once, both facts and values. More precisely, they designate a *de facto* situation, which appears limited, provisional and incomplete, but refer to a situation in which the value they encompass is fully realised. This twofold aspect of the categories of politics expresses a contradiction that characterises the human condition, namely the tension between "is" and "should be", i.e. the tendency to go beyond the concrete achievements already attained in order to move towards targets that bring us ever closer to the fulfillment of the value ideas contained in those categories.

Albertini thought that the scientific method offered an important, but not the only, yardstick for measuring the validity of thought. As Max Weber had remarked, science cannot provide any answers to the crucial questions posed by Tolstoy: "what shall we do and how shall we live?"<sup>10</sup> Certainly, the criteria that guide the behaviour of individuals cannot be submitted to any form of empirical verification and, therefore, cannot be the object of scientific knowledge, because they belong to the sphere of

values.

However, if we accept Max Weber's world of values concept, as many contemporary scholars do, we end up confining value choices within the sphere of subjectivity, of individual arbitrariness and, ultimately, of the irrational. Against the relativism of values, which, in contemporary culture has pervaded common sense, Albertini urges a return to Kant's philosophical teaching, which suggests submitting the world of values to the examination of reason, i.e. to a control criterion different from the empirical verification that is the basis of scientific research: namely, that of logical consistency. In fact, even though moral principles cannot be drawn from experience, this does not mean that they change with changing times and circumstances.

Men are subjected to the historical process as a natural process in which social forces collide within states, and states clash in the international arena. The direction of the course of history is the result of the parallelogram of forces. But this state of affairs is not destined to last forever. History is also the terrain of attempts to bring the historical process under the control of human will. Put another way, history is the terrain on which moral values arise and gradually assert themselves.

According to Kant, man has a dual nature: he is both instinct and reason. As a natural being, man acts according to the stimulus of his own needs and in so doing comes into conflict with other individuals. From this perspective, human behaviour can be explained in a deterministic way. As a rational being, man assigns history a purpose: the building of a society in which all conflicts are peacefully settled by law and violence is abolished from all social relations, including international relations. The only institution through which this purpose can be pursued is the world federation.

In history, therefore, necessity and freedom coexist. The natural history of mankind (dominated by social and political violence) is paving the way for a situation in which men will be driven by their experience of the destructiveness of conflict (war primarily) to build peace, which is the condition for attaining the freedom and equality of all men. Kant points out that no constitution can be perfect until the human race is governed by a world constitution.<sup>11</sup> Indeed, until that goal is reached, the individual governments will be forced by the *raison d'état* to exercise power relations over one another and this will lead them to give priority to security at the expense of freedom.

Politics in the highest sense of the word is the activity that aims to improve the human condition. It is, in other words, the vehicle of the



process of civilisation, which works essentially to pacify increasingly large human groups through the affirmation of constitutional mechanisms that regulate conflicts through law, and eliminate the use of violence from social relations. Man becomes more civilised to the extent that, with the help of the automatic mechanisms of the political institutions, he is able to govern his instincts, and allow his second, rational nature to prevail.

Values are points of reference that highlight history in the making, while the philosophy of history is the field of knowledge in which the march of mankind in history assumes a meaning. This means that reason is a faculty that orders and guides history, which has a course and a purpose. Reason, Kant argued, requires men to act in order “to affect posterity that it will become continually better.”<sup>12</sup> In other words, there exists a form of uninterrupted communication and dialogue between the generations, past, present and future, whose aim is to advance towards that which is better. Kant enhanced this principle, giving it the status of a true postulate of practical reason. Nevertheless, the idea that history proceeds along a progressive line does not render it immune to the possibility of regression. The progress is not linear, but dialectical.

The creation of a world government is the decisive event that will mark the transition to a situation in which the historical process may be brought under the control of human will. This institution will make it possible for mankind to express his political will at world level and thus to govern the world. History will cease to be a natural, deterministic process and will instead be driven by freedom.

Thus, for Kant, the world federation is the point of arrival of world history. The fact that a great thinker like Kant, perhaps the greatest modern philosopher, developed a federalist interpretation of history is, for today’s federalists, an extraordinarily important source of legitimation for their political commitment. This was a point often made by Albertini, who recognised, long before authors such as Höffe, Habermas and Held,<sup>13</sup> the topicality of Kant’s great design.<sup>14</sup>

Albertini was not a Platonic philosopher. It is not up to philosophers to decide what is the best form of government, but rather the citizens, through their political behaviour. Federalism is not the model of a perfect society, which, once discovered, imposes itself by virtue of the sheer power of its ideas. Marx said that communism is not an abstract theory, but consciousness of the historical process: it is “not a *state of affairs* which is to be established, an *ideal* to which reality [will] have to adjust itself”, but rather “the *real* movement which abolishes the present state

of things.”<sup>15</sup> Today, 150 years on, we can say the same of federalism, as Albertini understood it. Federalism is characterised by a constant endeavour to find, in the historical process and in its contradictions, the elements that will allow it to affirm its project.

What this implies is that federalism is an unaccomplished project. It is not a ready-made theory that can be applied to the ever new circumstances produced by history and politics. History is the terrain of the constant creation of the new, which no theory can foresee in advance, except in very general terms. The historical features of federalism will take shape as a reaction to the constantly changing circumstances that history will bring. A movement incapable of recognising these circumstances will end up being overwhelmed and marginalised.

Albertini was hostile towards any form of crystallisation of federalist thought. Accordingly, just as Marx claimed not to be Marxist, Albertini would not be defined “Albertinian.” The current task of federalists is to proceed along the path traced by Spinelli and Albertini, seeking to identify, in each phase of history, opportunities for advancing towards the final objective.

The implementation of federalism is, as a whole, a long-term process in which power tends to be transferred, upwards and downwards, from the sovereign states and redistributed among a number of different levels of government, from the local community to the United Nations. The overwhelming power of the states over the other levels of government is, currently, the obstacle that is preventing mankind from taking control of his own destiny. This is why the future European federation, which will be the first example of federal unification of historically established nations, remains the crucial event of our times and the driving force for the affirmation of federalism at other levels of government and in the rest of the world.

### *7. The Man of Action.*

Albertini’s life, was an unrivalled example of the dialectical unity of thought and action. The proposals he advanced always stemmed from theories developed and knowledge accumulated. For him, understanding society was not an end in itself, but was always directed towards political action. Like Lenin, he favoured “concrete analysis of the concrete situation”, this analysis being the crucial moment at which the theory may provide evidence of its capacity to transform reality. This analysis is, in other words, the terrain of the conversion of theory into practice.

The superiority of Albertini's theoretical analyses lies in his constant quest to show that history should, essentially, be moving in the direction of the supranational dimension. It is only by adopting this analytical standpoint that the political forces can relate to the contemporary world.

The decline of the political parties depends on their choice to adopt the nation-states as their field of action, which prevents them from gaining an adequate knowledge of the processes of regional integration and globalisation, and from governing these processes effectively.

Spinelli saw a European constituent assembly as the objective of the federalist strategy. He conceptualised the constituent assembly as the vehicle of the qualitative leap represented by the transfer of sovereignty from the states to Europe and the federal constitution as the means that would make it possible to unify some aspects of politics, law and the economy, without erasing the nation-states, in order to achieve the European federation. The 1953 *ad hoc* assembly which was entrusted with the task of drawing up the statute of the European political community and should also have dealt with the need to govern the proposed European army, not only provided confirmation of this hypothesis, but was also the result of a political initiative by Spinelli.

Until the abandonment, at the start of the 1960s, of the action of the Congress of the European People, which had campaigned for the creation of a supranational political force capable of imposing, on the governments, the convening of a European constituent assembly, the European federation was seen as the result of direct action led by the federalist movement. Up until that time, the contribution of Albertini was subordinate to the action planned by Spinelli.

Albertini emerged as a political leader of the federalist movement during the construction of the Common Market and during the period of its success following the collapse of the European Defence Community and the failure of the attempt to create a European Political Community. The federalists had predicted that the Common Market would be a failure. In 1957, Spinelli had written an article entitled *The Common Market Insult*,<sup>16</sup> in which, on the basis of Lionel Robbins' theory<sup>17</sup> on the relations between state and market, he argued that economic integration would not automatically lead to political unity, given that the market itself would be unable to function without the legal and political order that only a state can confer. Instead, contrary to these predictions, the Common Market was a great success.

As early as 1960, Albertini developed some concepts to explain why this was the case: the *de facto* decline of the national sovereignties in

Europe, together with the hegemony of the United States, resulted in a convergence of the *raison d'état* of the member states of the European Community, which allowed the European market to function, albeit in a precarious and provisional manner, even in the absence of a state.<sup>18</sup> These concepts are forerunners of a new academic discipline and a new field of study — *international political economy* — that was to develop from the 1970s onwards, on the basis of contributions by Charles Kindleberger and Robert Gilpin.<sup>19</sup>

Spinelli, too, took note of the success of the Common Market, and became convinced that the European federation would come into being as an evolution of the EEC institutions. Looking for immediate alternatives to contestation of the Common Market, he pursued political alliances with the U.S. government during the Kennedy administration and with the first centre-left government in Italy, taking on the role of adviser to the socialist leader and Foreign Minister Pietro Nenni. But he did not obtain appreciable results in terms of the advancement of European unification.

Instead, the lesson that Albertini drew from the new political cycle ushered in by the Common Market was that it was necessary to prepare the federalist movement for a long-term commitment. He realised that, following the missed opportunity of the EDC, it would be a very long time indeed before the federalist alternative to nation-state sovereignty might come to the fore once again. At the start of the 1960s, the paths of Spinelli and Albertini diverged, with Albertini pouring all his energies into the development of the federalist movement and the construction of a structure that was, in the cultural, political, organisational, and financial sense, independent. At the same time, he promoted a popular action (a voluntary census of the European federal people) that, albeit in new ways, continued along the lines of the Congress of the European People, its aim being to show that the citizens were in favour of a European Federation. The gathering of support for this objective was seen as a substitute for European elections (which, at the time, had not been introduced).

