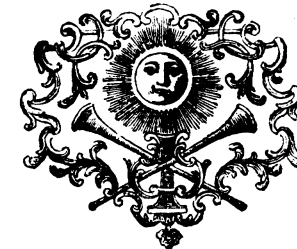


THE FEDERALIST

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

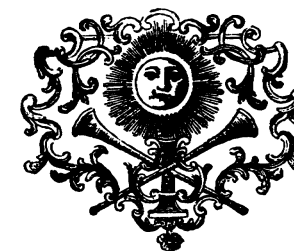


THE FEDERALIST

a political review

Editor: Mario Albertini

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.



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Europe and the Gulf Crisis

The Gulf Crisis has provided convincing confirmation, in conditions of acute difficulty, and thus so much more significant, of the extent to which world politics has changed following the about-turn imposed by Gorbachev. For the first time a local conflict has not been used as a pretext for the United States and the Soviet Union to line up on opposing fronts, and has not seen the two superpowers and their allies competing to provide military reinforcements for the two sides in the conflict. On the contrary, the reaction of the international community to Saddam Hussein's aggression towards Kuwait has been almost unanimous, and this near-unanimity is reflected in the repeated UN Security Council resolutions condemning the aggression. Even the United States, which has provided most of the military effort necessary to prevent Saddam's expansionist aspirations from extending beyond Kuwait, have felt the need to use the UN to legitimize their intervention, thus recognizing the UN's role as quasi-world government. The rule of law that the international community is trying to enforce gives for the first time a hint of Kant's cosmopolitan law; in other words, the internal legal structure of a federal world state in the making. Thus, the comparison of Saddam Hussein to a common criminal assumes some plausibility.

To deny the extraordinary nature of these novel elements would mean giving up the possibility of understanding what is happening. Yet at the same time we should not hide from the fact that this is not the complete picture. It is by no means irrelevant that the reactions of the international community to Saddam Hussein's aggression have not been completely unanimous. In fact, some Arab countries have sided more or less openly with the aggressor. Not only that, but also a fairly significant proportion of Arab public opinion sides with the aggressor, even in countries whose governments are vigorously opposed to Saddam Hussein's action.

The reasons for this attitude are well-known. The Middle East has been permanently destabilized by the Palestinian and Lebanese problems, and is scarred by cases of exploitation and social injustice that are

possibly the most scandalous on the planet today. Kuwait, the United Arab Emirates and Saudi Arabia are states in which a political élite holds onto incalculable wealth accumulated by the labour of an army of the underprivileged — generally coming from poor and overpopulated Islamic countries — who are deprived of the most fundamental rights and subjected to the barbarous hardships of a medieval legal code. The United States, as protector of Israel (albeit rather less unconditionally now than in the past) and of the plutocratic and obscurantist dynasties of the region, and armed guardians of the Middle East's precarious equilibrium, are seen by large bodies of Arab public opinion as those chiefly responsible for a situation which is objectively unsustainable. Saddam Hussein can consequently present himself to this same section of public opinion as a champion of the Arab cause and paladin of the oppressed.

The international rule of law which the great majority of the world's governments, under the impetus of the United States and with the backing of the United Nations, is today committed to enforcing by means of the embargo and threat of war, is therefore imperfect in that it legitimizes barbarous and unjust regimes. Hence it is understandable that young Americans (and Europeans) do not show any enthusiasm when asked to risk their lives for an ambiguous cause, in which safeguarding the right of every country not to be attacked (in itself sacrosanct), is mixed up, at least in part, with protecting the interests of the Emir of Kuwait and his dignitaries.

If today the international community is bringing about the first suggestion of cosmopolitan law, this is due to the increasingly widespread consciousness — at least in the northern hemisphere — of the common destiny which links all mankind. However this consciousness remains inadequate, since it is limited to only a part of the planet, however rich and powerful that part may be. International law has to evolve from being a pure formalization of the power relations between countries into true cosmopolitan law. If that process is to be decisively speeded up, relations both between and within countries need to be based on that minimum of justice necessary for all people to possess the consciousness of belonging to a single common human destiny. That necessarily includes those hundreds of millions of people to whom the survival of the human race remains an abstract and far-off problem compared with the daily struggle of their own individual survival.

The present international equilibrium is not capable of promoting a radical change in this direction. It is, without doubt, founded on com-

pletely new, collaborative relations, which have supplanted the old bipolar equilibrium based on competition and power confrontation. But in reality it signifies the perpetuation of the status quo, and the Gulf Crisis is the clearest demonstration of this to date. Whatever its outcome, the problems which caused it will not be resolved, nor is there any international conference which in the current state of affairs could resolve them. Yet an equilibrium which is not capable of resolving problems, but only of perpetuating them, is necessarily unstable. Even if bi-polarism has been buried for evermore, the current détente will remain precarious.

Elsewhere we have emphasized the distinction between traditional détente and innovative détente. The current alliance which imposes the embargo on Saddam Hussein is a manifestation of the former, and shows both its conservative nature and its fragility. However, in order for the Middle East's problems to be significantly brought closer to a solution, the latter form needs to be adopted, which involves establishing and spreading international democracy. In other words it will be necessary for the widespread consciousness of a common destiny, which makes mankind (at least in the long term) a single political subject, to translate itself into a proposal for a new institutional formula, alternative to that of the nation state; one which places the relations between countries, and between citizens and power, on a new basis.

It cannot be repeated too often: this formula is federalism, and it can only come about within the framework of the European Community. If the Community succeeds in creating within itself a prototype of a federal state by means of the democratic control of currency, and thus of the great decisions of economic policy, this will have profound consequences. If this first embryo of federalism can be achieved here, then more consideration will be given to proposals for a grand plan of economic collaboration with Middle Eastern countries. This would aim in its turn to encourage the beginning of a process of federal unification of the Middle East, and thus of democratization of its constituent countries, including — improbable as it may seem today — the state of Israel. Let us not forget that in Western Europe the end of the century-old hate between France and Germany, and the development of federalism, were brought about by a horror of war. There seems no reason why this should not also happen in the Middle East.

This process is the responsibility of Europe, and it is towards this end that Europeans should strive. The repeated calls for a larger military presence in the Gulf are quite simply senseless. It is certainly true that the lack of co-ordination between the Community countries in their attitude

to the crisis has been deplorable and has hindered them from playing any role in the affair. But it is equally true that a massive European military intervention would change nothing in terms of the strategic situation in the region. Rather, it would create a permanent and irretrievable rift between the Arab people and the Community, closing all openings to political dialogue between two regions of the planet which geography, economic structure and the distribution of resources render profoundly interdependent. After all, if today the outcome of the crisis is uncertain, that clearly does not stem from an insufficient presence of American troops, ships and aeroplanes, but from the intolerably high political cost of a war for the United States nowadays (which is the case for any other industrialized country). It is as well the case to state clearly that, if in the highly developed societies of today it is common to find increasingly radical anti-war stances, this is not a sign of cowardice, but the result of a growing consciousness of the senselessness of war in a world which is moving towards unity. This does not mean that the American military effort, with the sacrifice it involves, does not merit respect. The United States, as the world's major military power, have the responsibility of maintaining the existing equilibrium, to keep it from breaking up before any alternative has been developed, thus preventing anarchy; and they have faced this responsibility. Yet, objectively, Europe has a quite different historical responsibility: that of paving the way for a new equilibrium to be created, a more peaceful, democratic and progressive state of affairs than at present exists, which encourages and does not hinder the process of unifying the entire human race. This responsibility requires different policies and different means. It is important that Europeans be made aware of this.

The Federalist

European Currency, Reform of the Welfare State and Economic Democracy

GUIDO MONTANI

Introduction: the atypical nature of European unification.

The problem of a European currency, which the drafters of the Treaty of Rome wholly ignored, has taken on new importance due to the crisis of the international monetary system, officially decreed by the American government with the 1971 measure of the inconvertibility of the dollar. Since then, various projects of monetary unification have been launched, but the only one which has actually materialized, albeit partially, is the European Monetary System. Recently, under the pressure of events in Eastern Europe and the problems of German unification, European governments have decided to complete the monetary unification process started by the EMS.

In the current dramatic international and political context, in which the Community has to take on new responsibilities, the decision of establishing an Economic and Monetary Union can hardly be made without a parallel decision concerning the democratic reform of the Community, in other words the establishment of a real European government which is responsible to the European Parliament itself, provided with new powers. In any case, this is the assumption lying at the basis of the observations which follow, because without a European government the establishment of monetary union would further increase the democratic deficit of the Community and cause intolerable social imbalances.

Our aim is to examine the problems relating to the new economic constitution of Europe, bearing in mind the fact that the historical circumstances in which the European federation arises will ensure some innovative institutional choices compared to the solutions adopted by the pre-existing federal states, in particular the United States of America. Compared to previous federal experiences, at least three basic differences should be noted. The first federal constitution in history, which was the

American constitution, ratified in 1787, did not contain any provisions concerning currency. The American banking system has therefore developed — albeit very haltingly — within a well-defined political framework, in which the federal government has been able, when necessary, to enforce stability and efficiency on the economic system in the whole area under its jurisdiction. The European situation is quite different. Here we find central national banks with traditions going back a century, or even centuries. European monetary unification involves transferring monetary sovereignty from the national to the European framework, in a situation in which there is no actual governmental power at European level. In the United States of America market unification was accompanied and, in some cases, preceded, by monetary unification. In Europe, the Common Market was established in 1957 without provision for monetary unification and only the Japanese and American economic challenge of the 1970s and 1980s forced European governments to acknowledge that the survival of their national currencies represented a definite obstacle to European economic development. In conclusion, then, it can be affirmed that in Europe a parallel development of monetary unification and political unification has become necessary. European money and European government are two aspects of the same reality.

The second difference concerns the relative dimension of national budgets (for the US, those of the States) in relation to the European budget (in the US, the Federal budget). The Community budget at present amounts to little more than 1 per cent of European GDP, while the US Federal budget is over 22 per cent of American GDP. The difference does not depend only on defence costs, which in the US are obviously charged to the Federal budget, but also because social and economic development in Europe has been achieved within the national framework. Thus national systems of social assistance have formed in Europe, while in the US, during the years of the Great Depression and the New Deal, the Federal government developed policies for social assistance and employment schemes by withdrawing, often after fierce contests in the Supreme Court, competences from single member-states. It is therefore unlikely that the European budget will increase considerably even after the establishment of monetary Union. Some studies¹ foresee that it will not exceed 3 per cent of European GDP (leaving out defence expenditure, which in Europe might even *perpetually* remain an expenditure of national budgets). It follows that the European federal budget is destined to have a "light" budget with respect to national budgets, where most of the public expenditure of the Community will be concentrated (it should

be noted that, on average, European public expenditure represents 48 per cent of GDP). This cannot avoid having important consequences also for the powers of European monetary authorities. It is clear that it will be impossible to ignore easily the problem of co-ordinating national budgets. If, as at present, some countries finance significant proportions of their public expenditure by resorting to issues of public debt securities — and this has become a practice more frequently resorted to also to sustain current social services expenditure — one or more national governments can cause important inflationary damage to the whole Community.

The matter of the size of the Community budget cannot, however, be tackled without considering a third circumstance, that is, the role of the Community in international politics. It is well-known that the United States of America at its inception had very few international responsibilities, so much so that Alexander Hamilton was able to speak of America as a political island which would be able to keep out of European fights for hegemony for a very long time. Actually, the United States only lost their isolationist nature during the 20th century when, starting with the First World War, they had to take on growing responsibilities in international politics. This, together with the social interventions of the New Deal, caused an important centralization of powers on a federal level, so much so that today the United States are more similar to a centralized European state, with marked regional autonomy, than to a truly federal state. The European Community might of course share this fate if it were to assume the responsibilities of a superpower. But here an opposite hypothesis is put forward. The European budget, as far as the role of Europe in the world is concerned, will have to attend mostly to the new expense of co-operation projects with Eastern Europe and the Third World, the financing of which, however, should not only come from new budget revenues but also from international loans guaranteed by the Community. The European federation is emerging in a situation of international détente and disarmament between the two superpowers, which imposes more responsibility on Europe concerning solidarity towards the consolidation of the new Eastern European democratic régimes and Third World development, than to any strong commitment towards military expenditure. The European federation will necessarily be the heartbeat of the "common European home," in other words that project for economic co-operation and common security which extends from San Francisco to Vladivostok, for which a "light" budget will be sufficient because Europe needs at most a defensive military apparatus, as the historical reasons for the establishment of NATO and the Warsaw

Pact as opposing military blocs have been eliminated. Now a defensive military apparatus, while requiring European co-ordination, does not, moreover, involve any burdening of the European budget, but would rather very likely cause a reduction in military expenditure burdening national budgets.

The aim of this study is to examine the circumstances which could define the essential traits of a new economic constitution of Europe. The political unification of Europe, in fact, represents an aspect of this process which is by no means of secondary importance. Therefore we will deal with both the structure of public expenditure and the new administrative rules which should guarantee its efficient management, and also with the reform of enterprises and the régime of ownership of the means of production, so as to give some indications of an economic democracy which could facilitate the integration of Western Europe with Eastern Europe and the USSR. Finally, some conclusions will be reached concerning the relationship between monetary and fiscal policy in a federal state.

Public Expenditure

Monetary Union and public expenditure.

The decision to create a European currency inevitably involves a transfer of sovereignty from national states to the European federation. As for foreign trade, it is unthinkable that any national powers should survive to compete with the federal power. The central federal bank must be able to control the volume of money supply on the whole market, together with the level of interest rates. The national central banks must renounce their power to issue notes. In conclusion, European money means: a) fixing irrevocably exchange rates between national currencies; b) handing over to the European central bank sovereignty over currency, exchange rates and interest rates. The survival of national currencies or their replacement with a single European monetary symbol becomes at this stage a matter of convenience and practicality. From a symbolic point of view it is obviously very important that European citizens should be able to use a new and uniform means of payment.

At this stage it becomes necessary to reflect on the role of the central bank in a federal state. It is well-known that the central banks of unitary states, such as the Bank of England, the Bank of France, etc., have carried out and still carry out not only the functions which have just been men-

tioned, but are also instruments for financing public expenditure. There are two ways in which a central bank can help the "sovereign." The first is by a simple issue of paper-money — placed at the disposal of the treasury — that in all probability will sooner or later generate inflation. The second is by absorbing a certain amount of bonds (treasury bills) which it then places on the market. This second function does not necessarily have to be achieved through the central bank, although governments often resort to it, because the extent to which the security is not wholly absorbed by the market remains in the hands of the bank, which can pay fresh money to the government anyway by issuing paper money.

The problem is therefore that of knowing what should be the responsibilities and powers of the federal central bank in its relations with the executive. There are contrasting opinions concerning this. In the federalist tradition, authors who, like Lionel Robbins,² have defended the necessity of attributing money competence to the federal power did not even consider the problem, because in the thirties it went without saying — although Keynes was about to launch his interventionist attack — that the central bank should follow a few prudent rules well consolidated by the *gold standard* tradition and which, in conclusion, forbade central banks from taking any supporting action on public expenditure. More recently, some economists, who have analyzed mainly the American experience, maintain that the federal level should be attributed with the function of "stabilizing" the economy.³ In other terms, they maintain that the federal government should be able to manoeuvre both the volume of public expenditure, and the budget deficit or surplus, according to an anti-cyclical function. There should not be, in this respect, any significant differences between a federal state and a centralized state, and therefore no different behaviour should be expected of the central bank. In actual fact, this is what happens in the United States of America, where the Washington government manoeuvres both budget and deficit to steer the economic process in the desired direction.

In Europe, an opposite point of view seems to have asserted itself, mainly championed by the German monetary authorities. According to this point of view, the federal central bank should not finance either the deficits "of the European government. or of the national governments." The priority function of the central bank should be to keep the value of money stable, and this function can only be carried out without difficulty if complete independence of the central bank from budget requirements is guaranteed, whatever level they may appear at. This "orthodox"

position becomes wholly acceptable if it is accepted that the main objective of monetary policy should be price stability, but it is open to criticism by those who would like monetary and budgetary authorities to intervene in the fight against high unemployment, or to slow down excessively rapid growth of the economy. In a centralized state this second opinion would almost certainly prevail. But in a federation, such as Europe is about to become, it must be taken into account that there are many important levels of government: European, national and local (regions, municipalities, etc.). It is obvious that if one level of government, for example the European one, had the power to trigger off an inflationary process through the so-called "seignorage" mechanism (in other words by issuing paper money), other government levels would soon see their resources depleted through an increase in prices which would impose on them an unexpected budget deficit to be recovered, if necessary, by new taxes. In conclusion, citizens would have to submit to higher taxation by those government levels which had not contributed to new expenditure. This is clearly an absurd mechanism that would soon undermine the relationship of mutual trust between citizens and administrators. The power to create inflation is also the power to destroy the federation.

