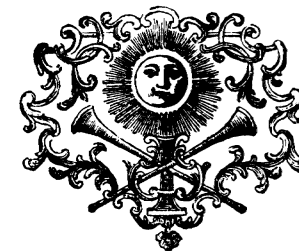


THE FEDERALIST

a political review

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

Hamilton, The Federalist

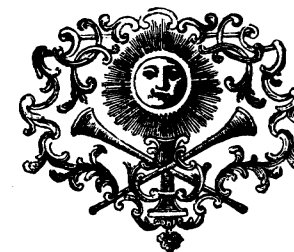


YEAR XXXI, 1989, NUMBER 3

THE FEDERALIST

a political review

The Federalist was founded in 1959 by 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.



UNDER THE AUSPICES OF THE FONDAZIONE EUROPEA LUCIANO BOLIS

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Europe and the World after 1989

The profound changes which have upset the political and constitutional scenery of Eastern Europe during 1989 must be placed on the same level as the great revolutions of the past, from the French Revolution to those of 1848 and 1917-18. They have two characteristics in common with them.

The first is represented by the fact that the forces of renewal have so far destroyed more than constructed, which is inevitable in the explosive phase of every revolution. The historical course of Communism has come to an end. Autocratic régimes, whose identification with the ideology they were based on was becoming more and more problematic, have fallen. In their place there are now great expectations, but very few certainties. It is not yet clear what political and social order will rise from the ashes of what has been destroyed. The future still has to be thought of and organized, and everywhere it looms menacingly.

The second is represented by the fact that, as in all past revolutions, the institutional transformations in Eastern Europe have reflected a deep transformation of the international setting within the individual countries. The decline of Russian-American bipolarism had been in progress for some time, and it had been strongly accelerated by the increasingly evident absurdity of the logic of deterrence based on the suicidal rush for nuclear armaments. Not by chance the impulse to the process — thanks to the happy occurrence of the appearance of a historical man — has been given by the Soviet Union, i.e. by the country that was most heavily oppressed by the unbearable weight of a setting long made obsolete by the real power relationships.

* * *

The internal and international factors cannot be separated in the

attempt to understand what possible directions will be taken over the next few years by the history of Europe and consequently, in a context of strict interdependence, by that of the world.

It seems possible to claim with some degree of certainty that, if a sufficiently stable and evolutionary new order does not take shape within a short time, the road followed by Central and Eastern Europe will be that of nationalism and international anarchy. This will be inevitable because, in the absence of new forms of organization of civil life and relations between states, the end of the bipolar equilibrium and the concurrent fall of the ideological shield represented by the confrontation between Democracy and Communism will leave the national principle as the only commonly accepted principle of legitimacy. Moreover the alarm signals which give an idea of the reality and importance of this risk are multiplying. They manifest themselves in three distinct areas: Germany, with the re-opening of the reunification problem; the ex-satellite countries of the Soviet Union, with the border problems tied to the inextricable ethnic tangle which had already made these regions ungovernable in the period between the two wars; and the Soviet Union itself, which the numerous autonomist and secessionist impulses having ethnic and/or religious origins place before the very real danger of a disintegration process.

It would be irresponsible to deny the seriousness of the consequences in Europe and the world if events should follow the path of nationalism. The Eastern European states do not have a territory vast enough to guarantee — in the absence of a strong degree of integration in a continental framework — an economic development compatible with the preservation of their newly acquired democracy. Nor does the latter have a basis solid enough to withstand the trials it would be subjected to by strong national tensions. It is therefore predictable that their régimes would rapidly degenerate into authoritarian forms of national-populism.

On the other hand, if the two Germanies should take up the road to reunification in an exclusively national perspective — which would be inevitable in the absence of credible alternatives — the whole European equilibrium would be upset. The rise, or the mere expectancy of the rise, within the heart of Europe, of a national state with eighty million inhabitants and endowed with a formidable economic potential would encourage the design of creating a German zone of influence and a hegemonic area of the D-Mark extended to a few countries of the East; a design that would certainly be weak and unstable in the long run, but in the immediate future would be strong enough to place the very

existence of the Community in question.

Finally, the centrifugal forces within the Soviet Union could only be controlled by acting upon Great-Russian nationalism. It would represent the defeat of Gorbachev's policy — maybe through Gorbachev himself. The Soviet Union would find its unity again no longer under the sign of Communism, but under that of nationalism through the domination of the strongest national group.

Certainly, history does not repeat itself, and even if all these hypotheses were to materialize, nothing would go back to what it was before. The way would probably be prepared for a new beginning, within a wider framework, of the European integration process. But the time required would become indefinitely longer and within the short-medium run political tensions and economic disorder would arise again. The hopes roused by Gorbachev would fade and world equilibrium would once again take up the traditional path of relations of power, even though its physiognomy would change and its centre of gravity would tend to move again towards the Pacific area.

* * *

It is a fact that the road to nationalism of Central and Eastern Europe is considered in many political circles in all European countries — to begin with in the two Germanies — with lucid apprehension. And everywhere the need is felt to find forms of unity and collaboration between nations thanks to which nationalist tendencies can be contained and a stable and peaceful setting can be created in Europe. The widest framework which is taking shape within this perspective is that of the countries taking part in the Helsinki Conference, therefore including both the Soviet Union and the United States. It is the framework into which Gorbachev's proposal of a "Common European House" fits. And undoubtedly this is the dimension in which the problem of security in Europe is posed. Many, too many, forget that what has happened and is happening in Eastern Europe has been, and is, a consequence of the policy wanted and launched by Gorbachev, and that the democratization process in the states of this region can continue only because Gorbachev holds the reins of power in his country in a situation of international détente. To try and exploit Eastern European events in an anti-Soviet intention today would therefore be foolish and irresponsible. The process must be conducted with and not against the Soviet Union, just as it must be conducted with and not against the United States, which remains a

decisive pole in the new setting. That of the Helsinki Conference must thus become the framework wherein détente is institutionalized and the necessary resources are released not only to begin great projects of economic co-operation between East and West, but also to organize on a new basis the relations between the North and South of the planet, thus creating the premises for setting up what Einstein called a partial world government. In this way it would be possible to achieve a decisive reinforcement of the UN, which can function effectively—until the world remains divided into a multitude of sovereign states—only on the basis of a stable collaboration between those states with the highest worldwide responsibilities.

* * *

The Helsinki framework is essential to prevent the revival of nationalism, to guarantee security in Europe and the world and to create the first embryo of a partial world government. But today the project of a "Common House" is still little more than a slogan, expressing a need rather than proposing a solution. Even if it were propped up by some kind of institutional structure, it would still remain, to the extent that it were based exclusively on the existing national states, an unstable framework, uncertain in its physiognomy and unable to contain the impulses towards disintegration that the process has released up to now.

For it to be consolidated and prevail on the alternative course of the revival of nationalism, many difficult problems of the internal organization of Europe will have to be solved by defining the structure of the various existing state groupings, the possible creation of new groupings and the organization of their mutual relations. It would be useless at this point to make any predictions concerning the future structure of the military alliances and their mutual relations, the final outcome of the COMECON reform process, the birth of some new form of institutionalized collaboration among Eastern European countries, the evolution of their relations with EFTA and the EEC and between the latter and the whole of the COMECON.

One thing is certain, however. For the project of the "Common House" to acquire the ability to stabilize détente in Europe and the world, it has to point out prospects that give a clear and comprehensible answer for everybody to the hopes roused by Gorbachev's new course. It must present itself as a structure able to evolve towards irreversible forms of ever closer integration and progressive consolidation of democracy.

This will be achieved only if a process of federal construction starts off within it. With the evidence of facts it would make everybody aware of the truth that today the only historical alternative to nationalism is federalism, as it is the only formula which allows the affirmation of democracy on an international scale. Any confederal solution, as in the most favourable hypothesis can only be that of the "Common House" in its initial phase, can therefore be accepted and promoted solely as a transit station along the road to a federal outcome.

* * *

The only ambit in which this great historical experiment can be started is that of the European Community, or the more limited framework of those among its member-states that are willing to set the pace, in the awareness that the others will follow. In any case, only by giving a decisive impulse to the federal unification process within this framework will it be possible to pose the problem of the unification of the two Germanies in non destabilizing terms. The decisive political knot to be undone today is thus that of European monetary Union and the structure of Community institutions. The course that world political events will follow in the near future no longer depends on Gorbachev—who started off the process—nor on Bush, but on the decisions the Heads of Government of the Twelve will or will not make. And not by chance the Community recently assumed a central position in the political vision both of the Soviet and the American leader.

The results of the European Council of Strasbourg lead one to think that the Heads of Government of the countries of the Community—with the usual exception of Mrs. Thatcher—are aware of their historical responsibilities. In particular the government of the Federal Republic, although in an emotional atmosphere made difficult by the opening of the Berlin wall, faced with the choice between continuing along the path of monetary Union or giving in to the temptation—probably more productive in electoral terms—of sacrificing it on the altar of German unity and of a reinforced and extended area of hegemony of the D-Mark, has chosen the first alternative. Monetary Union, and therefore the prospect of political Union, have made an important step forward in Strasbourg. The very entry of Italy into the narrow band of the EMS is a sign of the fact that the expectations both of the public and the operators are oriented towards the irreversibility of the process.

Of course there is still a lot to be done. The monetary unification

process has not even entered its first phase, by far the least demanding of the three foreseen by the Delors Plan. Political Union, unceasingly evoked and hoped for by many, and which was solemnly approved by the Italian people with the referendum of last June, is still at the starting point. But now all the alibis have disappeared and the Eastern European events, with their dizzy speed, force to keep silent — at least temporarily — all those who have so far slowed down Europe's course in the name of "realism". The objectives, the procedures and the instruments, after years of proposals and debates, stand out clearly before everybody. All that has to be done is act, and act quickly.

The Federalist

Robert Triffin and the Economic Problem of the 20th century *

GUIDO MONTANI

"The fundamental dilemma of international economic relations in this century lies in the inadequacy of national sovereignty as a framework for policy decisions and their implementation in an interdependent world."

R. Triffin, *Europe and the Money Muddle*, 1957.

Introduction.

It is not the purpose of this brief note on the work of Robert Triffin to illustrate the career of an economist. This was admirably accomplished by Triffin himself in an essay published some years ago.¹ Rather, the intention is the more limited one of drawing attention to certain "essential" aspects of his thought, without which it is impossible to understand the structural features of the contemporary economic process. Triffin himself pointed out how in his relations with political and government circles, he found himself faced with the "need for endless repetition of similar, but *essential* points and arguments to many different audiences."² We are talking about the work of an economist in close dialogue with governments and politicians, continually obliged to reinterpret economic developments within their historical context in order to demonstrate each time how they relate to the "essential" problems of our time.

Thus Triffin's theoretical work cannot be properly understood except in the context of the economic process and its specific historical features. Schumpeter, whose pupil Triffin was at Harvard, wrote that "the subject matter of economics is itself a unique historical process." Indeed, one of the main difficulties of contemporary economics consists in identifying

*Text of the report presented at the *Robert Triffin Jubilee: Evolution of the International and Regional Monetary Systems* (Brussels, 8th-9th December 1988).

a significant object of study. The universities are full of economists skillfully handling their professional toolkits. Yet there is still a significant gap between academic economics and reality. The real problem in contemporary economics and politics is that a wealth of academic output is reduced to an empty exercise, because the object under consideration is irrelevant and the decisive problems are elsewhere. As Schumpeter rightly maintains, "most of the fundamental errors currently committed in economic analysis are due to lack of historical experience more often than to any other shortcoming of the economist's scientific equipment."³

Triffin's greatness consists precisely in the fact that he was able to identify in the contradiction between the principle of national sovereignty and the need for a world supranational order the fundamental economic problem of our century; and that throughout his long career he always tried, with admirable lucidity and tenacity, to show that the principal contemporary economic problems are generated, directly or indirectly, by the lack of any solution to this "fundamental dilemma."

The International Monetary Problem.

At the end of the fifties, at a time of strong and sustained growth in the world economy, it would have been hard to foresee a progressive erosion of American economic leadership in the western world. Today this phenomenon is acknowledged by many observers. But perhaps it would not be too much to say that awareness of a veritable crisis in the international monetary system based on the dollar as a reserve currency only began with the publication of *Gold and the Dollar Crisis*.⁴ Here the faults of a system intended to govern, over a long historical cycle, the expansion of international trade and finance were clearly denounced for the first time. The "Triffin dilemma", as it came to be known, made crystal-clear the fundamental difficulty for a global economy to work properly without a global currency. In short, Triffin maintained that "if the United States corrected its persistent balance-of-payments deficits, the growth of world reserves could not be fed adequately by gold production at \$35 an ounce, but that if the United States continued to run deficits, its foreign liabilities would inevitably come to exceed by far its ability to convert dollars into gold on demand and would bring about a 'gold and dollar crisis'."⁵

The significance of the "dilemma" was not only an immediate one. Triffin formulated it after profound reflection on the nature of the international economic order and its historical evolution, starting from the

original experiment of the *Gold standard* from before the First World War. The system based on the dollar, and whose fundamental rules had been established by Bretton Woods, was nothing but a variation on the hybrid system, based on gold and on the use of national currency reserves, which had been tried out in the twenties, but which had foundered so disastrously in the years of the Great Depression. History had already shown the profound contradictions which will inevitably emerge when recourse is made to a national currency as international reserve means: in this case a "built-in de-stabilizer" mechanism enters the world monetary system.⁶ Triffin maintains in his "Conclusions" to the *Gold and Dollar Crisis* that "inadequate gold supplies are supplemented in such a system by a growing accumulation of *national* key currencies as *international* reserves. Such accumulation inevitably centres on the 'safest' currencies of major creditor countries, and results in 'unrequited' capital imports by them. The very countries that should lend to the others are thus unwittingly borrowing short term capital from them. These capital movements do not, by themselves, relieve the gold shortage, but only disguise it as a shortage of the key currencies in question. In order to contribute to the needed expansion of world liquidity, they must stimulate additional matching capital exports by the key currency countries, or a contraction of their surpluses on current account. Either of these reactions, however, can only lead to a progressive and persistent deterioration in their net reserve position up to the point where their currency no longer appears as the 'safest' for reserve investment by other countries. The consequent slowdown, cessation or reversal of key currencies as world reserves then brings back to the fore the underlying gold shortage problem and imposes at the same time difficult balance of payments readjustments upon the central countries of the system."⁷

It is perhaps hardly necessary to point out today how this analysis of the international situation, which Triffin made in 1959, has been fully confirmed by subsequent events. International confidence in the solidity of the dollar has been progressively weakened; the late sixties saw the beginning of speculation, particularly on the European financial markets, and finally on the August 15, 1971, the American Government announced the non-convertibility of the dollar into gold. The Bretton Woods era was over, and that of monetary fluctuation had begun, with increasing monetary and commercial disorder. The oil crisis of 1973 and the spread of inflation on an international scale were simply the most obvious consequences of this process. Recently, at a distance of more than twenty years after his original analysis of the dire consequences of

the "dilemma", Triffin had to raise his voice once again to denounce the serious dysfunctions of an international system which allows the country with the greatest volume of industrial production (and *per-capita* income) to drain financial resources from the rest of the world, including underdeveloped countries. It is a real "world monetary scandal."⁸

For Triffin, this systemic imbalance can only be restored by following the course already taken at national level to guarantee full public confidence in the currency at international level, i.e. by replacing commodity money with fiduciary money guaranteed by a "lender of last resort." In a modern economy, it is no longer thinkable to trust automatic adjustment mechanisms in the balance of payments as had been done, on the whole, with the Gold Standard of the previous century. National governments are now obliged to pursue a policy of full employment and a high rate of growth. And if every government pursues its national objectives in splendid isolation, it is highly probable, if not to say certain, that the international economic system will degenerate into uncontrollable chaos. On the other hand, there is no longer any major industrialized country which can do without international trade: the progressive globalization of production is already a fact of life in the development of industrial civilization. Thus governments are continually required to agree to greater convertibility of currency and greater freedom of circulation for capital. But, wrote Triffin in 1959, "Convertibility cannot be meaningfully defined for policy purposes, except as a relative concept whose ultimate culmination would imply the total surrender of national sovereignty by member countries over all forms of trade and payments restrictions, and even over exchange rates. Such surrenders are utterly inconceivable today in favor of a mere nineteenth century *laissez faire*, unconcerned with national levels of employment and economic activity. The negotiation and implementation of negative convertibility commitments are inseparable from the parallel negotiation and implementation of positive integration commitments among the countries concerned. National policy instruments cannot be thrown away. They can only be traded against international, or supranational policy instruments adequate to serve the broad objectives of economic policy in the modern world."⁹

In the current debate on the reform of the international monetary system, this thesis on the need to create a world reserve system, in the last resort, a world bank and universal currency, is now inextricably linked with the name of Triffin. If we exclude Keynes and Robbins — whom we shall speak of — no other modern economist has defended this line of

reform with such consistency and perseverance. At the beginning of the century K. Wicksell wrote that "the essence of all banking activity is really concentration," but then showed himself very hesitant to extend this *national* principle to the international context.¹⁰ And in more recent years J. R. Hicks wrote that "with the development of world markets, and (especially) of world financial markets, national central banks take a step down, becoming single banks in a world-wide system, not at the 'centre' any longer."¹¹ But these are occasional statements which are never referred to an entire programme of scientific research and socio-economic reform.¹² The indisputable merit of Triffin is to have concentrated his studies and his reform projects on the problem of world currency. For Triffin, the correct solution to the monetary problem, which from the institutional point of view is the foremost economic problem, must be in tune with the evolution of the global economy. Other solutions, such as simple cooperation between central banks and governments, are merely "palliatives," attempts to find formal solutions to problems which can only be solved by effectively giving up monetary sovereignty. "The displacement of *national* fiduciary reserves by *international* fiduciary reserves should similarly be viewed as one aspect of the adjustment of the former tribal, feudal, and national institutions through which this control could previously be asserted, to the ever-changing realities of a more and more interdependent world. *Both phenomena should be viewed in a vaster historical perspective: the long march of mankind toward its unity and a better control of its own fate.*"¹³

In defending this technically unexceptionable solution of the international monetary problem, Triffin is able to draw a boundary line between those who are for conserving national sovereignty and those who want substantial socio-economic progress by means of supranational instruments to govern the economy. The objection can naturally be raised — and is raised *ad nauseam* — that the proposed solution is premature and that some other provisional answer has to be found. But in the meantime the boundary line has been drawn. Provisional solutions, from now on, have to be justified in the light of the fundamental orientation set out by Triffin: do they allow or impede mankind in its progress towards monetary, economic and political unity?