The end of the Common Market's transitional period opened new perspectives for intervention by the federalists. Spinelli looked to the European institutions to provide the point of support that would allow him to continue his actions. More specifically, he hypothesised that the European Economic Community was the institutional framework within which a European government would take shape. Consequently, in 1970 he succeeded in getting the Italian government to appoint him member of the European Commission, an institution which he saw as the embryo of

a European government. His intuition was right, but as history was to show, this was not the first step that needed to be taken in order to advance towards the construction of European political unity.

Albertini realised that the first step had to be the direct election of the European Parliament. This objective could be pursued by exploiting a contradiction, i.e. the fact that Europe had a parliament that, unlike the national parliaments, was not elected by the European citizens. To get round French opposition to European elections, the European Federalist Movement started a campaign for the unilateral direct election of the Italian delegates to the European Parliament. The international monetary crisis, which, in 1971, prompted the US government to suspend the convertibility of the dollar into gold, and the resulting exchange rate fluctuations, which threw the European market into crisis, provided the opportunity, finally, to decide (1975) to elect the European Parliament by universal suffrage (1979). Giscard d'Estaing had removed the French veto on European elections and the issue of democratising and strengthening the European Community became part of the European political agenda. Spinelli became a member of the European Parliament. Here, he spearheaded a new effort to move closer to a European federation, an effort which culminated in the Draft Treaty establishing the European Union, approved by the Parliament in 1984. This ambitious project was examined by an intergovernmental conference, which put it aside due to opposition from the British government. Nevertheless, in the years since then, a considerable part of that project has become reality.

While the campaign for direct elections to the European Parliament was still going on, Albertini, in 1975, proposed opening up a new front that would create the conditions necessary for a substantial transfer of power from the states to Europe: that of the single currency. Several factors combined to bring the issue of monetary unification to the centre of European political debate: the weakening of American hegemony over Europe, fluctuating exchange rates, and the gradual disintegration of the European market. The Maastricht Treaty (1992) marked the start of the long process that led to the birth of the euro in 1999, and its entry into circulation in 2002.

Although he was a supporter of the objective of the European currency, especially when it entered the political agenda, Spinelli was actually more sensitive to another objective: the issuing of European loans to promote the investments necessary to support European economic growth. Still today, after the introduction of the single currency, this objective (supported, although never carried through, by Jacques

Delors during his presidency of the European Commission) remains a crucial item on Europe's political agenda. Indeed, it now represents the next step in the process of building European unity.

Both Spinelli and Albertini supported the strategy of trying to move closer to the objective of the European federation through gradual advances and partial achievements. Albertini, however, gave it a name — “constitutional gradualism”<sup>20</sup> — and, as we have seen, identified the direct election of the European parliament and the single currency as the intermediate objectives on the path leading to a European federation, objectives that were successfully achieved by the federalist movement.

Underlying this new approach was the success of the Common Market, which had shown that the states were capable of driving the process of European integration. What is more, they did so for an entire political cycle without any transfer of power to the European Community. Of course, as European integration advanced, the fortunes of the EC member states became more and more deeply intertwined and the states themselves increasingly dependent on European society and the European economy. The erosion of national sovereignty, brought about by European integration, confirmed the federalist idea that integration could not be governed by the states separately from one another, and therefore that the European federation solution would, sooner or later, inevitably return to the fore. More specifically, it was clear to federalists that economic integration would not automatically lead to political unity, and that the process of economic integration would not be completed without a federal government.

The aim of federalist strategy in the era of the European Communities and economic integration was to exploit the contradictions encountered in the course of the integration process, in order to bring about a federal transformation of the European Communities. The strategic approach of constitutional gradualism was to seek to introduce federal-type institutions into the fabric of the European Communities. The direct election of the European Parliament and the single currency represent partial achievements of the federalist project and milestones on the way to European federation, but they have not been enough to reverse the condition of subordination of the European Communities (and, now, of the European Union) vis-à-vis the member states.

What the start of the European integration process taught the federalists was that the time had come to stop pursuing the European constituent assembly as the objective of a direct popular mobilisation led by the federalist movement. The latter, in the new political cycle, decided to play

the role of vanguard of a vast coalition of pro-European forces, social and political, to be formed at some crisis point in the process of European integration, in order to promote the transfer of power to European level.

Thus, the idea, envisaged by Spinelli prior to the formation of the European Communities, of entrusting a specifically convened assembly with the task of drafting the European Constitution was abandoned. Instead, the role of constituent body was played by the enlarged ECSC assembly, which drew up the draft EPC treaty (1953), and the Parliament of the EEC, which approved the Draft Treaty on European Union (1984). More recently, the constituent role has been played by conventions — made up of representatives of the European Parliament, the national parliaments, the European Commission and the national governments — which adopt a constituent co-decision procedure involving the participation of the legislative and executive bodies of the member states and European Union. This procedure was used to draw up the European Charter of Fundamental Rights and the draft European Constitution, which, after being amended, was named the Lisbon Treaty. Herein lies one of the most significant innovations of the new European institutional architecture: the convention method has been institutionalised as the regular procedure for revising the Treaties. This is certainly a step forwards in terms of bringing about a federal transformation of the EU, because it breaks the monopoly on treaty revision previously held by the IGCs (even though these nevertheless retain the power of final decision with unanimous vote).

### 8. *A Look to the Future.*

Globalisation has caused the world to undergo a great metamorphosis, which has shaken the established models far more than the process of European unification has done. The theoretical aim of federalism is to demolish the state-centric model, which reflects an archaic culture, superseded by the integration processes now under way in large regions of the world, by the globalisation process, and by the movement towards self-government, regional and local.

Scholars of international federalism, always aware that what they are exploring is a kind of no man's land lying between domestic and international politics, have learned to live with different approaches to the study of politics. For them, the loss of boundaries between the sphere of domestic politics and that of international politics, caused by globalisation, the erosion of state sovereignty, and the tendency towards constitu-

tionalisation of international relations, merely confirms the fact that the organisation of political power in the world is evolving towards a federal-type formula, albeit in the long time frame of history, and in non-traditional forms. Put more precisely, the gap between the first form of federalism, conceived with the purpose of organising a new form of state, and the new form of federalism, the international one, whose aim is to organise along federal lines the major regions of the world and, ultimately, the whole world (federal reform of the UN), is closing. What we are seeing is a reorganisation of power that is eroding the state sovereignties, but not to the point of suppressing them, and forming new levels of government, independent and coordinated, above and below the level of the national governments.

The world is changing so fast that the reality which we intend to transform along federalist lines is no longer the reality that Albertini knew. Some of the key words and terms used to describe the characteristics of today's new world and to try and make sense of the new reality that is taking shape before us did not even exist in the last century (or at least in most of it). For example, Albertini's works do not contain the word "globalisation", which refers to a process absolutely central to the evolution of contemporary history and a topic about which thousands of books have been written. I am not saying that he failed to see the significance of the problem in general terms, only that he uses a similar, albeit broader term — "interdependence" —, which may be applied equally to European and world integration.

In truth, European integration and globalisation are processes that belong to two different historical periods and two different stages in the evolution of the mode of production: respectively, the second phase of the industrial mode of production and the scientific mode of production. Just as the nation-states of Europe in the wake of WWII were condemned to decline and reduced to the status of satellites of the United States and of Russia, so today the two former superpowers are themselves declining under the pressure of globalisation, which is eroding their sovereignty. It is important, in particular, to note certain non-state actors that have emerged as global players, whose actions are outside the control of the states. Banks, stock exchanges, rating agencies, and multinational corporations are taking away the states' control of the global market. Religious organisations, research centres, foundations and universities are developing and disseminating cultural models at world level. Global television networks (CNN, Al Jazeera, etc.) are forming global public opinion. Civil society movements are promoting the first forms of worldwide mobilisa-



tion of citizens. Criminal and terrorist organisations are threatening the monopoly on violence until now held by the states. In short, globalisation is creating an ever deeper divide between the states, which have remained national, and the market and civil society, which have become global. As a result, the states are proving completely incapable of governing globalisation, because they have lost the power to decide issues crucial to the future of mankind. The new political element, which is now emerging more and more strongly, but was still not clearly discernible in the last century, is the erosion of the sovereignty of states of continental dimensions, which, in turn, is posing the problem of world government, i.e. of the need to strengthen and democratise the UN and other international organisations.

The theoretical work of Albertini provides a perspective that makes it possible to interpret the problems of the twenty-first century in line with the federalist viewpoint, and shows the direction in which to proceed. So deep was his inclination to identify with the problems of his time, and so exemplary his interpretation of them, that his strategic indications remain relevant even in today's changed circumstances.

Above all, the constitutional gradualism method, through which he identified the intermediate objectives on the way towards European federation (the direct election of the European parliament and the single currency), and the strategy of making real advances towards that goal, remain lasting and valid indications. And not only in the ambit of European federalism, but also in that of world federalism.

Perhaps, at the end of the last century, it was impossible to see (even though it is obvious to us now) that a federal budget based on own resources would become, following the creation of the single currency, the crucial new step needed in order to move towards a European economic government. The power to impose taxes is a crucial aspect of state sovereignty, which, if politics is to regain its power to govern the markets, the states must, in part, relinquish to the EU. The federalists are therefore committed to the pursuit of a new transfer of power from states to the EU, in the framework of constitutional gradualism.

This approach and strategic indication have also proved to be crucial with regard to the first steps towards the world federation. As far as this objective is concerned, it is advisable to study the process of globalisation together with federalism, understood as the theory that makes it possible to govern globalisation. More precisely, the world federation is seen as the form of power organisation through which it becomes possible to eliminate war as a means of solving international conflicts, to overcome

the *raison d'état* as the driving force in international politics, to constitutionalise international relations, and to govern these through international democracy. All this is what is required in order to heal the divide between the sphere of politics governed by law and the sphere of politics governed by violence.

For those with eyes to see it, a process moving in the direction of these goals is already under way. Albertini saw quite clearly that European unification could be both the model for and the driving force of the unification of other major regions of the world (Latin America, South East Asia, Africa, etc.) and of the world as a whole (through a strengthening and democratisation of the UN). What distinguishes European unification from federal unifications of the past is the fact that the division of the world into sovereign states, accepted as inevitable, led to a centralist degeneration of those states. European unification, precisely because it is developing in the context of the globalisation process, is emerging as a new stage of the historical process and as the start of the unification of the world. For this reason, it will produce a new form of federalism.