However, the matter cannot be reduced to a generic truth that the central bank should not finance the European government's deficit nor those of the national governments. Even if they respected this constraint, governments could finance their deficit by resorting to public debt. Public debt has, in actual fact, become a structural component of national finance. Until a few decades ago, it was considered in public finance treatises under the heading "extraordinary finance," in the sense that governments resorted to it in wholly exceptional circumstances, such as wars. But now the situation has completely changed and there is no doubt that through a continuous increase in interest rates governments are able to attract a substantial amounts of savings into treasury vaults to finance current expenses, thus making recourse to public debt a chronic occurrence. Italy alone has a deficit corresponding to 40 per cent of the deficit of the entire Community (and to 2 per cent of the Community's GDP, therefore twice the EEC budget). Consequently there is a serious danger that the inflationary behaviour of one or more national governments might cause heavy monetary and financial imbalances for the whole Community. To this must then be added the fact that the European government, facing its new international responsibilities, might also be induced to a huge use of public loans. If national governments continue

to consider it feasible and right to use this form of financing there is no reason to deny it at the European level.

Budget deficits and the crisis of the welfare state.

At this stage it becomes necessary to consider the causes which can drive a government to balance its budget or to abandon balancing in favor of other and more relevant economic policy objectives. If we consider the postwar experience of Western countries, it does not seem groundless to argue that one of the constraints which has most influenced the pursuit of monetary and budget stability has been monetary constraint. The countries which entered into the Bretton Woods system, for as long as American hegemony was able to assert itself, followed the fixed exchange rate system, which prevented them from having excessively easy inflationary adventures. In actual fact, the first important budget imbalances, both in Europe and the USA, appeared after abandoning the fixed exchange rate system, when international monetary discipline slackened.

Similar considerations can be made concerning the EMS experience. After the chaotic period following the declaration of inconvertibility of the dollar, the establishment of the EMS imposed a discipline of almost fixed exchange rates between the countries participating, obliging them to align their inflation rates with the most "virtuous" country, that being West Germany. However, this European monetary discipline has not been accompanied by an analogous budget discipline. Some countries have continuously increased their deficit, thus making devaluation of their currency inevitable.

Therefore, reasonable doubt remains that, even within the framework of European monetary Union, simple monetary discipline is not enough to harmonize budget policies. The member-states of the Community have different administrative traditions and, above all, social and economic problems of unequal gravity. The European Community has regional imbalances which are much more significant than those of the USA and this cannot avoid causing states to have differing abilities when reacting to the problem of adjusting economic accounts. Moreover, it must be noted that budget difficulties do not concern Europe alone, but afflict all industrialized countries, not excepting the United States of America.

Persistent budget deficit is therefore the warning signal of a much more widespread problem.⁴ In effect, over recent decades there has been a growing demand for public services in all those countries which have reached a post-industrial stage of economic development. The ageing of

the population has made expenditure for pensions and health care soar; raising the age limit for compulsory education has imposed greater expenditure on teaching and the building of schools; the restoration of urban areas and the improvement of transport networks has strained local governments' budgets; pollution has made it imperative to take measures for the ecological restructuring of the economy, in part charged to public budgets, etc. The list of the welfare state's new tasks could continue, but it is evident that we are facing responsibilities which go well beyond the welfare state which arose as an answer to the social problems posed by initial industrialization. The welfare state must change into the state provider of public services, in which the quality of service becomes one of the essential elements for judging its efficiency. The efficient administration of a hospital does not depend only on the volume of investment made. The same considerations are valid for public education, urban planning, the protection of the historical and natural environment, and so on. The centralized state, the bureaucratic structure of which was conceived in the last century, is unable to meet this kind of demand. The outcome is a public finance crisis, in other words a growing deficit in public budgets.

The reform of the welfare state and the rule of the balanced budget.

The first reactions to the welfare state crisis consisted of a return to the past, under the motto "more market, less state." In some countries it was not merely a slogan. Great Britain with the Thatcher government and the USA with the Reagan administration actually carried out measures to reduce income taxation so as to encourage investment (so-called supply-side policies) and to cut social assistance expenditure. After a decade of conservative policies, despite a few brilliant and transient successes (like de-nationalization), the overall result is disastrous. Income inequality has increased and so has the unemployment rate, without obtaining any significant improvements in public expenditure.

For this reason, a school of economists⁵ with liberal tendencies claims that the problem must be tackled at source and suggests the introduction of a precise constitutional constraint — the balancing of the budget — to the administration of public expenditure, because it is inevitable that parliaments, by their very nature, are unable to impose on themselves any serious expenditure discipline. The fiscal crisis of the state is thus imputed to the imperfection of this democratic mechanism. An organ which can make decisions on expenditure, such as the American Con-

gress, will never willingly curtail its powers, because no single delegate or party will be willing to assume the unpopular responsibility of proposing new taxes to cover new expenses. As a matter of fact, in the USA, where budget deficit essentially means excessive expense at the federal level, with inflationary consequences which fall, both on citizens, and on the budgets of the member-states of the federation, the movement to impose the constraint of a balanced budget had, by 1986, already found the consensus of as many as 32 states (in other words two states less than the quorum necessary to impose on Congress a debate on a constitutional amendment imposing the balanced budget constraint).⁶

The balanced budget proposal must be considered carefully because it represents a technical solution to the problem of the crisis in public finance, but it is naturally necessary to answer, which the conservatives are unable to do, the questions that remain unsolved by applying this simple administrative principle. Briefly, there are two problems. The first concerns reform of the public administration system to ensure a more effective — and therefore more democratic — management of collective resources. The second, which will be considered later, concerns reform of the market, because to the extent to which the market cannot alone guarantee full employment it imposes supplementary tasks on public administrations, which are forced to assume functions that private entrepreneurs could often carry out better and at lower cost.

The reform of the welfare state certainly represents an integral part of the reform of democratic systems, which are steadily losing the citizens' confidence, and not only in Europe. Scarce participation in elections is only the most evident symptom of the crisis of democracy. In public finance this crisis is revealed by the state's inability to collect the necessary financial resources to face growing demand for services. In Europe, the crisis stems from the concentration of sovereignty at national level and in the parallel impossibility of giving a national answer to the main problems connected with the running of the economy. The existence of the European Community and the business world's constant demand for a European currency represent clear proof of the need to run the European economy at a supra-national level. Yet in this direction it must be observed that there are now many such requirements at a worldwide level, within the UN framework. International trade, impossible without a solid means of payment, the ecological emergency, which has already caused some worldwide intervention (for example, to protect the ozone layer), North-South co-operation for development, etc., are all issues that show how the national framework is now inadequate to control

rationally productive processes and economic and social development. The crisis of democracy is thus, in the first place, a crisis of national democracy and the answer can only be the establishment of international democracy, in other words the extension of the area of the representative government beyond national frontiers. This is what is being attempted in Europe with the transformation of the European Community into a true federation.

The national concentration of power should also be broken up at the bottom, that is in the direction of regional and local autonomies, today considered solely as administrative organs, whose powers are delegated to them by the only level legitimated to hold sovereignty, the national level. The reform of the welfare state must necessarily overcome this bottleneck. It is evident that many local governments today are more inefficient and corrupt than national governments. In Europe, the voices of local autonomies were silenced first by absolute monarchies and then by republican jacobite power. It is not surprising therefore that local government is by nature full of obstacles and slow to act. But the general tendency of the modern world, and not only in those countries where the industrial revolution has now been achieved, is incontrovertible. In the USSR the re-awakening of democracy has coincided with the re-awakening of nationalities, unfortunately with all the inherent dangers of achieving independence and autonomy by adopting the old model of the national state, and not that of the federal state. Although in a less dramatic way, the same tendency has appeared also in the USA, where the development of a service economy and the opening of the USA to international competition has stimulated the States to promote increasingly effective policies to support both their industries and the quality of local public services. This is a real and true reversal of the tendency towards levelling and centralizing policy which the Washington government managed to impose during the dark years of the Great Depression.⁷

The participation of citizens in the running of public affairs assumes a concrete aspect, because it involves face-to-face relations, at the local level where those administered to and their administrators can discuss their community's problems, without being separated by the falsifying coverage of the mass media. The self-government of citizens must necessarily take on a local dimension, that is the place in which an individual habitually lives and works. In a world which is now more and more interdependent, in which people are beginning to think and act as citizens of the world, the need is also felt to reinforce one's roots in one's local community, which has indelibly marked our character and person-

ality, through its monuments and traditions, since the very first years of our life. But local self-government cannot be expressed, and therefore the local community can have autonomous identity, without tax and expenditure autonomy. Fiscal autonomy is an essential aspect of political life, and whoever governs must be able to make decisions and have the means to carry them out. Citizens do not feel that the administration of public affairs is really theirs unless they make even a small sacrifice to contribute to collective work. Rousseau considered the *corvée* (today one should speak of community service), as the only effective form of solidarity in a community governed with direct democracy. Rousseau, however, considered paying a tax as an unacceptable surrogate of community solidarity. Today we are forced to be less intolerant when considering the citizens' duties, although it must be remembered that for young people, at least, community service would represent an excellent school of democracy. In a modern economy, with public services which often require a high degree of professionalism, any general application of Rousseau's ideal is utopian. But the direct and conscious contribution to the expenses which are necessary for the realization of public works represents an essential aspect of democratic participation. This is why the rule of the balanced budget is important, since it ensures that any decision to spend should correspond to a parallel decision to tax. Only through this constraint can perfect transparency and complete responsibility (administrative *glasnost*) be achieved. Whoever pays knows why he pays and what he can expect from this expense. Whoever administers is aware he has asked for a sacrifice from his fellow-citizens, and knows he must account for the good administration of the money entrusted to him.

The principle of the balanced budget does not only represent a golden rule of good administration in a democratic régime, it is absolutely indispensable to the balance of powers in a federal state. In the federal state there are various levels of government, from local to regional and national ones, etc., and each one must be independent and yet coordinated with the others. For this reason, the governments of the various communities belonging to a federation must all respect the constraint of the balanced budget. In other words, in principle they should cover their expenses (that is, public services for their respective citizens) with resources coming from the same community. There are also resources which are transferred from higher government levels, but this is an aspect which should be discussed within the framework of regional policy.

The only complication, as far as this is concerned, derives from the possibility of collecting funds through the issue of public bonds. In

principle, recourse to public debt should be considered an emergency measure, both when it is underwritten by the citizens of the community and when it is underwritten by non-residents. The recourse to public debt — as Ricardo has already clarified — is an alternative to taxation. But it is an alternative which is not quite its equivalent. There can be valid reasons for resorting to public debt, but it must not be forgotten that the innate transparency of the taxation process is lacking. In conclusion, who pays the interest and who collects it?

Briefly, recourse to public debt in a federal state can cause the following side-effects: a) it causes inflation if the debt is covered by monetary issues from the central bank, or, if this first alternative is excluded, competition can be triggered off on the capital market among entrepreneurs searching for loans and public authorities, which makes interest rates go up, with obvious negative repercussions on the level of private investments; b) the strongest governments through massive issues of bonds manage to rake in the savings on the market, thus taking away from the weakest governments the chance of drawing from the capital market on the same conditions as their competitors. The solution to these problems obviously does not involve prohibiting recourse to public debt, even if the constraint of the balanced budget, in the strictest sense, would impose it. Experience, however, suggests that in modern economies it would be absurd to take away this margin of flexibility from public administrations, while it is considered indispensable for enterprises. After all a community can consciously decide to transfer income through the mechanism of interests payments to some social categories or to non-residents in exchange for social work which is particularly urgent. The only problem is that of finding a discipline of public debt usage which allows the governments of a federal state to resort freely to credit when it seems necessary, without endangering the financial autonomy principle of the other administrative units.

Budget discipline and the powers of the federal central bank.

The experience of existing federations can help us to find a solution to the problem of the most appropriate budget discipline. In the United States, during the Civil War, the Southern states became loaded with debts they were then unable to honour. Most of the debts were repudiated, and this bitter experience was repeated again towards the end of the century at the local government level, so that public opinion demanded the introduction of severe constitutional rules to limit recourse to public

debt. In some states running into debt is forbidden by the constitution or requires a special procedure, like for example a referendum. As regards local governments, they are generally limited on the basis of the amount of taxes on property.⁸

In Australia, in 1927 a Loan Council was established which was composed of representatives both of the federal government and of the member-states' governments. The Loan Council has the task of limiting recourse to public debt on the part of the states and in actual fact the power of the central government is often decisive, so much so that some claim that the instrument for co-ordinating budget policies developed in Australia "threatens the very federal system."⁹

In general, it must be observed that in existing federal states the problem of co-ordinating budget policies has never raised serious difficulties. But it must also be borne in mind that all federations bestow substantial grants on the member-states, with the aim of lightening the local fiscal burden. If these grants, on the one hand, have a positive compensating function, on the other hand, especially in the United States of America, they have represented a powerful instrument of submission by state governments to the federal government, as was the case — in spite of the active opposition of the Supreme Court — during Roosevelt's New Deal. In Europe, as we have already seen, the problem of co-ordinating budget policies will not be so simple, due to the size of the European budget relative to national budgets. It is therefore inevitable that the problem of co-ordination be seriously addressed.

As a preliminary, it must be specified how to tackle the problem of budget discipline. In a federation a solution which leaves the responsibilities of the various levels of government indeterminate does not seem acceptable. In the absence of a constitutional rule the outcome would be to give in to centralization or anarchy. The first case is exemplified by Australia and the USA, with their grants policy. "If grants — Wheare says — are to be a permanent feature of federal finance, it seems essential that their amount should not depend upon the good will of the granting government, for if they do so depend, the federal principle is thereby modified."¹⁰ The political evaluation of an authority which is external to the government concerned is not much different, in method, from what happens at international level when the IMF "recommends" adjustment policies to debtor countries. As for the second solution, that of self-limitation, it is extremely dubious whether it would be effective. In Europe it would be a matter of setting limits to the public expenditure of national budgets, which are affected by historical gaps in economic devel-

opment (it is enough to think of the depressed regions in the North and South of Europe). The very real danger exists that a government, driven by its structural expense requirements, might accumulate a growing number of debts, in the hope of being helped, sooner or later, by the other governments of the federation or, more simply, because a deficit is a less unpopular solution with the electorate.

On the basis of these principles, it must then be inferred that in a federal state all the levels of government should observe a precise constitutional rule as regards budget constraint and the volume of public debt. Naturally, the rule of a balanced budget, in the strictest sense, might be sufficient, but it appears to be excessively rigid, because it does not allow governments to compete with the private citizen in the savings market. It must therefore be acknowledged that every government should be able to resort to public debt to a predetermined extent (ceiling) such as, for example, a certain percentage of investments or of GDP. If this ceiling were surpassed the intervention of federal authority would become necessary to make the situation return within constitutional limits. This authority could be the European central bank itself, which in the last resort would be responsible for general conditions of market liquidity. The central bank should, therefore, make this surveillance role in agreement with the European political authorities — the government and the Parliament — which could authorize it to be the “tutor” of the government concerned, which would continue to issue public bonds only with the central bank’s consent, until its deficit returned within constitutional limits.

Moreover, in a federal state, the central bank should also take on the task of enabling all levels of government (including the smallest communities) to collect funds on the financial market at the same conditions as more important governments. Obviously, a national government or a large European enterprise can obtain more favourable interest rates on the European financial markets than a small municipality. The central bank should, however, correct these natural divergences in market evaluation through a suitable public debt policy, either by using its prestige to support the issuing value of the local government’s bonds, or by collecting directly the funds that it then redistributes according to local requirements.

The transition to a federal system of public finance.

In Europe, the problem of the reform of public finance coincides with

that of the construction of the European federation, in which it is necessary not only to transfer competences from the national to the European level, but also from the national level to local autonomies. Although by now the basis exists for a such reform (for example, the European Community and many regions already manage their own resources), the passage to a real and true fiscal autonomy will require laborious institutional reforms. Here, the intention is solely to consider some problems which might arise during the transition phase, bearing in mind that a federation, according to the classic definition of Wheare, is a system of independent and co-ordinated governments. Therefore, every proposal in the direction of independence, so as not to fall into the trap of nationalism, must be accompanied by parallel proposals which take into account the necessary democratic co-ordination with the other levels of government.

Let us start by examining the problems relating to the establishment of a European currency and a European budget discipline. With these decisions, of course, national governments lose the possibility both of devaluing their currency and of incurring budget deficits. For countries with an inefficient administrative structure and weaker economic systems compared to other Community countries this decision could involve serious sacrifices. Periodical monetary devaluations and growing budget deficits only represent the external manifestations of a relative and structural weakness. The European Community could therefore, within the framework of the measures which establish economic and monetary union, allow for some “exceptions” during a transition phase to attenuate European discipline, until the real problems, that is regional economic imbalances have been solved through compensatory policies, such as a reinforced regional community policy. As far as the currency is concerned, the most simple solution is that suggested by Robbins¹¹ as far back as 1940: in a transition phase, but one in which the European central bank is already operating, exchange rates between a national currency and the other European currencies can be modified to make adjustment easier. This manoeuvre, of course, could work only while national currencies were still circulating and had not yet been completely replaced by the European currency. If this replacement had already taken place, the only possibilities for intervention by the European authorities in a weak economy would not be very different from those of a central government in depressed areas (i. e. regenerative policies). A similar procedure could also be adopted for budget deficits. Many countries of the Community are suffering from large deficits and it is unthinkable that in the short term

effective re-equilibrium policies could be successfully implemented. A period of transition might well be necessary before it becomes possible to accept without any fears European budget discipline. It could therefore be foreseen that the European Parliament will authorize those member-states, which suitably justify their request, to issue public debt bonds in agreement with the federal central bank.