Regional Unions.

Triffin, in formulating his proposal for a world bank, was always fully aware of the immediate political difficulties which stood in its way. He

therefore aimed, as an indispensable intermediate stage, at the realization of regional monetary-economic unions. The "fundamental dilemma" cannot be resolved "overnight through a sudden and radical transformation of our institutions and habits of thought. The days of a world government are not yet at hand ... Regional cooperation, on the other hand, is far more likely to succeed in developing habits of continuous consultation and negotiation over a broader range of government responsibilities; and it may, if successful, gradually evolve towards the actual merging of areas too small and too interdependent on one another to preserve national welfare and security on the basis of national sovereignty exercised within present political boundaries."¹⁴

As far as regional unification was concerned, Triffin succeeded in fulfilling an important role as instigator, both in the setting up of some regional bodies for economic cooperation, and in the consolidation phase. Two decisive experiments in this connection were the European Payments Union (EPU), which came into effect in 1950, and the European Monetary System (EMS), which currently constitutes the most advanced project for monetary union, and whose goal of creating a real European currency is under discussion. Less fortunate, as Triffin himself admits, were his attempts to promote economic and monetary unions in Latin America, Asia and Africa.

Naturally the proposals for regional unification met with serious opposition from those who felt that this route would inevitably compromise the principle of international free trade. The creation of an economic union, according to some economists, would certainly have the effect of creating trade between participant countries, but at the same time it would divert trade away from countries outside the union toward new partners within it. The net result might thus be a reduction in volume of international trade as a whole. Recalling this debate some years later, Triffin remarks with some pride, "Let me merely mention that in the 1950's the European Payments Union (EPU) played a more effective role than the IMF in the changeover of Western Europe from bilateralism to world convertibility, and that the regional trade-liberalization agreements of the Organization for European Economic Cooperation (OEEC), and later the European Economic Community, have certainly proved 'trade creating' rather than 'trade diverting' as initially feared by Jacob Viner, Gottfried Haberler, and *tutti quanti*."¹⁵

At this point it is worth examining in some detail the method, or the strategy adopted by Triffin for the construction of regional unions. Triffin has fond memories of the work he did together with Jean Monnet

in the Action Committee for the United States of Europe. The analogies between the method adopted by Monnet in the field of politics and that of Triffin in the monetary field are evident. Fundamental to this was the experience of building the European Coal and Steel Community (ECSC). In the situation of extreme uncertainty and growing Franco-German tension that characterized postwar Europe, Monnet proposed tackling the international global situation "from a limited but decisive starting point." In his Memorandum of May 3, 1950, to the French Government, Monnet wrote, "From such a situation there is only one possible way out: by means of concrete and resolute action on a limited but decisive point, which causes fundamental changes in this point and progressively modifies the basic terms defining the problem as a whole."¹⁶ In fact, the creation of ECSC meant the beginning of cooperation between France and Germany, and the process of European unification which, through the European Community, is still in progress.

The same approach characterizes the action of Triffin, starting from the European Payments Union. In evaluating its results, Triffin wrote in 1957: "The agreement on the European Payments Union consisted of an exceptionally clear and simple document, incorporating flexible and precise undertakings of a quite revolutionary nature, which drastically altered the entire structure of bilateral and multilateral regulations within Europe from one day to the next."¹⁷ In an article published in 1953, entitled *Système et politique monétaires de l'Europe Fédérée*, Triffin delineates the essential criteria for his strategy of regional monetary unification. The guiding idea is that of "monetary integration." "A single currency," writes Triffin, "constitutes the symbol, rather than the substance, of monetary integration. Spectacular as it may be, the difference it represents on the economic plane is small in relation to the coexistence of national currencies *freely convertible at fixed and invariable rates*. A single currency unit will then become possible and relatively easy to institute. But that can only be the crowning glory, not the starting point, of a realistic and concrete programme of monetary integration."¹⁸ A corollary to this approach is that of the "stages" which should progressively lead from a system of relatively closed markets to an integrated economy. These stages are: 1) the creation of a multilateral system of payments among member states of the union; 2) the elimination of quantitative controls on trade and commerce; 3) the reduction or elimination of customs barriers and the stabilization of monetary parity; 4) the definitive consolidation of rates of exchange by means of a single currency, to circulate initially alongside the national currency, issued by

a central European body. Triffin notes further that all these elements are to be found in embryo form in the European Payments Union. "It only remains to expand them quantitatively and progressively in order to make the Union into a true Central European Bank and to make the accounting unit the common European currency" (which Triffin proposed — in 1953! — should be called the *écu*).

Finally, Triffin specifies the relationship between *monetary integration* and *monetary unification*. "Defined thus, monetary integration has to precede monetary unification, which would be impossible, and certainly impracticable, without it." Furthermore, complete monetary unification would be possible only in the context of a political union, in other words a federation. "In the context of a political federation it is possible to take as one's ultimate objective the consolidation of national currencies within a common European currency. The most serious obstacle to this is political rather than technical, since in essence it presupposes definitive acceptance of a common monetary authority and belief in the efficacy and continuity of commensurate renunciation of sovereignty."¹⁹

At this point we need only underline how Triffin remained true to this method wherever he was able to influence government decisions towards setting in motion some form of economic and monetary unification. Those decisions made possible by the institution of the EMS seem indeed to be inspired by the wisdom of gradualism: stable exchange rates, a European clearing system, and a basket currency as point of reference, which should progressively transform itself into a genuine European currency. Nevertheless, it has yet to be seen how effective this approach really is. The European Payments Union has not in fact generated any monetary union; and the Brussels agreements on the EMS provided for a second stage — the European Central Bank in fact — to be realized by 1981, but have not been followed. The relationship between monetary integration and unification is certainly a point which deserves further exploration, since the experience of regional monetary unification probably indicates the line which should be taken, at global level also, for any serious reform of the international monetary system.

Triffin, Keynes and Robbins.

The innovative nature of Triffin's theoretical contribution may perhaps be better evaluated when compared with the view of the international economic order taken by two other, earlier, great economists: John M. Keynes and Lionel Robbins.

Keynes may be considered the last significant exponent of international liberalism. His opinions on the conditions for the correct functioning of the international economy are fairly important: he moved from the position where he was critical of the *Gold Standard*, in the Twenties, when Great Britain deluded itself that it was able to sustain the pre-war value of sterling, to a position of open support for protectionist and autarchic policies, in the years of the Great Depression.²⁰ The *General Theory*, conceived in this historical context deeply imbued with economic nationalism, makes few references to relations between national and international employment plans. But these few references suffice for us to infer that Keynes's attitude towards self-sufficiency and to the simplistic philosophy that "whatever is useful to employment and to internal growth is also useful to the progress of the world economy"²¹ was extremely favourable. The fact that the same principle also underpinned beggar my neighbour-style economic policies is not even taken into consideration. And yet this is more or less the line of conduct, which inspires contemporary Keynesian economists, who at most consider relations between their own nation and the outside world as "external constraints." The international economy thus remains a reality lacking any rational government. It is now accepted as an indisputable fact that the internal economy has to be controlled if an acceptable level of employment and development is to be reached. But that the international economy as a whole has to be directed with equally effective instruments of government if we want to reach the same results, this is a problem that is rarely discussed. And yet we would certainly consider any claim to achieve full employment within a nation by means of a series of uncoordinated regional plans and without any national instruments of economic policy as absurd.

Keynes partially redeemed himself from this reductive and conservative position at the time of the negotiations which led up to the Bretton Woods conference and to the foundation of the postwar international monetary order. In this connection his proposals for an International Clearing Union and for the creation of a global currency, Bancor, are well known. Keynes was led to this by the fact that Great Britain was weakened by the war effort and, as a power in decline, could no longer claim for its own currency the role of international reserve, which in any case was now occupied by the dollar. The only hope of opposing with some measure of success a simple handover from Great Britain to the United States was thus to promote the creation of an international monetary organization *supra partes*.

Taking all things into consideration, the motivations that drove Keynes to propose this ambitious plan are of relative importance today (in actual fact, Keynes fought to the last for Great Britain to enjoy some imperial advantage). It should merely be pointed out that the same logic today prompts Third World powers to call for a new international economic order with supranational monetary institutions (*supra partes*), open to the participation of all peoples and all countries, regardless of their relative wealth or poverty. And it is certainly not by chance that at the very moment at which the USSR has raised the question of its full participation in international monetary and commercial bodies, the project of a global clearing house and currency — Keynes's former proposals — should once more re-emerge, defended today by Triffin.²²

On several occasions, Triffin referred to the precedent of the International Clearing Union and Bancor, and in this sense it is right to see him as carrying on the work of Keynes on the international plane, or rather as the only post-Keynesian to place himself unequivocally in the area of building a new democratic international order. Nevertheless, the difference between Triffin and many other economists who would call themselves Keynesian is clear. At international level there is absolutely no possibility of rational economic control without progress on the institutional level. So-called inter-governmental cooperation (very much in vogue nowadays, thanks to the publicity of international summits) leaves things exactly as they were: it recognizes the need for a common policy, but then each individual country continues to do as it pleases. We should think again about the idea of an international conference of those in charge of regional planning: what is the likelihood that such a conference will reach a coherent national plan and above all, given that they succeed in defining this plan, how likely is it that it will be fulfilled without any national means of government? In order to understand how some economists see this question it is worth quoting Triffin once more. "Professor Haberler, for instance, loves to point out that international commitments would be unnecessary if each country 'kept its house in order.' He is perfectly right, of course, but this excellent advice seems to me to be based on the most academic and utopian assumption of all, i. e. that each government will always follow unflinchingly the best policy and not be thwarted by its own mistakes or by the action of others. The need for institutional agreements derives precisely from the opposite — and, I think, more realistic — assumption, i. e. the inevitability of occasional, or frequent, failures of governments to implement the policies that are best for their country and for the others."²³

If the relationship between the thinking of Triffin and that of Keynes is problematic, still greater problems arise in connection with that of L. Robbins. And yet reference to Robbins's work, *Economic Planning and International Order*,²⁴ which came out at about the same time as the *General Theory*, is essential to an understanding of the political context in which Triffin's plans for monetary unification were formed, and also the conditions for their success or possible failure. Robbins, faced with the growing wave of economic nationalism which characterized the years of the Great Depression, offers the alternative of an economic order based on international democracy, in other words federal institutions. The traditional currents of thought which stem from international liberalism or socialism failed miserably to address the problem of guaranteeing an ordered development of the international economy. In a world of sovereign governments acting independently of each other, the most probable result is anarchy, not order. Robbins therefore proposed to apply the institutional solutions defended by the authors of *The Federalist* concerning the struggle over the ratification of the American Constitution, to the situation of international anarchy of the twentieth century. Robbins identified for the first time, and with great clarity, the institutions indispensable to a democratic government of an international economy. Fundamental among these is currency. Robbins declares that in a modern economy, a market without a common currency is impossible. For the same reason, it is impossible to have an international economic order without a world currency.

We are particularly interested here in Robbins's analysis of aspects of the power of money. This is necessary to an understanding of the difference between monetary integration in a confederal system of countries and in a federation. In a confederation, each individual government preserves its sovereignty intact: the confederation does no more than sanction a convergence of interests in a situation of common need (as happened in the case of the thirteen American colonies when they joined forces against the mother country). In a federation, some responsibilities, such as currency and foreign policy, are entrusted from member countries to the federal government. As Robbins points out, in a confederation, even if agreement is reached on exchange rates and on free circulation of capital, there is never any certainty that monetary integration achieved in this way will survive over time. "The political factor acts positively as well as negatively. When the area of the local reserve system runs parallel with that of political sovereignty, there is great danger that, when strain arises, the authorities of the system will be prevented from taking any

action necessary to preserve equilibrium. They can be prevented from allowing local credit to contract or — what in a progressive society is more probable — from restraining it from expanding as rapidly as elsewhere. *The area of strain will be coterminous with the area of administrative discretion.* And the probability is that this discretion will be exercised.”²⁵

The distinction between the confederal and federal situation is thus extremely useful in judging how likely it is that what Triffin calls “monetary integration” will lead to monetary unification. History has shown that in federations (such as the USA, Canada, Switzerland etc.) monetary union is as likely to come about as in unitary countries. The development of modern industrial economies would be unthinkable without monetary union. In confederal situations (as in the common markets of Latin America and Europe), attempts at monetary integration have not met with success, in that they have not led to true monetary union. Basically, governments accept monetary agreements when they have no choice, but only in order to safeguard their own national sovereignty, not for the sake of joining the union. This was the case for the European Payments Union for example, which came out of the Marshall Plan, under American guidance. It thus seems legitimate to state, in examining attempts so far at monetary union, that the real difficulty lies in the political context which accompanies the attempt. A precondition of success is that alongside the process of monetary integration there should be a process of political unification.

This seems to be the present situation in the European Community, and yet we have to make a clear distinction between the nature of the EMS and the ECU and previous attempts. As Triffin has frequently pointed out, it is unthinkable that in the complex economies of today, in which monetary policy has such a strong effect, for good and for ill, on the rates of employment and economic growth, member countries of a union should give up monetary sovereignty without at the same time there being another political body, a federal democratic government, taking on the management of economic affairs. There may be a period of uncertainty during the transition, but the final goal of the process should be clear: monetary union is only possible in the context of a federation of countries. The European Community, with a parliament elected by universal suffrage, and after the federalist attempt to transform it into a European Union, is in exactly the situation described: it is a confederation in which the incentives to achieve effective European democracy (and hence a real European government) have already made themselves felt, and will

presumably continue to do so, since to maintain a democratically elected parliament devoid of any real powers is a scandal which in the end will no longer be tolerated by European democratic parties and public opinion.

These observations, even if they do not help provide any theoretical solution to the contrast which in the fifties divided the promoters of European unity into those who followed a functional model and those who followed a constituent model,²⁶ at least allow us to establish that as far as events and concrete projects are concerned, in Europe today there is no longer any contradiction between those who propose advances in monetary integration and those who propose constitutional advances (e.g. the democratic reforms of the Treaty of Rome). Each step forward in one direction reinforces, by making necessary, the other action: whoever wants a European currency has also to want European government, and *vice versa*.

Finally, it should be said that the ongoing process of European unification also contains useful guidelines for global action leading to reform of the international monetary system and in the long term towards a global currency. The goal of a European currency has become that much more attainable with the development of an embryonic European democracy. Analogously, a world currency will become a realistic objective when active moves towards international democracy can be observed. Naturally, in a world still divided and governed by superpowers this goal seems a long way off. But what matters is the direction we are going in. An active process of international détente and cooperation between rich and poor regions of the world can be greatly facilitated by the constitution of regional unions on a continental scale, as is happening in Europe, Latin America and even in Africa (OAU) and Asia (ASEAN). On political ground too, Triffin's intuitions thus show themselves to be perfectly correct. Regional unification processes are by no means an obstacle to the broader unity of the human race. We live in a century in which we can see the need to create means of government for a society whose horizons now encompass the whole earth. As regards economic and monetary affairs, this need has to be transformed into a reform which bases the construction of a world currency on a basket of solid continental currencies, like the dollar, the ECU, the rouble, the yen, etc. It is certainly an ambitious and far-off aim. For many politicians these are sufficient reasons not to worry about the problem and to seek more comfortable solutions. But for those who, like Jean Monnet and Robert Triffin, think that “politics is not the art of the possible. It is the art of making possible tomorrow what still

seems impossible today," the way is clear.