Moreover, the United Nations system has developed a network of institutions that anticipate, even if they do not establish, a world government; in rather the same way, the European Community, as an institution, must be understood as a forerunner of the future European federation. In 1998, barely a year after Albertini's death, the International Criminal Court was created in order to punish crimes against humanity, war crimes and genocide. This institution was born as a reaction to the horrors and atrocities of the civil wars in Yugoslavia, Rwanda, and the Caucasus, which were the bitter fruits of the processes of political disintegration that marked the end of the Cold War. The Court's objective was to see international law applied to individuals and no longer only to states. It undoubtedly reproduces, at global level, one of the key aspects of statehood and, for this reason, may be seen as a first step towards the future world federation.

There is now beginning to appear, on the horizon, another great advance in the direction of this objective. The global financial and economic crisis is making it compulsory to address the problem of governing the world economy and, in particular, the need to reform the international monetary system with a view to creating a global reserve currency. The colossal size of US public debt, which raises the spectre, for America, of national insolvency, suggests that the dollar should be replaced as the international reserve currency by a basket of the world's

leading currencies. It is interesting, in this regard, to note the parallels that can be drawn with European monetary unification as a temporary response to the problem of the government of the European economy, a problem that the European federalists have been targeting for a quarter of a century. The lesson that can be learned from the history of European unification is that a monetary union cannot hold out in the absence of a fiscal union, a European government of the economy, and, ultimately, a federal union.

In conclusion, the federalist model makes it possible to see the reality of today's world in a new perspective, because it allows simple and direct explanations of the changes that have taken place, and also gives them a name. Through the federalist revolution, exclusive loyalty to one's nation, a sentiment already dead in the heart of contemporary men, particularly today's young Europeans for whom the nation has lost all meaning, will be replaced by the awareness, clearly apparent in the process of globalisation, of belonging to mankind but also, at the same time, to a local community, a county, a region, a nation and a major region of the world.

#### NOTES

<sup>1</sup> M. Albertini, *Tutti gli scritti*, edited by N. Mosconi, Bologna, Il Mulino, 2006-2010 (nine volumes).

<sup>2</sup> G.W.F. Hegel, *Vorlesungen über die Philosophie der Weltgeschichte*, Leipzig, F. Meiner, 1917, vol. I, p. 76.

<sup>3</sup> M. Albertini, "A Giuseppe Usai", 19 March 1976, in *Tutti gli scritti*, Bologna, Il Mulino, 2009, vol. VII, pp. 193-194.

<sup>4</sup> M. Albertini, "Politica e cultura nei saggi di Norberto Bobbio" (1955), in *Tutti gli Scritti*, Bologna, Il Mulino, 2006, vol. I, pp. 813-820.

<sup>5</sup> M. Albertini, "A Giuseppe Usai", *op. cit.*, p. 193.

<sup>6</sup> K. Marx, *Theses on Feuerbach*, in *The Works of Karl Marx and Friedrich Engels*, Marx-Engels Internet Archives.

<sup>7</sup> *The Federalist*, XLIV, n. 3 (2002).

<sup>8</sup> See the above cited essay "Federalism from Community to the World".

<sup>9</sup> G.W.F. Hegel, *Political Writings*, Cambridge, Cambridge University Press, 1999, chap. 8.

<sup>10</sup> M. Weber, *Science as a Vocation*, [filepedia.org/the-vocation-lectures](http://filepedia.org/the-vocation-lectures), p. 11.

<sup>11</sup> I. Kant, *Idea for a Universal History from a Cosmopolitan Intent*, in *Perpetual Peace and Other Essays*, ed. by T. Humphrey, Indianapolis, Hackett, 1988, p. 34.

<sup>12</sup> I. Kant, *On the Proverb: That May be True in Theory, But is of no Practical Use*, in *Perpetual Peace*, *op. cit.*, p. 86.

<sup>13</sup> J. Habermas, *The Inclusion of the Other*, Cambridge, MA, MIT Press, 1998; D. Held, *Democracy and the Global Order*, London, Polity Press, 1995; O. Höffe, *Demokratie im Zeitalter der Globalisierung*, München, Beck, 1999.

<sup>14</sup> M. Albertini, “War Culture and Peace Culture”, *The Federalist*, XXVI, n. 1, 1984, p. 18. See also “Toward a World Government”, *ibid.*, pp. 3-8.

<sup>15</sup> K. Marx, *The German Ideology*, Marx & Engels Internet Archive; <http://www.marxists.org/archive/marx/works/1845/german-ideology/ch01a.htm>.

<sup>16</sup> A. Spinelli, “La beffa del Mercato comune”, in *L'Europa non cade dal cielo*, Bologna, Il Mulino, 1960, pp. 282-287

<sup>17</sup> L. Robbins, *Economic Planning and International Order*, London, Macmillan, 1937.

<sup>18</sup> M. Albertini, *La “force de dissuasion” francese* (1960), in *Tutte le opere, op. cit.*, vol. III, pp. 575-582.

<sup>19</sup> C. Kindleberger, *The World in Depression, 1929-39*, Berkeley, CA, University of California Press, 1973; R. Gilpin, *The Political Economy of International Relations*, Princeton, NJ, Princeton University Press, 1987.

<sup>20</sup> M. Albertini, *Elezione europea, governo europeo e Stato europeo* (1976), in *Tutte le opere, op. cit.*, vol. VII, pp. 159-171.

# Points for Thought in the Writings of Francesco Rossolillo \*

SALVATORE ALOISIO

The writings of Francesco Rossolillo are, as shown by the size of the two volumes of his work recently published by Il Mulino<sup>1</sup>, not only numerous but also very varied, both in nature (weighty essays alongside brief reflections) and in subject matter (political philosophy, general theory of the state, constitutional law and political science, as well as, not infrequently, history and sociology). In short, Rossolillo's work is vast and heterogeneous, reflecting the great breadth of his culture.

Faced with such a wide range of material, it is natural to choose to focus on the topics that, for various reasons, are closest to one's own heart. Personally, I have always been impressed, above all, by Rossolillo's reflections on issues of general theory, in which, masterfully, he succeeded in reconciling the federalist vision with the application of scientific rigor. I refer, for example, to the concepts of people and sovereignty and, in this regard, recall in particular an essay he published in 1995.<sup>2</sup>

Therefore, my aim here is to identify points in Rossolillo's writings on these issues that deserve further reflection, naturally focusing on those that seem to me to be particularly relevant today.

## 1. *The concept of sovereignty.*

As already indicated, the complex idea of sovereignty was a cornerstone of Rossolillo's thought, and an issue to which he devoted two long essays.<sup>3</sup>

Sovereignty is a concept that must inevitably be taken into account when dealing with the question of a European federation. And this is true

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\*This is a reworking of the address given on 2 March 2010, in Ferrara, to mark the presentation of the collection of writings by F. Rossolillo. The event was organised by the MFE and by the Institute of Contemporary History of Ferrara (Istituto di Storia contemporanea ferrarese), under the auspices of the University and Province of Ferrara.

in spite of the increasingly widespread view (strongly criticised by Rossolillo in 2001) that, with the disappearance of the modern state, we are witnessing an inexorable decline of sovereignty. As Rossolillo points out, the absence of sovereignty implies the risk of a slide into anarchy and a total absence of law in the regulation of civil society.<sup>4</sup>

The truth is that we are actually faced with quite frequent reminders, should we need them, of the continued relevance of the concept of sovereignty, not only in the process of European unification but also, more generally, in the sphere of international relations. Indeed, the concept of sovereignty was recently analysed, as a point of law, by the German Constitutional Court (in its ruling on the Lisbon Treaty).<sup>5</sup> The German Constitutional Court is, indeed, a body that repeatedly raises the unavoidable question of the attribution of sovereignty within the European framework, albeit referring to a very outdated version of the concept.<sup>6</sup> Remaining in the ambit of international relations, the actions both of the developing powers (China, India, Brazil, etc.) and, despite their problems, of the traditional ones (the USA primarily, but also Russia) provide daily reminders of the continued importance of so-called external sovereignty. Indeed, the failure of the European states and the EU to play any kind of role in the recent climate change conference in Copenhagen showed what can happen when it is absent.<sup>7</sup>

Sovereignty, according to Rossolillo, means the power ultimately to guarantee the efficacy of a legal order.<sup>8</sup> In addition, he also embraces — in my view perhaps a little too strongly — the idea that sovereignty must always be considered indivisible, even in a federation. This position, however, is tempered by his valid theoretical explanation (Kelsenian in nature) that sovereignty belongs to the federation *as a whole*, which in turn is structured on at least two levels: that of the member states and the central level.<sup>9</sup> In this way, the sovereignty he envisages is shared sovereignty. But the fact nevertheless remains that the (constitutional) laws that govern relations between the centre and the member states are federal, as indeed are the institutions that interpret and apply them.<sup>10</sup> And it is precisely this question of the power to determine the extent of one's own competences, a fine distinction forcefully highlighted by the German Constitutional Court as an obstacle to European unification, that represents the crux of the concept of sovereignty.<sup>11</sup>

This framing of the question implies a clear differentiation between confederation and federation, which allows no middle ways. Perhaps (but this is my interpretation) it is a framing that can be reconciled only with the existence of *sui generis* entities like the ones, provisional and con-

tinuously changing, that have always characterised the process of European unification, from the ECSC to the EU (even though it is, justifiably, very much doubted that the latter, as a whole, can evolve in a federal direction).