The possibility of overcoming these difficulties will greatly depend on the dimension and structure of the Community budget. So far as the European budget is financed with a tax levy more or less proportional to the average per capita income of each member-state, while expenditure is concentrated, whenever possible, in regions which are most disadvantaged, it is obvious that the Community budget is destined to play an important territorial re-equilibrating function. It is worthwhile remembering a proposal of the MacDougall report which deserves careful consideration here because of its evident compensatory effects. This entails the transfer of expenses for unemployment and professional re-qualification benefits, already catered for in national budgets, to the Community budget. It would not therefore be a matter of increasing the level of European public expenditure, but of making counter-cyclical and territorial equilibrium policies more effective. Moreover, a political effect of no little importance would be achieved, if citizens were able to experience directly the effectiveness of European solidarity policies.

Similar observations must be made concerning the transition to greater fiscal autonomy of the regions. It is obvious that regions with an above average per capita income will find it convenient to support a reform for fiscal autonomy, while regions with a lower than average per capita income will not, as they presumably receive substantial invisible income transfers due to the centralized fiscal system. Federalist reform should therefore be accompanied by an increased commitment, both at the national and European level, to the realization of policies which are able to guarantee a minimum standard of services for every citizen. Federalism consists of the difficult search for an equilibrium between solidarity (which at extremes means uniformity and centralism) and diversity (which at extremes means division and anarchy). Unity in diversity can only arise from a difficult and continuous search for compromise among different communities feeling themselves part of a common destiny, without any of them having to renounce to their individuality.

The last problem to be considered concerns the inevitable contrast that will arise between different centres of taxation, to the extent to which

autonomy at the different levels of government in the federation will assert itself. If we admit, as is necessary in a federation, that every government possesses independent power to levy taxes, what can happen is that the single citizen, whose income is finite by definition, finds himself unable to meet all taxation demands. This question is well-known in existing federal states. In an 1819 judgement, Judge Marshall of the Supreme Court of the USA acknowledged that "the power to tax involves the power to destroy," in the sense that excessive taxation by one government can in actual fact deprive other governments of their resources. In some federations, such as Canada and Australia, this difficulty has been overcome by granting priority in levying and collecting taxes to the federal government. This procedure, however, was adopted in exceptional conditions, to meet the requirements of the Second World War, with the introduction of federal taxes on individual income. Postwar, the central government did not want to return to a situation of equal power between the different levels of government, so that member-states have become more and more dependent on central government grants for the realization of their expenditure plans. Concerning this, Wheare's comment, that "the federal principle does not appear to find a place in these constitutions so far as the taxing power is concerned,"¹² therefore seems appropriate.

Thus it must be concluded that the power of taxation should be classified among the concurrent powers of the various governments of a federation. No government should prevail over the others. It will therefore be individual citizens who, consenting through normal democratic procedures to pay taxes, allocate more or less substantial resources to the administrations requesting them. There can be no *a priori* guarantee as to the budget dimensions of the various governments within a federation. For example, a European government might be able to persuade the citizens of the Community of the need for an extraordinary tax for a Third World aid plan. The indirect consequence of such a decision could be that in a small municipality the residents will postpone the construction of a public swimming-pool. The competences of the small municipality as regards planning and expenditure remain intact. The postponing of the plan is only contingent because it is subordinated to a more pressing commitment of international solidarity. An appropriate federal system should be able to reconcile different government requirements, preventing the requests of the highest levels of government from suffocating the freedom of choice of lower level governments and, on the other hand, preventing local government autonomy from becoming particularistic

selfishness, ignoring solidarity policies involving the whole federal community which only the highest level of government can implement.

The Market

The internal market, the welfare state and democracy.

Unless any dramatic regressions take place in Eastern Europe and in the Soviet Union, the establishment of the European internal market should now proceed at the same pace as the establishment of the "common European home," in other words a vast area of co-operation, not only economic, among all the industrialized countries in the Northern hemisphere. Thus there is a much wider prospect of liberalization of the international market than after the Second World War, thanks to the formation of a large free exchange area from the Atlantic to the Pacific. The effects of this process on the structure of the market and on the organization of productive forces are easily predicted. Already the expectations of the European internal market have started off imposing processes of industrial (for example in the automobile sector, public works, etc.) and financial concentration. The realization of a wide market, from San Francisco to Vladivostok, can but accentuate this tendency.

The traditional response to huge concentrations of economic power in a few hands is the well-known anti-trust policy and the reinforcement of social policies. In Europe, as far as a system of democratic government on a continental scale will develop, it seems likely that, in the European Parliament, there will be a welcome trend towards greater protection of the social rights of citizens and workers. However, the experience of the USA should suggest that even in a continental-sized federal state traditional social policies do not wholly achieve their aims. The USA, very decisively at the end of the last century, and then during Roosevelt's New Deal, tried to bridle great capital through anti-trust policy, but with very modest results. Large corporations are a well-known reality on the American economic and political scene, just as it is generally admitted that the degree of worker protection is lower in the USA than in Europe (especially for health services, education costs, etc.) and there are good reasons to believe that in Europe, too, there are not many opportunities for contrasting the tendency to an excessive concentration of economic power through traditional policies, particularly if one wishes to keep main social policies at a national level. The welfare state has proved to be

effective in allowing most citizens to reach a minimum level of social services. But taxation systems, however progressive, have been unable to prevent the survival of high inequalities in income distribution, which at least in some conspicuous cases are handed down from generation to generation (unlike the USA where social mobility is much higher), as if there were a tacit consent to the perpetual regeneration of an industrial and financial aristocracy. Today in Europe, like in the USA in the '30s, the market is developing where there are no effective social policies. Besides, compliance with rules of budget austerity in the whole federation greatly reduces the chances for counter-cyclical manoeuvres against unemployment.

It is not only a matter of social justice. The very functioning of democratic régimes requires respect for equality of social opportunity. Perhaps it is worthwhile remembering that Thomas Jefferson in the project of the Virginia constitution, drawn up by himself, insisted on inserting a clause to guarantee that every adult citizen was assured a property of at least fifty acres. There was a real awareness, in the world that saw the birth of modern democratic thought, that full participation in government is possible only in a society of citizens with equal opportunities of access to economic resources. Rousseau maintained that in a democratic régime it is necessary that "no citizen should be so rich that he can buy another, and none should be so poor as to be forced to sell himself." Nowadays something similar is taking place in contemporary industrialized societies. Election campaigns, both in the USA and in Europe, are decided more and more by the mass media, where whoever has the financial possibility to impose his own image has the better chance of winning. To some extent, money ends up prevailing over ideas. Although the deep vocation of democracy is participation by all in government for all, in actual fact there is a risk that too much room is left to a democracy of wealth.

The critical reaction to a system which tolerates and even favours economic potentates is solidifying, in the USA and Europe, around the prospect of economic democracy. In fact, if the correction of social inequalities *ex-post*, realized through the methods of the social state, has only partially managed to correct the greatest anomalies in income distribution, it is once more necessary to consider the hypothesis of correcting the unequal distribution of property *ex-ante*, in other words by regulating the very distribution of means of production so that everybody can have equal opportunities of contributing to the formation of social wealth. It is naturally not a matter of re-proposing the old barricade

formula of “expropriating the expropriators” which inevitably leads to state monopoly of the means of production. The régimes of real socialism have already experienced the failure of the centralized planning system and the need to return to the market. Therefore there is no questioning the private property régime, nor competition among producers, sole guarantors of efficiency. On the contrary, it is a matter of making the market and the ownership of the means of production accessible to all, without property becoming an instrument for the “appropriation of other people’s work,” to use old socialist terminology. In conclusion democracy must also penetrate into the world of industrial production. As Robert Dahl¹³ rightly points out, the enterprise is still the only organization, in some cases with a number of employees which can be compared to the population of a city, in which, even in Western states with a democratic political régime, democracy is still banned. Enterprises are ruled either by the method of autocracy or that of oligarchy. The enterprise allows much less participation than is now possible in the control of one’s local or national community affairs. This is the scandal the countries of real democracy have to cope with today.

Capitalism, the market and economic democracy.

Capitalism and the market are two institutions which are parallel, but not coinciding. In primitive economies the market exists, but capitalism does not. Capitalism began to appear with the development of post-medieval merchant economies, and then took on the typical form of the modern capitalistic enterprise with the industrial revolution. The capitalistic enterprise is an association in which the control of the means of production — hired work and material instruments — is entrusted to the owner.

This juridical and economic structure has made it possible to organize industrial production in an extraordinarily efficient and flexible way in all the phases of development of modern industrial economies. Small and large businesses, from semi-artisan to large corporations, with thousands of employees, have been able to co-exist and prosper in a market which has continued to expand until it has encompassed the whole world. Marx himself could not help praising the capitalist system. The main error of Communism consisted in the attempt to suppress together with capitalism the market, in the hopes that a centrally controlled economy might be as efficient, in fact even more efficient, than a capitalist economy. History has proved this hypothesis wrong. Capitalism certainly has many defects,

but it has shown it is able to direct enormous individual energies — at the bottom of which there can certainly be self-interest, greed, ambition, etc. — towards the achievement of important public ends, such as the technological exploitation of scientific discoveries and the mass production of essential goods and services.

Of course, the predominating features of capitalism have changed during its development. The progressive establishment of the welfare state can be considered as an attempt to contain the most negative aspects of capitalism as regards its effects on the material living conditions of workers and of the economically weaker levels of society. The capitalist organization of production, on the basis of the subordination of large masses of workers to the discipline of the employer or of a group of managers responsible for the profitability of the business, has guaranteed efficiency and fast economic growth. But neither a progressive salary increase nor an improvement in the material working and living conditions of the workers were contemplated among the institutional aims of the enterprise and of the capitalist system. Notwithstanding, the capitalist system has been able to adapt itself perfectly also to a social environment in which a great number of external constraints have been imposed on the action of the enterprise.

The last great reform the capitalist régime underwent was that inspired by Keynes’ policies against mass unemployment. The Great Depression of the 1930s showed that the free enterprise system was wholly unable, with its own forces, to guarantee full employment of productive resources. It was not a case of lack of investment, as is happening nowadays in Third World countries. The plants existed, but they were left unused because of a lack of demand. Keynes proposed a series of policies which both through artificial injections of buying power in the economy and through a progressive increase in monetary wages allowed not only for the crisis to be overcome, but for stable and sustained growth to be guaranteed. Thanks to Keynesian policies it was possible to direct the capitalist régime towards full employment without affecting its essential characteristics.

Half a century later, it must be acknowledged that new faults in the functioning of the capitalist system have emerged and that new reforms are necessary both to adjust its purposes to those of the collectivity, and to improve its very efficiency. In conclusion, it is a matter of examining two problems which are only apparently distinct: the increasingly eccentric functioning of the world financial markets and the crisis in the organization of traditional enterprise, in relation to the change in the

social and cultural conditions of productive forces.

As regards the functioning of financial markets, it must be noted that during the post-war period the following changes took place: a) the formation of a large market in the Atlantic and Pacific involved the parallel creation of more integrated world capital markets, with consequent strong sensitivity of national stock exchanges to the changes in international expectations, which are by definition volatile in a world without a stable world currency; b) the structural separation, in large corporations, of property from control, in other words the formation of a powerful technostucture within the enterprise which mainly takes care of management utilizing capital placed at its disposal by a myriad of underwriters of shares and bonds, who inevitably end up by losing control of the business; c) the growing availability of liquidity deriving from salaries and wages, in other words from individuals who, as they have another priority occupation, hand over the management of their savings to specialized bodies, such as credit institutions, financial associations, insurance companies, etc. It must then be added to all this that it is now a consolidated practice to grant credit more easily to large capitalists (not necessarily single individuals) than to innovative entrepreneurs without capital, because it is considered a good prudent rule to grant confidence in proportion to the security (therefore to the amount of capital) provided by the debtor.

As experience has proved over the last few decades, an often schizophrenic behaviour of the private financial market derives from the combination of these elements. Daring and unscrupulous individuals can accumulate within a few years immense fortunes, which are however very fragile because they only exist on paper. The technique is that already experimented on a smaller scale during the great 1929 stock exchange crisis. It consists of creating dummy companies and raising capital by borrowing on the credit or junk bonds market so as to take over businesses already operating on the market, but destined to be externally controlled due to the inability of small capitalists to form a coalition and react. In most cases these attempts at gaining majority control over an enterprise are not dictated purely by economic reasons. So much so that, both whether the attempt is successful or not, "the result will be a legacy of debt and fixed interest charges that will be met at the expense of needed and useful new investments."¹⁴ This is a real and true failure of the market, because the normal motivations inducing entrepreneurs to risk their fortunes in a productive enterprise in this case merely lead to a waste of energies and resources. The ownership changes without any improve-

ment in the profitability of the business. The market in this case leads to a "stupid and inefficient" result, which seems even more evident if to these private costs are added the public costs, often of considerable dimensions, necessary to allow the monetary authorities to re-establish order and confidence in the market, as happened with the 1987 Wall Street crash. There is no reason to condemn morally any particular financier. The search for wealth, social prestige and power are among the main motivations of the industrial entrepreneur, too. But the structure of the financial market is such that it often leads to results which are harmful to the collectivity, because any bankruptcy would end up by involving a long list of people who are guilty only of misplacing their trust.

The second structural change to be considered concerns the degree of productive forces' development. The quality of work is now radically different from that existing at the time the modern industrial system arose. Not only has the average education level gone up, but technological development is making more and more obsolete those productive methods requiring large amounts of unskilled work. The completely automated factory, run by few skilled technicians, is now a reality in modern industrial economies. Manual work is progressively destined to be eliminated from the productive process.

The organizational structure of the factory can therefore no longer keep rigid nineteenth century discipline, in which the owner or the foreman commanded with authority a host of subordinates. It is certainly not by chance that the sociology of work is ever more preoccupied with the delicate problem of interpersonal relations within the enterprise. The embryonic tendency towards equality is revealed in the search for greater integration — or involvement — of the subjects of the productive process. But these attempts can only be partial and unsatisfying. While the distinction between work and capital survives, it is inevitable to fall back into the old head-on juxtaposition between managers and subordinates which, in the case of a conflict, is inevitably solved by striking, in other words through force relations. In the past, the cohesion and solidarity of the working class at least placed the juxtaposition between capitalist and worker along the lines of responsibility, because the workers' parties and the trade unions never let the general interest out of their sight. But in a historical phase in which every class distinction is disappearing and the individual is becoming the real protagonist of the productive process, the risk is that all bargaining could degenerate into corporativism and social anarchy. So far, all attempts made at an incomes policy have only partially solved the problem. To the extent to which

incomes policy is achieved for the whole market, micro-conflictuality in the enterprise is reduced, but the logic of the juxtaposition between parts with divergent interests cannot be avoided. Work productivity instead depends more and more on the degree of participation of the workers in the running of the enterprise, as has been partly achieved in Germany with *Mitbestimmung*. But, more generally, it must be acknowledged that the time has come to question the old "monarchic and aristocratic" management system.

A full co-operation of productive forces can only develop on the basis of a democratic method, in those societies where the post-industrial mode of production is now asserting itself. It will certainly be a long and tormented process, because the régime of capitalist autocracy will not be overcome until a new and more efficient form of organizing production has shown its superiority. But the dividing line between the old capitalist authoritarian enterprise and the new democratic enterprise seems by now to have been drawn.

The democratic reform of the enterprise régime must therefore start from the incipient contradiction between the widespread development of technical and entrepreneurial abilities and the growing concentration of financial capital into a few hands. The basis of the enterprise is the co-operation between capital and work. But this co-operation is constantly threatened by the juxtaposition between who, together with capital, also has the right to run the enterprise and who, although without capital, aspires to management, because of his capabilities. The aim of reform must therefore consist in spreading the capitalist system more and more (a *democratic capitalism* can be conceived of), so as to allow whoever has the ability to become an entrepreneur, also to have the power of doing so. The full affirmation of the right to work involves everyone's participation, according to their relative abilities, in the management of the enterprise.

Democracy in the enterprise.