An Economist for Peace.

The important results achieved by Robert Triffin, both in science and in active political economics, would not have been possible without a close adherence to certain moral principles, which should be remembered not so much in order to praise him, but because they show how close the relationship is between the cognitive activity of the social scientist, moral motivation and historical process.

No scholar can avoid asking himself the fundamental Weberian question of the relationship between facts and values. "Every conceptual cognizance of the infinite reality by the finite human mind rests in fact on the tacit presupposition that a finite part of it must form the object of scientific consideration, and so it becomes *essential* in the sense of being *worth knowing*."²⁷ The choice of the object of study, the examination of what is essential and worth knowing and what is not, is the relationship between the individual and history. In this fundamental area Triffin's choice is exemplary. "I had experienced, as a child," he reveals in his short autobiographical work, "the German occupation of Belgium in the First World War, and shared for years the general hatred of the *Boches*, while crying with my family over the death at the front of some individual young soldiers quartered in our house and obviously innocent of the tornado engulfing us all. In Louvain, however, the rise of Hitlerism, the teaching of Einstein etc. had imparted to me deep pacifist feelings. The best lever I could see to serve these in an economic career was to join the rarefied group of central bank experts who in fact play a crucial role in each country's economic life, and are forced to deliberate constructively discussion across obsolete political borders — or at the League of Nations, at the same time, or at the Bank of International Settlements on gold and foreign-exchange problems of common interest. My Harvard life had taken me in a totally different direction, but when the opportunity came at the Federal Reserve, I seized it immediately and gladly forgot monopolistic competition and pure theory. I have never regretted it."²⁸

Naturally, his activity as economic consultant brought him into contact with state interests and political power, which by definition — until a world federation is brought about — aims to subordinate truth and knowledge to its own interests. But see how Triffin reacts: "I shall always remember the comments of Professor Rappart, Chairman of a Conference of French-speaking Economists to which I had presented, in 1949,

an outline of my plan for a European Payments Union. After praising it, he caressed his white beard and added: 'you are far too optimistic, young man. When you reach my age you will have learned that such a proposal cannot be agreed to in a negotiation involving so many governments and contradictory national interests.' To which I answered: 'If my main concern were to make safe forecasts, I would agree with you and be proven right nine times out of ten. But I prefer to be wrong nine times out of ten, if I can contribute once in ten times to divert us from catastrophe, and help build a better future'."²⁹ Triffin recalls another significant episode: when his son was faced with the question of whether to enter the department of State, he advised him to first acquire academic status which would allow him "to resign his job rather than carry out 'instructions' which he might find contradictory to his most deeply-felt ideals." And as a citizen of the world, faithful to his cosmopolitan ideals, Triffin considers the slogan, "Right or wrong, my country" to be treason. He who serves the interests of mankind does not bend to the demands of national *raison d'état*.

In conclusion, Triffin was able to keep up the fight for world currency over many years not only because he had chosen it as a "problem worth studying," but also because he considered it an objective "worth pursuing." "*Hier stehe ich, ich kann nicht anders*."³⁰ If an ever greater number of young economists follow his example, the fight for a world currency and political unity of mankind can be won.

NOTES

¹ "An Economist's Career: What? Why? How?," in *Banca Nazionale del Lavoro - Quarterly Review*, 1981; pp. 239-259.

² *Op. cit.*, p.248.

³ J. A. Schumpeter, *History of Economic Analysis*, Oxford University Press, 1954, p. 5 and p. 13.

⁴ Robert Triffin, *Gold and the Dollar Crisis: The Future of Convertibility*, New Haven, Yale University Press, 1960.

⁵ R. Triffin, "Gold and the Dollar Crisis: Yesterday and Tomorrow," in *Essays in Inter-*

national Finance, New Jersey, Princeton University, 1978, p. 2.

⁶ R. Triffin, *Gold and the Dollar Crisis*, cit., p. 87.

⁷ *Ibidem*, p. 145.

⁸ R. Triffin, *The World Monetary Scandal: Sources... and Cures?*, Bulletin de l'IREs n.77, Université Catholique de Louvain, 1982.

⁹ R. Triffin, *Gold and the Dollar Crisis*, cit., pp. 146-7.

¹⁰ K. Wicksell, *Lectures on Political Economy*, London, Routledge & Sons, 1934 and A. M. Kelly, 1971, vol. 11, p. 119. On page 373 Wicksell states, in connection with the functioning of the "ideal bank," that "at least theoretically gold could easily be replaced by credit, both for internal needs and for international payments of any amount, and for the great and ever-increasing stocks of gold in minted form, accumulated with so much toil and trouble, are useless and superfluous."

¹¹ J. R. Hicks, *Critical Essays in Monetary Theory*, Oxford, Oxford University Press, 1967, p. 60.

¹² An exception should perhaps be made for Jan Tinbergen, who in *Reshaping the International Order* (Amsterdam, Elsevier, 1976) proposes a plan for the reform of the international order based on "a planetary sovereignty." A proposal to be effected by a "world federal government," with the necessary powers to guarantee security and international justice is contained in the more recent work of Tinbergen (in collaboration with D. Fischer), *Warfare and Welfare, Integrating Security Policy into Socio-Economic Policy*, Wheatsheaf Books, Sussex, 1987.

¹³ R. Triffin, *Our International Monetary System*, New York, Random House, 1968, p. 179.

¹⁴ R. Triffin, *Europe and the Money Muddle*, New Haven, Yale University Press, 1957, pp. 303-4.

¹⁵ R. Triffin, "Gold and the Dollar Crisis: Yesterday and Tomorrow," cit., p. 14.

¹⁶ The *Monnet Memorandum* was published by Le Monde on March 9, 1970.

¹⁷ R. Triffin, *Europe and the Money Muddle*, cit., p. 161.

¹⁸ R. Triffin, "Système et politique monétaires de l'Europe Fédérée," in *Economia Internazionale*, February-March 1953, p. 207.

¹⁹ R. Triffin, *ibidem* (the passages quoted are on pp. 211 and 212).

²⁰ Cf. the article "National Self-Sufficiency," from 1933; now published in *The Collected Writings of J. M. Keynes*, London, Macmillan, 1982, Vol. XXI, pp. 233-247.

²¹ See also the passage from the *General Theory* stating that "It is the simultaneous pursuit of a domestic employment policy by all countries together which is capable of restoring economic health and strength internationally, whether we measure it by the level of domestic employment or by the volume of international trade." (*Collected Writings*, cit., Vol. VII, p. 349).

²² "... the International Monetary Fund — or any other institution that might replace it — should acquire the functions of a central bank that regulates the size and composition of international liquidity reserves as well as the functions of an interstate clearing house. It is known that the origin of this idea and its active propaganda is linked above all with the name of Professor Triffin ..." (D. V. Smyslov, *The International Monetary System: Evolution, Prospects and Cooperation between East and West*, The Institute of the World Economy of the USSR Academy of Sciences, mimeo, 1987).

²³ R. Triffin, *An Economist's Career*, cit., pp. 252-3.

²⁴ London, Macmillan, 1937 (reprinted by Arno Press, New York, 1972).

²⁵ L. Robbins, *Economic Planning and International Order*, cit., pp. 277-8.

²⁶ See A. Spinelli's essay, "Il modello costituzionale americano e i tentativi di unità europea," (1957) now in *Il progetto europeo*, Bologna, Il Mulino, 1985. On the same prob-

lem, see also M. Albertini, "L'unificazione europea e il potere costituente," in *Il Politico*, 1986, n.2, pp. 199-214.

²⁷ M. Weber, "Die 'Objektivität', sozialwissenschaftlicher Erkenntnis", reprinted in M. Weber, *Weltgeschichtliche Analysen, Politik*, Alfred Kröner Verlag, Stuttgart, 1968, p. 212.

²⁸ R. Triffin, *An Economist's Career*, cit., p. 242.

²⁹ *Ibidem*, p. 246.

³⁰ Luther's famous words: "Here I stand, I can no other."

Notes

TERRITORY PLANNING AND ECOLOGY. WHAT INSTITUTIONS?

The ecological problem is certainly one of the most complex that mankind has ever had to face. This complexity shows in the various interrelated spheres into which it is articulated: the problem of population, agriculture, food supplies, industry, raw materials, energy, urban development, etc.; consequently, also in the theoretical approaches and the categories to be used, which must range from economy to geography, geology, etc.; and finally in the territorial sphere where the problems arise and the relative institutional frame within which effective choices and democratic decisions can be made.

In this brief note we examine this latter aspect, bearing in mind that it is surely the most important, as any technical response to a complex problem is conceivable and applicable only if the decision-making mechanisms find no institutional impediments, such as the lack or inadequacy of centres of power where responsibility and political can appear.

The choice of this approach to the problem is also based on the consideration that all too often we consider ourselves satisfied with having produced a rich documentation and having listed a long series of goals to be reached, or for showing moral sensibility through the proclamation of great ideals and principles. But ideals and objectives derive their value not so much from being declaimed or proposed, as from being put into practice. Failure certainly does not represent any confutation of their worth or necessity, but simply of the way of acting of whoever is pursuing them. Therefore it is not enough to fight: it is necessary to win, and victory depends on the ability to reconcile the just with the effective, in other words to point out the suitable institutional means.

To this end reflection becomes unavoidable on the fact that, wherever decisions must be made concerning a complex problem which involves territorial spheres which are at the same time different and interrelated,

the distribution of power and its articulation become particularly important.

* * *

When considering ecological problems, one realizes immediately that there is a wide gap between the territorial spheres in which they appear (level of reality) and the possibility of solving them (level of institutions). While some problems can arise at local, regional or world-wide level, at these levels there are no institutions able to take on the full responsibility of making decisions. Each of them clashes with the only centre of power with the right and the force to make and impose decisions: national power.

This means that, both regarding the administration of one's city or region, and regarding problems that go beyond the boundaries of one's country and sometimes takes on a planetary dimension, there is no guaranteed possibility of controlling the factors concerning the quality of life.

In an era like the present one, in which the "quality of life" no longer coincides with the "standard of living," which in advanced societies has now reached acceptable levels for the majority of the population, safeguarding the environment has become one of the most important values and political choices must be based more and more on social and community values, giving them precedence over those concerning the sphere of individual life. But the absence of an active political life at the various levels at which decisions have to be made makes it impossible to concretely exercise individual responsibilities and makes the contradiction and gap between values and facts in the political field increasingly serious.

If it is true that in most of the population in advanced countries what we might define "ecological awareness" is spreading more and more, also thanks to mass media; if it is true that ecology movements are proliferating all over the world, it is also true that to become aware of a problem, of a new emergency, and of the value to be affirmed to face this problem (the paramount value of defending life), this is only the first step. Any further steps, which imply the sacrifice of assuming responsibilities, paying prices in terms of time and money, are usually taken only where there is the certainty or predictable prospect that one's contribution is possible, necessary or indispensable. The presupposition for overcoming the separation between knowing and doing is that every citizen can really

become an active member of the management of the community.

This is not only the condition to bring into activity any available forces, but also the condition to face territorial problems. Territory planning in fact is one of the aspects of community life in which non-bureaucratic management of problems and the contribution of those who well know its aspects and implications are particularly important.

* * *

Moments of conflict linked to the juxtaposition of interests necessarily arise in territory planning. But the importance of environmental problems in the society we live in must drive us to find new solutions as regards the decision-making process, to prevent these conflicts from assuming a paralysing role.

Because of the present distribution of power and the consequent political management of social life, it is often just sectorial interests that determine the selection of the political class and which induce certain choices, less mindful of the global interests of the community than of the search for a functional consent to keep power. In a centralized state, the relationship between citizens and local administrators is steadily mediated by the political calculations of the parties aiming at maintaining and increasing their power on a national scale.

Therefore, if we wish to overcome this *impasse* tied to a permanent state of conflict and its exploitation, it becomes necessary to think over both the decision-making process and the institutional framework in which it can be expressed.

As for the decision-making process, two considerations must be made: 1) Territorial administration has a particularly complex nature and pointing out solutions often implies quite specific technical notions. But it must not be deduced from this that only a limited number of persons (technicians) are authorized to decide. Actually, it is undeniably necessary that the decisions in this field be collective, in other words involve all those that will bear their consequences. 2) The juxtaposition of interests and values is unavoidable, but to avoid paralysing situations or exploitations it is necessary to find the instrument to eliminate the conflict replacing it with mediation.

The first point concerns the problem of the democratic answer to the crisis of power, the crisis of institutions which characterize the society we live in.

The importance of this problem is evident if we consider that the

processes now taking place and the proposals suggested to solve this crisis do not exactly represent an advance of democracy. The solutions often suggested or put into practice in fact tend towards authoritarianism when they stress efficiency and in particular the function of experts, considered as the only people able not only to make decisions of a technical kind, but also to point out the necessities and social purposes of territorial planning and defence. In reality, as Lewis Mumford has already reminded us (*The Culture of Cities*, New York, 1938), the work of the philosopher, of the educator, of the artist, of the ordinary man is no less essential as regards the introduction of values into the choices: as what is required for political life is not simply empirical science, inert in itself, but the ability to transform reality on the basis of rational choices, those on whom the consequences of these choices will fall cannot be excluded from them (unless, of course, we accept the totalitarian alternative). But it is certainly not enough to express the need for participation without proposing institutional solutions in a framework where participation itself becomes a positive fact (democratic) and does not run the risk of assuming a demagogic flavour without any outlets.

The second point concerns the acceptable degree of conflict. Within the present institutional framework, the confrontation of opinions and solutions tends to be based mostly on strategic requirements (that is, aiming at success rather than agreement between the parts), while reciprocal confrontation based on the need for rationality is rarely accepted and put into practice. The term "mediation" means just this. In this context it does not take on the meaning the present management of power tends to confer to it, in other words the meaning of "compromise" between the parts, but it can and must take on the sense of a new type of democratic dialectics, in a new institutional framework.

* * *

The institutional framework is thus the crucial issue. As already mentioned at the beginning, the *impasse* we have to face (which does not involve only ecological problems, but is however particularly serious if referred to them, due to their complexity and urgency) concerns the articulation of power levels. And one of the levels at which the forces available for the management of social life can be mobilized is the local one. It is the level which has undergone and most undergoes the influence of the national and bureaucratic management of problems and it is the level at which the real and strictest meaning of the term "democracy" (the

coinciding of the rulers with the ruled) can show itself.

To activate the community (local) pole, by acknowledging its autonomy and decision-making power in relation to certain competences (which must of course be accompanied with tax autonomy), would create as a result a political framework wherein everyone could consider himself (and consider others) as a subject of rational choices, in other words of choices that answer to the real needs and the values which represent the heritage of the community one belongs to.

One must oppose the community choice to the skepticism concerning people's ability to govern themselves and, on the opposite front, to the wishfulness of those who consider the need for participation satisfied wherever it is possible to involve people in acts of protest (therefore privileging the conflicting and strategic aspect of social management). Man's rational abilities, which should stand at the basis of every choice, cannot in fact be denied nor assumed as an undoubtable premise. They are the result of a long journey and are directly proportionate to man's possibility of learning to use them. And this in turn implies the possibility of thinking and acting in a socially integrated, autonomous and responsible context.

Clearly this objective cannot be achieved by keeping the exclusive sovereignty of the level of national power intact. The only alternative model that offers any prospect of solving the problem of overcoming exclusive national sovereignty, and which at the same time makes the most of both the community pole and the cosmopolitan pole, is the federal model as it is taking shape in those theorizations that have already appeared in this journal,¹ that is, a model which, starting from an analysis of the first federal experience in history, the American experience, goes beyond it precisely as regards meeting the ever more pressing need to make a participating citizen of every man.

Nicoletta Mosconi

NOTE

¹ See, for example, Mario Albertini, "Discorso ai giovani federalisti," in *Il Federalista*, XX (1978), pp. 51-67; Francesco Rossolillo, "Federalism in a Post-Industrial Society," in *The Federalist*, XXVI (1984), pp. 120-133.

Interventions *

THE ROUBLE, THE TRANSFERABLE ROUBLE, THE ECU AND THE INTERNATIONAL MONETARY SYSTEM

DMITRY SMYSLOV

The Soviet Union's new foreign economic strategy is becoming a significant factor in international economic relations and will exert a favourable influence on them.