In addition the issue of the power to determine competences, Rossolillo clearly identifies the material bases and instruments necessary for the exercise of sovereignty: these are foreign policy, which obviously goes hand in hand with control of the armed forces, and major economic policies, which in turn require monetary control. It must be remembered that the paper being referred to here was published in 1975, long before Europe took its first tentative steps in these areas.<sup>12</sup>

Furthermore, Rossolillo overcomes the idea of a conflict between state sovereignty and popular sovereignty, reaching the conclusion that sovereignty belongs both to the people and to the state, which should not be regarded as two distinct entities, but rather as parts of the same phenomenon.<sup>13</sup> According to this view, then, the state and the people are absolutely inseparable. All theoretical considerations aside, this point is interesting for the implications it has with regard to the creation of a European federation. Indeed, efforts to move towards a European federation have often been opposed, both by politicians and in the sphere of theoretical debate, on the basis of the argument that it would first be necessary to establish that a European people actually exists, as this is an essential precondition for undertaking the founding of a European state.<sup>14</sup> Conversely, it seems impossible to argue with the view that the two elements actually come into being together, in a gradual process in which a community comes to see itself as united in a community of destiny.<sup>15</sup>

## *2. The concept of people.*

At this point, Rossolillo's ideas on the concept of people are fundamental.<sup>16</sup>

Indeed, the traditional concept of national people does not leave scope for any alternative to the dichotomy between a European people that assumes constituent power and European national peoples that enter into a pact with each other. However, I would also add that if it is accepted that the criterion (and there may actually be more than one) used for determining the existence of a European people must be the same as the one that is applied in reference to the national peoples, then this means that a European people can never come into being (and given the instruments often used to form national peoples, one cannot help thinking that that is

just as well!)<sup>17</sup>

For this reason, Rossolillo's solution (below) is particularly interesting, as well as being largely admissible:

I. A people is not some metaphysical entity, nor is it a naturally occurring phenomenon; rather it has the *nature of a process*. This means that it is evolving all the time, and this evolution is also influenced by its interaction with the relevant institutional entities.

II. The European federation cannot merely be the result of the constituent act of a new European people, or the product of a "contract" between European national peoples. It can only stem from a more complex act, one that incorporates both these elements, i.e. that has the characteristics both of a constitution and of treaty.<sup>18</sup>

In my view, this observation highlights the inadequacy, for the purpose of creating a European federation, of the conventional method whereby the representatives of the member states, meeting at an IGC, sign a treaty that must then be ratified by the single states (this was the procedure used for the Treaty establishing a Constitution for Europe, which of course failed to enter into force after being rejected by the French and the Dutch). It is inadequate because, despite the level of participation in the preliminary stage, the outcome is still an ordinary international treaty (which, moreover, in this specific case, required the unanimous ratification of the EU member states). Also inadequate for the purpose of creating a European federation is the idea of ratification through a European referendum, in this case because the consensus of each nation-state would actually represent the last truly sovereign act on the part of that state, and therefore could come about only on a strictly individual basis.

III. The European people cannot be regarded as such on the basis of national-type criteria because — as Rossolillo points out — the European people must necessarily be the European *federal* people. This means a single people, united in a single community of destiny, but at the same time a *pluralistic people*, "whose distinctive characteristic will be the *multiple* loyalties of its citizens" (i.e. towards the federation, towards the other member states, and towards other "successively smaller" communities).<sup>19</sup> These multiple loyalties are possible only "thanks to the overcoming of the exclusive nature of national loyalty."

In the light of what has been said, it is impossible not to agree with Rossolillo's conclusion that there is no set pattern or sequence to the institutional transformation and growing self-awareness of the European people. Indeed, all that can be identified are pivotal moments, namely the



legitimation of a new order and the “shift of the framework of political struggle from the nations to Europe.”<sup>20</sup>

### 3. *The European Parliament.*

The European Parliament (EP) is, of course, a fundamentally important element in the popular legitimation of a European power.

The attention Rossolillo devotes to this organ is considerable, yet (particularly with regard to the fundamental question of a uniform electoral procedure) scattered in a number of different works (including a book co-written with L.V. Majocchi).<sup>21</sup>

While rightly underlining the considerable importance, for European unification, of the direct election of the EP, Rossolillo does not fail to identify and denounce the many shortcomings (in terms of its representativeness) of this institution. His main criticisms, advanced from the time of the introduction of the directly elected EP, remain highly relevant today. They concern, in particular, the composition of the parliament and — to an extent — they coincide with the criticisms raised, albeit with exaggerated emphasis and clearly with polemic intent, by the German Constitutional Court.

A recurring theme in Rossolillo’s thought is the need to create a uniform electoral system for the EP, which, moreover, would merely amount to complying with what is already laid down in the Treaties.

A good uniform electoral system, envisaging the establishment of a single European college, could, first of all, by rewarding (at the ballot box) those lists that have supranational connections, spur the political forces to strengthen their own European links (currently only confederal), thereby favouring the creation of true, democratically formed European parties, as well as the emergence of supranational political competition and debate. All this would contribute to the development of European public opinion, which as yet exists only in embryonic form.

A uniform electoral system could also serve to restore greater proportionality between a country’s number of elected MEPs and the size of its population. Currently there exist marked imbalances in this ratio that favour the less populous states, a situation that was harshly criticised by the German Constitutional Court.<sup>22</sup>

This absurd discrepancy was also criticised by Rossolillo in writings dating back to the first term of the first elected EP.<sup>23</sup> According to him it is the result of a contrivance geared at bringing together, in the same chamber, the representation of the citizens and that of the states.

Certainly, were the EP's powers to be increased, particularly with regard to the legitimization of a European government, it would no longer be possible to apply the current system, on account of its failure to respect the democratic principle of equality of votes. Federalist theory has long offered a solution to this problem, namely to create a bicameral federal system, by transforming the Council into a second chamber in which there is equal, or substantially equal, representation of the states, and the EP into a citizens' representative assembly, also created on a substantially equal basis.

In addition, in the context of Rossolillo's general theoretical reflections (I refer to a study conducted in 1985<sup>24</sup>), it is worth mentioning his highlighting of the general principle that lower chambers should be elected on the basis of single colleges, in order to prevent members of parliament from putting local interests before the general good. This principle, which Rossolillo takes to extremes, corresponds to the idea, still topical today, that at least some of the MEPs should be elected on the basis of a single European college, a concept referred to earlier.

On the subject of federal bicameralism, the same study highlights the opportuneness of subdividing tasks in such a way that only the first chamber (which is proportionally representative of the people) has executive power and legislative initiative, while the second is left to serve as a guarantee, safeguarding the powers of the lower levels of government.

Clearly these are still highly topical considerations. After all, the Council has not been transformed into a second chamber (the feeble moves in this direction contained in the draft Treaty adopted by the European Convention were promptly thwarted by the subsequent IGC).

Furthermore, the problem of the discrepancies between the different states as regards their ratios of MEPs to electorate has worsened.<sup>25</sup> Following the Council's adoption (after the entry into force of the Lisbon Treaty) of the double majority form of qualified majority voting, decisions have to be supported by at least 55 per cent of the Council of the European Union members which must, in turn, also represent at least 65 per cent of the EU's citizens. This has created a paradox whereby the Council is left with a decision-making procedure that makes it apt to be more representative of the demographic balance than the EP itself is! This situation undermines the EP's chances of becoming the body that legitimates a European government; furthermore, even though the Lisbon Treaty introduced some small changes to the procedure for appointing the Commission that did tend in this direction, the Commission itself is still

far from resembling a European government.

#### 4. *The federation in the confederation.*

I wish to end by commenting on an issue that has been considerably important for some time, and that has now become even more central: that of relations between the EU and possible forms of greater unification taking shape outside the framework of the 27 EU member states. I take as my starting point Rossolillo's reflections, in 1986, on the question of the relations between the (then) still-to-be created EU and the EC.<sup>26</sup>

Even back then it was obvious that not all the EC members could be involved in advances of the unification process. At the same time, a unilateral breakaway seemed unfeasible. It was clearly necessary for some of the members to advance, and to do so with the consent of those that did not wish to follow their example: in short, what was needed was a Union of those that wanted to take part, formed with the acquiescence of those that did not. Thus, even then it was clear that the treaty establishing a European Union (in that period the term referred to something more advanced than the EU that the Maastricht Treaty would later bring into being, rather usurping the name of Spinelli's 'draft treaty') would have to contain rules that would allow it to co-exist with the EC,<sup>27</sup> which would nevertheless continue to embrace both those states that wanted to be part of the Union and those that did not.

The creation of a legal instrument able to guarantee the coexistence of these two entities would have had number of advantages, and indeed still would have today. Mainly, it would help to get rid of all the excuses, both in the states that are against and in those that are in favour of unification, thereby rendering formally unexceptionable what I would term a negotiated or agreed split.

Today, however, it is hard to imagine the act establishing the new entity including all the possible measures geared at ensuring compatibility between the future European federation and the EU; similarly, it is hard to imagine using, to this end, some mechanism along the lines of the enhanced cooperations for which provision is already made.<sup>28</sup> In my view, the prerequisite for the realisation of federal-type forms of political unity can only be a political agreement between, on the one hand, the states that intend to start a process of greater unity and, on the other, all the others. This stage would of course have to be preceded by a schism between those set on unification and those opposed to it (possibly coinciding with a vote to convene a convention with powers greater than

those currently envisaged, or with the drawing up, perhaps by the EP, of a highly innovative draft revision of the Treaties). Such an agreement could make provision for the election (or appointment) of an *ad hoc* assembly comprising only representatives of those states willing to accept the mandate that the agreement itself would establish. At the same time, however, the agreement should outline broadly the terms of the relations between the legal entity to which the assembly should give rise and the existing EU, also stipulating the convening of an IGC to make any necessary amendments to the EU Treaty (e.g. with regard to common organs).

In this case, at Community level, the legal basis of the arrangement would be very tenuous (the decision could be taken within the European Council, in the form of a declaration by the latter, as happened in Laeken); basically, the project would be supported by a unanimous agreement that would cover the assembly's mandate and the future management of the coexistence of whatever entity were to spring from the assembly and the EU, which would continue to exist. Since the distinction between states wanting deeper integration and those opposed to it would have been made before the mandate was defined, this would ensure more constructive management of the *ad hoc* assembly which would involve only states in favour of the enterprise. As mentioned, this whole procedure could — preferably — run parallel with an IGC whose task would be to establish, in detail, the terms of the coexistence of the two entities, on the basis of the general agreement ratified by the European Council at the time as the assembly's mandate was defined.

#### NOTES

<sup>1</sup> Francesco Rossolillo, *Senso della storia e azione politica*, Vol. I, “Il senso della storia”, Vol. II, “La battaglia per la Federazione europea”, Bologna, Il Mulino, 2009. The pages of works cited herein refer to these volumes, even though the year and sometimes the publication that originally contained the work in question will be indicated.