Those liberal economists who were most open to social reform, such as J. S. Mill, always admitted it was necessary to ensure the full participation of all productive forces in the management of the enterprise. But first the obstacles which prevented this type of reform in the past must be removed. For example, Luigi Einaudi, as far back as 1944, although he was largely in favour of worker participation, clearly acknowledged two structural impediments, at that time overwhelming. The first obstacle

concerned technical competence, which only few people possessed. Therefore the only possible way to choose managers was co-optation, because "it is the only form of democracy which is compatible with the persistence of an aristocratic body." Secondly, any application of the democratic method in the choice of managers would soon cause the failure of the enterprise, because only those managers who promised ever higher wages, distributing all profits and funds for investment, would be elected. "The economic enterprise — Einaudi concluded — cannot be governed, if its persistence is desired, in other words if one wants to avoid its failure, through a universal suffrage election; but it requires a monarchic government or an aristocratic one of a body of equals."¹⁵

These objections of Einaudi must be seriously considered. It is easy to answer the first. As just mentioned above, in post-industrial societies there is a tendency both to the spreading of knowledge (an increase in the average level of education) and to automation which, by eliminating manual work from the factory, also eliminates the social roots of the workers' subordination to the manager. This does not mean that everybody will become a manager. In business, as in life in general, not everyone wishes to assume responsibility and to dedicate all or most of their energies to a single task. Cultural diversity and pluralism must find a place also in the enterprise. But if the advance of technological and social progress is not hindered, that first obstacle to the democratic management of the enterprise should fade in time.

Let us now consider Einaudi's second objection. The greatest difficulty in a reform which should allow the enterprise to pass from the monarchic to the republican régime, once social obstacles have been removed, consists in the unequal distribution of financial capital. If only a few individuals — either by inheritance or through fortunate circumstances in their life — can have easy access to the financial resources necessary to buy the means of production, equal opportunities for the management of the enterprise cannot of course be affirmed. Competition — as economists point out — presupposes the equality of starting points. In the present capitalistic system there are almost insuperable obstacles for an individual who, on the basis of his abilities alone, without the necessary capital, wants to become an entrepreneur.

The first indispensable reform should therefore concern the financial system. It is necessary to act upon two fronts. The first concerns regulation of financial property, in other words of the possibility to acquire furtively shares from another company, which is the indispensable instrument for the realization of chain raids and take-overs. A very

simple measure could be that of guaranteeing real publicity to the buying and selling of business shares. An even more radical reform would consist of ensuring that each individual could buy shares in only one business, the one in which he carries out his activity. It is not therefore a matter of questioning any traditional form of society (corporations, limited partnerships, etc.) but of limiting the possibility of extending one's right to command (which is a form of industrial monarchy) to enterprises to which one does not contribute with one's entrepreneurial or working ability. This would favour the association of capital with work for productive purposes, while it would make difficult, or wholly impossible, the establishment of large financial empires. The second front towards which reform of the financial system should be directed is the credit market, that is, the offer of savings to entrepreneurs on the part of the banking system. Schumpeter rightly considered as essential the function of credit for the development of entrepreneurs. The entrepreneur literally creates from nothing, if he manages to obtain the funds necessary for his enterprise. For this reason, Schumpeter considered the banker as the "ephor" of the capitalist economy. This function of the banking system must be maintained and generalized. During Schumpeter's times, in particular in the Germany of the last decades of the 19th century, the banks played a decisive role in orienting industrial investments. Today the banking system has to face new responsibilities. Large investments are often stimulated or promoted directly by the public system. The private system instead is organized in such a way as to channel the flow of savings to already existing capital, often discouraging the initiatives of entrepreneurs without any capital. Loans are granted preferably to whoever provides real security, even allowing them a *prime rate*. This is exactly the opposite of what is necessary to make the entrepreneurial function really popular and general. What is really necessary, therefore, is an orientation towards a *social use of savings*. This means that the banking system should grant loans — without any discrimination of patrimony — to whoever wants to start a productive activity or intends to join in with an existing one. Of course, the single credit institute must no longer be considered responsible for the possible failure of the enterprise and therefore does not have to risk losing its own capital. It becomes necessary, as a consequence — but security methods of this kind already exist — to socialize the risks, in other words it is necessary that the credit system as a whole should become responsible for any possible business failure. Within this framework, what becomes decisive is the regulation of the minimum interest rate at which credit is granted to en-

trepreneurs.

The advantage of these reforms, which of course have only been outlined here, would be all together an increasingly accentuated channeling of the funds available for incursions into the speculative financial market towards the banking system. Whoever has surplus financial resources with respect to the productive requirements of the enterprise where he carries out his activity will be able to employ them either by buying debentures (which however do not give the right to control) or public bonds, or by keeping them in a current account in a bank. Monetary savings would thus flow towards the banking system which could make them circulate again at very low and standard interest rates. In a very rough and naive form, this essential function of credit in favouring the detailed diffusion of property had already been perceived by Proudhon in the last century, when he saw in *crédit gratuit* the means of drastically reducing the power of capital over work.

The second reform, which seems indispensable to ensure for everybody the possibility of becoming entrepreneurs, consists in reducing the individual risks linked with the possible failure of the enterprise in which they have invested their savings. Failure does not always depend on subjective errors. The market, in particular in our century when economic interdependence has by now reached a worldwide dimension, can cause sudden fluctuations or dislocation of productive processes which can turn whole industrial sectors upside down. The failure of the enterprise is salutary and indispensable for maintaining the general efficiency of the economic system. But the single entrepreneur, especially if he has no other wealth than that employed in the enterprise, would be unjustly involved in crises whose origins do not lie in his own mistaken behaviour. For this reason it is inevitable to move towards the institution of a "citizenship income," which acts as a buffer to attenuate the individual risks of entrepreneurship. In conclusion, with the institution of the social state, of health services, of unemployment benefits, etc. developments are already largely going in this direction. It is only a matter of reinforcing these measures to make it possible for all citizens — and not only those who can count on the privileged reserve of a personal patrimony — to participate in the management of enterprises.

Finally, the third reform concerns the organizational structure of the enterprise itself. This reform can hardly be imposed from outside. The relevant legislation will only be able to copy and rationalize self-management practices which have already asserted themselves within the enterprise on the basis of the structural changes previously mentioned. One of

the crucial knots of the reform will certainly consist of defining the maximum quota of capital which can be owned by each shareholder, because if the passage from a monarchic to a democratic enterprise is desired, then the actual weight of each shareholder in the decision-making process must not be very different compared to the others. But any indications concerning this can only come from actual experimentation. Economic democracy, unlike political democracy, cannot be founded on the acknowledgement of supposed natural rights acquired at birth. Einaudi is quite right to remind us that real abilities are needed and also that each subject should assume real responsibilities concerning the exploitation of enterprise capital. And this can take place only if the worker also becomes a capitalist. Economic democracy means widespread and popular capitalism. Reforms which are external to the enterprise have to knock down all the barriers preventing the formation of capillary entrepreneurship or which discriminate in favour of who already has a patrimony. But democracy within the enterprise can only assert itself if true willingness to participate and run risks is shown by the individuals who are part of it.

Thus there is no point in deluding ourselves over the time necessary for the reforms proposed. It will not take a single legislative reform to establish economic democracy. It will be the result of a struggle lasting many generations and of the individual effort of each subject to achieve greater competence, better entrepreneurial abilities and larger capital. Production, however automated and mechanized the enterprise may be, will still be the fruit of the work and intelligence of man, who precisely because he wants to improve his conditions without limit, also finds himself obliged to compete, and at the same time co-operate, with his fellow man. Economic democracy is not a magic recipe for abolishing work or distributing easy earnings. It merely proposes to guarantee equal opportunities for all individuals to enter the market. Then, let the best win.

Internal market, economic democracy and European democracy.

Although economic democracy can be placed in a long term perspective, with the realization of the European internal market, and in particular with the creation of monetary Union, within all probability some contradictions will appear which will oblige political and social forces to make a few radical choices.

The first difficulty concerns the growing tendency towards financial concentration, without any justification of a productive or entrepre-

neurial nature, in a European market that is still reluctant to accept the rules of economic democracy. The post-industrial mode of production has an internal development logic tending to reduce large human agglomerates typical of the industrial era. The automation of productive processes allows, in fact, not only to scatter all over the territory those productive systems which used to be concentrated in one place, but also to articulate better forms of property and management. In spite of this, it is almost inevitable that the integration of large economic spaces will accentuate the process of financial concentration. In these cases it is not a matter of amalgamations among large or small businesses with a view to exploiting common economies of scale. When this need appears the productivity for the whole economic system increases. Financial concentrations, on the contrary, concern the absorption into few hands of businesses operating in different productive branches, often without any productive or technological relation between them. In these cases, the suspicion never even arises that whoever is at the head of the holding or trust could simultaneously and competently take care of all the group's activities. Large financial empires are created on the one hand by exploiting the possibility of separating ownership from control of the enterprise and, on the other hand, privileged access to the credit market. It therefore happens very easily that the larger fish eats the smaller one. But there is more than this. The big fish is often forced to be aggressive, because when economic spaces widen, whoever hesitates runs the risk of being overcome by others who are more unscrupulous and thus of becoming in turn an easy prey. The bigger one is, the more influence one has in society and politics, and these advantages, although not strictly economic, are not to be underestimated.

It must be noted that this tendency to financial concentration can hardly be controlled during the early stages of economic and monetary Union. Initially, the opening of the market corresponds to de-regulation, in which the countries with more favourable legislation to capital will also be more reluctant to modify it and accept Community norms of fiscal harmonization and regulation of the capital market, because they will be able to enjoy the relative advantage of attracting more productive resources to their territory. And until some Community regulations are enforced, it will in actual fact be the country with the least severe norms that imposes the standard for the functioning of the European financial market.

The second notable contradiction concerns the necessity of managing the European economy as a whole, in a difficult international situation,

so as to ensure the traditional objectives of full employment and growth in the presence of a diminished ability to manoeuvre national budgets. The national authorities for management of the economy are now used to considering the state budget as an instrument for economic policy. But the starting of monetary Union, with a European central bank which does not finance deficits, partially or completely precludes using these manoeuvring margins.

For these reasons one might be led to think it will become inevitable to increase the amount of resources destined to the European level, to allow those anti-cyclical policies which up to now were carried out on a national level. And in actual fact, as we have seen, a school of economists supports this point of view on the basis of US experience. In the first half of the century, the formation of the large US internal market was accompanied by growing economic power of federal authorities, so much so that nowadays it can be affirmed that there is no longer a clear difference, as far as economic policy is concerned, between the American federal system and that of a centralized state. Europe, however, seems to be barred from this pathway. It would certainly make no sense to build up a "super welfare state" at European level, while laboriously attempting to transfer many responsibilities from the national level to local powers, that can undoubtedly meet citizens' requirements much better. Besides, beyond these political considerations, it must also be observed that the Community budget at present is of extremely modest proportions in relation to the value of gross European product. Even by imagining a massive (and unlikely) transfer of resources at Community level it is difficult to suppose the size of the European budget, within a reasonable period of time, could reach the critical dimensions that would allow European authorities to carry out significant anti-cyclical manoeuvres.

The responsibilities of the European level, instead, consist of promoting great structural reforms in the European economy and in directing it towards long term development objectives (full employment, technological restructuring, sustainable development, etc.). The realization of economic democracy can allow achievement of the objectives of full employment, market efficiency and stability which have so far been pursued with other instruments of economic policy, but with diminishing success. In fact, effective reform should both improve efficiency within the enterprise by reducing conflicts between capital and work, and allow those who want to enter the entrepreneur market to do so, thus eliminating at source the causes of involuntary unemployment.

Of course, these reforms cannot take place without a strong commit-

ment, at Community level, of all democratic forces, because it will be necessary to influence deeply the social and productive system and public budgets. To achieve this result, however, it will not be necessary to establish new expenditure in the Community budget. What is really important is that the European Parliament should pass legislation, which is binding for all Community countries, by which some "fundamental economic and social rights" are guaranteed, just as every European country has committed itself to respecting the Convention of human rights. Every single country will then be able to introduce the improvements it considers most suitable. It is however indispensable that no country should be able to go below a minimum Community standard and that the European juridical authorities are able to intervene effectively to guarantee compliance with European legislation. The cost of the reforms will thus be placed on national budgets, and possibly on those of local bodies. And in this sense it will be possible to speak of a European "right to work." While the formation of a European capital market will simply be the fruit of de-regulation and of fiscal harmonization, already foreseen by the European governments in the Single Act, the realization of economic democracy can only arise from a common project of all the sincerely democratic forces present in a European Parliament provided with real legislative powers.

The State and the Economy

Stability and efficiency.

During the postwar period, in all Western countries, Keynes' philosophy of the management of economy progressively conquered public opinion and all political forces, both of liberal and socialist tendencies. Nobody, up to a few years ago, doubted any more that through appropriate manoeuvres of the public budget and of monetary policy it was possible to achieve high rates of economic development, full employment and equilibrium in the balance of payments. The only problem economists discussed concerned the appropriate mix of policies, in other words whether, in some specific cases, for example a disequilibrium in the trade balance, it were not more appropriate to resort to fiscal policy, monetary policy or to a combination of both.

This solid confidence in Keynes' recipes, however, has been seriously dented by the international crisis of the seventies, when govern-

ments of the main industrialized countries had to face a totally new situation of high inflation in the presence of heavy unemployment. Since then a process of revision of traditional economic doctrines has been under way and in particular with regard to the role of the state in the management of the economy.

The beginning of the European constituent process can contribute in a substantial way to solving this debate. Supposing the previously made observations are correct, in the European federation an economic policy which is founded on wholly new principles will develop. In actual fact, if the central bank is not forced to finance any deficits and if government budgets have to comply with the rule of balancing, within all probability the principle of the dichotomy between budget policy and monetary policy should assert itself. In conclusion, it is a matter of going back to certain golden rules formulated during the period of classical political economy and of the gold standard, but which have more recently fallen into disuse. The central bank, to the extent to which it has to see to monetary stability and at the same time to the needs of Treasury funds, inevitably ends up serving two masters, and on occasion it has to sacrifice either one or other objective. The federal constitution, thanks to the explicit recognition of the role of local governments (including national ones), which can have interests in opposition both to the central government and to those of the remaining governments, implements a mechanism of checks and balances which should allow the central bank to manage monetary aggregates and interest rates with sufficient autonomy, which is the necessary presupposition of responsibility. In the federation the central bank, therefore, is the institution whose priority task is to guarantee monetary stability and must be held responsible for this in front of the democratic bodies (European Parliament and European government).

The market, which is the place where, par excellence, economic efficiency is realized, can thus be freed from the greatest and most insidious (because hidden) interferences of public power. Inflation upsets the whole system of relative prices and incomes, whose structure is founded on delicate equilibriums deriving from confrontation between productive forces. Moreover, the interference of public power in the credit market provokes the so-called crowding-out effect because, so as to be able to finance public expenditure, governments often accept extremely high rates, not having to respect criteria of economic efficiency, thus raking in credit which would otherwise be available for private investment.

Efficiency in public services cannot, on the other hand, be founded

solely on economic criteria. The comparison of efficiency standards between different centres for the distribution of public services certainly plays (and hopefully will do so even more) a role in improving the quality of the service. But the fundamental issue, when the good management of expenditure is concerned, is the responsibility of the administrators towards the administered. For this reason, the criterion of the balanced budget, and of the consequent “administrative *glasnost*,” is of the maximum importance. The dichotomy between monetary and fiscal policy, by obliging administrators to account wholly for the use of fiscal resources, also forces them to greater responsibility towards taxpayers.

However, it could be objected that the dichotomy between monetary and fiscal policy, even admitting its advantages, introduces an unbearably rigid management of the economy. The objective of Keynes’ policies was precisely to fight depressive crises and unemployment through injections of public expenditure and monetary manoeuvres. At first sight, in a federal system this margin for manoeuvre would be sacrificed, thus endangering the possibility of reaction on the part of economic authorities to possible crises. In theory, a healthy and efficient economic constitution could perhaps be realized, but it would be unable to react to short term shocks. And, as Keynes rightly said, “in the long term we are all dead.”

These objections are clearly important, but they do not take into account the structural changes which have appeared in post-industrial economies compared with the period in which Keynesian thought was formulated. At that time national budgets were much smaller than they are today and purchasing power came almost entirely from private incomes. A fall in real demand and in employment could therefore have triggered off dangerous depressive crises from which the economy could hardly have recovered spontaneously. Today the situation has changed completely. National budgets represent about half the income produced and public employment is, more or less, the same size as private employment. Moreover, some mechanisms of automatic stabilization have been introduced into the fiscal and expenditure system which reduce erratic expansive and depressive impulses. Aggregate demand is therefore much more stable than it was half a century ago. This does not mean that it is necessary to renounce short term stabilizing manoeuvres. Interest rates and public expenditure (advances and delays in payments) can easily be managed in an anti-cyclical sense. Moreover, recent experience has proved that, due to the growing interdependence of the economic system, the more these manoeuvres are co-ordinated at an

international level, the more effective they are. It is a matter which concerns not only Europe, but the industrialized world as a whole.