Till the 1970s economic relations between the Soviet Union and capitalist countries, and between East and West were, on the whole, fairly restricted. Subsequently, however, considerable progress was made. As well as growing trade, the Soviet Union and other communist countries began to carry out active operations in the international credit and monetary markets, expanding, for example, the network of their banks abroad.

In spite of these innovations (compensation agreements, project financing), the Soviet Union's foreign economic relations were basically restricted to traditional forms, such as trade transactions and their crediting, at least until the mid-eighties. Even more significantly the Soviet Union was not a full partner in the world economic system. It was not a member of the international economic and monetary institutions. Together with its communist partners, the Soviet Union adhered to the principle: "two worlds - two markets - two monetary systems."

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

The isolation of the Soviet Union and other communist countries from the international economic, monetary and financial system was conditioned by two basic circumstances. Although reflecting the existence of a political division of the world into two blocs, with its acute confrontation between East and West, nevertheless a naive belief persisted that this would help to protect the Soviet economy against what the Soviet Union called "market chaos". However, in the absence of efficient interaction with the world market, a growing technological gap developed accompanied by a decline in competitiveness and a deterioration in the quality of commodities produced. Public opinion in the Soviet Union began to show great concern over this state of affairs.

The process of *perestroika*, initiated by the 27th Party Congress, includes foreign trade. The Congress expressed the conviction that a growing trend towards the interdependence of states within the world community is a vital characteristic of current growth. As a result of this process, "a controversial but interdependent and in many ways integrated world is taking shape."¹ All this requires a new type of thinking from us all, a certain re-evaluation of approaches by both the East and West vis-à-vis the most important international economic problems.

The new approach which has been adopted by the Soviet leadership towards foreign economic relations is apparent in two main areas. Firstly, there is a keen desire to use new and very radical forms and methods in the organization of economic relations in order to intensify the Soviet Union's participation in the international division of labour. Hence, different forms of international production, scientific and technological co-operation are being organized.

Secondly, the Soviet Union and other communist countries are taking steps to ensure their gradual integration into the institutional structure of world economic relations. The Soviet Union's desire to expand international economic co-operation was apparent in the positive position taken vis-à-vis GATT, ultimately designed to ensure the USSR's full membership in this organization. The question of potential forms of co-operation with the International Monetary Fund or entering this organization is now being actively discussed in the Soviet Union. The need to form an international monetary system, in which all the countries in the world could participate without detriment to their interests is becoming increasingly evident.

The following three problems stand out: the reconstruction of the monetary and financial machinery of the Soviet Union, the evolution of the CMEA's monetary system and opportunities for interaction with the

European monetary system, and, finally, the prospects for improvement in the world's monetary systems.

Overhauling the machinery of monetary and financial relations.

The reconstruction of the Soviet monetary and financial machinery is designed to achieve co-ordination between monetary and credit relations and goals of domestic economic policy, an increase in the role of these relations within the entire complex of foreign economic relations, the growth of stability and, at the same time, flexibility of monetary and financial machinery. Ultimately, the question comes down to ensuring that the Soviet system is no longer excluded from world monetary relations and establishing a new model guaranteeing its interaction with the world monetary system.

One suggestion is the idea of opening up the Soviet economy to the world market, forcing foreign trade to become the main force in promoting the economic progress of the Soviet Union but this suggestion is ill-founded. Foreign economic relations must be as efficient as possible and must make a maximum contribution towards economic growth. However, domestic resources and stimuli remain the only basis for this growth.

Overhauling the national monetary machinery presupposes, above all, the establishment of an economically based rouble exchange rate and the introduction of its convertibility.

The consensus in favour of establishing a more correct exchange rate for the rouble in combination with the introduction of some form of convertibility is growing stronger. There is a growing belief that such an exchange rate should not be a remote goal, but a concrete means to solve current and specific economic problems. A flexible exchange rate policy is needed which could take all changes in the economic situation into account.

It is quite evident that a new exchange rate for the rouble would reflect a true correlation of prices in the Soviet Union and abroad to a much greater extent. In this connection, attempts are being made to calculate a "real" exchange rate for the rouble by using a comparison of domestic and world prices, on as broad a commodity basis as possible. There is no doubt that such calculations could serve as useful reference points. However, in the current climate, price ratios cannot be accepted as the only deciding factor for what the exchange rate should be. In addition, such calculations will only be suitable if they are based on prices which emerge after the

imminent reform of pricing and the creation of an efficient system of wholesale trade. However, we need the influence of the rouble exchange rate on the economy today, because it could, to a certain extent, favour economic reforms and improve economic machinery. Finally, an exchange rate based on purchasing power would evidently require a market test. In what way could such a test be carried out? Here the question of the rouble's exchange rate brings us to the second most important question — the problem of its convertibility.

The resolutions passed in June 1987 *Plenum* of the CPSU Central Committee made provisions for a step-by-step development towards the rouble's convertibility as a basic feature of economic reform, and one that was to be carried out within the framework of the CMEA.² Opinions differ as regards the terms and methods to achieve this goal. Some economists favour an immediate introduction of full rouble convertibility, whilst others argue that it could only be fulfilled after the completion of the reconstruction of the entire economic system and a basic improvement in the technology used in industry permitting the Soviet Union to achieve a world level of competitiveness. Clearly, these conditions are essential if full rouble convertibility is to be introduced. Yet intermediate measures in this direction are necessary even now. A step-by-step introduction of convertibility is necessary if a more efficient participation of the Soviet Union in the international division of labour is to be achieved and production and foreign economic relations are to be stimulated and developed.

As for the methods of introducing the convertibility, a certain consensus of ideas is being formed, based on the fact that, in certain aspects, the Western method which means a transition from external to internal convertibility, cannot be used. The Soviet Union is conditioned by both concrete circumstances relating to insufficient currency reserves and considerations of a more general character — a special role for the state and currency regulation arising from the specific nature of the socialist economy. Therefore, the first stage must relate to a limited convertibility for the rouble, primarily for residents.

The "internal" convertibility of the Soviet rouble presupposes the formation of a closed currency market for a particular, gradually expanding circle of enterprises, other organizations and banks. A relatively free trade in foreign currencies will be realized in such a market according to different modalities. In the end, this would lead to a formation of an interbank market. The internal monetary market controlled by the state would encourage greater independence for enterprises, an optimal redis-

tribution and use of currency resources.

The internal monetary market should lead to the emergence of a fluctuating exchange rate for the rouble. This exchange rate alone would serve as an objective criterion by which to introduce a new official exchange rate by the USSR's state bank. The *Gosbank* could use different means by which to influence the rouble's market exchange rates and their gradual rapprochement with official ones. In the presence of a real and flexible exchange rate for the rouble, together with an improvement in the Soviet economy, it would be possible to make a gradual transition in the future from a free circulation of foreign currencies inside the country to a circulation of Soviet roubles in the world markets, to their use in international payments, i.e. the introduction of full scale rouble convertibility.

In scientific discussions and economic literature there are more radical proposals concerning the formation and introduction of a new monetary unit (some authors call it *tchervonets* in analogy with the 1920s) which in principle would be a free convertible exchange rate from the outset.

While illustrating the issue of the reform of the exchange rate system for the Soviet rouble and the introduction of its convertibility, I would like to emphasize that at present the approach of the Soviet economists towards this problem is subordinated to the country's domestic economic interests. The international aspect of the problem is given a peripheral position. It follows from what has been stated above that in the foreseeable future no progress should be expected as regards the Soviet rouble's transformation into an international reserve currency. However, a collective currency unit for the communist countries could under certain conditions aspire to such a role.

The transferable rouble and the ECU: opportunities for interaction.

At present, in both Eastern and Western Europe, the idea of developing the "Common European House" is gaining ground. The signing of the joint Declaration to establish official relations between both European integrated groupings — CMEA and EEC — in June, 1988, after prolonged negotiations will no doubt stimulate this. Multilateral expansion of economic co-operation between the CMEA and the EEC should become the basis for the "Common European House". It is quite evident that the relations between the two currency systems should not be excluded from this process.

The basis of the currency system in the communist countries, in contrast to currency systems in the West, is not so much dependent on their belonging to a particular geographical region, but rather their membership of a social system existing in the countries belonging to this system. Hence, the need for these countries to co-operate mutually in a particularly intense way.

The transferable rouble established in 1964 constitutes the main link in the currency and financial system of the CMEA member-states. In the "Complex programme" of socialist economic integration (1971), it is defined as the international collective currency for the CMEA member-states and is intended to function as a measure of value and means of payment and accumulation. The circulation of transferable roubles is handled by the International Economic Co-operation Bank (IECB) either through payments for commodities and services or through crediting. The transferable rouble has its own quotation vis-à-vis foreign currencies which differs from the Soviet rouble.

The entire turnover of commodities and services between the CMEA member-states uses transferable roubles. Every country has an account in the IECB in transferable roubles for transactions with other countries, and payments are made through that account. Theoretically, sums may be put into this account by certain countries, but they may be used to make payments to other countries. Thus, the introduction of the transferable rouble was considered, in contrast to the former bilateral clearing system, as a realization of the principle of the multilateral balance of payments. If necessary, the IECB gives credits in transferable roubles to balance these payments.

The "Complex programme" of communist economic integration made provisions for a number of measures to perfect the currency system of the CMEA member-states. In this connection, the following was stated: "The collective currency (transferable rouble), together with the growth of its role, can be potentially used for payments with third countries and occupy the place corresponding to the role and importance of the CMEA member-states in the world economy among other currencies serving international transactions."³ In addition, there was a provision for the transferable rouble's convertibility into the national currencies of the CMEA member-states and also mutual convertibility of the CMEA national currencies.

Experience has demonstrated the usefulness of the transferable rouble system. During the 17 years it has been used in payments of the CMEA member-states, the annual amount of mutual payments increased from

22.9 billion transferable roubles in 1964 to 122.9 billion transferable roubles in 1980, i.e., 5.4 fold.⁴

However, so far the CMEA member-states have not, unfortunately, been able to advance in the direction of achieving the goals set at the beginning of the 1970s to any considerable extent. This engendered a certain dissatisfaction with the transferable rouble and some criticism. It should be pointed out that prices in transferable roubles are an average of world market prices as expressed in the national currencies of Western countries and therefore, such a currency unit cannot be a true measure of value. It is also not a means of multilateral payment because trade between the CMEA member-states is still predominantly on a bilateral basis. In the present conditions, the transferable rouble is virtually just a calculation unit.

At present, the socialist economic integration system is in the process of reconstruction. In particular, a new drive in the process of perfecting the system of monetary, financial and credit relations within the CMEA was imparted by the Moscow meeting of the leaders of the brother parties of the socialist countries, who were the members of the Council, in November 1986, and by the 43rd (extraordinary) session of the CMEA held in Moscow in October, 1987. The organizing member-states embarked on the course towards a creation of the necessary conditions for a further consolidation and development of the collective currency — the transferable rouble — in their payments. In addition, the use of national currencies by a group of countries, as an experiment in payment for commodities and services was also planned. These currencies were to be used to finance common productions and joint ventures. An agreement was achieved by a majority of countries on the introduction of mutual convertibility of national currencies and the transferable rouble with the purpose of raising the efficiency of the currency and financial system.

The intention is now to study the practical problems relating to a gradual introduction of convertibility of the transferable rouble into free convertible currencies. Of course, this is not a task for the present time. A sharp rise in product quality, considerable growth and improvements in the export figure and structure of the CMEA member-states is needed to solve this problem.

Admittedly, the process of rebuilding the CMEA's monetary and financial system is not proceeding as smoothly as it should. It has now become clear that the transferable rouble cannot fulfil its monetary functions efficiently without profound transformations in the economic systems of the CMEA member-states, the introduction of genuine inde-

pendence and self-repayment of enterprises, a radical reform in pricing, major changes in the form of mutual economic co-operation and the creation of a single fully-fledged market for the communist countries. Under such conditions, the most significant steps are now being made through bilateral relations. The USSR has concluded agreements with Bulgaria, Czechoslovakia and Mongolia on the mutual use of national currencies with regard to direct common productions and joint ventures. The problem of paying mutual transactions with convertible currencies is being studied.

Active co-operation on a bilateral basis should favour an improvement and consolidation of the centralized monetary and financial system of the CMEA member-states, but under certain circumstances it can also engender centrifugal trends within this system. However, communist economic integration (as well as the Western European integration) needs the existence of a collective currency and a multilateral payments system.

The CMEA and the EEC are natural economic partners. However, the need to organize co-operation between them is not only related to their belonging to the same continent. It is also defined by the fact that both are experiencing a period of profound structural change. The progress in trade and economic relations between the CMEA and the EEC member-states requires an intensification of their mutual monetary and financial relations.

Favourable premises for establishing co-operation between the currency systems of the CMEA and the EEC are being formed thanks to the presence of a certain similarity or closeness in their distinctive features. There is evident symmetry in the institutional structures in both currency groupings: in the CMEA — International Economic Co-operation Bank and in the EEC — European Monetary Co-operation Fund. Both were given certain features of a central bank. Banking institutions intended for the financing of economic development on a medium- and long-term basis were also formed in both the CMEA and in the EEC. Finally, there are multilateral clearing systems in both groupings.

Collective currency units of both monetary systems — the transferable rouble and the ECU — owe their origin to real assets: in the first instance, commodities and services realized in the market, and in the second instance, centralized gold and dollar reserves. Attention is rightly being paid to the considerable coincidence between the composition of the "currency basket" of ECU and the set of currencies which are used in the mutual trade between the countries belonging to the two European

groupings. The value correlations between the transferable rouble and the ECU are liable to undergo considerably fewer fluctuations than, for example, the exchange rate of the ECU in relation to the dollar. It makes both collective currencies comparatively convenient means to be used in mutual settlements.

The problem of possible forms of interaction between the transferable rouble and the ECU has been broadly and thoroughly investigated by the Italian economist, A. Jozzo.⁵ I would like to endorse some considerations expressed by him on that count.

There are possibilities of using the ECU in transactions by central and other banks of the CMEA member-states, and those of the ICEB, in particular, owing to the fact that this currency unit was first used in private commercial and financial transactions in the West. Furthermore, it should be stated that for a long time now, the ICEB has had relations and makes transactions in free convertible currencies on deposits, current accounts and credits with a great number of banks in capitalist countries, including many of the largest financial institutions in Western Europe. The banks of the CMEA member-states and the ICEB could acquire assets, together with the national currencies of Western countries, whilst the ECU, received as payment for exports, supplies the value which would be expressed in this currency unit.

The central banks of the CMEA member-states and the ICEB have the opportunity to ask the ECCF to grant them the *status* of "third party" ECU holders, as provided for in the agreement on the European Currency system (ECS). By receiving "official ECUs" from the central banks of the CMEA member-states, which have divisions in the EEC member-states, they could join the Banking Association on ECU which includes over 80 banks acting within the EEC and also the Bank for International Settlements which ensures a clearing system for transactions in the ECU. If it were demonstrated that those banks met certain accepted criteria then they could become participants in the clearing system. Such a possible course of events derives from the fact that this system has been recently expanded to the banks of non-EEC member countries.

What, then, are the probable ways in which the transferable rouble will be used in mutual settlements between the EEC member-states, and the CMEA member-states and ICEB? Evidently, here too, a situation is conceivable whereby Western European banks would have the opportunity to acquire credits in transferable roubles and use them at their discretion for the payment of imports from any CMEA member state or for other purposes. The countries belonging to the EEC could ultimately

become full members of the IECB, the possibility of which is provided for in its charter. The development of such processes could lead to the introduction of certain forms of convertibility of the transferable rouble into the ECU. The second logical step is the definition of the exchange rate between these two currency units.

The conditions for interaction of the transferable rouble and the ECU should evidently become the subject of an official agreement between the two organizations. Such an agreement would, in particular, regulate the method of intervention in the monetary market with a view to maintaining a fixed exchange rate between the transferable rouble and ECU. This does not preclude the possibility for the CMEA and, hence, the EEC member-states of establishing independent contract relations with the central agencies and joint financial institutions of the other integration organization. It is certainly intended that such relations would not conflict with aims and principles collectively agreed upon between the member-states of each organization.

Achieving stable monetary and financial relations between Eastern and Western Europe will undoubtedly stimulate trade and other forms of economic co-operation between them. At the same time, these interrelations would serve as an important link in the world currency system.

Ways of improving the international monetary system.

Evidently, the time has come when the communist countries can no longer allow themselves to be excluded from the process of implementing the international monetary system they profit by. Obviously, together with the greater involvement of communist countries in world economic relations and changes in the world economic system (fluctuation of prices, interests rates, exchange rates) the functioning of this system will exert an increasing influence on such countries, which will affect their economic interests in a very direct way.