<sup>2</sup> “La sovranità popolare ed il popolo federale come suo soggetto”, in F. Rossolillo, *op. cit.*, Vol. I, pp. 721 ff., English version “Popular Sovereignty and the World Federal People as Its Subject”, *The Federalist*, XXXVII, n. 3 (1995), pp. 150 ff.

<sup>3</sup> “Che cos'è la sovranità”, (1975), in F. Rossolillo, *op. cit.*, Vol. I, pp. 499 ff. and “Appunti sulla sovranità”, *ibid.*, Vol. I, pp. 805 ff., English version of the latter “Notes on Sovereignty”, *The Federalist*, XLIII, n. 3 (2001), pp. 161 ff.

<sup>4</sup> Cf. “Notes on Sovereignty”, *op. cit.*, pp. 162 ff.

<sup>5</sup> The text of the judgement, in German, can be found (as can a semi-official version in English) on the website of the German Federal Constitutional Court ([www.bundesverfassungsgericht.de](http://www.bundesverfassungsgericht.de)).

<sup>6</sup> It has been remarked that the German Constitutional Court, in reference to sover-

ignty uses tones typical of the first half of the last century (M.P. Chiti, “*Am Deutschen Volke*. Prime note sulla sentenza del *Bundesverfassungsgericht* del 30 giugno 2009 sul Trattato di Lisbona e la sua attuazione in Germania”, at [http://www.astrid-online.it/Riforma-de/Documenti/Corte-cost/CHITI\\_Am-Deutschen-Volke.pdf](http://www.astrid-online.it/Riforma-de/Documenti/Corte-cost/CHITI_Am-Deutschen-Volke.pdf)).

<sup>7</sup> In this regard, among the wealth of evidence, cf. the depressing account given by C. Bastasin, “Dopo Copenhagen / Europa e Usa a nozze sulla CO<sub>2</sub>” in <http://www.ilsole24ore.com/art/SoleOnLine4/dossier/Italia/2009/commenti-sole-24-ore/03-gennaio-2010/europa-usa-nozze-co2.shtml>.

<sup>8</sup> Cf. “Che cos’è la sovranità”, in F. Rossolillo, *op. cit.*, p. 503.

<sup>9</sup> Cf. L. Levi, “La federazione: costituzionalismo e democrazia oltre i confini nazionali”, in A. Hamilton, J. Madison, J. Jay, *Il Federalista*, Bologna, Il Mulino, 1997, who recalls, in fact, H. Kelsen, *General Theory of Law and the State*, Milano, Comunità, 1966, V ed., p. 322.

<sup>10</sup> On this point, cf. “Che cos’è la sovranità”, F. Rossolillo, *op. cit.*, pp. 503-504; “Notes on sovereignty”, *op. cit.*, pp. 167-169.

<sup>11</sup> The German Constitutional Court, in the ruling mentioned (§ 233), affirms that so-called *Kompetenz Kompetenz*, i.e. the EU’s power to decide the extent of its own competences, cannot simply be transferred to European level.

<sup>12</sup> Cf. “Che cos’è la sovranità”, in F. Rossolillo, *op. cit.*, p. 506.

<sup>13</sup> *Ibidem*, p. 508; “Notes on sovereignty”, *op. cit.*, p. 165.

<sup>14</sup> This is an idea that has been particularly widespread in German doctrine, see in particular D. Grimm, “Braucht Europa eine Verfassung?”, a conference held at the Carl Friedrich von Siemens Stiftung, 19 January 1994, and E.-W. Böckenförde, *Welchen Weg geht Europa?*, Munich, Siemens Stiftung, 1997. Reading between the lines, the German Constitutional Court’s “Lisbon” ruling also goes in this direction, § 251.

<sup>15</sup> “Notes on sovereignty”, *op. cit.*, pp. 166-7.

<sup>16</sup> “Popular Sovereignty and the World Federal People as Its Subject”, *op. cit.*, pp. 150 ff.

<sup>17</sup> For a harsh criticism of the theories that tend to interpret the idea of people in an ethnic sense, see F. Mancini, “Per uno Stato europeo”, in *Il Mulino*, 1998, pp. 408 ff.

<sup>18</sup> It can, incidentally, be noted that this is a typical feature of classical federations like the United States of America and the Swiss Confederation, which nevertheless went on to assume, gradually, many of the characteristics associated with a nation. Contrary to what happened in these cases, however, the characteristics of the European states will not allow the subsequent transformation of the people from which the federation is born into a national people, and as a result will constitute the full realisation of the federal principle that was formulated in relation to the classical federations.

<sup>19</sup> Cf. “Popular Sovereignty and the World Federal People as Its Subject”, *op. cit.*, pp. 160-161. In this essay, Rossolillo speaks of a disappearance of the national peoples in favour of a federal, thus pluralistic, people. As the author himself acknowledges, this idea raises doubts. Personally, I believe that the concept of people, if stripped of its nationalistic connotations of absoluteness, can also be used in reference to the various sub-federal levels of government.

<sup>20</sup> Cf. “Popular Sovereignty and the World Federal People as Its Subject”, *op. cit.*, p. 180.

<sup>21</sup> *Il Parlamento europeo. Significato storico di un’elezione*, Naples, Guida, 1979. The chapters written by Rossolillo can be found in F. Rossolillo, *op. cit.*, Vol. I, pp. 135 ff.

<sup>22</sup> Cf. in particular § 285 of the ruling.

<sup>23</sup> “Il ruolo del Parlamento europeo nella costruzione dell’unità politica europea”, (1980), in F. Rossolillo, *op. cit.*, Vol. II, pp. 29 ff.; “Proposte per la soluzione della crisi istituzionale della Comunità”, (1982), in *Id.*, *op. cit.*, Vol. II, pp. 33 ff.

<sup>24</sup> “Per un nuovo modello di democrazia federale”, in F. Rossolillo, *op. cit.*, Vol. I, pp.

571 ff., cf. in particular pp. 583 and 588. English version: “Towards a New Model of Federal Democracy”, *The Federalist*, XXVII, n. 2 (1985), pp. 90 ff., in particular pp. 100 and 104.

<sup>25</sup> Due to the greater number of microstates, a phenomenon that has increased with the enlargement of the EU to the East and is partly attributable to strong fragmentary forces — fragmentation offers certain advantages within the EU organs —, the ratio between the number of electors in the smallest country and the number in the largest country, each electing a single MEP, has reached 1:12. Six has been established as the minimum number of MEPs that a state is entitled to have, whereas in “Proposte per la soluzione della crisi istituzionale della Comunità”, *op. cit.*, p. 49, developed by the UEF in 1982, there was talk of a minimum threshold of two.

<sup>26</sup> “Unione europea e Comunità”, in F. Rossolillo, *op. cit.*, Vol. II, pp. 91 ff..English version: “European Union and the Community”, *The Federalist*, XXVIII, n. 2-3 (1986), pp. 145 ff.

<sup>27</sup> The need to guarantee compatibility between different levels of integration was, at that time, the subject of important reflections, see Antonio Padoa Schioppa, “European Union and European Community: Two Incompatible Institutional Systems?”, *The Federalist*, XXX, n. 3 (1988), pp. 201 ff. and Id. “Notes on the Institutional Reform of the EEC and on Political Union”, *The Federalist*, XXXIII, n. 1 (1991), pp. 63 ff., in particular p. 70.

<sup>28</sup> On enhanced cooperations after the Lisbon Treaty, see G. Tiberi, “Uniti nella diversità: l’integrazione differenziata e le cooperazioni rafforzate nell’Unione europea”, in F. Bassanini – G. Tiberi (editors) *Le nuove istituzioni europee. Commento al Trattato di Lisbona*, Bologna, Il Mulino, 2008, p. 287.

# Notes

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## THE DIFFICULT BALANCE BETWEEN STATE AND MARKET

Throughout the world, people are asking themselves how dramatically society has been, and will continue to be, affected by the current financial crisis, and in various quarters efforts are being made to find the formula that might allow the economy to get back on its feet. It is wondered whether the market still has the ability to trigger a new phase of growth, or whether this task falls, instead, to the states. Market capitalism is being compared with state capitalism, which is becoming increasingly prominent in the global economy, also through sovereign wealth funds. In short, there is a growing awareness of the need to achieve a more equitable balance between state and market. But what chance do states increasingly burdened by public debt, like the USA and the European countries, really have of starting a new cycle of growth and development? To try and answer these questions it is worth looking at works published in 2010 by Ian Bremmer<sup>1</sup>, Joseph E. Stiglitz<sup>2</sup> and Jacques Attali.<sup>3</sup>

### *The Free Market.*

One of the most predominant currents of thought in economic-political debate over recent decades has been the one which argued that the spread of economic liberalism was enough, on its own, to produce development and generate wealth. In this regard, the end of the Cold War and of communism seemed to set the seal, definitively, on the victory of capitalism and the market economy; the buzzwords of this success were globalisation, privatisation, deregulation, and network enterprise. The state seemed to be assuming an increasingly marginal role and the idea of government was replaced by that of “global governance.” The neoliberal

ideology, advocated in the 1980s by Ronald Reagan in the USA and Margaret Thatcher in the UK, prevailed: this approach, which encouraged deregulation and privatisation in many fields, such as energy, transport and telecommunications, was adopted by a growing number of countries. And, in fact, it did help to boost production, trade and employment. As Bremmer points out, “Between 1980 and 2002, world trade more than tripled. The costs of doing business — especially in transportation and communications — fell sharply. [...] Tariff rates (as a percentage of total import costs) were halved during this period in America, were more than halved in Europe, and fell by 80 percent in Canada.”<sup>4</sup>

However, the definitive boost for the further growth of capitalism and globalisation was to come not from the West, but from Asia; in this regard, China, from the 1990s, emerged as the real driving force, and in 2001 strengthened its position enormously by joining the free market system. There is no doubt that China’s accession to the WTO changed the forces in the field, ushering in new balances and rapid changes in the economic rankings, helping to trigger enormous movements from and to Asia, and creating new imbalances in the accumulation of capital reserves. By opening its doors to capitalism, starting with the coastal cities under Den Xiaoping, and continuing in this direction under Hu Jintao, this vast area of the world, long excluded from the global market economy, has succeeded in re-establishing itself, gradually, in the arena of global commerce, yet without the Beijing government having to relinquish its strong control over the entire Chinese economy. Growing investments by large global enterprises have, in turn, led to an increase in transactions, investments and business ventures, with new forms of financial investment, all in the pursuit of big business.