The stabilization of aggregate demand is an important condition for the good functioning of the economy, but it is no longer sufficient for achieving full employment. Contemporary employment problems do not depend any more on the fact that "the plants remain unused due to lack of demand," but rather on the structural changes of the productive process linked to the transition from industrial to post-industrial society. Some sectors expand and other decline, some introduce automation and pose problems of labour re-qualification, in others it is the educational level of young people that does not correspond to required qualifications, etc. The answer to these problems seems to lead us once more in the direction of economic democracy. In a situation in which knowledge and technology are constantly changing, infinite opportunities for work are opening up for enterprising individuals. The more employment becomes a problem of self-employment, in other words of entrepreneurship, the greater the possibility of solving it. For this reason the assumption that inspired Keynes with his interventionist policies is no longer true: today it is possible to reform the market so that full employment — without external intervention — can be achieved.

It must also be added to these considerations that public employment can be made much more flexible and adaptable to demand than it is today. The demand for social services, on which a better quality of life depends, is practically unlimited. It is however a potential demand which has difficulty in becoming a real demand due to citizens' reluctance to grant greater resources to public powers. A reform of the financial system which guarantees greater fiscal autonomy and a fair management of public resources can but favour wider employment in the public sector, especially in local authorities.

The government of the economy.

Since it has been acknowledged that it was not enough to leave it to the market to solve certain important social problems, there is a debate about the relations between public and private, in other words over the necessity for the state to intervene to steer the market towards objectives of public interest or completely to replace it. In more general terms, one can also talk about the relations between plan and market, as Liberals and Socialists do when they confront each other on the role of the welfare state and the quota of public or private property of productive resources.

In a federal state the matter becomes more complicated. In a situation in which different levels of government exist, economic policy must be articulated on the basis of the various governments' competences. In a national state, the instruments of economic policy are mostly concentrated in the hands of the national government. One talks of a national employment policy, of energy, of transport, etc. In a federation, on the contrary, economic policy will be able to count on the specific responsibilities of the various governments: there will be therefore an economic policy which is articulated territorially, because every government, from the small municipality to the European government, will first of all be responsible for the territorial ambit of its jurisdiction. But this means that the instruments for intervention will be, and in general will have to be, different according to the level of government and of the economic policy in question.

To clarify this point, let us consider two examples: employment policy and ecological restructuring of the economy. As regards the role of the market in favouring full employment, the importance of the European level for the achievement of economic democracy has just been considered. However, today most employment depends on the public sector. From this point of view it is obvious that, to the extent to which most public expenditure is controlled at a national level, it is still national governments that mainly influence the level of employment. But to the extent to which progress is made towards real fiscal autonomy of local bodies, their responsibilities towards employment will increase. And it is in this reform that the greatest hopes must be placed for the future of the welfare state. It is at the local level, in fact, that a greater request for public services appears and it is at the local level that it is possible to consider extending the area of public services without causing further inflationary pressures, thanks to the tight budget constraint and citizens' greater participation.

Analogous considerations are valid for ecological policies. It is well-known that each single Community country cannot hope to realize effective ecological protection policies, if the other countries do not want to be equally "virtuous," in the presence of an increasingly integrated market. And it is at the European level, therefore, thanks to Community legislation, that it will be possible to impose adequate environmental standards and any ecological taxes, to discourage the use of polluting technologies and to favour the introduction of clean production methods. But the work of applying European policies and of detailed surveillance will have to be carried out mainly at the local level, within the framework

of the municipality or the region. Consequently the administrative apparatus for ecologically safeguarding the territory will have to be established or reinforced at the local level.

These examples could perhaps be enough to derive a few indications of a general rule. As one goes up to the highest levels of government, the responsibilities increase concerning the co-ordination of policies. This is why the institution of supra-national democratic bodies, such as the European Parliament is indispensable. Only by a democratic method of deciding is it possible to realize the collective interest of the federation, without the compromises which are indispensable for reconciling the requirements of populations with different history, traditions and needs, preventing the search for and realization of common policies (as happens when sovereign governments, with the right of veto, make decisions). On the other hand, at the highest levels of government, there is less need to manage financial resources directly, because policy management is carried out at lower levels. This is why, in general, a slender budget and the recourse to agencies for co-ordination, orientation and surveillance are often sufficient instruments for the supra-national level of government.

At lower levels, very often the responsibility for the execution of various policies is the task of local authorities. Their administrative and fiscal autonomy must mainly be directed towards the realization of better standards of welfare and quality of life with respect to the Community average. In reality, local authorities should feel responsible to every citizen — and for this reason they have a right to European solidarity, for example, by resorting to aid under the regional Community policy — for guaranteeing a minimum quantity of essential services.

Europe and the new international economic order.

The discussion on the economic constitution of Europe cannot be considered finished without examining the structure of international relations. In this respect, the European economy can be defined as extrovert, in the sense that Western European countries not only have a high degree of integration between themselves, but they are very open to commercial and financial exchanges also with the rest of the world. The historical situation in which the economic unification process of Europe is being completed — with the internal market and a European currency — can only accentuate these characteristics. The equilibriums of Yalta and of the Cold War are over. The two superpowers have started off a

process of détente which can hardly be wholly achieved without an active contribution from the Europeans.

Even without entering into a detailed examination of the major problems of international politics, it is easy to see that it is definitely in the interest of Europe to favour and, so far as it is able to do so, promote détente, which does not concern only the level of armaments, but also economic integration between the East and West and North and South of the world.

The most urgent problem, over the medium term, concerns the aid the Community can give to the countries of Eastern Europe in converting their controlled economy into a market economy. It is not only a matter of financial aid. It is obvious that the target is that of full participation on the part of these countries in the European Community. For this reason, the decisive step will be the creation of a European currency and the possibility that it be adopted first in international transactions and then, progressively, within the countries themselves. A market economy is inconceivable without full monetary convertibility, that is, the possibility to buy and sell on the market not only products, but also the means of production. Only with great difficulty, and under the risk of serious social crises, will the small countries of Central and Eastern Europe be able to tackle economic reforms without the explicit support of the monetary and financial institutions of the Community.

The use of a European currency in international transactions will immediately pose the problem of its relations with the US dollar and the main international currencies, such as the yen. The old international monetary system is now in a coma, since the US dollar has no longer been able to guarantee its convertibility to gold and, therefore, a system of fixed exchange rates. Therefore a new “Bretton Woods” is to be hoped for in which not only are the foundations for a new international monetary system laid down — without a leading currency, reinforcing the role of SDRs as a world currency — but which also lets Third World countries take part in its management, because their exclusion from the main world monetary institutions can no longer be justified. The amount of their indebtedness sufficiently proves that the international banking system, including the South of the world, is by now deeply integrated and that the control of the international monetary aggregates can no longer succeed without their participation.

The most dramatic international problem Europe will have to face is precisely that of the Third World, which includes ecology (deforestation, desertification, toxic waste, etc.) as no secondary aspect. Europe is the

continent with the closest contact with developing populations, both because of its colonial past and because of its geographical position, which lays it open to the migratory waves coming from the Mediterranean, Central Africa, the Middle East and Asia. Up to now Europe has faced the problem of the Third World with an intelligent policy of structural aid (Lomé Convention) which, however, has proved insufficient from the quantitative aspect. Growing immigration from the Third World is the most evident proof that those peoples that look to Europe as a model of civilization have no other way to improve their fate except by abandoning their native country. Without a radical reversal, over the next few years Europe will be increasingly torn by isolationist tendencies (which are impractical due to the open structure of European society and economy) and racist backlashes.

Third World aid is the only policy requiring a considerable long term commitment of resources and which must be managed at Community level. To obtain them, austerity and disarmament seem to be the only practicable options. Both require wisdom, but perhaps it is more simple to save on military expenditure, rather than to sacrifice the civil resources which can be used for improving the average living standard of the population. For this reason, on this ground too, Europe will be driven to find solutions to the problem of its security more through political alliances and integration processes, than from competition with the superpowers in a rush to armaments from which it would not derive any benefit. The more Europe is able to co-operate with other peoples, the more it will reduce any threats to its borders and will obtain greater guarantees of security.

With the objective of economic democracy, Europe will finally make feasible the construction of that society which is both efficient in producing wealth, and just in distributing it, the roots of which go deep into the utopian thought of the last century. But in a world that is now united by capitalism and international emigration, these conquests will appear to be exclusive and discriminating unless they can be inscribed into a political project making it possible for every citizen of the world to become a member of this same just and efficient society. The foundation of European economic and social development lies in overcoming every political, ethnic and social frontier. This is why the institution of the European Union, together with the destruction of the last surviving frontiers in the old continent, will represent a formidable impulse to the establishment of a new international economic order based on the principles of federalism.

NOTES

¹ For example the MacDougall Report (Bruxelles, 1977) drawn up for the EEC Commission by a group of experts and the more recent study by A. Lamfalussy, "Macro-coordination of fiscal policies in an economic and monetary union in Europe," in *Report on Economic and Monetary Union in the European Community*, Part II, *Collection of Papers Submitted to the Committee for the Study of Economic and Monetary Union*, Luxembourg, 1989 (Delors Report).

² L. Robbins, *Economic Planning and International Order*, London, Macmillan, 1937.

³ R. A. Musgrave expresses himself in this sense in *The Theory of Public Finance*, Tokyo, McGraw-Hill, 1959, p. 181; and also W. E. Oates, in *Fiscal Federalism*, New York, Harcourt Brace, 1972. Oates affirms very explicitly: "The logic therefore suggests that, as regards the stabilization problem, a unitary form of government is distinctly superior to a government organization exhibiting an extreme degree of decentralization. A central government is in a position to make good use *both of monetary and of fiscal policy* in maintaining the economy at high levels of output without excessive inflation" (p. 6, italics are mine).

⁴ According to a study concerning the countries of the OECD area (*Public Sector Deficits in OECD Countries*, ed. by H. Cavanna, Hong Kong, Macmillan Press, 1988, p. 8) the budget deficit which appeared after the 1973 oil shock is mainly due to four causes: a) slackened economic growth with a consequent increase in expenditure for automatic stabilizers; b) increase of interest charges on public debt; c) the effects of inflation on public expenditure; d) the measures adopted by the authorities to stimulate economic recovery. The most worrying situation, documented in this study, is that deriving from excessive recourse to public debt which, in some countries, has become an increasing structural item of the deficit. In conclusion, the old fiscal mechanisms of the social state no longer seem adequate to meet new requirements, so that the only way out, to which governments with little popular consensus can easily resort, is growing indebtedness.

⁵ The main exponent of this school of thought is J. M. Buchanan. The proposals of these economists initially developed as a severe critique of Keynesian "deficit spending" policies. In this sense see J. M. Buchanan and R. E. Wagner, *Democracy in Deficit. The Political Legacy of Lord Keynes*, New York, Academic Press, 1977; and J. M. Buchanan, J. Burton and R. E. Wagner, *The Consequences of Mr. Keynes*, London, Hobart Paper, 1978.

⁶ See J. M. Buchanan, Ch. K. Rowley, R. D. Tollison, *Deficits*, Oxford, Basil Blackwell, 1987.

⁷ See R. Scott Fosler (ed.), *The New Economic Role of American States. Strategies in a Competitive World Economy*, New York, Oxford University Press, 1988.

⁸ See J. A. Maxwell, *Financing State and Local Governments*, Washington, The Brookings Institution, 1969, Ch. VIII.

⁹ R. R. Bowie and C. J. Friedrich, *Studies in Federalism*, Boston-Toronto, Little, Brown and Company, 1954, Ch. VII.

¹⁰ K. C. Wheare, *Federal Government*, London, Oxford University Press, 1967, pp. 118-9.

¹¹ L. Robbins, "Economic Aspects of Federation" in *Federal Union. A Symposium*, ed. by M. Channing-Pearce, London, Jonathan Cape, 1940.

¹² K. C. Wheare, *Federal Government*, op. cit., p. 107.

¹³ R. Dahl, *A Preface to Economic Democracy*, Oxford, Polity Press, 1985.

¹⁴ J. K. Galbraith, "From Stupidity to Cupidity," *The New York Review of Books*, November 1988.

¹⁵ L. Einaudi, *Lezioni di politica sociale*, Turin, Einaudi, 1965, pp. 206-7.

Notes

EEC-MAGHREB CO-OPERATION

Privileged relations between the EEC and Maghreb countries have been in existence since the very foundation of the Community. History itself shows how the dialogue (or clash) between the two sides of the Mediterranean is unavoidable. These relations by now seem to have reached a turning-point, also due to the Gulf crisis.

The fundamental data which allows us to understand, to a certain extent, the choice in question and its possible consequences can be summarized in a few points.

1) The formation of a European internal market could further weaken North-African economies, if the latter do not tie themselves more closely to it, thus making a qualitative change.

2) The Mediterranean countries' debt represents an ever more burdensome hindrance to their development. An organic plan of co-operation between Europe and the Maghreb, both economic and financial, is an indispensable condition to launch these countries' economies.

3) Collaboration between East and West has radically modified world balances, thus making dramatically urgent the need to create regional federations as an alternative to nationalism which creates crises, such as the Middle East crisis. The growing co-operation between Maghreb countries could represent within this perspective a stabilizing element of strategic importance for the whole Mediterranean; it is in the general interest that this process be consolidated.

4) The increasing disequilibrium between the North-African demographic boom and the ageing of Europe's population makes it even more urgent to guarantee an economic re-balancing between the two areas as the only long term alternative to destabilizing migratory flows.

The revolution taking place in international relations and the formation of a single internal European market are closely linked. It is definitely Europe's success which has made Yalta decline and the Berlin Wall fall.

It is inevitable that this wave will reach North Africa, opening up new prospects.

The growth of Europe has weakened the old bi-polar order; the latter has still not disappeared, but it is essentially confined to the military sector and is effective only in those cases in which the military factor itself prevails. The new emerging world order can only be multi-polar. But multi-polarism can be either co-operative or anarchical. It will be co-operative only if countries integrate into regional federations, on the basis of their historical affinities. Otherwise, the world will remain divided into small states, driven to nationalism and aggression by exasperation at their problems, which in a national framework cannot be solved. This is the fundamental alternative which all states have to face; it explains the Middle East crisis, and can contribute to understanding which alternative scenarios are open to Maghreb countries.

To direct the world towards co-operative multi-polarism it is not enough to develop the UN's ability to ensure that international law is respected. To reach this end it is indispensable to gather states together at a regional level, activating co-operation processes with the gradual creation of federal powers.

In this situation, Europe is called upon to play a role of growing importance. Not only by giving an example of how it is possible to unify peoples divided by a thousand differences; but also by giving concrete support to efforts of regional co-operation, starting with areas closest to Europe itself.

Within this framework EEC-Maghreb relations can be fully appreciated and it becomes easy to understand the importance of what is at stake, which goes well beyond local problems, which albeit are relevant. Within this framework there is also the problem of finding concrete measures which can be adopted by Europe to support the development of the Maghreb and, more generally, the development and integration of all Mediterranean countries.

To this end two precedents can be considered. In the immediate postwar period, to support the development of Europe and its integration, the United States launched the Marshall Plan, on condition that aid be administered by one single institution and with a common European strategy.

The second precedent consists of the establishment of the Eastern Bank, founded by the Community to support the restructuring of Eastern economies towards the market and democratic development. The Eastern Bank will allow rationalization of Community aid, thus helping to

overcome the limits of bi-lateral agreements between single countries, and at the same time making all countries involved, financiers and financed, participate in the running of the bank itself.

These precedents suggest the opportunity of creating a European Bank of the Mediterranean. It would constitute a strategic instrument for European commitment in favour of the development of the Mediterranean area, and in particular for the financing of the integration of the Maghreb countries with themselves, on the one hand, and on the other between the Maghreb countries and the EEC. A European Bank of the Mediterranean would embody, in the most important region for Europe, the European alternative to the crisis and Europe's contribution to the establishment of a new and more evolutionary economic order.

The deep motivations which support this project have already driven the EBI to develop its activity in this direction. It must also be said that a European Bank of the Mediterranean would enjoy greater powers, being able to involve equally, from its very establishment, the technical and financial resources both of Europe and the Mediterranean countries.

The Maghreb Community is destined to develop gradually, with a functionalist approach. The first step in this direction will probably take place in the energy sector; not by chance, the process of European integration also made its first progress in the energy sector, with the creation of the ECSC. A joint initiative in the energy sector poses the Maghreb with financial problems also as far as relations with Europe are concerned; from this point of view, too, the importance of the role to be played by European Bank of the Mediterranean emerges.

The operations of a European Bank of the Mediterranean would require support from other initiatives, which could guarantee the availability of the goods and services which can be financed by the Bank itself. What emerges in this perspective is the important role that the Mediterranean countries, which are EEC members, can play, placing at the disposal of a European policy for the Mediterranean their own abilities and know-how, in return deriving concrete opportunities for growth, initially for their regions looking onto the Mediterranean itself. It is also a matter of not marginalizing these regions with respect to a horizontal East-West development line, trying instead to occupy a position as watershed between North and South, creating a triangle between the three areas. And there is another fundamental reason which makes it important for the Southern regions of Europe to stimulate such as evolution. The reinforcement of European policy for the Mediterranean is able to strengthen, within Europe, the regional policy for less developed areas.