And so what monetary system should we strive to adopt? What are the goals in this field, towards which East and West could both work?

It goes without saying that the monetary system based on the dollar primarily meets the interests of the USA. Clearly, this system gives them the opportunity to finance their internal and external expenditure extensively through external sources. However, this type of financing cannot mean anything except a transfer of value from abroad that is an appropriation of a part of the national product of other countries without any equivalent. It is no coincidence that J. Rueff, the eminent Western

economist, asserted in his time that such a practice "allows the United States to live at the account of their suppliers."⁶ In such a context, the foreign dollar accumulations constitute a real debt of the USA in relation to the rest of the world.

The increase of dollar liquidity abroad serves as an approximate appraisal of the size of the "contribution" collected by the USA from other countries. During the period between 1970 and 1986 total debts to government agencies of other countries, obligations of American banks to foreign private depositors and investments of the latter in American Treasury securities increased by an average \$40.1 billion dollars annually. This corresponds to 1.7 per cent of the annual level of GDP in the USA (in current prices) for the same period. If, in addition, we take into account an inflow of foreign private short-term capital into the USA, omitted in the statistics (its size is basically defined in the item "statistical discrepancies" in the balance of payments) then the result would be increased to 2.2 per cent of average GDP.⁷

The United States' unique position means that it does not experience the difficulties which other countries would meet in a similar situation. They are spared the need to keep their external settlements in balance or, in other words, they have the privilege that they can maintain "*le deficit sans pleurs*" as J. Rueff neatly put it.⁸ Therefore, the international monetary system based on the "dollar standard" ensures significant unilateral advantages for the USA at the expense of other countries. This raises the question of its reform and democratization.

What alternatives are there to the "dollar standard" system? Two practical options can be named. The former is the transition to a system of international settlements, based on the use of a universal collective reserve currency unit, whilst the latter is the consolidation of currency polycentrism, i.e. the formation of separate regional currency groupings which would be formed on the basis of either collective or national currencies.

Progress towards the internationalization of the official reserve system, i.e. a change of the world monetary system from the gold-dollar standard to a collective currency standard is related primarily to the name of R. Triffin,⁹ who developed the ideas J. M. Keynes expressed during the Second World War. According to this line of thought the International Monetary Fund (or any other institution which would replace it) should be given the functions of a central bank, regulating the amount and composition of liquid reserves and acting as an international clearing house simultaneously. At the end of the 1960s such an approach led to the

establishment of the "Special Drawing Rights" system (SDR).

The trend towards the gradual creation of a universal international currency is prompted by a process of internationalization of production and circulation. The international nature of world economic relations is in conflict with the national character of reserve currencies now serving such relations. This can be explained by the fact that the world community has not yet the maturity, either in a political or in a social and psychological sense, requested to introduce an international payment system which would demand the use of the collective reserve and of the payment means common to all countries.

What has been mentioned above clarifies the fact that the reconstruction of the world monetary system is being predominantly achieved under present conditions through its diversification, that is, through the formation and consolidation of separate currency groupings narrowing the sphere of the dollar circulation to a certain extent. They are based either on the fact that member-states belong to the same geographical region or on the community of the socio-economic system existing in these countries. The formation of such groupings also reflects an unevenness in the economic and political development of the modern world, and the existing contradictions between the interests of separate centres of economic power.

The dollar zone — i.e. the group of countries "pegging" their monetary units to the American currency — remains an important element within the international monetary system. The Japanese yen zone, which is in the process of internationalization, is gradually crystallizing in South-East Asia. The yen's share of official currency reserves increased from 3.3 per cent in 1978 to 6.9 per cent in 1986.¹⁰ The European monetary system is the most institutionalized within Western currency groupings. A number of Western economists hold the view expressed, in particular, by Professor A. Giovannini, of Columbia University, USA, in a conversation with me that the realization of the "Europe 1992" project, the formation of an entirely integrated internal market within the EEC, would require the unification of the tax systems of the member-states, the formation of a Western European central bank and a common monetary unit. The currency system of the CMEA member-states is one of the currency poles in the contemporary world. It unites a group of socially similar countries.

Under present conditions, it is becoming increasingly necessary to settle the relations between individual currency groupings and to stabilize mutual exchange rates of the currency units which belong to such group-

ings. The regulation of the machinery necessary for this purpose could evidently become a subject for special international agreements.

Conceivably, the very concept of a collective currency unit is being tested or "run in" at the level of integrational currency formations. In my view, the logic of an internationalization of economics ultimately undermines opportunities for the functioning of national currencies as a global currency. In this context, the appearance of such views is not accidental, such as those stated by R. Cooper, (Harvard University, USA), who considers the creation of the universal monetary unit not only for international settlements, but internal circulation too, to be necessary.¹¹

The current monetary system needs a more stable and reliable "anchor" than the dollar which is liable to attacks of inflation inside the country and sharp exchange rate fluctuations in international markets. Furthermore, considerations on a possible "pegging" of the SDR value unit to a certain "commodity basket" are being advanced. The growth of the role of SDRs could evidently be favoured by their use as international payment means, by a guarantee of their "recognition" by participants in the market as a competitive and reliable means of investment of free money reserves — for example, Professor P. Kenen from Princeton University (USA) advanced such a proposal.¹² Thus, it is believed that the need for a transition to the international monetary unit would reveal itself in one way or another.

The reform of the international monetary system is undoubtedly a complicated affair. Rapid progress could be hardly expected in this sphere. Active participation by the communist countries in this process would favour the formation of a monetary system which would adequately reflect the entire multi-coloured palette of the contemporary world. At the same time it would serve as a significant factor in improving the international political climate and in enhancing confidence between countries in the East and West.

NOTES

¹ *Materialy XXVII syezda Communisticheskoy partii Sovetskogo Soyuza*, Moscow, Politizdat, 1986, pp. 20-21.

² *Materialy Plenuma Centralnogo Komiteta CPSS*, June 25-26, 1987, Moscow, Politizdat, 1987, p. 101.

³ *Complexnaya programma dalneyshogo uglubleniya y sovershenstvovaniya sotrudnichestva y razvitiya socialisticheskoy ekonomicheskoy intergratsii stranchelov*

SEV, Moscow, Politizdat, 1971, pp. 50-51.

⁴ *Kommunist*, No. 15, 1980, p. 104; *Vneshnyaya trgovlya*, No. 8, 1981, p. 46.

⁵ A. Jozzo, "ECU and Rouble: Towards a New International Monetary Order", in *The Federalist*, XXX (1988), pp. 6-17.

⁶ J. Rueff, *Le péché monétaire de l'Occident*, Paris, 1971, p. 264.

⁷ Calculated according to *Survey of Current Business*, Washington, D.C., June, 1986, pp. 42-43; March, 1987, p. 44; *Economic Report of the President*, Washington, D.C., 1987, p. 244.

⁸ J. Rueff, *op.cit.*, p. 23.

⁹ Triffin's views are expounded, in particular, in his following recent publications: R. Triffin, *The Paper - Exchange Standard: 1971-1977*. In: P. A. Volcker, R. C. Bryant, L. Gleske et. al., *International Monetary Co-operation: Essays in Honour of Henry C. Wallich. Essays in International Finance*, No. 169, Princeton University, New Jersey, 1987, pp. 70-85; R. Triffin, "W.M.S: The World Monetary System...or Scandal?", in *The Future of the International Monetary System*. Round Table Conference, August 28-29, 1986, Castle Szirak, Hungary. Edited by M Szabo-Pelsoczi. Preface by Robert Triffin. The Institute for World Economics of the Hungarian Academy of Sciences, Budapest, 1988, pp. 69-90.

¹⁰ *International Monetary Fund*. Annual Report 1987. Washington, D.C., 1987, p. 60.

¹¹ R. N. Cooper, *The International Monetary System. Essays in World Economics*. The MIT Press, Cambridge, Massachusetts, 1987, pp. 239-278.

¹² P. B. Kenen, "Use of the SDR to Supplement or Substitute for Other Means of Finance", in *International Money and Credit: The Policy Roles*. Edited by George M. von Furstenberg, Washington, International Monetary Fund, pp. 327-360.

US HYSTERIA AND EUROHYSTERIA

IRA L. STRAUS

The Atlantic alliance is threatened by a dual hysteria. Where once, at its beginning, the alliance provided mutual reassurance, now for some time mutual accusations have been accumulating on both sides of the Atlantic. Negative attitudes on one side are picked up on the other where they fuel suspicion, and vice versa. Present political arrangements, which confine serious public discussion to within each allied country, only exacerbate the problem.

I will start with the American side.

US Hysteria.

The US has with great suddenness fallen into a hysteria against its allies. This is a delayed reaction to the decades-old decline in its ability to lead the allies unilaterally. It is sparked at this moment by fears over its economic standing in the world, renewing the feelings of decadence that have been latent ever since the war in Vietnam. An enormously popular, melodramatic discussion of "the decline of the American empire" has sprung up. This has been given an aura of respectability by a best-selling book by Prof. Paul Kennedy, whose extraordinary leaps in logic and self-contradictions have generally been overlooked by sympathetic readers plowing through his 700 long pages of prose.

The US has actually grown economically relative to all its allies (Europe, Japan, etc.) taken together since 1980,¹ yet practically all Americans are convinced of the exact opposite. Starting from this completely erroneous premise, Americans are blaming the allies for damaging the US economy through unfair trade practices, exploiting the US defense guarantee in order to get a free ride and concentrate on economic growth, and now "buying up" America. (Most Americans would be completely dumbfounded if they had any inkling that Europeans have been blaming America through most of this decade for ruining Europe's economy by sucking off Europe's investment capital to finance America's budget deficit.) The lack of economic merit in the American

perception does nothing to slow its wildfire spread. A "blame the allies first" attitude has become all the rage, especially among those who used to be accused of a "blame America first" attitude.

This "US Hysteria" is leading America step by step, as if sleepwalking, down the stairs into the universally dreaded terrains of a breakdown over burden sharing and a trade war.

a) Disputes over burden sharing are a traditional graveyard of alliances. They are unresolvable within the framework of national sovereignty. Europe is already spending huge sums on defense, hidden somewhat by its low-paid conscript armies. If Europe and America were paying a joint graduated income tax for defense, to fund a joint army raised and paid in a uniform manner, Europe would be paying little if any more than it is today. But as long as Europe remains militarily unintegrated, its military capabilities and global projection will be far inferior no matter how much it spends on defense, and Congress will accuse it of not spending enough with little regard for the relevant facts. If Congress carries out its growing threats to withdraw US forces, the alliance is likely to fall apart in recriminations. This would be a catastrophic loss for real US power in the world.

b) A trade war, if started against Japan, would probably quickly spread to Europe. In it, allies would treat one another's production and prosperity as an enemy force rather than the common inheritance it really is. This would make a mockery of the ritual affirmations of mutual commitment in NATO. It, too, could well dissolve the alliance.

And yet, if present trends in American national discussion continue, a trade war is all too likely an outcome. Japan is already being widely described as America's main enemy in the world.

There has been a respite from radical protectionism since October 1987, when the stock market crash — sparked by fears of a trade war — was taken by Congress as a warning signal. But the underlying mood of the nation has turned so sour that the long-term consequences are likely to be grave. Congress has already enacted substantial elements of "procedural protectionism," meaning procedures that will leave little room for presidents to avoid following rigid protectionist policies, into law in the new trade bill. The respite from the consequences of the hysteria is no cause for complacency, but it does give space and cause for proceeding with deliberate action on the deep roots of the hysteria.

The deep root of procedural protectionism is that economic discussion and interest aggregation flow mainly through national channels. Congress itself, with its logrolling methods for aggregating local inter-

ests, is structurally incapable of consistently standing up for America's true national interest in reaching and consistently implementing wide-ranging agreements with its partners abroad. Procedural protectionism is only one aspect, a subset, of the nationally-focused procedures for handling international problems. This indicates quite clearly what is needed to replace procedural protectionism with procedural free trade: joint procedures strong enough to channel through themselves the main flow of economic discussion and policy-making.

It would be hard to imagine a more bitter travesty of America's tradition of wishing well to her friends, than the attitude that allies should be treated as economic enemies. America has achieved unprecedented diplomatic successes through her unique capacity for recognizing in the prosperity and progress of her friends an addition to her own prosperity and progress. This tradition of good-will is one of her national treasures, raising her above the ordinary self-defeating approach to the world. Now, in a fit of fear of decadence, she is on the verge of mortgaging it in favour of the mean spirit of jealousy that has guaranteed the eventual decadence of ordinary countries.

The seriousness of this may be clearer if it is noticed that unimproved power politics has not previously been a live option for Americans; the two live options have been isolationism from the main line of global power politics (tempered by the virtue of holding up the light of democracy and federalism to the world, while allowing pursuit of narrow interests on the side) and involvement in the global power struggles with a democratic federal goal in mind (whether conceived clearly or dimly, regionally or globally, imminently or ultimately). This is why the great waves of American involvement in world struggles have coincided with — in large part been pioneered by — federative movements such as the League to Enforce Peace and Federal Union, and have led to the League of Nations, the United Nations, and (finally gaining some effective force) the Marshall Plan, NATO, OECD, North Atlantic Assembly, Summits/G-5/G-7 ... The presumption of partnership among free people, along with the goal of ultimate union which has justified that presumption, has required an optimistic but not unrealistic view of America's significance in the world; it is incompatible with a morose pessimistic spirit of inevitable decline, to be managed by balance of power manoeuvres. Since it is this presumption of partnership which made possible America's support of European federation, European federalists have a deep interest in its survival: in its absence, America would revert completely to traditional balance-of-power divide-and-rule modes of thinking.²

Belief in Decadence as a New Phase in the Crisis of US National Sovereignty.

The new national belief in "American decline" shows that the crisis of national political thinking in America has entered a new phase. It is easy to show that the belief is an optical illusion, even a national hysteria, but such illusions and hysterias are unavoidable when political thinking is dominated by the categories of fixed territorial nation-states while real concerns have transcended national borders.

The degeneration of national political thinking was long predicted by federalists in view of the growth of interdependence among nations, whose problems can no longer be resolved by national power or national policy, coupled with the continuing focus of political debate on attempts to win national power and shape national policy. Political effort on ever more critical problems is channeled through authorities incapable of solving them, giving rise to ever greater distortions in political thinking, eventually to hysteria. This crisis has now arrived in America.

The feeling of national decadence, of being at the end of the tether of national greatness, flows out of the structural gap between national thought and international problems. It usually widens this gap in turn: as long as remedies are attempted only within the framework of national policy, they are doomed to fail, driving countries to maniac-depressive swings. Countries grow destructive, and self-destructive, in their drives for "national regeneration." This leads to genuine decadence, as was seen in Germany and Japan in the first half of this century.

True regeneration is possible only by breaking through to the transnational level. Since 1945, the Atlantic-Pacific alliance system has reduced reliance on national action, partially regenerating democratic world leadership, partially restoring sanity. The fragility of this alliance system is the fragility of sanity itself. The turn of the discussion of American decline toward bashing America's main allies as if they were the main threat to America in the world — an orientation that is palpably self-defeating, brazenly destructive of America's real power and influence in the world — is a warning sign that sanity is once again in danger of cracking.

On the positive side, the discussion of American decline has made Americans aware that the US can no longer sustain its past hopes and greatness on its own. The decay of US postwar hegemony over Europe and Japan, which occurred decades ago, has finally hit home. This gives the US two actual options: to join more profoundly with those who share

its aspirations, or destroy its own hopes by lashing out against its allies in a vain attempt to recover unilateral leadership. The crisis of national politics, a crisis whose acuteness in Europe has led many wise international federalists to focus on starting there, has now matured and grown acute in America as well. A public orientation toward deeper union has become a matter of urgency, and an actual union in a proximate future a matter of necessity, in order to avoid regressive nationalist reactions to problems and secure the alliance system on which America's future depends.

Eurohysteria.

Eurohysteria is the unbalanced suspicion and heavy-handed cynicism that many Europeans display when interpreting US policies and motives, e.g., accusing the US of trying to drag Europe into war when it was installing INF, and again when it was withdrawing INF. Its roots are: resentment of dependence, and the impossibility of ever fully trusting a foreign power, with separate interest-aggregation and decision-making processes, to defend one's vital interests as its own. Its effect is: to lead Europe to bungle its actual needs and opportunities in Atlantic relations. It is right now leading Germany to talk itself into walking step by step, as if in a trance, down the very path it most fears: denuclearization, then possibly neutralization.

Hysteria has been stimulated since 1980 by Europe's economic decline vis-à-vis America, which many Europeans blame on the US budget deficit for sucking capital and jobs out of Europe. Hysteria is now being reinforced by the belief — fueled by US rhetoric on "American decline" and "the Pacific century" — that the US is reorienting itself toward the Pacific and leaving Europe. Many Europeans deduce that America will inevitably grow ever less reliable as a partner for Europe.