In the 1990s, particularly in the United States, the doctrine that the market is global and every obstacle to international free trade must be removed was used to justify even stronger deregulation (approved by the IMF), which started with the financial sector: “‘Financial and capital market liberalisation’ meant that foreign banks could get high returns on their loans, and when loans went bad, the IMF forced the socialisation of the losses meaning that the screws were put on entire populations to pay the foreign banks back.”<sup>5</sup> “Global financial institutions pressed them [the governments] to embrace US-endorsed liberal economic theories, known collectively as the Washington Consensus”; this “comprises three major ideas: fiscal and budgetary discipline; a market economy, including property rights, competitive exchange rates, privatisation, and deregula-



tion; and openness to the global economy through liberalisation of trade and foreign direct investment.”<sup>6</sup>

As Stiglitz has remarked, “The sad truth is that in America’s financial markets, innovations were directed at circumventing regulations, accounting standards, and taxation”, and, in particular, at invalidating the Glass-Steagall Act of 1933 which, in order to avoid the clear conflicts of interest that arise when the same bank issues bonds and equities and grants loans, had separated commercial banks (which lend money) from investment banks (which organise the sale of bonds and equities).<sup>7</sup> Indeed, the purpose of this law was, in part, to stop those, in commercial banks, responsible for the safekeeping of the money of ordinary people from engaging in the kind of risky activities typical of investment banks, whose purpose, instead is to maximise the profits of those who are already rich. Its repeal marked the end of the separation between investment banks and commercial banks and the investment banks have since taken over. Indeed, the American mortgages crisis, which was at the root of the Western capitalist system’s most severe recession since 1929, was due, quite simply, to the disruption of these delicate regulatory mechanisms, which allowed the financial institutions, against all logic, to tie the value of real estate to highly speculative products.<sup>8</sup>

In this way, “the free-market ideology turned out to be an excuse for new forms of exploitation. ‘Privatisation’ meant that foreigners could buy mines and oil fields in developing countries at low prices. It also meant they could reap large profits from monopolies and quasi-monopolies, such as telecommunications.”<sup>9</sup>

### *The role of the global enterprises.*

There can be no doubt that the role and nature of the global enterprises have been fundamental factors in the development of world trade and the global economy over the past half century. Indeed, these enterprises have, in many cases, become the states’ financial and economic competitors. This competitive logic was already a factor in the activity of the multinational corporations formed after the Second World War, as already testified by Jean Jacques Servan-Schreiber in the 1960s.<sup>10</sup> Since then, however, the phenomenon has undoubtedly undergone a quantum leap: “In 2000, a report by the Institute for Policy Studies dropped a bombshell: Comparison of corporate sales of the largest multinational companies with the gross domestic product of the world’s wealthiest countries revealed that 51 of the world’s largest economies were corporations; just

49 were countries.” Furthermore, “in 2008, the UN’s World Investment Report noted that the number of multinational companies had grown from 7,250 in the late 1970s to more than 60,000 three decades later.”<sup>11</sup>

These figures explain why many are now wondering whether it is still possible to think in terms of strong domestic companies as the bedrock of a country’s economic growth. Domestic companies were always considered the driving force of development and growth in traditional economic systems, but in the era of globalisation, the logic of profit maximisation means that these companies, especially those operating from small states, are neither bound nor motivated to work to improve the national system to which they belong, precisely because it has ceased to be fundamental to their survival. Indeed, once it has been milked for all the funding and support it can give, the national system is actually perceived as an obstacle to the expansion of their activity. Therefore, these companies become increasingly interested in the policies of the states that they see as targets for their production and commercial activities.

As long ago as 1996, Susan Strange pointed out that “One incidental consequence of such global shifts will certainly be to increase the separation of firms from the governments of their home bases. American, British, even Japanese firms, finding new markets where demand is growing, will also find they need to pay more heed to the wishes of whatever central or local, state or non-state authority governs these new markets.”<sup>12</sup> Still in the 1990s, Robert Reich identified network enterprises, or global webs, as the new business models that were profoundly changing the production system and forms of development: “National champions everywhere are becoming global webs with no particular connection to any single nation.”<sup>13</sup> “In the older high-volume economy, most products — like the corporations from which they emanated — had distinct nationalities. Regardless of how many international borders they crossed, their country of origin [...] was never in doubt.” “The old American multinational corporation was controlled from its American headquarters. Its foreign subsidiaries were indeed subsidiary.”<sup>14</sup> In this framework, ownership and control were indisputably in American hands and strategic planning was carried out in the USA. But with the new web of enterprise, “instead of a pyramid [...] the high-value enterprise looks more like a spider’s web. Strategic brokers are at the centre, but there are all sorts of connections that do not involve them directly, and new connections are being spun all the time.” “By the 1990s, most ‘trade’ no longer occurred in arm’s-length transactions between buyers in one nation and sellers in another, but between people within the same web.

[...] They may be part of the same multinational corporation, collecting salaries from one source, or they may be working in different companies that share in any profits from the joint venture, or they may simply contract with one another to perform specific services for a preestablished fee.”<sup>15</sup>

In the face this new global economic production system, the problem of how best to govern it ought to have been tackled seriously, steering clear of the illusion that it was enough to rely on a vague concept of global governance. Indeed, as Susan Strange pointed out, “The implicit assumption conveyed by the two words, ‘global’ and ‘governance’, is that government is being achieved on a world scale by a world authority. Yet the truth, as any student of inter-governmental organisations is well aware, is that the limits and the nature of any inter-governmental bureaucracy’s decision-making power are set by the most powerful of its member governments. The international organisation is above all a tool of national government, an instrument for the pursuit of national interest by other means.[...] Too often, a regime is represented as merely the consequence of a harmonising process, through which governments have coordinated their common interests. The power element is underplayed. Yet in reality, many international regimes have not so much been the result of a coming-together of equals, but the end-result of a strategy developed by a dominant state, or sometimes by a small group of dominant states. [...] Even the secretariats of the international institutions concerned are subliminally socialised into administering an international ‘order’ that is by no means neutral either in its intentions or its consequences.”<sup>16</sup>

One can hardly find it surprising, therefore, that, after the economic and financial crisis of 2008 and with the enormous limitations of the laissez-faire approach laid bare, the scene is once again dominated by the active presence of the states in the economy (even though some economists, staunch defenders of the free market, would still have us believe that the current difficult phase is merely a contingent effect of the cyclical fluctuations of capitalism, which alternates expansionary phases with periods of recession). According to Stiglitz, “September 15, 2008, the date that Lehman Brothers collapsed, may be to market fundamentalism (the notion that unfettered markets, all by themselves, can ensure economic prosperity and growth) what the fall of the Berlin Wall was to communism. [...] With the collapse of great banks and financial houses and the ensuing economic turmoil and chaotic attempts at rescue, the period of American triumphalism is over. So too is the debate over

‘market fundamentalism’. Today only the deluded (which include many American conservatives, but far fewer in the developing world) would argue that markets are self-correcting.”<sup>17</sup> Moreover, as Stiglitz also points out, over the past twenty-five years, the US banking system, which was the root of the crisis, enjoyed great freedom; what is more, far from correcting itself, it was repeatedly bailed out by the state.

The severe problems currently being experienced by the economies of most of the world have, as Stiglitz has remarked, rekindled the debate on what might be the most effective type of economic system.<sup>18</sup> At this point, however, it is worth pointing out that all this can certainly not be interpreted as the downfall of capitalism, in favour of the communist regimes, given that, as Bremmer has pointed out, “the clearest sign of communism’s demise came from the international financial crisis”; after all, “if the turmoil that these crises generated couldn’t breathe life into the communist corpse, it’s hard to imagine what could.”<sup>19</sup>

### *State Capitalism.*

All this explains clearly why the debate on the future of world economic development is once again focusing on the choice between “market capitalism” and “state capitalism.” The former tends to underline that the freedom of companies in the marketplace should be tempered by a discrete presence of the state, to ensure respect for the rules; the latter instead emphasises the key role that each state should play in promoting, directing and supporting, in the marketplace, the different national economies. In any case, one cannot help wondering, given the global size of the market, whether the states, particularly the smaller ones, really have the capacity to enforce the rules, and whether, in the different historical periods, the economic forces and the forces of production have ever enjoyed truly equal starting conditions and conditions of action. Indeed, according to Bremmer, “There are two fundamental differences between free-market and state capitalism. First, policy makers don’t embrace state capitalism as a temporary series of steps meant to rebuild a shattered economy or to jump-start an economy out of recession. It’s a strategic long-term policy choice. Second, state capitalists see markets primarily as a tool that serves national interests, or at least those of ruling elites, rather than as an engine of opportunity for the individual. State capitalists use markets to extend their political and economic leverage, both within society and on the international stage.”<sup>20</sup> As Bremmer also points out, “Even if state capitalism isn’t around a century from now, the

financial crisis and the global recession have ensured that it will enjoy many more years of robust health. American-style free-market capitalism and the idea of globalisation have taken plenty of blame for the meltdown.”<sup>21</sup>

In short, communism is hardly back in vogue, but what does emerge strongly is the idea that capitalism must be placed (or, more simply, go back to being) at the service of the states, especially those of continental dimensions and those that are richest in primary resources (energy and other types).