In this perspective, it is a matter of uniting the intervention instruments for regional policy and Mediterranean policy, combining Community and national resources, the experience of the largest private enterprises and public bodies.

Within this perspective the interests of the Maghreb, of the Mediterranean, of the less developed areas of Europe, of Europe as a whole are fully complementary. Outside this perspective, there is an increasing risk of economic conflict and therefore of a process of disintegration.

Dario Velo.

Federalist Action

AFRICA AND EUROPE: FROM CO-OPERATION TO INTERNATIONAL DEMOCRACY*

THESES

1. *With the end of the colonial period, during the Cold War between the two superpowers, who have repeatedly refused to grant the Third World's demands for a new international economic order, Europe and Africa started the first experiment in North-South co-operation.*

After the Second World War, European colonial rule in Africa came to an end, and the process of European unification made it possible to start the first experiment in multi-lateral co-operation for development between two continents. The Lomé Convention between the European Community and ACP countries was the result of this new historical situation. But in order to understand the significance of the Lomé Convention we must bear in mind that the international context in which Euro-African co-operation developed was that of the Cold War. The world was at that time governed by the bi-polar balance between the two superpowers, and the Europe of the Common Market was timidly seeking

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to play an autonomous role on the international scene. The Lomé Convention was the first positive response to attempts by the Third World, which had failed at world level, to create a new international economic order within the framework of the UN. In as far as it granted some of the poor countries' demands (stabilization of prices for raw materials, non-reciprocity of tariffs, transfer of technology, etc.), the Lomé Convention also represented the first attempt in North-South relations to go beyond the framework of the Cold War and the bi-polar system of world government.

2. *The limitations of the Lomé Convention consist both in the insufficiency of the Community's aid, and in its inability to promote democratic political development in Africa and between the two continents.*

The Lomé Convention had the merit of slowing down the deterioration of the African economy relative to the world economy. But this did not guarantee the minimum conditions for Africa's development. Having now reached the Fourth Convention, we may attempt to evaluate the past fifteen years. For the last decade the pro-capita income of black Africa has been steadily declining. The Community increased its financial aid for Lomé IV (12 hundred thousand ECU), but it remains well below Africa's needs (the foreign debt of ACP countries is over ten times higher than Community aid). The Lomé Convention — unless radical reform is undertaken, which at the moment is not on the agenda, because the Fourth Convention has a period of ten years — represents, therefore, the institutional framework within which commercial relations between the two continents have become stabilized: it does not represent however a framework in which Africa's development may be promoted and which holds out concrete hope of progress to its inhabitants.

Over and above these economic and financial limitations, the Lomé Convention also demonstrates clear political limitations: it has in no way contributed towards the promotion of democracy and political unity on the African continent. Aid has been granted indiscriminately to all governments, even those which trample on human rights and deny any form of political pluralism. In order to realize any genuine developmental objectives, aid should have been entrusted to a pan-African body, charged with planning, in accordance with the OAU and the UN, the development of Africa as a whole.

3. *The proposal of a European Marshall Plan for Africa was made by*

European democratic forces in order to overcome the limitations of the Lomé Convention.

In order to overcome the obvious limitations of the Lomé Convention, towards the end of the seventies there began to be talk of launching a grand European Marshall Plan for the development of Africa. The proposal was based on the observation that, at least in the initial phase, there would have been a complementary relationship between the European economy (poor in raw materials but rich in technology) and the African economy (rich in raw materials but poor in technology). This proposal was backed by federalists because it would have helped promote a European policy favourable to real political and economic unity in Africa. It would indeed have been impossible to plan and carry out an overall development programme for Africa without reinforcing existing pan-African institutions, such as the OAU, or creating new ones. Furthermore, the position of the European federalists fitted in well with the aspirations of Africa's post-colonial founding fathers: for Nkrumah, Senghor and Nyerere, Africa's independence and development could only be achieved within the context of a United States of Africa.

This political project did not come to fruition for two reasons. In the first place, without a real government responsible to the European Parliament, without a currency of its own and an adequate Community budget, Europe is not in a position to promote and administer a grand aid programme for Africa. For these reasons also, the political forces in Europe favourable to a more effective Third World aid policy have not yet succeeded in working out a common European strategy. In the second place, Africans have given only lukewarm support to this plan because of the unequal respective strength of Europe and Africa in the international context. The suspicion of "neo-colonialism" is inevitable. In this connection however it must be noted that Africa would be able to manage a co-operative agreement between unequal parties (as, by definition, is any co-operation between industrialized and underdeveloped countries at first) if it were to launch courageous project for the economic and political unification of the continent. China and India, two countries more or less equal in size to Africa, show that even poor countries can be politically independent.

The truth is that African unity is much more difficult to achieve than European, and so, when one thinks of Euro-African co-operation, one cannot forget the fundamental imbalance between the two continents on the international scene.

4. The Cold War is over. A new era has begun in which democracy represents the primary factor of change in both domestic and international politics.

The old international order of the postwar period is falling apart. The Cold War is over. With the policy of *perestroika* in the Soviet Union, the beginning of the process of disarmament between the two superpowers and the events of 1989 in Eastern Europe, the whole world has entered a completely new politico-historical cycle: the advance of democracy seems to be irresistible. The democratization of Communism has universal significance, just as had the French Revolution for the affirmation of the rights of man and the Bolshevik Revolution for the affirmation of socialism. All political régimes which today still hold out against democracy in the name of a supposed leadership role of an élite are weakened: time works against them.

But today, in an increasingly interdependent and unified world, it is no longer enough to win democracy at home. International democracy has actually become the precondition for national democracy itself, because the major problems of our age cannot be solved other than at continental, or, increasingly, at world level.

In Western Europe we have the possibility of promoting in the short term the first experiment in international democracy. Indeed, the fall of the Berlin Wall gave a considerable boost towards making European unity complete. If the European Parliament, governments and political forces accomplish their duty, within a few years the European federation could be a new entity in international politics. And the European federation is justly considered an essential point of reference for all peoples wishing to join in making a new world, because Europe represents the only union of countries which has not and cannot have — given its function as a link between several continents — an offensive and imperialistic military capacity. Thus we can see the possibility of building a common European home, from Vladivostok to San Francisco, in which every country can co-operate effectively towards disarmament and economic development in the whole Northern hemisphere.

But in this scenario, what is the future for the Third World? And, in particular, what will be the future of Africa, the most disadvantaged continent in the Third World?

5. The tragic dilemma of Africa: no democracy without economic development and no economic development without democracy. The

struggle for democracy only represents one aspect of the struggle for political unity in the continent.

After their victorious struggle against colonialism, Africans soon discovered that the social and political conditions for democracy did not exist in Africa; yet democracy was the only choice that could ensure the freedom and independence of the African peoples. The extreme poverty of the population and the inadequacy of the state and bureaucratic frameworks inherited from colonial days hindered almost any attempt to construct democratic régimes. Furthermore, the survival of national micro-states — artificially created by European powers — represented the ideal context for the birth of dictatorial régimes, one-party states, always struggling against each other and ready to accept almost any form of “aid” (in particular armaments) from world powers, if it could help them keep or aggrandize their micro-power.

The historical phase of the one-party system was imposed on Africa as a hard necessity, but the situation is changing. One-party micro-national régimes are now contradictory to the requirements of African economic development. For Africa, the possibility of promoting forced industrialization, a policy realized with success for the first time in the USSR, is simply not open. The Soviet Union used the inherited state machinery of a great continental empire in which it still made sense to experiment with building socialism “in one country.” But for a national micro-state in Africa to propose a similar objective would be laughable. The one-party system is only compatible with an economy based on exploiting natural resources, in which the dominant role is left to large multi-national companies. In order to develop, Africa has to aim for a participative economy (the market does not necessarily mean capitalism) and for the formation of a local industrial base, as was clearly seen in the Lagos Plan of Action, proposed by the OAU. This development programme, drawn up in 1980, but still valid in its essential components today, shows that when Africans think seriously about their future they go beyond both the micro-national context, and the one-party régime, because it is impossible to develop an economy favourable to free individual initiative without political pluralism and respect for human rights. The development of the market and industry is incompatible with the survival of autocratic régimes.

Democracy, development and African unity: each of these is a precondition for, and yet depends on, the achievement of the others. The task of the African people is thus much more difficult than that of other

Third World countries, because they cannot get out of their situation of underdevelopment without overcoming the artificial framework of micro-nationalism inherited from European powers. A development plan for the African continent thus cannot be promoted and realized except by a democratic continental government, because the ethnic, cultural and political pluralism of Africa is an indispensable requirement. Democracy in Africa means “African democracy.”

6. In the new phase of détente, a plan of solidarity for the development of the Third World is necessary and possible, but on condition that there is a new awareness among all the forces favourable to international democracy. There is no real solidarity if North-South relations continue to be conceived of in the context of foreign policy, in which it is inevitable that laws of power politics prevail.

The construction of a common European home will open a phase of co-operation and disarmament in the whole of the Northern hemisphere, on condition that Western European countries are able to unite in a real European federation, to help the peoples of the East to consolidate their new democratic régimes, to give a European solution to the problem of German unification, and to promote the transformation of the military blocs of NATO and the Warsaw Pact into purely political alliances.

In this context, Europe could perform an important role with regard to the Third World, and in particular, towards Africa, with which it has taken on important commitments in the Lomé Convention. It is also in the interests of the North to transform the present antagonistic relations with the South (over debt, prices of raw materials, the role of multi-nationals, etc.) into a relationship of co-operation. Furthermore, the grave problems of international emigration and ecological restructuring of the economy require global solutions. The further we go down the road to disarmament, the harder it will be to deny the Southern hemisphere that solidarity that is indispensable for its development.

But it has to be recognized that the relationship between disarmament and development will not be realized automatically. The Marshall Plan for the reconstruction of Europe was based on a state of temporary necessity (the confrontation with Stalin in a Europe that was bleeding and wounded). Present-day policy on Community aid to Eastern Europe is based on a state of temporary necessity (to avoid Balkanization and social disorder in Eastern Europe). In both cases the aid programme is one covering a period of approximately half a decade. A policy of solidarity

of the North towards the South is based, in contrast, on the necessity of planning the longterm development of the world economy. A complementary relationship has to be created between industrialized countries and the needs of the Third World. Obviously it is necessary for the North to accept a policy of austerity (which could be attenuated by any resources made available by disarmament) in order to transfer to the South the capital indispensable for basic investment. But it is also necessary to undertake a policy of reconverting production in the North, because if all inhabitants of the planet adopt the same productive model as that of the industrialized countries, development would very soon become "unsustainable." For these reasons, a Marshall Plan is not enough. That is still part of the world of foreign policy. We have to begin to recognize that the inhabitants of the South have the same right to solidarity as the poor who live in the North. To be more precise, we have to convince all inhabitants of the planet that we are part of a single community with a common destiny and that, in the future, we must all become fellow-citizens of the same common home.

7. International solidarity is impossible without the creation of new institutions for North-South co-operation. All the peoples of the earth must participate in working out a development programme for the world economy. Democratic reform of the UN has now become indispensable.

It is in the context of the UN that the Third World, organized into "the Group of 77" was able to start the struggle for a new international economic order. But in the era of the Cold War and of the bi-polar balance of power, this struggle did not succeed in achieving significant results because the arms race was considered, not only by the superpowers, much more important than a serious effort towards development.

The situation is radically changing today. If all the countries of the North will agree to work together to build a common European home, a situation can be foreseen in which peoples and governments will agree to put aside the hatred and rancour of the past (as is happening now in the European Community, where both the French and Germans consider themselves European citizens) to bring about serious reform of the UN. The common European home is nothing more than a transitory political programme. It is true that Europe first has to solve "European" problems, connected to the end of the Second World War, (such as German unification, overcoming the military blocs, and so on), but the context in which peaceful co-operation for development really has to be organized

is the world. We have to reform the IMF and GATT; create a worldwide agency for ecology; and manage the natural resources that the UN has declared to be "the common heritage of humanity." Only in the framework of the UN and with the active participation of all peoples can there be effective reform of the international political order. A world government has to be set up.

It is necessary however to observe that it is not sufficient to give new financial resources to the UN or to create new international agencies. If we really want to bring the UN out of its state of near-impotence, which has reduced it to the empty symbol of a non-existent world unity, we have to change radically the decision-making system which in its present state is totally undemocratic. In the name of a fictitious respect for equality between sovereign states, the principle "one state, one vote" is applied, with the result that since the USA, China, the USSR etc. quite rightly do not wish to count for the same as the Seychelles, Togo, Haiti etc, the General Assembly of the UN votes for resolutions which in the vast majority of cases are not applied, while real decisions are taken outside the UN (at meetings of the Big Seven, the summits of the superpowers, and so on).

8. The democratic reform of the UN has to mean the application of the principle "one man, one vote." A democratic World Parliament would represent an essential point of reference for spreading and strengthening democracy throughout the world.

The first step towards international democracy should be the creation of a World Parliament (a second chamber of the UN) directly elected in all countries which wanted to participate in this great process of renewal in international politics. The first task of this Parliamentary Assembly should be to work out radical reform of the UN, in order to transform it into a real democratic and effective government, able, that is, to solve the most serious problems facing mankind.

This reform, at least in its initial phase, would not yet mean the achievement of international democracy, because only in the long term will it be possible to overcome the obstacles that impede every individual and all peoples from full participation in world government. We should not hide from ourselves the fact that there will be some forces (such as racism, Islamic fundamentalism, etc.) and some countries (all dictatorships and false popular governments) which will oppose or will not want to participate in this process of building a democratic, multiracial and

cosmopolitan society. But it will be the universal nature of the project that will be its greatest strength for penetrating into all corners of the world and into all social strata. Modern Europe has already brought down the borders between ancient nation-states and between the decrepit empires of the East and West. The democratic reform of the UN would put in motion an irresistible process overcoming all borders — until the utter defeat of all forms of tyranny and exploitation was achieved.

9. The countries of the Third World have a specific interest in leading the struggle for the realization of international democracy, because democracy is the most effective method of affirming the rights of the poorest and most numerous part of mankind. Only the participation of all peoples in the struggle for democratization of the UN can bring to life an awareness of a common world citizenship.

To be effective, this reform must allow for an increase in the UN's powers, for example conferring resources of its own (as happened in the case of the European Community) which could come from a world tax (for example an "ecological" tax on polluting fuels). A World Parliament would also have to regulate the painful problem of North-South emigration, control the process of disarmament between the superpowers, limit or abolish all trade in arms, draw up a code of "good conduct" for multinationals, etc. These types of decision will not be possible without debates, and also strong disagreements, between the populations concerned. The democratic method is therefore necessary. Furthermore, it is essential to allow the peoples of the Third World to give priority to the interests of the majority. International democracy thus paves the way for an effective redistribution of economic resources on a worldwide scale.

Finally, democratic reform of the UN can foster a growing consciousness that the future of mankind is the responsibility of all, and that all can contribute to the government of the world. Democratic political parties will be able to, indeed will have to, be the promoters of the new cosmopolitan politics. It is thus that the citizen of the world will be born.

10. All the forces favourable to international democracy in Europe, in Africa and in the world must organize themselves to compel governments to promote democratic reform of the UN.

The European experience has shown that every step forward towards European unity (starting from Jean Monnet's ECSC) was the result of

federalists' continual campaigning, and of the ever more favourable attitude of all democratic political forces. When it is a question of solving common problems, governments are quite capable of finding increasingly advanced forms of co-operation — after all, it is their institutional duty. But they are never disposed to give up voluntarily the least of their sovereign powers without being forced to, both by popular forces and by international challenges. For this reason, all those who are in favour of international democracy from now on must unite to create a worldwide movement, in order to sustain in all countries the project for democratic reform of the UN. The political unity of the world begins with the unity of those who want it. An effective campaign has to be launched all over the world to promote international democracy.

It is a difficult task. But there is no other possibility to resolve the vital problems of the development of the Third World, disarmament, and the ecological safeguarding of the planet. Whoever believes international democracy is utopian should have the courage to confess openly that he prefers a world governed by the balance of great powers, by the force of arms, by imperialism, by religious fanaticism and by racism. But whoever wants to change the world must strive for the force of democracy.

Guido Montani

TOWARDS A JOINT ACTION FOR INTERNATIONAL DEMOCRACY

Declaration by African and European Federalists

Following the events of 1989, which saw the start of the democratization of Eastern Europe, the consolidation of détente between the superpowers, and fresh progress towards the political unification of Europe, we seem to have embarked on a totally new phase of international politics. The Cold War is over. Old borders are crumbling. The domain of democracy and international co-operation is expanding.

Only the re-awakening of nationalism and atavistic ethnic rivalries might hinder the construction of a new Europe, open to co-operation with the United States and the Soviet Union in a "common home," where effective progress might be made towards disarmament and the develop-

ment of the entire Northern hemisphere.