Public opinion polls (by Gallup and Eurobarometer, 1987) confute these widespread views. They show that interest in the Pacific has not been at Europe's expense, and that, if anything, the shoe is actually on the other foot: Europeans (in the EC area) are disturbingly nonchalant about Americans.

— 86 per cent of Americans say US-Europe ties matter a great deal (a number that has increased since 1973). Only 60 per cent of Europeans agree, despite their dependence on America.

— 53 per cent of Americans want to strengthen ties with Western Europe, 31 per cent to continue as at present, only 11 per cent to reduce

ties. 70 per cent support having US troops in Europe as a necessity. The Americans are not withdrawing — not yet, anyway.

— 81 per cent of Americans have warm feelings toward Western Europe (most mentioning family roots and a high regard for European culture); only 52 per cent of Europeans think well of the US.

— 65 per cent of Americans (71 per cent among élites) support European unification, and think their Government does, too; only 49 per cent of Europeans think the US does.

While the hysteria is unjustified, it could act as a self-fulfilling prophecy and drive the US away from Europe: Europeans can sometimes engender the very unreliability of which they accuse America. But for now it is America that is the more reliable partner, and European countries that are the more prone to reversing policies in midstream at the expense of their allies.

America's continued interest in Europe is no cause for complacency, just as the respite from protectionism is no cause for complacency; there remain severe underlying problems in the Alliance which are eating away at its vitals. What it means is that there is time for addressing the problems at their root, in a deliberate manner, without the frenzy, feuds and reversals which usually confound efforts at a solution.

A Five-Point Plan to Cure the Hysterias.

A serious plan of attack must include:

1. Pushing European integration forward at a pace relevant to the onrushing course of history.

Such good temper as exists in the Atlantic relation flows largely from the strong prod the US gave to European integration in the 1940s, thereby identifying America with the hopes of Europe. Many Europeans, addicted to power politics interpretations, refused to believe this was for real. Some still make a point of hinting darkly that maybe America is really against European unity or maybe European unity is not really in America's interest.

At present the "America in (economic) decline" mentality is leading many US officials to join in this misperception of US interest and to behave suspiciously toward the EC's "1992" program. Nevertheless the US Government still believes it supports European unification, and does strongly support European military unification as a key to finally resolving the Alliance's ominous imbalances in conventional defense, burden sharing and military and political capability. These imbalances leave

Europe hypersensitive about its dependence on America and are the main sources of Eurohysteria.

2. Carrying out somewhere in the world a joint policy involving active mutual support — visible, public, warm, wholehearted support.

This policy could simply be, to build new and stronger institutional links across the Atlantic.

Thanks to NATO's success in stabilizing its own region, it has suffered from an almost total absence of live mutual military support. Wherever there has been live military action — Suez, Vietnam, Grenada, Chad, Libya — mutual dissociation has been more visible than mutual support. Yet an Alliance must be based on a spirit of mutual support.

3. Making a psychological reality once again of the aging doctrine that "an attack on free Europe would be the same as an assault on the United States; ... the core of our foreign policy and of our national security is our permanent partnership with our fellow democracies in the Atlantic Alliance" (President Reagan, 29 February 1988), by renewing movement toward integration of Alliance territory.

No one defends someone else's territory quite as one's own. Throughout history allies have abandoned one another in the crunch.

Once the initial flush of NATO enthusiasm wore off after 1949 and the growth of Soviet nuclear forces eroded "extended deterrence," one could not convincingly equate European territory with America's own territory, except by doing something to make this a common territory. Europe's fears of abandonment have festered ever since, confounding Alliance diplomacy.

NATO's common Allied Command and American forces in Europe have done much to bridge the gap in confidence. But de Gaulle pulled France out of the NATO Command for want of reassurance on the nuclear level. The entire INF melodrama was motivated by a need to provide this nuclear evidence of political commitment, not by any intrinsic military need. The last decade has proved the impossibility of reaching any mutually satisfying posture on INF within the present political framework; every posture proves more unsettling than reassuring.

Refinements of military policies and postures are not enough. What is needed is a political solution, through closer integration of the territory: deep integration of conventional forces (which would allow a real conventional defense and reduce dependence on nuclear postures), a common area of free economic intercourse, common elections, common citizenship. Only this can make the partnership visibly permanent and end Europe's fears of abandonment.

4. Deeper joint policy-planning processes; stronger joint implementing structures.

This is necessary for complicated policies; intergovernmental consultation at the summit of national policy-making processes is not enough. NATO works at all only because the main line of common policy within Europe was settled decades ago, under the pressure of crisis, and has long been implemented under hegemonic American leadership. Resentment and resistance to American hegemony, however, confuse all the new joint diplomatic efforts which the established joint policy inevitably requires. For sound diplomacy, and for serious efforts outside Europe, a stronger common authority is needed.

The common authority will need political roots in a common directly elected legislative body. This could be formed by adding a directly-elected chamber and a decision-making role to the North Atlantic Assembly.

Today the allies do not really interpret together what they are doing; rather, each retreats to within its own national discussion to make up its real mind as to what its allies are doing. Within national discourse there is a premium on drawing tribal lines and viewing allies with suspicion. Consultations and *pro forma* common statements are not enough to change this reality; in intergovernmental councils, national élites naturally play their interests off against one another. The resulting agreements usually serve the disparate national public relations needs of élites more than common security needs of nations. This means the alliance has sunk to the level of a mostly symbiotic relation among élites.

Only a common elected assembly can escape symbiosis and instead weld together a genuine synthesis of the interests and perspectives of nations.

5. Democratizing the conduct of the common business.

If NATO's military and diplomatic circles, which have achieved a certain distance from parliamentary supervision, lack the wisdom to see how much they would gain by subordinating themselves to common democratic authorities, such authorities should be established anyway to stop the slide toward trade wars.

America might invite her main partners abroad to send representatives to Congress — and send US representatives to their parliaments. This would reflect our valid interest in what allied countries do that affect us, and their valid interest in what we do that affects them. National constitutions would permit such delegates to join in debates and committee votes, but not in the final floor votes. This would establish the

principle. But it would be too complicated. It would be useful at most if a country initiated this for transitional purposes, to pry the door open for more serious and systematic thinking about the problem.

There is only one enduring solution: a common congress among the allies, empowered to supervise the common business in trade. Let the allied peoples be freed to meet together in this way, rather than being set against each other through national logrolling systems, and they will surely free themselves to trade with one another in a common market ... and then go on to take authority over NATO and establish fair joint taxation for defense. The people can thus lift NATO out of the shifting sands of national hysterias and place it on common terra firma. In the end they alone can save the alliance.

NOTES

¹ Inevitably *some* of the allies are growing faster than the US, but more of them are growing slower than the US. The US GNP pulled ahead by 5.9 per cent vis-à-vis the European Community from 1980-1987, slipped 10.0 per cent vis-à-vis Japan, and so gained 1.8 per cent vis-à-vis the non-US members of the Organization for Economic Cooperation and Development (OECD) as a whole. The relevant statistics are supplied monthly by the OECD in *Main Economic Indicators*; e.g., May 1988, p. 40.

² This shows the danger in the overestimation by some European Federalists (for understandable tactical reasons of ideological convenience, through its seemingly realistic guarantee of the positive significance of European Federation) of the virtues that will flow from the further development of multipolarism, an overestimation which has even led some of them into mistaking the "US in decline" mentality for a favourable trend. If reversion to old-style power politics becomes a serious long-term option, the light of American federalism will go out before the light of European federation has matured to replace it. And if development toward multipolarity proceeds within an intercontinental framework which fails to grow at the same time toward being a closer, more reliable partnership or community, the intercontinental relations *will degenerate* toward balance of (sovereign independent) power relations, not rise toward world order or ultimate world federation, and American thinking (and probably European thinking too) *will degenerate* into plain old-fashioned power politics thinking.

Discussions

MANY GERMAN STATES UNDER A EUROPEAN ROOF

Gerhard Eickhorn's essay, "German Reunification and European Unity. Twelve Theses," published on No.1, 1989 of *The Federalist*, is a good basis for further clarifying the Federalists' position on the question of the division of the two Germanies. The essay does not merely reaffirm that reuniting Germany can and must only be achieved within the framework of a European Federation and a system of peaceful Pan-European cooperation, but goes much further. It questions, in fact, the thesis that the only form in which reuniting Germany can be achieved, obviously within a European Federation, is the fusion of the FRG and the GDR into one state. And it maintains that the option of two German states under a common European roof must also be considered, showing a clear preference for this solution.

This statement must be underlined positively for two fundamental reasons. Firstly, with the fusion of the two German states within the European Federation a state of such economic and demographic size would be created that strong fears of a Germanic hegemony would arise in the other member-states, and this would introduce a factor of crisis and potential disgregation of the federal ties. Actually, the problem of the excessive dimensions of the German national state, which caused a crisis in European equilibrium and the two world wars, continues to be posed, although on different terms, in the context of the establishment of the European Federation and cannot be neglected in defining its inner articulation. Secondly, the fusion between the FRG and the GDR could not be justified on the basis of the free coexistence of all the Germans, that would actually be perfectly assured by a European Federation with many German states. On the contrary its only legitimacy would be the nationalistic principle of the coincidence between cultural nation and state. Once applied to the FRG and the GDR, this principle would foster fatally

consistent claims for fusion with Austria (which belongs to the German cultural nation) and with the numerous German minorities living within other European states, and analogous claims on the part of other national minorities, with the predictable resulting conflicts and disgregation.

If this is clear, it seems to me on the other hand that the Federalists should take a further step forward with respect to the position expressed by Eickhorn, in other words they should not merely say that the thesis of many German states under a European roof is preferable to that of the fusion between the FRG and the GDR, but they should refuse on principle the second thesis. Moreover, as a consequence, they should maintain that Berlin freed from the wall will not be the capital of a reborn German national state, but rather a candidate, within the framework of eliminating the division between the two Europes, to being the capital of the European democratic common house. This type of solution to the problem of the division between the two Germanies — it must be underlined — does not at all exclude the possibility that Pangermanic organisms could arise to safeguard those characteristics and values which are peculiar to the German cultural nation. However, these organisms should not have a state-like character. And on the other hand one must not neglect the rights of the national minorities living within member-states of the European Federation to protect their cultural identity, but it must be emphasized that the situation can improve decisively in this regard if these rights are juridically guaranteed by the federal constitution and concretely protected by the European federal authority.

To return to Eickhorn's essay, the fact that he does not exclude on principle the option of a fusion between the FRG and the GDR is founded on the reference to a people's right to self-determination. This is where the crucial point of the problem lies. I believe the concept of self-determination should be deeply discussed by the Federalists. Here I simply propose three synthetic considerations in this regard.

1. The Federalists cannot accept the concept still prevailing nowadays of the right to self-determination, according to which every people has the right to establish itself as a state with absolute sovereignty. This concept is clearly in contradiction with the Federalist doctrine, which considers it indispensable that in our times state sovereignty be limited to the advantage of a common democratic federal authority, which alone is able to organize peaceful coexistence among all populations. The creation of states with absolute sovereignty, intended as an instrument for achieving national independence, can be considered as positive in those historical situations where there did not yet exist any real possibility of starting

peaceful unification on the federal and democratic bases of mankind, and where the elimination of international anarchy was not the priority problem. Today the elimination of international anarchy has become the inevitable condition for the very survival of mankind and, in any case, the process of overcoming absolute state sovereignty has already started and has reached its most advanced level so far in Western Europe. It is certainly extremely problematical to foresee the phases and concrete ways in which the unification of mankind will develop, but there is reason to believe that, leaving unification aside through war, because this would imply the destruction of mankind itself, the final road to unification can only be a world federation of regional federations.

Therefore, if our time is characterized by the centrality of the world unification problem, it seems very anti-historical to support the validity of the right to create sovereign states, in other words to perpetuate and exasperate international anarchy. What must be claimed instead is the right of all peoples to federalism, that is, to the establishment of ties with other peoples that preserve independence in purely internal matters, but subordinate all peoples to a common democratic law in reference to problems linked to their interdependence. To give some concrete examples, the Federalists should, in my opinion, support the right of the populations of the Baltic republics to a reform of a federal and democratic nature of the USSR, but not to the restoration of absolute sovereignty. And as for the Palestinians, they should support their right to a state of their own, but at the same time they should support the simultaneous inclusion of this state into a security and cooperation system with Israel and the other neighbouring countries, which is guaranteed by the UN and which, when conditions are ripe, can evolve towards a regional federal system.

2. Having made clear why the right to self-determination intended as a right to the creation of states with absolute sovereignty is unacceptable, it must be explained that one cannot even accept in general terms the right to self-determination intended as a right to define the boundaries between the member-states of a federation according to the criterion of coincidence between state and nation. Apart from the extreme difficulty or impossibility of defining boundaries which are acceptable to everybody in the areas where the population is mixed, for the reasons above-mentioned the creation of states that are too powerful must be avoided. To better understand the matter, one must bear in mind the example of the Swiss Federation: if the German-speaking Cantons were to unite into one Canton, the federal tie would immediately suffer a crisis. The fact that the

boundaries between the member-states of a federation do not necessarily have to be founded on the principle of cultural nationality does not however mean that in certain cases the inner boundaries of a federation cannot be re-defined. As has already happened in Switzerland in the case of the Jura, the same thing could happen — to give a concrete example — within a European Federation to which Austria too belonged, in the case of the Tyrol. In reality a re-unification between Northern Tyrol and Southern Tyrol within the Austrian state would re-establish a unity many centuries long, interrupted by the European civil war of this century and certainly would not create problems of equilibrium inside the European Federation.

3. Overcoming the division between the two Germanies has always been considered by the Federalists as an aspect of overcoming the division between the two Europes, in other words, practically, of the creation of a European democratic federation stretching as far as the Western borders of the USSR. In this case the right to self-determination means the right of the satellite countries to detach themselves from the Soviet bloc and to join the European Federation. Now, in my opinion this thesis should be re-considered. In actual fact it was wholly legitimate, although not very realistic, in a situation where the problem of getting world unification under way was not yet topical in its present terms, and in which no prospects for democratic development existed yet within the Soviet bloc. Instead, today current changes are emerging with respect to these two problems and it has become necessary to start seriously discussing the project of gradually establishing a European democratic common house which must involve Europe, the USSR and North America and be intended both as an aspect and a fundamental moment of the establishment of a democratic common house of all mankind, which of course will take much longer. If we see the problem of overcoming the division between the two Europes in this perspective, it does not seem to me that the right approach is the attempt to detach individual countries of Eastern Europe from the Soviet bloc, in other words to favour a weakening or even a unilateral dismantling of this bloc, which involves running the extremely serious risk of causing an interruption or an inversion in the liberalization process taking place in the Soviet bloc. A much more valid approach in my opinion would be for the European Community to propose (this is why it must acquire as soon as possible the structure of supra-national government that is indispensable to exert any real influence on world politics) a wide design based on the agreed bilateral end to the opposing blocs and their simultaneous replacement with an Ameri-

can-European-Soviet community for cooperation and security, open to any other state that wishes to join it.

The main contents of this design should be: at the security level, the progressive elimination of nuclear weapons, the creation of purely defensive armies, the withdrawal of US and USSR troops from Western and Eastern Europe, the creation, in the place of opposing military alliances, of common security structures; at the economic level, the reform and economic integration between the countries of the Soviet bloc accompanied by an ever deeper cooperation and, therefore, by a progressive integration between Western Europe, Eastern Europe, USSR and North America; at the political level, the democratization of the Soviet bloc countries and the progressive creation of common democratic institutions in the American-European-Soviet community.

Within this framework the problem of the possible adherence of the Eastern European countries to the Western-European Federation would no longer be in conflict with the problem of the balance between the two blocs. But completely new prospects might emerge. Among these the two to be considered are the option (over the short term) of a particular tie between the countries of Eastern Europe aiming to achieve a more balanced situation within the Soviet bloc, and (over the longer term) the option of a Pan-European federation including the USSR, on condition not only that it converts to democracy, but also that it be articulated into many states, so as to avoid obvious dangers of hegemony.