### *Sovereign Wealth Funds.*

There exist enterprises, few in number but extremely powerful, which act as material executors of the policy of the states that created them. They are called sovereign wealth funds. Although they are not a new invention — indeed, they already existed in the 1950s —, the start of their real development and rise to prominence dates back only to 2005. There now exist around fifty sovereign wealth funds (half of which came into being after 2000), including government-owned oil companies that “now control three quarters of the world’s crude oil reserves.”<sup>22</sup> “These are state-managed pools of excess cash that can be invested strategically. Governments can use the profits they generate for political purposes. They can also use the funds themselves, primarily abroad. [...] Sovereign wealth funds draw their capital from three main sources. First, there is foreign currency earned from the export of natural resources, mostly oil and natural gas, a major source of income for Russia, Arab states of the Persian Gulf and several North African countries. Second, there is the extra cash left over from a positive balance of trade. For example, China finances sovereign wealth funds with the foreign currency it earns by exporting huge volumes of manufactured goods to the United States, Europe and Japan. [...] Third, sovereign wealth funds are occasionally bankrolled via direct one-off transfers from a federal budget or foreign-exchange reserves. These funds generally include a range of financial assets in their portfolios with varying degrees of risk: foreign currency, stocks, government and corporate bonds, precious metals, real estate, and other assets. They buy stakes in (and sometimes majority ownership of) domestic and foreign companies, including hedge funds and leveraged buyout firms.”<sup>23</sup>

As an example, in 2009 the most important commodity-based sovereign wealth fund, in value terms, was the *Abu Dhabi Investment Authority*

with its assets worth 627 billion dollars. Commodity funds are the type created with cash from the sale of raw materials, in this case, oil, while non-commodity funds are created with a surplus of foreign currency derived from exports. If we consider this latter type, we find that the first, the second and the fourth most important are Chinese: respectively, the *SAFE Investment Company*, with assets worth 347 billion dollars, the *China Investment Corporation* (almost 289 billion), and the *National Social Security Fund* (146.5 billion). Third place is filled by the *Government of Singapore Investment Corporation*, with assets worth 247.5 billion dollars. China is, therefore, clearly the world leader in terms of sovereign wealth funds.<sup>24</sup> Even though the financial crisis means that these figures are now indicative and, to an extent, open to reappraisal, there can be no underestimating the importance of the role played by these enterprises at global level.

In Bremmer's view, they are now a threat to the free markets, since "those who manage their investments don't answer to shareholders. A sovereign wealth fund has one stakeholder: its parent government."<sup>25</sup>

*The Effects of the Crisis on the Western World and the Problem of the Public Debt.*

Western countries, with the exception of Norway and Canada, make less use of sovereign wealth funds on account of the now chronic lack of surplus in their trade balances and balances of payments, which are mostly in deficit, and their lack of raw materials and energy sources.

One of the main differences between the countries of the Western world and those that have adopted a clear strategy of state capitalism is, therefore, the fact that the former, compared with the latter, have an economic situation greatly conditioned by the enormous public debt they have accumulated. This debt already existed prior to the crisis, but it has been worsened by the bailout policies that the states have had to implement in order to keep their respective banking and production systems afloat and thus avoid the risk of political and social turmoil. Indeed, even though the effects of the economic crisis have been felt in most of the world, some states have been hit harder than others, in particular those that have always been leaders of the world economy, like the USA, the EU countries and Japan. For this reason, the United States, above all, has had to review its stance on the economy. Indeed, in a very short space of time, this once great supporter of a highly liberal economy has become a proponent of an economy strongly dominated by the

presence of the state (to an extent previously only seen during the two World Wars). It is, indeed, in this spirit, i.e., to facilitate market recovery and attempt to create new jobs, that the American governments implemented the US bank bailout plans.

Attali recently pointed out that the highest net public debt in 2010 was that of Japan, standing at 204 per cent of GDP, compared with a US public debt of 11,000 billion dollars (54 per cent of GDP and 674 per cent of American income tax receipts) and a European public debt amounting to 80 per cent of EU GDP.<sup>26</sup> The truth is that whereas the United States, despite having the world's largest debt, seems able, to an extent, to offload this debt onto the rest of the world (partly through its policy on the dollar), the EU countries, not having a true European plan, are not in a position to do the same. It is no secret that, in this setting, the situation of five countries, now considered at risk of default, has become particularly serious. These are the so-called PIIGS countries (Portugal, Ireland, Italy, Greece and Spain). Attali has highlighted the dramatic nature of this situation, pointing out that at the current rate, the sovereign debt of the leading Western countries will soon exceed the wealth they are producing and, contrary to what happened each time the debt exploded in the past, this will happen without there first being a phase of strong growth or inflation. In his view, therefore, the collapse of the entire West is a plausible scenario, albeit as little foreseen today as similar ones were in the past (i.e. the collapses of Venice, Genoa and Madrid). Attali is in absolutely no doubt that the entire Western world has entered a danger zone in which state and market are watching each other closely, each wondering which of the two will pull the trigger first. He stresses that if such an outcome is to be avoided, people need to be made to see that the world is on the edge of a precipice and that the worst really could happen. Since public debt stems from difficulties in increasing revenue so that it matches the rate of spending, Attali says, the real solution to the debt crisis is, in fact, growth. This demands competitive investments, which in turn require public infrastructures.<sup>27</sup>

### *State Capitalism and Market Capitalism in Europe.*

In the various European countries, the presence of the state in the economy has always been important above all in order to support a certain model of welfare state. As Bremmer points out, the European model of market capitalism has always been much less liberal than the American version, as the "European social-democratic model relies more on the

state as guardian of the rights of the individual.”<sup>28</sup> The fact that Europe was hit by the economic and financial crisis precisely at a time when it appeared to have lost part of its role in the world has thrown into question not only the development prospects, but also the very survival of the social model created by the Europeans over the past two centuries.

Attali has summed up the situation effectively. As regards the sovereign debt problem, he says, some believe that the European Union as a whole (and particularly the eurozone) is in a favourable situation, very different from that of other countries and continents. After all, they see that the EU budget is quite balanced, the single currency is strong, Europe has a high household saving rate, and the states are willing to pay their debts. But while all that was certainly true prior to the crisis, a closer look shows that things now are far from reassuring. The public finances of the EU countries are not under control at all, as the markets are making more apparent by the day. According to official figures, which Attali considers greatly underestimated, the period between 2009 and 2010 saw public debt rising — mainly on account of money poured into the banking crisis — by an average of fourteen and a half percentage points of GDP (and in some cases, like the UK and Ireland, by as much as thirty points!), an enormous amount. Some of these countries already have national debts greater than 100 per cent of GDP. Practically everywhere, the loans needed each year exceed the total of the budgets. In 2010, the EU member states, to balance their budgets, had to borrow 1600 billion euros, the same as the United States. Domestic savings, in particular life insurance, brought them 900 billion; the rest came from abroad, i.e. from Japan, from China and from sovereign wealth funds. Some countries are starting to have difficulties obtaining loans: Greece Spain and Portugal pay particularly dearly for them, thereby only increasing their debts. It will not be long before they are all insolvent. Yet, as Attali remarks, even in the face of this trend, there is absolutely no sign of a shared idea of the actions that need to be implemented, no harmonisation of national savings collection policies and, in particular, no common policy on the taxation of savings and capital income. Many derivative products are prohibited in some countries but authorised in others. There is no pan-European financial markets regulator and no equivalent of the Securities and Exchange Commission (SEC).<sup>29</sup> As Attali points out, this fragmented management of European savings means that the EU’s smaller countries, compared with the others, are paying more for their loans: this difference in the cost of borrowing is in the order of fifty basis points (0.5 per cent) between Germany and Austria, almost as great between Germany and France, and



considerably greater (six hundred basis points) between Germany and the other countries of the EU, especially when the latter are in difficulties. If social and tax legislation is not changed, interest rates remain stable and there are no further banking crises, the public debt of the EU countries will, as we have seen, reach 100 per cent of GDP by 2014.<sup>30</sup>

Furthermore, looking ahead, the impoverishment of the European economy is destined to increase also as an effect of the relocation programmes being undertaken by companies in the EU countries, which are tending to move their production activity to areas with lower labour costs and fewer regulations and social constraints. Indeed, these companies are finding Europe a less and less attractive setting in which to plan medium- and long-term investments, not least because they are confronted with institutional interlocutors, both national and European, that are often pursuing conflicting policies, outside any form of coherent planning framework. Moreover, the single European states are too small or too poor in raw materials to be able to create businesses capable of competing on the world market and they are still not in a position, given the absence of a European political union, to propose a European development plan linked to a common foreign and security policy. All this explains why the phenomenon of unemployment, particularly youth unemployment, has, as in the 1970s, come to the fore once again. And it is a problem that is destined to worsen as China, in its aggressive bid to penetrate even those areas (like Africa and the Mediterranean) that have always been economically and commercially linked to Europe, increasingly takes away Europe's markets and supply regions. This is the reason why, in the absence of alternative policies, no states, including the European ones, have any qualms about making use, directly or indirectly, of protectionist measures. Indeed, even though 2009 saw the G20 countries undertaking not to raise protectionist barriers "the World Bank found that during the five months leading up to that meeting, seventeen of the nineteen group members implemented forty-seven measures that restricted trade at the expense of other countries."<sup>31</sup>

### *How to Try and Stem the Crisis and Start Fresh Development in the EU.*

Moving from an analysis of the situation and the difficulties we face to the possible solutions, the picture becomes more confused. Remaining in the European framework, Attali believes it will be necessary, over the coming years, to reduce the European countries' public debt, albeit very gradually, and to increase their GDP, by raising taxation or reducing

expenditure. These are, of course, very difficult actions to take, as reducing public spending could further worsen the depression.