Such a prospect should not however exclude the Third World. It is inevitable that Europe should concern itself first of all with "European problems": the construction of the European federation, the completion of German unification and the development of collaboration between Western and Eastern Europe. But we cannot shelve issues of such pressing importance as international emigration and ecology, which can only be solved by recommencing North-South dialogue and speeding up the process of disarmament. Europe's strength resides in its capacity to co-operate peacefully with all neighbouring peoples, in particular with those of the Mediterranean area and Africa, with whom the Community has made special agreements.

Euro-African co-operation in its present form has proved ineffectual, results being well below expectations. Africa is unable to develop itself, and risks becoming increasingly secluded. This situation is caused, for the most part, by those African political systems where there is no democratic freedom.

For these reasons, European and African federalists ask:

- that the European Community rethink the basis of its co-operation with Africa, with the aim of promoting a new political and institutional framework in which co-operative agreements, in particular that of the Lomé Convention, may become more effective. Aid should meanwhile be enough to provide the realization of public infrastructure investments which would enable the African economy to develop autonomously. The Lomé Convention should be reformed by common agreement between the European Community and an African organization which would accept the responsibility of establishing, with the minimum delay, an African federation based on democratic freedom and respect for the rights of man;
- that the OAU, in collaboration with all forces representative of African society, should draw up a plan for its democratic reform, for Africa cannot hope to develop its economy without the active participation of all components — ethnic, political, social and cultural — of African people, and without the prospect of economic and political unification of the continent;
- that the UN — set up as a permanent diplomatic assembly in the aftermath of war to tackle specific world problems, and now unable to cope with contemporary dramatic problems — consider reforming itself. It should examine ways of reinforcing its constitution by the active participation of all peoples to the government of international policy. In

the new era of world politics, in which even Communism is trying laboriously to democratize itself, the only way to promote the UN's democratic legitimacy is by the direct election of a World Parliament, with the progressive participation of all peoples that reject the use of violence as an instrument of international policy. The world already has a common destiny: only through international democracy and a democratic World government will it be possible to achieve universal disarmament, peace, international justice and the ecological safeguarding of the planet.

African and European federalists:

- recall how Europe in the past, divided into sovereign nation-states in perpetual struggle against each other, bore particular responsibility for the spread of colonialism and nationalism throughout the whole world. They therefore call on all European democratic forces that, in this decisive moment when the new order in Europe hangs in the balance, they should not neglect any initiative favourable to building a United States of Europe. In particular, African and European federalists ask that the European Parliament, in agreement with the national parliaments convened in the Assizes, should without further delay update the Spinelli Plan of 1984 in order to arrive at the national ratifications scheduled for 1992, with a project of federation, in which the European Parliament would have the power to control the executive;
- undertake to promote effective action to support international democracy within their respective organizations — the World Association for World Federation, the African Federalist Movement, the *Movimento Federalista Europeo*, the European Union of Federalists — and with all associations and political forces potentially favourable to the political union of mankind. The objective is that of promoting an international movement of public opinion which progressively knocks down all obstacles that maintain economic, political and cultural barriers between the peoples of the planet.

Federalism in the History of Thought

LEWIS MUMFORD

*Lewis Mumford, born 1895 in New York and died January 1990 at the age of 94, is universally known above all for his works on the history of the city, and more generally on the development of the urban phenomenon. His international reputation began to establish itself after the publication of *The Culture of Cities* in 1938. But some of his intuitions, which today are generally accepted, and his stubborn refusal to compromise, brought him many problems in his day.*

*The following comment from one of his many letters to the London urbanist Frederic J. Osborne gives a more definite idea of the extent, including financial, of Mumford's success up to the 1950s: "Whether I can go to Europe next Spring, as I now plan and hope, depends, to put it brutally, on how well *The Conduct of Life* sells; and I can have no preliminary opinion about that. If I trusted in statistical demonstrations I could prove by a graph that since *Technics and Civilization* (1934) sold 5,000 the first year, *The Culture of Cities* (1938) 7,500 and *The Condition of Man* (1944) 11,000, *The Conduct of Life* should sell about 12,500, in which case, despite the fact that I've had to draw \$4,000 in advances, I should be able to go!"*¹

*On the other hand, as regards political difficulties, when he exhorted Americans in *Men Must Act* (1939) to act quickly to prevent the spread of fascism and nationalism in Europe, he was publicly accused of being a warmonger and an advocate of American-style fascism. But Mumford would not be swayed from his convictions and, together with Borgese, signed a "Declaration on World Democracy" in 1940 in which he condemned fascism and the American hesitation to intervene against Germany. With Borgese he made a series of approaches to members of Congress and the President of the United States. One example of these initiatives is a telegram sent to Roosevelt in June 1940, saying among other things: "The Country looks to you for positive leadership ... Upon your ability and willingness to exercise this leadership during the next*

*few weeks will depend whether you will go down in history as the Buchanan or the Lincoln of the present world civil war."*² Starting from 1946 he began to become involved in anti-nuclear campaigns and campaigns in favour of creating a World government, while the 1950s saw him a ferocious critic of McCarthyism, of rising American nationalism and of over-ambitious European nationalism. From 1952 onwards, because of his pacifist activities, he was accused of being a Communist and subjected to FBI surveillance. But even in these circumstances he did not give up his ideas. In another letter of the 1950s to his friend Osborne, Mumford explains that "if I were a British statesman at this moment I would bend every effort to establishing a United Europe, and, once I achieved this in some sort of rough working form, I would make it clear that the presence of American troops and installations in Britain was unwelcome."³

*His impatience with the dominant myths of his era — the nation, money, cars — has its origins, as he himself describes in some autobiographical writings collected in *The Human Prospect* (1956), in a twofold encounter with European culture.*

*The first encounter went back to when, as a fifteen-year-old pupil of the Stuyvesant school, attending classes given by German, Polish and Russian teachers, he came into contact with the new theories in scientific and technological fields (especially the theory of relativity), and with socialist culture. If it had not been for those European teachers, comments Mumford, "I might have lived and died in my part of the upper West Side without realizing that neither the Democratic nor the Republican party had ever recognized the class struggle." This was an encounter which would later bring him seriously to consider Marxism, to the point of defining at the beginning of the 1930s (in *Technics and Civilization*) a sort of post-Marxian theory, which incorporated the method of planing and the federal model to tackle problems posed by the internationalization of the production system.*

*The second encounter with European culture, on the other hand, came about through the Scottish biologist and urbanist Patrick Geddes, and in particular with the latter's major work, *Cities in Evolution*, published for the first time in 1915. Patrick Geddes was among the first to study the phenomenon of urban agglomeration in particular geographical locations, for which he coined the term "conurbation." Patrick Geddes introduced Mumford to the problems of the evolution of urban civilization and of the evolution of the state dimension, starting from the city-state. The influence of Patrick Geddes on Mumford was such that the*

latter, in testimony of the esteem which he bore the maestro, baptized his first-born son Geddes (this son was to fall in Italy during the Second World War at the age of nineteen). Mumford summarized his relationship with Patrick Geddes thus: "My relations with old Geddes were never intimate; he was too old and I was too young for there to be any real partnership between me and that old Bull of the Herd, until he had died; but he turned my mind into fruitful channels and made me ready to bridge the gap between city and country."⁴

In trying to continue and build on Geddes's work, Mumford became aware of the importance of studying the urban phenomenon not only in relation to technological evolution — the fundamental theme of *Technics and Civilization*, which is intended as a continuation of the work begun by Geddes — but also, and above all, in relation to institutions. And it is precisely in relation to this specific aspect that Mumford's contribution is significant from the federalist viewpoint, both as regards the articulated structure of federal government starting from the city level — a standpoint which brought him to criticize sharply the great urbanists of our century, in particular Le Corbusier — and as regards his vision of World government, a vision which, after an initial enthusiastic response, brought him into ever-greater conflict with another great contemporary innovator in urbanistic thinking, Jane Jacobs. Apart from their differences of opinion on the characteristics and functions of the city, it is their diverging views on the world political future which explain the ideological disagreement between Mumford and Jacobs, who writes in *Cities and the Wealth of Nations* (1984): "We must be grateful that World government and a world currency are still only dreams." In contrast, Mumford saw in the prospect of world democraticization the only possible salvation of civilization and did not hesitate, for example, to attack publicly politicians and architects who did not realize the democratic aim of the UN, as can be seen, according to Mumford, in looking at the seat of the United Nations Secretariat: "In relation to the seat of the Assembly the overwhelming prominence of the Secretariat is ridiculous — unless the architects actually intended a cynical representation of the fact that the technical revolution had already taken place and that the effective decisions are taken by bureaucrats ... To sum up ... the Secretariat should have been planned on a human scale, subordinated in its location and planning to the seat of the Assembly ... The Building of the Secretariat ... although technically new, is architectonically and humanly speaking antiquated" (in *Symbol and function in architecture, Art and Technics*, 1956).

To summarize Mumford's idea of the city, it could be said to contain, as the basic cell of every human institutional structure, the seed of cosmopolitanism and World government. According to Mumford in fact, the primary function of the city is to transform power into form, energy into culture, dead matter into living symbols of art, biological reproduction into social creativity. And these positive functions cannot be carried out without creating new institutions capable of controlling the immense energies at the disposal of modern man. "What we have to conceive and work out is a federal system of government which shall be based upon a progressive integration of region with region, of province with province, of continent with continent: each part loose enough and flexible enough to adjust to the continuing changes in local and transregional life" (p. 354, *The Culture of Cities*). The definition of the politico-institutional framework in which the urban phenomenon has developed and is still developing, is the key to reading Mumford's view of history. Commenting on the incapacity of Italian and German cities in the fifteenth century to form a solid union to safeguard at the same time their independence and their co-ordination, Mumford explains how "the weakness of these confederacies, like that of the Greek cities, served as a warning to the astute writers of the Federalist Papers" (p. 390, *The City in History*). He also explains how, as a consequence of the incapacity of the most flourishing European cities to take the initiative of creating federal-type unions, the various unifications implied an inevitable loss of power, freedom and autonomy of the cities in general. Only Switzerland and Holland tried with some success to solve the problem of unification without damaging the autonomy of the urban centres. But these states were too marginal to be able to reverse the tendency to concentration of power already under way in Spain, France and England. And hence it is to the "disruption and fossilization" of the Italian and German urban reality of the sixteenth century that much of the responsibility can be attributed for not having been able to oppose an alternative political model to the centralised organisation of European countries. And so he continues a little further on in the same chapter of *The City in History*: "We who live in a world still corroded by a similar folly, now embracing the planet rather than the continent of Europe, can without any sense of ironic superiority understand this fatal impasse. The medieval corporation vainly sought to solve within the walls of the town problems that could be handled only by breaking down the walls and deliberately pooling their sovereignty and their control in a wider unity ... Forerunner in so many political departments of the sovereign national state, the

medieval town, handed on to the state all its own limitations, magnified many diameters. By displacing the city, by refusing to make use of its corporate functions, the state in turn helped to weaken and debase municipal life" (p. 391, *The City in History*).

As far as his vision of a World government is concerned, from his very first works the globalization of the process of civilization and institutions is always present in Mumford. In *Technics and Civilization* (1934, but there had already been two previous drafts of this book, in 1930 and 1932), tackling the problem of a more rational management of planetary agricultural resources, whose thoughtless exploitation would produce unsustainable imbalances in nature, he declares: "The private appropriation and exploitation of the land, indeed, must be looked upon as a transitory state, peculiar to capitalism, between customary local agriculture based upon the common needs of the small local community and a rational world agriculture, based upon the co-operative resources of the entire planet, considered as a federation of balanced regions" (p.382, *Technics and Civilization*).

Immediately following the Second World War, these early intuitions induced him to support without hesitation the battle for the creation of a World government, and to consider the problem of how the Russo-American confrontation might be transformed into a policy of co-operation — an indispensable policy, as the events of the second half of the eighties have shown, if a new phase of international relations is to be embarked on. (Mumford's approach to this problem can be seen in his essay, published for the first time in *Air Affairs* of July 1948, which we partially reproduce here from the book *In the Name of Sanity*, 1954.) His growing commitment to this question, expressed in numerous articles (Mumford had started his journalistic career at the age of fourteen) and public addresses, is apparent again in his correspondence with Osborne. He wrote to the latter, who was sceptical about the possibility of World government, in an attempt to convince him in 1947: "What you say about the practical impossibility of World government is true; and in ordinary times we should bow meekly to your judgement. But in the present situation I am tempted to quote the sign that someone saw in one of our military headquarters: the difficult we do immediately; the impossible will take a little longer. I admit that World government will take a little longer; but the nature of our present crisis is such, with respect to the powers of destruction we now command, that if we don't make serious steps toward World government immediately, if we continue the present jockeying for military position and advantage — and by 'we' I mean

particularly my country and Russia — the results will be far more disastrous than the worst mess that premature World government could conjure up. I confess I don't know fully how to make the Russians see this, still less how to get any home pressure exerted on the Russian government; but I do think that my own countrymen, by failing to take positive measures to disarm Russian suspicions and by persistently using wrong symbols — like the ex-Wall Street shark, Baruch — have raised obstacles that could have been avoided and have made the situation more difficult. Our greatest weakness, which is a universal one, is the failure to realize that we are facing a situation that is without precedent, therefore without practical guidance of any sort in history; and that we must attack it with a continued vigilance than even war itself doesn't usually command. We are still asleep ..."⁵ The rather ungenerous reference to Baruch — who some months previously, during the negotiations between Baruch and the Russian delegation led by Gromyko, had been attacked in the press by members of the American Administration, causing a crisis which almost led to the resignation of the American delegation — while on the one hand showing Mumford's utter disregard of the principle "my country right or wrong," on the other hand shows the bitterness of one who had seen fade away the first great opportunity of laying the foundations of a partial World government. A bitterness which however was immediately followed by the determination to act and influence those in power as is testified in point of fact by the essay which we publish here. A determination which despite his age and poor health, stayed with Mumford until the end and which could be seen in his continued refusal to abandon his commitment — what is impossible, as he often said, "if the world at large is not in a more hopeful state."

NOTES

¹ From *The Letters of Lewis Mumford and Frederic J. Osborne, a Transatlantic Dialogue, 1938-1970*, edited by Michael Hughes, 1971, Bath, Adams & Dart (letter of 12 June 1951).

² From *Lewis Mumford, a Life*, edited by Donald L. Miller, 1989, New York, Weidenfeld & Nicolson, p.405.

³ *The Letters of Lewis Mumford*, cit. (letter of 26 November 1956).

⁴ *Ibidem* (letter of 29 August 1944).

⁵ *Ibidem* (letter of 6 March 1947).

"MIRACLE" OR CATASTROPHE *

[...] In short, no purely military measures will give us the power to prevail over Russia's ideas or to avoid a final collision with those ideas on a field of battle. *If we continue to rely upon negative measures alone, we are headed straight for war, extermination, and the wholesale disintegration of modern civilization.* The fact is that both the United States and Soviet Russia have misconceived their national interests, and have acted as if one side or the other would absolutely prevail. Both are wrong. There is no way out of the present impasse which will not require painful sacrifice by ourselves as well as the Russians; for unless we contrive an honorable method to meet each other halfway we cannot continue to live in the same world. If we are to live together politically, Russia will have to abandon its fascist methods; for they are hostile to all the forces that enhance and develop human life. We, in our turn, will have to give up, not the institutions of democracy, but the notion that mammonism and mechanism are the be-all and end-all of human existence. So the next question is: on what basis, before it is too late, can the governments of both states retreat from suicidal course they have been following? Countries that possess instruments of genocide must either bring about an Open World — the world symbolized by the air age — or perish within a closed world.

With these facts in mind, I present a series of proposals as a basis for immediate discussion and quick action. The underlying premise of these proposals is that they must without reserve be as significant and as hopeful to the people of Russia and the Communist-dominated countries as to the people of the United States and their allies. The program presented is mainly a combination of separate suggestions, put forward by different individuals and groups, but so far unconnected and unintegrated. If for brevity I put the succession of operations and proposals in a series of brusque propositions, it is not because I believe that, once the discussion is actively stated, still better suggestions may not be produced, but only because I believe that the facts themselves must be persuasive. If they are not, no eloquence or grace or modesty on the part of the present writer will bring about conviction.

*The text which we publish here is taken from *In the Name of Sanity*, New York, Harcourt Brace, 1954.

Under ordinary circumstances, the first steps we should take, before war fever mounts higher, would involve heavy risk. So long as our negative policy persists, neither the armed forces nor the State Department could sanction them: at the moment I write our government seems even reluctant to guarantee eventual military support against Russian invasion. But the risk will be diminished almost to zero, if we immediately attach to our note of warning an honest plan of conciliation. Preliminary to this first proposal, in order to leave Soviet Russia in no doubt as to the consequences of her actions we should through our Chief Executive address the Soviet Government somewhat in the following manner:

The United States and Soviet Russia are already at war: we know that as well as you do. We do not propose to postpone facing the ultimate issues by further temporizing, withdrawal, or appeasement: that would only add heavier penalties to the final reckoning. Though you have so far won the opening moves of this war, we do not for a moment concede the possibility of your being victorious. But we do know that if the cold war became a hot one, both our countries would meet irreparable disaster and defeat. While we warn you that your next step toward subjugating, directly or indirectly, by political or by military means, any other country in Europe or Asia will be treated by us as an overt act of war, we beg you to pause long enough to consider the consequences. We have a selfish interest in asking you to stay your hand, because we know that war would work our ruin as well as yours. Confident of our own strength, determined to do our full share to head off this final catastrophe, we come to you now with a series of related proposals, for our common advantage.