To return to the German question, I maintain therefore, on the basis of these considerations, that it is a mistake on the part of the Federalists to appeal to the right of self-determination to avoid excluding the option of a fusion of the two Germanies into one state, even through a European federation. Having said this, there remains the problem of whether it is politically useful for the Federalists to publicly support the thesis of many German states under a European roof. Actually, one could reason in the following way. While it is extremely difficult, if not impossible, for any West-German government to officially renounce the thesis of state reunification between the two Germanies, the situation would be completely different once the European Union had been achieved. In this case foreign policy and security policy would come, albeit gradually, within the jurisdiction of the Union, and the latter, on the basis of its own *raison d'état* could not avoid supporting the thesis of many German states under a European roof and within the framework of a democratic European common house. This is because in this way it would not only eliminate the dangers of disgregation connected with the creation of an excessively

strong state inside the European Union, but it would also favour the democratization process in the Soviet bloc, as it would eliminate the roots of the problem of re-defining the borders in Eastern Europe, a problem whose very nature is bound to foster nationalist, authoritarian and military tendencies. As a result, it would be wiser on the Federalists' part not to take up positions that might weaken German support for the European Union objective, and to insist on the fact that, by achieving the latter, the most valid solution to the German question would impose itself automatically.

What remains wholly valid along this line of reasoning is the thesis that the creation of the European Union is the irreplaceable premise of every decisive positive development in the relations between the two Europes, while there are at least two reasons for overcoming the fear of assuming an unequivocal position in favour of German unity to be achieved without a fusion between the FRG and the GDR.

In the first place, this thesis is now strongly represented in German political debate (it is supported, for example, by *Die Zeit*, which has always played the role of pacesetter with any themes concerning the *Ostpolitik*, and the new programme of the SPD, drawn up at Irsee, considers open the question of the form in which German unity should be achieved within a context of European security) and the Federalists must take up a clear position concerning it, both so as not to be outsiders in the discussion of problems which interest public opinion, and to introduce those clarifying elements that only the federalist point of view can produce. In particular, the Federalists can point out that the thesis of many German states under a European roof and in the framework of a democratic European common house, far from representing a renunciation to the Germans' unity, is the only road which effectively makes it possible to achieve this objective. Substantial and not purely formal unity means in fact that all Germans have the same right to freedom, democracy and social justice, that they can safeguard their cultural identity, that there is no obstacle to their relationships and that they can live peacefully with their neighbours. On the other hand, the idea of a fusion between the two Germanies in one state simply makes the perspective of the German' unity more uncertain. Therefore, if the Federalists decide to support clearly and forcefully the thesis of many German states under a European roof, they may encounter some difficulties, but they will gain new and important support in the fight for the European Union above all among the younger generations, which perceive more and more the inadequacy of the present official position of the Bonn government on the German question.

In the second place, because the changes taking place in Eastern Europe are opening up very real prospects for overcoming the division between the two Germanies, there is a concrete possibility that the Bonn government's official position on the German question will change. Overcoming the thesis of the fusion between the two German states, in other words, of the absorption of the GDR into the FRG, would decisively reinforce the ability of the Bonn government to favour the reforming tendencies within the Soviet bloc, because it would no longer be possible to use the danger of German revanchism to justify keeping up militaristic and authoritarian structures. The Federalists, playing an avantgarde role, can therefore influence the progress towards the European Union, which finds an important obstacle also in the concern on the part of Bonn's Western-European partners that an excessively strong Germany might be created. Apart from the influence over the Bonn government, if the Federalists took up a clear position in favour of the thesis of many German states under a European roof and in the framework of a European democratic common house, this would reinforce the federalist organizations' possibilities of extending their range of action into Eastern Europe.

Sergio Pistone

Federalist Action

DRAFT DOCUMENT ON THE SECURITY AND FOREIGN POLICY OF THE EUROPEAN UNION *

In view of the revival of the project for a European Union, requested by the European Parliament with the final approval of the Herman Report on 16.02.1989, and which the need to give a democratic setting to the progress towards completing European economic integration has made impossible to delay, the UEF XIV Congress considers it necessary to start a vast and detailed discussion on the objectives and instruments of the foreign and security policy of the European Union.

For this purpose it draws attention to the following points.

1. Mankind is about to face a historical event of unheard of breadth. Its very survival is endangered due to the destructive capacity achieved by armaments, by the ecological challenge, by the challenge of underdevelopment, of global economic interdependence not regulated by a just and effective political system on a worldwide scale.

In this situation the only valid answer is to start the establishment of a world democratic government of a federal nature. Only in this way will it be possible to found the security of all nations on the law instead of on force and to eliminate the enormous waste of resources linked to the rush for armaments, to carry out an effective ecological control over economic development, to impose solidarity between rich and poor countries, just as each single nation imposes solidarity between rich and poor regions. The world has therefore become a community with a common destiny and the alternative "to unite or to die" pointed out by Briand in 1929 in reference to Europe, and which has become the main propelling force of

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the European unification process, now concerns the whole of mankind.

Therefore, if it is clear that the world unification process cannot avoid being extremely complex and long, as the establishment of a completely developed system of democratic world government of a federal nature has its premise in the generalization of democratic principles on a worldwide scale, it is also just as clear that the beginning of this process cannot be delayed for long.

On the other hand, in the light of the experience of European unification, it seems reasonable to expect that the very fact of starting off a world unification process will substantially change the general framework of the world situation, determining an inversion in tendency with respect to the dangers threatening the survival of mankind.

2. The enormity of the challenge mankind has to face has already produced a positive reaction on the part of the superpowers, with which the biggest responsibilities lie. The new phase of *détente* started by them is actually making the prospect of a concrete beginning of the unification process of mankind emerge. This prospect is basically linked to the fact that, together with a concept of *traditional* *détente*, the tendency towards an *innovative* *détente* (which so far has found in Gorbachev its most imposing supporter) is making its way, and its realization would open up a new era in world politics.

It is the traditional *détente* which remains, as a vision and as a practice, in the old context of power politics and of security based on force, although there is an attempt to affirm it with moderation and prudence, and to take into account not only its military but also its economic, political, cultural, moral, etc. aspects. The theoretical and practical limit of this type of *détente* is that it is unable to see or develop, by means of new political concepts and new institutions, what is radically new in human evolution concerning the force factor in the determination of political conduct. It is unable to understand, in other words, that the risk of a nuclear holocaust, as well as that of the ecological catastrophe and of the catastrophic clash between the North and the South of the world, make it imperative to consider the organized pacification of mankind, that is, the elimination of power politics, as the supreme political task of our times.

Innovative *détente* is already trying to overcome, as much as possible, power politics by replacing traditional defence (both defensive and offensive) with a *defensive defence* (structural inability to offend) and, in correlation with this, to found state security on the pursuit of others'

security while providing for one's own (*common security*).

The progress towards this type of *détente* has a solid basis in the fact that governments, especially those with the highest responsibilities in the world, must face the problem of mankind's survival and, therefore, have to try and overcome the power politics system, both because its continuation would cause a collective suicide and because it is necessary to transfer increasing amounts of resources from the armaments rush to the solution of ecological, economic-social and underdevelopment problems. On the other hand, the progressive achievement of this type of *détente* would represent a fundamental step towards the establishment of a world government for two reasons. In the first place, with the decline of power politics and, therefore, of mutual fear between states, the urge to collaborate pacifically and thus to unite progressively to face the problems common to all mankind would become irresistible. In the second place, the drastic cut in military apparatus would eliminate one of the main obstacles to the consolidation and generalization of democracy on a worldwide scale because the authoritarian implications of militarism would decline and there would be a substantial increase in the resources to be allocated to economic, social, and therefore democratic progress.

3. With the establishment of the European Union, Europe will be able to provide a decisively important contribution to the progress towards world unification.

First of all, it would give mankind an exceptionally attractive example. The great revolutions of modern history were born in Europe: the Liberal, the Democratic and the Socialist revolution. In Europe the national state, which has had so many imitators all over the world, was born. If now the European states, which in the first half of this century caused the outbreak of the most destructive wars in history, were to show that it is possible to unite definitely in a pacific and democratic way without renouncing the actual independence of the national governments (which is possible with the federal system), they would encourage analogous processes in the other parts of the world, where the problem of regional integration is already frequent. On the other hand, as the federal government system able to unite the European nations irreversibly is the same with which an effective world government can be created, its achievement would point out with conviction the road to follow on a worldwide scale.

Beyond its function as a model, the European government could carry out a decisive political action in favour of world unification, which would

have an extremely solid basis in the *raison d'état* of a united Europe. Concerning this, one must bear in mind that the creation of a supra-national government would give the European Community an incomparably greater international weight than at present, but it would be driven by the strength of its concrete interests to use its influence in favour of innovative détente and peace even more clearly than the superpowers are doing now.

In reality, Europe is the main scene of a possible clash between the superpowers and, consequently, it would derive the most immediate and direct advantage from the elimination of nuclear weapons and the creation of purely defensive armies, in other words from any measures that would make war structurally impossible in this region. In Europe, moreover, innovative détente would involve overcoming the two blocs and, therefore, the division between the two Europes and the two Germanies. Finally, as the European Community is the largest commercial community in the world, it would be particularly in its interest to create, through a policy of détente and peace, the premises for an impressive development of trade and economic interdependence on a worldwide scale.

Thus there is every reason to hope that the creation, through the European Union, of both a European foreign policy and a European security policy will coincide with a process of gradually overcoming the very principle of a particular foreign and security policy; in other words, that it will coincide with a process of organized pacification of mankind. In any case, this is the direction which must be followed with all possible means by the Europeans who care about mankind's destiny. Bearing in mind this criterion, three main sectors can be pointed out in which the European contribution to the unification policy of mankind will be able to express itself simultaneously: the relations between the blocs, regional integrations, strengthening of the UN and, generally speaking, of the cooperation structures at worldwide level.

4. Following the revival of détente and the initiatives of the new Soviet leadership tending towards a profound economic and political reform in the USSR and in Eastern Europe, in the relations between the blocs a situation characterized by great prospects of a positive change, but also by great risks, has emerged. On the one hand today there are very real prospects of moving towards innovative détente, towards the democratization of the states of the Soviet bloc and, therefore, towards overcoming the blocs and creating in their place a "Common European House"

which, according to statements made by Gorbachev himself, should include, as well as all Europe and the USSR, also the United States and Canada. On the other hand the changes in progress in the Soviet bloc could lead to a situation close to unilateral dissolution, that would run the risk of causing either an inversion of tendency in present Soviet policy or, in any case, an extremely dangerous pause.

To face this contradictory situation in the most suitable manner, a European Community able to act effectively as an international subject will have to avoid any attempt to weaken unilaterally the Soviet bloc through the detachment from it of individual Eastern European countries. On the contrary, it will have to propose a wide design based on the agreed and bilateral dissolution of the blocs and on their simultaneous replacement with an American-European-Soviet community for cooperation and security, open to any other state that wishes to adhere to it.

The fundamental contents of this design should be: in the field of security, the progressive elimination of nuclear weapons, the creation of purely defensive armies, the withdrawal of US and USSR troops from Eastern and Western Europe, the creation, in the place of opposed military alliances, of common security structures; in the economic field, reform and economic integration between the countries of the Soviet bloc accompanied by increasingly intense cooperation (also concerning ecological problems) and, therefore, by a progressive integration between Western Europe, Eastern Europe, USSR and North America; in the political field, the democratization of the Soviet bloc countries and the progressive creation of common democratic institutions in the American-European-Soviet community, within whose framework the individual European countries at one point will be able to decide freely whether to join the Western European federation, or an Eastern European federation, or the Soviet federation.

The institutional framework in which to achieve this design could be the transformation of the Conference for Security and Cooperation in Europe, which comprises the three baskets of security, economic cooperation and civil rights, into a permanent institutional structure. It should be provided from the start, following the model of the European Council, with a Council of Ministers and an Assembly formed by delegates from the Parliaments of member-states, and it should be allowed to gradually strengthen common institutions so as to adapt them to the requirements of an ever deeper integration.

This design, that would practically be equivalent to the creation of the "partial world government" already affirmed by Einstein, would have a

very concrete possibility of being accepted by the present Soviet leadership because, to avoid losing its power, it has to continue with its policy of radical renewal within its own bloc, but at the same time it desperately needs a supra-national framework of cooperation and integration that is able both to help it in its efforts for renewal, and to keep under control the danger of a unilateral breakdown of its position of power at international level.

5. The development of the world unification process must go along with the development of regional unifications. In the first place, only political entities of continental or sub-continental size can be the pillars of an effective world government. In the second place, the creation of vast integrated regional entities is an indispensable premise not only for the pacification of endemically unstable areas, but also for their economic, social, and then democratic development.

A European Community transformed into a federal union will be able to provide a decisive impulse in this direction. It will be able to favour the transformation of the present weak development aid policy into the realization — in close collaboration with USA, Japan and USSR and within the framework of world cooperation structures — of an actual Marshall Plan for the Third World, based on an organized connection between adequate aid and the development of regional integrations.

In particular the Community will have to commit itself to regional integration in the Middle East and Africa and to particularly intense economic cooperation with these areas. Within this framework in fact the Palestine-Israel conflict can be effectively dealt with, as its solution requires Europe to guarantee simultaneously the safety of the Israeli state, the Palestinians' right to a state of their own, and an overall economic and social development of this area so as to eliminate the roots of political and religious extremisms. Within this framework it will also be possible to create the necessary conditions for providing the populations of Africa and the Middle East with decent working and living conditions in their own countries, thus checking the emigration phenomenon, which otherwise runs the risk of overwhelming the very identity of Europe and, in the long run, its democratic institutions.

6. The situation is not yet ripe for a reform of the UN in the federal sense, but it is certainly ripe for the reinforcement of the present world cooperation structures and for the creation of institutions of a functional nature able to deal with the problems common to mankind.

These agencies should operate in the fields of aid to development (to which more and more resources made available by disarmament should be allocated), of control over disarmament, of environment protection, of the search for alternative energy sources and energy-saving, and so on. The action of these institutions should create increasing solidarity among all the countries of the world, make resorting to force in international conflicts more and more difficult and make conditions ripe for the progressive transformation of the UN into a world democratic government.

The foreign and security policies of the European Union will be able to play a decisive role with respect to this evolution. In fact, the progress towards innovative détente and the consequent establishment of a partial world government between the strong areas of the world, which would represent the basic factor of encouragement to develop and strengthen global world institutions, largely depend on the Union. This does not mean that Europe and the other strong areas must be pre-eminent with respect to the other peoples. If innovative détente develops, one by one all the difficulties of the unification process of mankind will have to be solved, and each country in turn will play a strategically decisive role, up to the moment when all the peoples of the Earth have achieved, with a situation of perpetual peace in equality, the order of reason.

7. The realization by the European Community of a foreign and security policy able to decisively contribute to world unification policy presupposes the establishment of the European Union, in other words of a democratic and federal institutional system, through which the right of national veto is eliminated not only in the field of economic and monetary unification, but also, albeit gradually, in the fields of foreign and security policy.

This seems necessary first of all for the obvious reason that a foreign and security policy at European level organized with the inter-government method, besides being inefficient, would make the existing democratic deficit in the Community institutions unbearable.

But there is another extremely important reason. A European security policy which is not part of a supra-national democratic system and is not linked organically to the development of political and economic integration is bound to privilege the purely military aspects of security rather than the political and economic ones, which consist in the ability to actively contribute to overcoming the political and economic roots of international tensions and thus to consolidate the premises for an efficient

world unification policy. In particular, the intergovernment approach to European security favours the tendency to increase armaments, instead of diminishing them, to try and compensate with military force the inability to realize complete, democratic and efficient integration. What necessarily derives from this is an obstacle to détente and disarmament.

For this reason, too, it is necessary to aim at a short term relaunching of the European Union and to accept a policy of small steps, in the integration of foreign and security policies, only to the extent that they proceed in parallel with a reinforcement of the European Parliament's role. Within this framework a fusion between the WEU Assembly and the European Parliament can be considered positively, as an immediate and transient measure until the European Union is achieved.

8. The struggle for a European Union, whose foreign and security policies are a basic instrument of world unification policy, requires of the Federalists that they be able to make visible the connection between regional unification and world unification through the same concrete methods of organization and action.

Therefore it becomes absolutely necessary to create in the first place an effective organization of the Federalists at a worldwide level and then to transform the UEF into the European section of the World Federalist Movement. This movement must draw up a world manifesto of the Federalists which explains the ultimate goal and the transient and partial objectives to be pursued at the various levels (regional integrations, partial world government, reinforcement of UN and of the world cooperation structures), as soon as possible.

Finally, common action on a worldwide scale must be promoted designed to gradually involve all the forces that can be mobilized for the safety and unification of mankind. It could take the shape of a "Campaign for the organization of the peace, survival and progress of mankind," able to visibly unite the actions of the Federalists and their allies all over the world and at various levels in a common and simultaneous design and commitment. The Campaign for European Democracy should tendentially become an articulation of this more general and global campaign.