For this reason, Attali believes, the European Union needs to find new instruments for gathering funds. A possible one is the emission of European bonds, a debt that Attali defines “good”, because it would be “collective”. But to realise this project, Attali warns, there would have to be a European lender of last resort, which could not be either the European Central Bank (responsible for the currency), or the European Investment Bank (which borrows long term to provide long-term financing), but would have to be a new institution — a European Treasury Agency created with the objective of providing the European countries with new short-term financial resources to alleviate their current sovereign debt. This European Treasury Agency would issue ‘European bonds’ on behalf of the Eurogroup member states, or some of them. Attali suggests that a mechanism of this kind would immediately reassure the markets and put an end to the liquidity crisis affecting some Eurogroup countries.<sup>32</sup> But even this, he explains, would not be enough, since the debtor countries would not readily enter into loans unless the euro were solid. It is, therefore, also a question of developing better European financial management: the Eurogroup countries or, better still, all the EU member states, need to equip themselves with institutions capable of monitoring the European financial players, of prohibiting financial institutions from working with offshore financial markets and tax havens outside the EU, and of outlawing, according to a veto that is the same for everyone, the speculative use of credit default swaps. What is needed, to this end, is a European budget fund (separate from the European Treasury Agency) able to provide countries in difficulty with budgetary resources; this fund should, in turn, be financed by budgetary resources in proportion to the GDP of the member states, or on the basis of their conduct with respect to the Maastricht Treaty rules.<sup>33</sup>

Nevertheless, the sticking point continues to be growth. In this regard, Attali is quite clear, pointing out that in order to be able to repay its public debts in a continuous manner, Europe needs to bring about strong and sustained growth. After all, the European Union will have to go on funding, through taxes and without loans, its collective consumption, i.e. its subvention and operating expenses. To this end it will have to increase the Community budget ceiling while nevertheless retaining the balanced-budget obligation; in the event of a crisis, it would, while waiting for equilibrium to be restored, have to increase its means of funding the operating budgets, turning, to this end, to the European Treasury Agency

and the European budget fund. To conserve its social model, it will also have to find the means with which to fund its role as guarantor, particularly in the areas of health, pensions, welfare and employment. *As a sovereign entity*, the European Union must, ultimately, finance through long-term loans only the investments of the EIB, the true European sovereign fund. In particular, as envisaged by the Lisbon strategy, the European Union must also invest massively in knowledge, technology, culture, social welfare, education, health and the environment. Attali is well aware that these are vast and extremely long-term undertakings, which seem inconceivable in today's suffocating economic climate. However, he feels that they need to be pointed out, not least in order to show that the best is not impossible and that there does exist a feasible solution to the current crisis, in this way helping to usher in that which must prove to be a key stage in the European adventure. In short, he is convinced that, once again, it will have taken a crisis to make Europe stronger.<sup>34</sup>

Attali refers to Europe as a sovereign entity yet he fails to consider the question of how and in what framework this condition can be achieved. And yet one need only look at the state of the European budget, increasingly a prisoner of national constraints and contributions and submitted only for form's sake to the scrutiny of the European parliament, to realise that Europe does not even have any own resources, independent of the policies of the single states, with which to finance truly European plans. The fact is that when Attali, like other analysts and scholars, talks of the European Union's prospects for economic growth, he is actually thinking of what the Eurogroup should be doing, yet without really understanding how these two frameworks (the EU and the Eurogroup) could and should intersect and operate. The point is that European sovereignty is not yet a reality; it still needs to be constructed. In truth, political unity is the landmark that the Europeans need to reach in order to be able to implement at least some of the technical solutions that have been proposed. And unless they do so, the current growing "cost of non-Europe" is destined to be translated into a dramatic political debt that will burden Europe's future generations and also have a negative impact on prospects for global growth.

#### NOTES

<sup>1</sup> Ian Bremmer, *The End of the Free Market. Who Wins the War Between States and Corporations*, Portfolio, a member of the Penguin Group, USA, 2010.

<sup>2</sup> Joseph E. Stiglitz, *Freefall. America, Free Markets, and the Sinking of the World Economy*, Norton & Company, New York-London, 2010.

<sup>3</sup> Jacques Attali, *Come finirà. L'ultima chance del debito pubblico*, Rome, Fazi Editore, 2010.

<sup>4</sup> Ian Bremmer, *op. cit.*, pp. 33-34.

<sup>5</sup> Joseph E. Stiglitz, *op. cit.*, p. 221.

<sup>6</sup> Ian Bremmer, *op. cit.*, pp. 33 and 320.

<sup>7</sup> Joseph E. Stiglitz, *op. cit.*, p. 8. The Glass-Steagal Act was actually repealed with the passing, in 1999, of the *Gramm-Leach-Bliley Act*.

<sup>8</sup> Stiglitz points out that the bubble was driven by the perverse lending policies adopted by banks which accepted, as security, assets whose value was inflated by the speculative bubble, Joseph E. Stiglitz, *op. cit.*

<sup>9</sup> Joseph E. Stiglitz, *op. cit.*, p. 221.

<sup>10</sup> Jean Jacques Servan-Schreiber, *La sfida americana*, Milan, Etas Kompass, 1968.

<sup>11</sup> Ian Bremmer, *op. cit.*, p. 31.

<sup>12</sup> Susan Strange, *The Retreat of the State. The Diffusion of Power in the World Economy*. Cambridge University Press, Cambridge, 1996, p. 193.

<sup>13</sup> Robert B. Reich, *The Work of Nations*, Vintage Books, New York, 1992, p. 131.

<sup>14</sup> Robert B. Reich, *ibidem*, pp. 111-112 and p. 110.

<sup>15</sup> Robert B. Reich, *ibidem*, pp. 87 and 113.

<sup>16</sup> Susan Strange, *op. cit.*, pp. XIII-XIV.

<sup>17</sup> Joseph E. Stiglitz, *op. cit.*, p. 219.

<sup>18</sup> Stiglitz has expressed the view that while the markets are the beating heart of any efficient economy, they cannot work on their own. He believes that economies depend on a balance between the respective roles of the markets and of the state. In the past 25 years, he says, America has lost this balance and allowed this loss of balance to spread to the rest of the world. Joseph E. Stiglitz, *op. cit.*

<sup>19</sup> Ian Bremmer, *op. cit.*, p. 18.

<sup>20</sup> Ian Bremmer, *ibidem*, p. 77.

<sup>21</sup> Ian Bremmer, *ibidem*, p. 245.

<sup>22</sup> Ian Bremmer, *ibidem*, p. 15.

<sup>23</sup> Ian Bremmer, *ibidem*, pp. 101-102.

<sup>24</sup> If we add together the assets of the three funds mentioned, we arrive at a total of 782.5 billion dollars controlled by the Chinese government (source: *Sovereign Wealth Fund Institute Inc.* 2008-2009).

<sup>25</sup> Ian Bremmer, *op. cit.*, p. 102.

<sup>26</sup> Jacques Attali, *op. cit.*, p. 89.

<sup>27</sup> Jacques Attali, *ibidem*, pp. 15-19.

<sup>28</sup> Ian Bremmer, *op. cit.*, p. 246.

<sup>29</sup> Jacques Attali, *op. cit.*, p. 161.

<sup>30</sup> Jacques Attali, *ibidem*, p. 162.

<sup>31</sup> Ian Bremmer, *op. cit.*, p. 220.

<sup>32</sup> Jacques Attali, *op. cit.*, pp. 164-165.

<sup>33</sup> Jacques Attali, *ibidem*, pp. 167-168.

<sup>34</sup> Jacques Attali, *ibidem*, pp. 169-171.

# Thirty Years Ago

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## FEDERALISM AND THE CRISIS OF YOUTH POLITICAL PARTICIPATION \*

The GFE and the MFE have decided to reorganise, together, the policy on the training of the federalist cadres. In this regard, both the GFE and the MFE can draw on an experience that was successful in the past, and allowed militants trained in Italy to play an essential role both in organised federalism in Europe and in the struggle for Europe. But in seeking to develop militant federalism in the current situation, there is a new difficulty that must be taken into account, a difficulty that did not arise the first time we were faced with the problem of training the cadres. This difficulty lies in the crisis of political participation among the young.

Clearly— and we must actually consider this a rule — this is a crisis that can be overcome only by the young people themselves, through their choices. It is easy to see why. No one can be forced to participate, because participation is a matter of free will. Naturally, the GFE and the MFE can remind young people that there is a price to be paid for political disengagement. For the young, there is much at stake: the life and work they will have, the type of society they will live in, the alternative between an Italy that is increasingly adrift, and a united, fair, prosperous and strong Europe. Abandoning politics does not simply mean leaving things as they are, not even in our private lives. It means creating power vacuums, entrusting power to others, being willing to put our future in the hands of others.

But these general observations are only a premise. The real crux of the matter is the relationship between the crisis of political engagement among the young, the crisis of the ideologies, and the steadily declining moral and cultural level of the actions implemented by the traditional parties (the Marxist framework included). This practical and theoretical

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\* This is a translation of the editorial written by Mario Albertini for the first issue of the new series of *Federalismo militante*.

decline, which is increasingly reducing political power to a personal matter, pursued only for personal reasons, impacts particularly on the young, because theirs is a stage in life in which people are interested in power purely as a social and civil issue, and not as a personal thing. When a young man or woman begins to wonder whether to become politically active, and in what way, it is certainly not the idea of some personal advantage that will induce him or her to get involved, but rather the idea of the right kind of society in which to live. And this idea is precisely what is currently failing to emerge in prevailing culture. The crisis of the ideologies has left only uncertainty in this regard. People no longer know — and the parties are no longer able to say with a reasonable degree of certainty — what has caused the unsatisfactory state of society today. They no longer know — and, again, no party is able to say with sufficient certainty — what sort of society we should be building, and with whom, because the era of the division of peoples, civilisations and men has now come to a definitive end, and every one of us has vital relationships not only with our neighbours and with other Italians, but also with the Europeans and indeed with the whole of mankind. Consequently, young people today do not know what to do.

But the situation is not beyond recovery. There is no reason to think that mankind can no longer advance. What young people need to realise is this: if the crisis of the traditional ideologies has left us without guides, then they too, like every other willing man, now find themselves in the forefront of the research endeavour. The research front, the shaping of the future, is precisely the front on which the crisis of youth political participation has emerged, and it is on this front that it can be overcome, through a new political commitment, an alternative to the decadence and blind pragmatism of power, and the first steps towards the construction of a more rational society — a more just and more humane society.

The reason why militant federalism has ideas on how to hold this front is not that it already knows how to go about building the future; it is because its political experience is still completely new, still almost entirely to be acquired. The young federalists of the 1950s, 1960s and 1970s developed militant federalism, founded forty years ago, in the direction opened up by Spinelli. Those young people understood that if politics is identified with action geared at obtaining a seat in a government, parliament or local government, then one remains within the sphere of the existing power structure, i.e. on the side of the crisis and not on that of its overcoming. They therefore set out to conduct politics without using the weapon of general elections, or that of violence, or that

of the representation of sectoral interests, and they succeeded.

This is why today we can speak seriously of federalism, and say that through the theory of federalism, as taught by Kant, it is possible to conceive of mankind, and not just the nation, in political terms; and that through militant federalism, it is possible to conceive of the way for a new form of political commitment, different from the failed one of the past.

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