First proposal. Let us arrange a world armistice, limited to one year. During this year let us restrain every word, every gesture, every move that would convey hostility or belligerence. Let our armies remain where they are, or withdraw to their own territories. In American labor disputes, we have learned the value of a "cooling off period." So long as we rattle arms at each other, neither side can hear the other speak; and neither is in a disposition to listen to the other. This armistice will erect an extra safeguard against "incident" that would bring on a blind retaliation, as the blowing up of the battleship Maine in Havana harbor brought on the Spanish-American War. Above all, the purpose of this armistice is to create an atmosphere of tranquillity, sanity, and good will: such an atmosphere as has not existed between the Western powers and Soviet Russia since the very birth of the Soviet Union. We suggest the time limit of one year in order to insure that both sides will direct their utmost efforts

toward arriving at our common goal, security and peace, without rousing the suspicion that further delay might mean, for the other party, some new military advantage.

We attach to this plea for an armistice a *Second Proposal*: also by way of preparation. We believe that no immediate meeting of our representatives will succeed, so long as they carry into that meeting the convictions, the attitudes, and the fixed ideas they have brought to all the other conferences. We believe it is possible to transform these rigid attitudes — though not without risks to our respective ideologies — by showing that neither totalitarianism nor democracy, communism nor free enterprise, can hope to survive a war of extermination. Unless we are full of blind hatred for humanity itself, like Hitler and his followers, that fact must give us both pause.

This thesis, we believe, is open to demonstration. To this end we suggest that you join us in inviting the United States to take part in an honest, impartial inquiry into the nature of the “total war” we have both been preparing. Our purpose is to arrive at an objective assessment of its certain consequences to our own countries and to mankind at large. At present all the resources of science are being used to create new forms of extermination, without the slightest public effort being made to apply a scientific prognosis to the results. We believe that only the truth, the whole truth, and nothing but the truth can save us from the hideous forces we now have unleashed.

Once the struggle between our countries becomes intense, we shall both resort to mass extermination, on the widest scale. Do you doubt it? We can deduce what means you may use: we *know* our own capacities. There is no defense against genocide by counter-genocide: the only possible form of security is the conquest and complete occupation of the country practicing it; and for either of us to effect that end, we should have to have every other major power in the world as our active ally. In a singlehanded fight we would practice unlimited destruction and extermination without coming a step nearer that goal.

As to American capacities for mass extermination, we shall spare you any guesswork on these matters: we propose at this world conference to lift all restrictions of military security, so-called, in order to make known the actual number of atom bombs we now possess, their deadliness in terms of those we dropped on Japan, and our productive capacity in all *other* instruments of genocide. We will make public the means we now possess for poisoning air and water and soil on a scale that will ultimately exterminate life in every form. You may check our conclusions with your

own scientists and with their colleagues in other countries. Since this conference seeks to lay bare the data on which rational conclusions about the safety and welfare of the human race must be drawn, we suggest that it take the form of a world congress of scientists, particularly nuclear physicists, chemists, bacteriologists, geneticists, ecologists: people whose conclusions, if anything like unanimous, would have final authority. Day by day, they would reveal the essential facts, interpret them, and assess them. Mankind would listen.

At present, all this knowledge is subdivided, secret, inviolable, remote from all but the most casual public scrutiny: hence every action we are preparing to take is, even for our highest government officers, a leap in the dark. We propose to provide the necessary data — hoping all other countries will do the same — that will enable the scientists concerned to estimate, quantitatively, the deadliness of the weapons we now possess: likewise the increasing ratio of danger as time goes on. Within two months, once secrecy is lifted, we are confident that the facts can be brought together and weighed, and the inevitable conclusions drawn. Such a period, therefore, would be more than a cooling-off period, in which frustrations and angers would be erased and self-control and mutual respect established. This period, for the other nations of the world as well as ourselves, would be dedicated to bringing about a profound moral change: such a complete transformation as took place during those memorable days of the French Revolution when the feudal estates of France, voluntarily and almost overnight, renounced all their ancient feudal privileges.

We grant that the difficulties are great: *both our countries must change their minds*; and that will be a harder task for you than for ourselves, since during the last decade the peoples of Britain and the United States have come to understand the interdependence of mankind: former isolationists like our Senator Vandenberg became foremost advocates of world co-operation. We have further steps in mind to make your own reversal of policy easier. But to carry this change through, it is important that your political representatives and ours should attend this congress of scientists day by day, and that our peoples should have a complete daily report of all the proceedings. This will be a day of judgment for all of us: perhaps a Last Judgment on our civilization.

What would the conclusions of such a conference be? An American can perhaps anticipate them with more readiness than his Russian opposite number; for these conclusions have already been stated for us by men not lacking in military skill, in manly self-confidence, or in patriot-

ism. Generals MacArthur and Arnold have both said that *There will be no victor in World War III*. Behind their judgment as soldiers stands an overwhelming mass of scientific evidence. We rely upon that evidence, once it is fully exposed, to effect a change of heart and mind in every government and in every people, a change capable of making them uproot their fixed ideas, mollify their hostilities, and stimulate the processes of co-operation. Without such a change, the next series of proposals would face insurmountable barriers. With a sufficient change, we can go forward with the main business in hand.

Only with some such beginning can we hope for success in undertaking more positive measures. One must assume, as the basis for possible success, that the rulers of Soviet Russia, though they will have serious difficulty in giving up their dogmatic suppositions and prejudgments, are as capable as we are of acting on honest evidence — provided that they realize that every alternative door, which might let them bolster their power without demanding any closer co-operation with the democratic nations, is closed. The conference that assesses the possibilities of genocide will in fact close every door but one: the door to World Government.

The *Third Proposal*, then, is that Soviet Russia and the United States take the initiative in transforming the dummy model of the United Nations, which is a disguise for a feeble confederation of independent sovereign states, into an effective working machine: a complete system of world government. To do this every nation will have to relinquish part of its sovereignty and initiative in all matters of common concern to the rest of mankind: in particular, to surrender the implements for making war, to a central governmental authority, capable of instituting justice and effectually maintaining peace. Without this proviso for guarding minorities, equalizing burdens, removing grievances, no suppression of arms will be effective and no lasting peace will be possible. Whatever illusions people have nourished till now, there is no *halfway point* along the road to world co-operation at which we may safely stop: we cannot by degrees add powers to mechanisms originally designed to remain inert and powerless. Today it is a question of All or Nothing. Unless we establish a world government capable of creating an *Open World*, with an ever-frees movement of men, goods, and ideas across all national boundaries, we cannot even create an inspection force large enough to insure against secret forms of rearmament and genocide. Every national must be, of right, a citizen of the world, and while retaining every local social affection and loyalty, his highest allegiance must be to humanity.

Will Soviet Russia, which now belligerently resists co-operation of the most tentative kind, even refusing to join UNESCO, take this gigantic step? Before the conference on genocide, the odds would be heavily against this happening. But once Soviet Russia had agreed to the armistice and had made a careful calculation of the ultimate results of mass extermination, if the cold war became a hot one, the situation would be far more favorable to a decisive reorientation in Russian policy, even if that brought on a change of Russian leadership. To make this reorientation easier, the United States should underline the peaceful intent of all our proposals by concrete actions the nature of which would leave no doubts in Russia's mind. At this point, it is hardly possible to appraise the potentialities of enlisting Russia's support for world government without reading and pondering G.A. Borge's brilliant exposition of "What to Do with Russia" in *Common Cause* (October, November, and December, 1947). In the current proposals I am doing little more than attaching Mr. Borge's general theme to a more specific series of objectives.

Fourth Proposal: To prove our good faith in taking the lead for world government, a good faith that the Russians may continue to doubt, we should meet them more than halfway. Secure in the existence of our present military machine, enlarged, we hope, to meet every demand of classic warfare, the next gesture, however generous, would involve no direct military risk that would not be easily repairable. Even before the United Nations is transformed into world government, before adequate inspection measures can be devised and put into operation, we should cease manufacturing atom bombs and other instruments of extermination. As soon as Soviet Russia indicates a willingness to accept world government, with all that it implies, by way of democratic procedure, we should dismantle our atom bombs, destroy our biological weapons, and forgo any further production of atomic energy until this can be handled by a world authority.

So much for a program designed to lessen Russia's suspicion and hostility, and to create a confidence that would make possible equally firm measures of co-operation on her part. But we should re-enforce these measures, again voluntarily, by taking the initiative for world justice, creating a pattern which will be followed more comprehensively by world government, once it is in working order. Pursuing Mr. Grenville Clark's wise suggestions, we should meet Russia's demand for control over Dardanelles by declaring our willingness at once to place *all* international straits and canals under United Nations administration; and in advance of a plan for rationing energies and primary resources, we

should extend the Bernard Baruch proposals for a World Control of Atomic Energy to other essential resources: petroleum, say.

If American statesmanship makes world co-operation its *prime* objective, we must realize that both the Baruch Plan and the Marshall Plan, like Lend-Lease before them, cannot be considered as purely temporary expedients, designed to bolster a disintegrating world economy. Quite the contrary, they must be known as the cornerstones of a post-imperialist economy, designed to transform a world based on the one-sided exploitation of the weak by the strong, with each economic group, each national state, intent on private advantage, into a co-operative commonwealth of the nations, spending prudently on peace what they have hitherto spent so recklessly on war, sharing abundance instead of destroying it, forgoing temporary profits for durable human welfare. In terms of a world organized to produce peace, national monopolies and exclusive rights of exploitation do not make sense. "The earth is the Lord's and the fullness thereof": this is no longer a hollow dictum of religion but a directive for economic action toward human brotherhood.

No single action that the United States might take belligerently in opposition to Russia would so effectively undermine in the Russian aggression and hostility, or break down the ideological case Russia has built up against us in the minds of the poor and exploited countries of the world, than the announcement of our willingness to participate in a system of world resource rationing, as a condition of establishing a world government. In a single stroke, we should transform the Kremlin's powerful ideological sword into a shattered icicle. Put forward in good faith and backed by appropriate acts, such a policy would disarm Communist belligerence more effectively than any quantity of lethal weapons. The appeal would be addressed, not to governments but to the peoples living under communism, who are as eager as the western democracies to live in peace.

Behind all these proposals is a simple fact, effectively stated by Professor Borgese: any plans for coming together with Russia instead of fighting her must envisage objectives and goals which make sense in terms of her ideal purposes as well as ours. We cannot create an effective world government if we think merely in terms of containing communism; nor shall we provide for peace and security if at the outset we give up the hope of including Russia in this larger system of unity. In a world organized for peace, capitalism and communism may both, in a limited sense, survive: *but they cannot hope to exist side by side on their own exclusive terms without undergoing any further change.* If the logic of

events forces Soviet Russia to accept, against all her historic traditions, continuous from Ivan the Terrible to Stalin and Malenkov, the unfamiliar methods of Western democracy, which world government necessitates, the same logic also applies to the United States: we must accept and further that tendency toward the equalization of economic privileges and advantages which the conservative de Toqueville identified with the rise of democracy itself.

In neither national nor international life has that equalization process reached its terminus; but the fact is that it has gone much further in democratic England, our closest partner, than in Soviet Russia. Now a progressive equalization of wealth between nations is one of the substantial promises of world government: indeed, our more farsighted industrialists understand by now that it is the foundation even for a healthy national economy. If we lack the political intelligence to go along with this movement and to direct it we shall become the target of the world's envy, jealousy, hatred: on those terms, we shall turn the world over to Soviet Russia, until both systems resort to mass extermination: alias "war." All this means that world government imposes sacrifices and burdens: burdens that will bear most heavily on ourselves. But however steep the price of world government, if considered in annual contributions of taxes on a basis of national wealth, it will be picayune compared to the costs of a third world war. Every canvass of alternatives must be calculated on that basis. If our house is likely to be burned to the ground, a heavy insurance premium is cheaper than the bill for replacement.

There are certain current habits of mind that stand in the way of giving these proposals serious consideration.

The first is the fallacy of gradualism: the notion that every change must be approached by slow degrees, and that the preatomic form of United Nations may, by a succession of minor modifications, become strong enough to carry the load of world peace. Actually, the United Nations has been weakened, not strengthened, by time. Not merely has the succession of Russian vetoes flouted the authority of the majority, but even worse the United States, by its withdrawal of its own proposal for partitioning Palestine, has robbed the organization of its last vestige of dignity and power. Any organization that reverses its decision at the first hint of rebellion by a handful of hostile Arabs cannot, plainly, overcome the continental belligerence of the United States and Soviet Russia. We have no time to build a bridge across the deep chasm between the East and the West: hand in hand, Soviet Russia and the United States must both take a leap. But if one has to jump across a six-foot chasm one must go

all the way: a two-foot jump will merely insure a broken neck.¹

The second obstructive habit of mind derives from the notion that if only the present showdown can be post-poned, some yet undetected agent will save us from the final catastrophe. So people kept on hoping during the period when Hitler, like Stalin and Malenkow, moved triumphantly on the path of "peaceful" aggression and domination; and despite the fact that history has completely discredited the Chamberlains and the Borahs and the Beards, their ghosts go marching on. In view of the fact that the instruments of genocide will become vastly more devastating, the sooner a peaceful showdown takes place the better: provided that we bring to the occasion positive plans and blueprints which will bring about a constructive resolution of our difficulties. *Unless our political or social inventions are equal to our scientific and technological inventions, we confess complete intellectual and moral bankruptcy.*

Finally, there is a kind of mental block which takes the form of saying: Politics is the "science of the possible," and these proposals are not within the realm of the possible. By this, those who take this position mean that any proposal which involves difficulties and sacrifices of a greater order than people normally accept must be carefully kept from view, in order to spare the feelings of all concerned. But if the experience of the last ten years proves anything, this platitude is as empty as it is a mealy-mouthed. In terms of the "science of the possible" England should have surrendered to Germany between July, 1940 and June, 1941. Actually England was saved (and the world was saved, too) because Churchill told the English not what they would have liked to hear, but what they needed to hear in order to bear the day's burden: he told them that their lot would be all but insupportable and that he could promise nothing in the way of immediate victory: nothing, indeed, except that they were about to live through their finest hour. If politics means anything today it must become the "art of the impossible." The people who sacrifice every principle to expediency, every long-range plan to immediate profit, every hope of world government to maneuvering for position in a war that will bring about the extirpation of democracy and the disintegration of human society — it is these people who live in a world of slippery fantasies and self-deceptions. In terms of the "possible" we have only two courses open: suicide by appeasement or suicide by war. The "impossible" is world government and world co-operation: the road to life.

Not for a moment would I underestimate the psychological revolution that will have to take place before these proposals can be seriously considered. At the present moment, the chances for such a program as I

have outlined being put forward within the next year are something less, I should judge, than one in a hundred; for the conceptions they are based on are foreign to most of our present leaders in both parties. Mr. Justice Douglas alone has spoken along these general lines. These ideas, indeed, might more easily come from one of our military leaders than from any visible politician. Day by day, however, the issues become grimmer and the dangers more horrifying: once all the tempting irrational exits are closed, one must hope that the door indicated by reason and common sense will finally open. That "miracle" is the only alternative to catastrophe. But we must not wait for catastrophe before we acknowledge its possibility.

On this matter, if one cannot be an optimist, one dare not be a pessimist. In the utter hopelessness and panic of the depression in 1933, the audacious measures undertaken by the Roosevelt administration, often in contradiction to pre-election commitments, restored public confidence, encouraged enterprise, and brought about production, through hitherto unthinkable uses of public credit and public aid to the unemployed. That, in its way, was a miracle: comparable to the one needed today. So again, with the transformation of the skeptical, cynical, debunked, mainly pacifist younger generation of Americans into tough fighters who beat the Nazis at their own game: what was that, whether viewed as a technical or a moral achievement, if not a gigantic miracle? No change that these young men underwent to prepare themselves for combat is harder than that we must now collectively make under equally dire compulsion, in order to lay the foundations for peace.

The miracle of stopping our present war with Russia and averting total catastrophe is still within human scope. It will require intelligence, imagination, and audacity, all on a heroic scale: but by no means of a superhuman order. These qualities exist in every country. Let us put them to work before it is too late.

(Prefaced and edited by Franco Spoltore)

NOTE

¹ Whether the United Nations has been weakened or strengthened by time is a difficult question even now to answer. Continued attempt to by pass its procedures, to take unilateral measures, to evade its responsibilities plainly weaken it. On the other hand, the increase in the powers of the General Assembly, at the expense of the Security Council, beginning with the Korean decision, was a sign of health. My judgment here was impatient and faulty.

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