Sergio Pistone

FROM THE EEC TO EUROPEAN UNION: A NECESSARY INSTITUTIONAL REFORM *

The historical moment that the European Community is living through is an exceptional one. The last few years have seen the institutions of the EEC animated once more by a dynamism that had seemed spent. The prospect of a single market — the free circulation not only of goods but also of people, capital and services — has imposed an extremely demanding agenda, condensed in the Commission's famous White Book: about 300 specific measures will have to be adopted if the objective is to be reached. But that is not all: at political levels, in economic circles and in the Community institutions there is now a widespread conviction that the single market cannot become operative without intervention on the common monetary structures, such as to create a future European Central Bank, in a form which is now under study by a specially appointed commission.

All this would have seemed unthinkable only a few years ago. It is for this very reason that it is worth examining more closely the path that has led to this change, the prospects for success, and the institutional implications in this phase of the Community's development.

Regarding the genesis of this phenomenon, I believe that the historian of tomorrow — for today there is still too much inaccessible documentation to allow any reliable reconstruction — will be unable to avoid making certain connections. The current dynamism is due to the fact that a large proportion of the economic forces of the twelve EEC member countries has taken the 1992 deadline literally, and already started a few years ago on the restructuring considered necessary to stand up successfully to "all-out" competition. The simple announcement provoked an anticipatory effect which is well-known to economic theory. The 1992 deadline was originally announced in the Single European Act in 1986. But anyone reading the text of this will be surprised to note that the deadline itself is by no means considered binding by the member countries. Thus the economy — the healthiest and most dynamic section

*This is the text of the paper given by Antonio Padoa Schioppa at the Catholic University of Milan on 13 January 1989 on occasion of the Conference "From European Union to the Political Unity of the Human Race."

of the economy — took for granted as a certainty what the member countries had limited themselves to expressing in non-committal terms: in terms less committed than those used by the same countries in 1972 to announce the Economic and Monetary Union to be established by 1980, without in that case words being followed up by deeds. This shows how the business world is far more ready to play the European card today than it was fifteen years ago.

But we have to go back yet another step. The Single Act which sets the '92 deadline is in turn the answer which the member countries of the Community had to give — could do no other than give — to an initiative which had come not from them, but from one of the Community's bodies, the European Parliament. Without the Draft Treaty for European Union, approved by the European Parliament on February 14, 1984, on Altiero Spinelli's initiative, the European Council would neither have studied nor approved the Single Act, a text which from the institutional point of view makes little change to the structure of the Community, but which has given rise to the great movement for the single market.

If this is the case — and to me the connections seem irrefutable — the current phase of the Community is the fruit of a different tree: it was a failed project for the economic unification of our continent. Such deviations or unintentional results are not unknown in history and may suitably be given the Hegelian term, heterogenesis of ends. And indeed, is not the Common Market of the Treaty of Rome, at least partly, a substitutional fruit of the failed European Defence Community of 1954? The institutional ties are thus not as distant or without political influence as the political line prevailing today would have us believe. This is true for the past, and will be even more valid for the future. Let us see why.

As regards the objective of the single internal market, it is known that the most delicate decisions are still to be taken. The reason for their postponement is simple: despite the Single Act having extended the range of cases in which the Council of Ministers may take a majority decision, not only do they still require unanimity for really important questions, but, to cap it, there remains in force the practice, contrary to the Treaties but inaugurated in 1966 with the so-called Luxembourg compromise, by which each member-country can demand unanimity on questions it declares to be "of vital interest." Hence the right of veto which impedes decisions in the presence of a single dissenter. The paralysis which has so often afflicted the work of the Council of Ministers stems from this.

It is only too easy to observe that no human organization which includes a plurality of members and interests can function satisfactorily

if unanimity is required. Is it out of place to recall that even for the election of the pope the Church contents itself with the vote of two-thirds of the cardinals in conclave? And that the rule of unanimity leads to the majority being prisoners of the minority?

The basic contradiction underlying the ideology of unanimity must be exposed. The very existence of the European Community is born of the recognition that there are sectors of collective life, areas of economic life, and hence of political decisions, which affect the members of the Community as a whole group and not only each of them considered in isolation. These are sectors of Community responsibility, provided for by those same Treaties (to which probably in the future others will be added, both in the field of economics — currency — and on other fields, particularly defence). If there exists common interest — in the final analysis, the common interest of the peoples that make up the Community, which in this perspective form a single people — it cannot be expressed unless there is a common body to decide according to the rules of democracy, and therefore by majority.

The legitimate desire to look after the interests of each individual country and each individual people should not impede the Community as a whole in its duty and freedom to pronounce on those areas which come under its responsibility — those areas which are so to speak residual, according to the basic principle of subsidiarity. This is what happens within individual countries with respect to decisions which one or more regions might consider contrary to their own interests, but which are nevertheless considered by the central government of the country in question to be in the common interest.

A second basic defect of the institutional system provided for in the Treaties of Rome lies in the negation of the principle of separating powers. While the judiciary power of the Community is correctly exercised by the Court of Justice (and the institution of courts of primary jurisdiction is currently under study), the legislative power and executive power are almost entirely in the hands of a single body, the Council of Ministers: the Ministers make the laws, and the Ministers take basic decisions concerning the government of the Community. The Commission does of course have powers of initiative, but conversely exercises powers of government and regulatory powers far more limited than those of a national government. In turn, the European Parliament votes for the budget (but with the necessary support of the Council) and can make the Commission resign.

The degree of imbalance in such an arrangement is clearly evident.

For the Community the age of constitutionalism has not yet arrived: we are still at the stage of absolutism. This is serious because the separation of powers constitutes a fundamental guarantee for the citizen. To distinguish those who vote for laws from those who are called, by administrative or political activity, to apply them, means removing the legislative body from the temptation to administer rules it has voted in, transforming itself into government by assembly, and means removing from government the power to dictate the general rules which every community needs. The principle of separation, which comes from Locke and the English Revolution of 1688, the principle illustrated by Montesquieu, adopted by the American Constitution, and the goal of the French Revolution, is the best means which history has yet produced for limiting the abuse of political power. It is unthinkable that Europe, the cradle of modern democracy, should ignore it in the context of Community responsibilities after having taught it to the rest of the world.¹

But that is not all. The exercising of legislative power by the Council of Ministers is spoilt at the roots by the lack of democratic legitimacy. If sovereignty lies with the people, if legislative activity is the first manifestation of sovereignty because it fixes the general rules of conduct, the power to pass laws cannot but belong to a body elected by universal suffrage. This is another cornerstone of democracy, of European origin, whose realization on our continent took about two centuries, from the end of the seventeenth to the end of the nineteenth century. The Europe of tomorrow cannot but adopt it in its own constitution.² In a federal model the legitimate claim of the member countries to count as such in the course of legislation too can be satisfied by the creation of a second chamber, also called to vote for laws, which are only passed if approved by the vote of both arms of the legislative body: this can also be established easily for the laws of the European Community.

The rule of unanimity and the consequent right of veto; the lack of separation of the legislative from the executive body; and the attribution of legislative power to a body lacking democratic legitimacy because not elected by universal suffrage: these are three fundamental defects of the present institutional system in the Community. They can be summed up in one capital defect, which is a lack of democracy. It is clear at this point where intervention should be made to correct the system: legislative power must be removed from the Council of Ministers and conferred on the European Parliament, which can share it with a body which represents the countries (such as, speaking hypothetically, the Council of Ministers itself, working on a majority vote). Executive power should essentially

be given to the Commission.

Within this framework there are many possible scenarios, each with its advantages and disadvantages. For example, the concern to guarantee stability to the executive may lead to the preferred choice of a government (the Commission) whose duration should be fixed rather than subject to the vote of the European Parliament; or indeed it is conceivable that the president of the executive should be elected by universal suffrage on the American model (which however does not seem to me suited to the European situation); or again the government may be given certain powers to nominate and confirm the acts of the executive, analogously to the US Senate; or again the government may be given wide regulatory powers, following the French model in the Constitution of 1958; and so on. These and other possible constitutional options will have to be considered with great attention in the next few years. But this is not the main thing: the main thing is to correct the three faults of the present institutional system in the Community today, which as seen above may be reduced to one fundamental fault.

It must be remembered that the need to introduce democracy to the building of Europe is not simply an ideal requirement. It springs from thirty years of experience in the European Community. Democracy is the best way to reach political decisions in real time to deal with the problems confronting our society. To whoever claims to prefer the current system because it avoids lengthy parliamentary deliberations, it may easily be objected that democracy, correctly understood and applied, is the regime which is most conducive to efficiency. Major decisions are discussed and decided by the people's representatives, and are not continually shelved as happens now (as could be all too easily documented). Government acts in its own field of responsibility and answers directly to the people, or rather to the representative body elected by the people themselves. The consensus and dissent created by the action of the two bodies and by future programmes, are measured at election time, and here the direction determining the successive programme of legislation is given. This is the only really efficient mechanism because it is founded simultaneously on the consent of the governed and the responsibility of the government.

This is not happening today. The Commission has insufficient autonomy; and it can happen — it has happened — that a Commissioner is not reconfirmed because he did not share the Community policy of the government which nominated him: as if the Commissioners were not considered to be acting, on the basis of the Treaty of Rome, in the interests of the Community. It is not to the Council of Ministers, and certainly not

to the individual governments, that the Commission should be answerable. The national governments are responsible to their own parliaments, to their own national electors, and they cannot be expected to fulfil two roles, a national and a European one. The Council of Ministers, burdened with too many responsibilities, is a body at once too powerful and yet impotent. The situation of the European Parliament is even worse. 320 million electors are not going to put themselves out to elect an assembly that is almost devoid of powers. This is playing with democracy, making a mockery of the sovereignty of the people. It is a mockery that should be shown up once and for all.

The European Parliament is the only body that can legitimately represent the common will of Europeans in legislative matters. That it is also able to do so has already been demonstrated: in the first legislature approving the projected Union which is said to be at the origin of the current revival in building the Community; in the current legislation reclaiming its proper constituent role based on the people's endorsement; the third legislature should and can be the constituent. Naturally, the national governments confer this mandate on the European Parliament, and it will be national parliaments that decide whether to ratify the proposed European Constitution drawn up by the Parliament in Strasbourg. The bicentenary of the French Revolution must not lead to unreal plans; today the only path to take is democracy.

One point must nevertheless be strongly underlined: the advancement of Europe must not depend on the unanimous agreement of member countries. Naturally the agreement of all should be sought, but the advocates of Union should be prepared to proceed even if some members refuse. Let us be quite clear about this: it is not indispensable that the constitutional outlines of tomorrow's Europe be endorsed immediately by Great Britain or Denmark, for the other EEC countries to decide to adopt it. The European Union can be achieved by a first group of countries, and whoever does not join in can maintain the links and procedures provided for in the Treaty of Rome. From the juridical point of view too, I believe it has been demonstrated that the European Union and the Community are by no means incompatible.³ It is a well-known fact that if Britain's membership had been insisted on at any cost from the beginning, the EEC would never have been born: that EEC which is now so convenient even for Britain. The perplexities of the British, so easily explained on the basis of the remote and recent history of this noble country, cannot constitute an excuse for the other countries to stand still.⁴

The difficulties to be overcome however are still enormous. Asking

governments to spontaneously renounce their monopoly of legislative power in the Community is asking them to go against nature, as history shows and as political theory confirms, from Thucydides on. Only superior force can make countries take this step. Such a force may consist in military conquest (and the history of Europe is a story, fortunately over now, of failed attempts at forced unification, as Dehio has shown so well), or in the fear of an external enemy, or in the will of the people. Fear, together with the horror of the recent war, led in the early fifties to only a step away from the European Federation. Today, the fear being diminished and the memory of the horror of that war being attenuated, the decisive push for union can only come from the will of the people, who perceive its basic values and interest more clearly than can governments. Is it not enormously significant that for years now surveys have shown a solid majority in favour of a United States of Europe in all the continental countries of Europe, with the sole exception of Denmark? It is for this reason too that I consider that the by now probable linking in Italy of the European elections of June 1989 to a consultative referendum on the constituent mandate to be conferred on the European Parliament is highly significant and may be held as an example for other EEC countries.

In the process which is now taking place, culture can play a fundamental role: not a few of the obstacles to the democratization of European institutions come from outworn ideologies, from myths of independence and sovereignty which survive historical evolution, from historical perspectives exalted by traditional media, which give priority to the existing and visible over that which does not yet exist but only asks silently to be allowed to. True culture goes against the current, uncovers and exalts the values ignored by power but latent in civilized society because they are latent in each individual person. In this process, the role of the Church and Churches can be crucial: indeed, it has already been so. If there is one force which has remained immune from the contagion of national ideology and the fateful myth of the unlimited sovereignty of the nation state, it is the Church. The tension towards unity, institutionally guaranteed, is an essential dimension of Christianity, quite apart from other unifying dimensions in the Christian tradition and spirituality, which have been evoked on several occasions and which I shall not deal with since they do not directly impinge on the sphere of political institutions.

The institutional reform of the EEC is thus an open-ended matter, whose outcome is hard to foresee. The fact that it is consistent with the values on which the political institutions of the European nations are

based, and the fact that it is required by the process of economic union currently in progress do not make it either inevitable or certain, but certainly necessary and desirable. There is however a basic reason which should induce increased efforts in the direction indicated, and which I would like to turn to by way of conclusion, because it is in keeping with the context of today's discussion: the European Union on a federal basis is not an event which only affects Europeans. It is an event, a process of global, planetary implications.

The union, if Europeans want it and are able to achieve it, will be the old continent's new, fundamental contribution to civilization by the end of the second millenium. The birthplace of the nation-state, the region which in this century saw the outbreak of the two most terrible wars in history — but which is also the region which gave the world the heritage of art, culture and science on which contemporary civilization is largely based — will have shown the new path to follow, the only way to make war impossible: the course of unification on a federal basis. It should not be forgotten that the true spirit of the European Union has been and still is Franco-German pacification, the overcoming of nationalism. Today the international political situation makes a renewed sharpening of military tension in western Europe highly unlikely, but the meaning of unification — which should one day include defence, and which would itself therefore make war among European nations impossible — remains, above all, that of peace. Unification on a federal basis could offer other continents which are currently divided into sovereign states, such as Africa or South America, a much more valid model than that followed so far, even though of European origin.

Furthermore, European unification may reveal the way for the sublime undertaking for which time is ripening and which we almost tremble to name: the political unification of the whole human race. The great social and political problems of our planet — hunger, the North-South divide, local wars, the nuclear risk, ecological disaster — are resolvable only in the context of world political institutions which, so to speak, oblige people to live together in solidarity and peace. Not the solidarity of sentiment and fraternity of spirit (which are also essential, and are certainly not yet achieved), nor the armed truce for mutual fear, nor the agreements negotiated from time to time between countries, but solidarity of conduct, the cross-fertilization of interests, the technical impossibility of war. What has to be reached is world-planning of intervention and investment for ecology, for world agriculture, for industry, for services, which it is vain to hope may be reached by the spontaneous

decision of sovereign states, each one concerned with its own well-being, moved by its own *raison d'état*. Only the *raison d'état* of a unified world coincide with the general interest of the planet, with the common good of all mankind, and not just part of it.

It is in this perspective of continental and global political institutions that the question of European unification takes on its true significance. And so the design of Community institutions of tomorrow and the strategy to reach them take on a much more universal value. The federal model and the principle of subsidiarity, which allow for respect for different cultures and all the autonomy and participation compatible with the common interest and with reciprocal guardianship; the democratic model — still largely a minority model in the contemporary world — which places man himself, each individual person, rather than any kind of élite, in the seat of final political choice (a model on whose civil and religious origins there would be much to say); the representative principle, which is still an external source to it; the model of separation of powers, which impedes and limits their abuse; all this is no other, when looked at closely, than the object of the hoped-for institutional reform of the Community, and constitutes at the same time a central part of the continental and global institutions of tomorrow.

Antonio Padoa Schioppa

NOTES

¹ This remains true even in the present age, in which even the balance of powers in the enlightenment matrix has been modified in many cases (think of the French Constitution of 1958 and above all of the material constitution of most western countries): the executive power has certainly enlarged its role as promoter of new legislation, but the control of Parliament in the act of approving new laws remains sacrosanct. The question of how the classical doctrine of powers should be reformulated cannot be tackled here.

² Another essential is publicity in the course of working out and approving Community laws. At the moment what happens is that a good proportion of the legal regulations which control the economy of EEC members — a set of regulations prevailing over internal law, as is known — comes into existence behind the closed doors of the Community offices and ministerial cabinets, without the possibility of public discussion.

³ See the report on the Conference organized in 1987 by the Faculty of Law at the University of Milan, "European Union and European Community: Two Incompatible Institutional Systems?", in *The Federalist*, XXX (1988), pp. 201-207.

*It is hardly necessary to add that the structure of the Union must always remain open not only to other members of the EEC, but also to Northern and Central-Eastern European countries. The federal model facilitates the entry of new members.

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