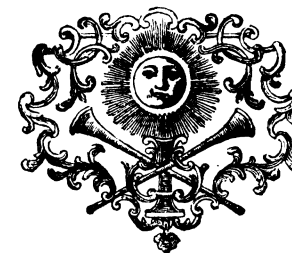


# THE FEDERALIST

a political review

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

Hamilton, The Federalist



---

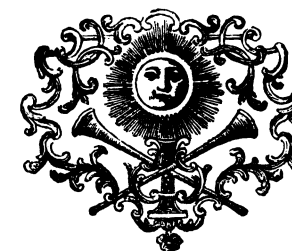
YEAR XXXIV, 1992, NUMBER 1

# 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.



*The Federalist* is published under the auspices of the FONDAZIONE EUROPEA LUCIANO BOLIS by EDIF, via Porta Pertusi 6, 27100 Pavia, Italy. English language editing: David Riggs. Three issues a year. Subscription rates: Europe 30 ECU or 45000 lire; other countries (by air mail) 40 \$ or 60000 lire. A three-year subscription (80 ECU or 120000 lire, 100 \$ or 150000 lire respectively) is also possible. All payments should be made by cheque or Eurocheque directly to EDIF.

---

YEAR XXXIV, 1992, NUMBER 1

## CONTENTS

<i>Europe after Gorbachev's Downfall</i>	p. 3
FRANCO PRAUSSELLO, <i>The World Economy and International Economic Integration at the Beginning of the Nineties</i>	» 11
DARIO VELO, <i>Europe and the New World Economic Order</i>	» 44
NOTES	
<i>Realism, Opportunism and Innovative Thinking</i> (Niccolletta Mosconi)	» 54
<i>The World Community after the Collapse of the Soviet Union</i> (Francesco Mazzaferro)	» 58
THIRTY YEARS AGO	
<i>A Draft Manifesto for European Federalism</i> (Mario Albertini)	» 69

## Europe after Gorbachev's Downfall

The failed coup in the Soviet Union on 19th August 1991, followed by Gorbachev's fall from power and the rejection of his Union treaty, have made the prospects for a new world order more uncertain. The plan to build a grand progressive alliance, which seemed to be taking shape among the Northern industrialised countries of the world, and which would have done a considerable amount to push forward the unification of the planet, has lost a good deal of its credibility and its capacity to arouse and keep alive the hopes of men and women. This does not mean that we have returned to the situation that existed prior to Gorbachev's rise to power. The achievement of this historic man represents a decisive and irreversible step in the process of détente, regardless of the fact that he was unable to carry out a considerable amount of his grand design. The ex-Soviet Union is no longer a military danger, and as a result military spending in nearly all industrialised countries is being sharply reduced. Nevertheless the break-up of the USSR has opened up a hotbed of crisis, and has deprived the rest of the world of a reliable partner to deal with both in political and economic matters.

This new situation cannot fail to have repercussions on the *status quo* in Europe. The CSCE (Conference on Security and Co-operation in Europe) was able to guarantee stable political relationships in the vast area that stretches from the Atlantic to Vladivostok, since this was in reality based on a division of responsibility between two grand poles, the European Community (backed by the guarantee of the US) and the Soviet Union. The disappearance of one of these has thus weakened it. The forces of disintegration which are at work in Eastern Europe, and lie in ambush even inside the Community, have been greatly strengthened. They have devastated Yugoslavia and threaten Czechoslovakia. Nationalism, separatism and intolerance are everywhere on the increase, and are endangering the very basis of civil cohabitation.

The European Community remains the only political entity which, in the current situation, has the potential to reverse this trend, by opting for

unity rather than disintegration. Hence the Community should be compelled by the novel and dramatic situation that has unfolded, to rethink radically its historical role and responsibilities.

Europe, and above all the Federalists, should take a stand on three issues in the current situation. They are: the length of time to be allotted to the federal unification of Europe; the borders of the future European federation; and the conditions for admitting new states.

\* \* \*

*Time limits.* The principle limitation of the agreements at Maastricht was the scarce appreciation of the fact that progress towards a real federal union in Europe has become *a race against time*. If the Community is capable of quickly transforming itself into a real federation, and enlarging immediately afterwards to include the countries of Central Europe and EFTA, it will ensure that movements in favour of integration prevail, both in these countries and in the Soviet Union itself. If, instead, the Community remains oblivious to the urgency of this task, the situation will be reversed, and divisions in the eastern part of the continent will feed divisions within the Community itself. Events in Yugoslavia have already demonstrated this, with European Community governments being divided between those which supported Serbs, Croats or Slovenians, rather than coming together to work for the unity of the Yugoslavian state and to accelerate the democratisation of its institutions.

As long as division remains, it is inevitable that Germany's economic power will continue to emerge (with political power following in its wake). This will not happen as a result of conscious hegemonic aims on the part of the political class in the unified Germany. On the contrary, a sizeable proportion of German politicians, with Chancellor Kohl at their head, are aware of the risks to which Germany is exposed because of its very strength, and is hence playing the European card with greater determination and courage than politicians in any other Community country. Rather, Germany's power will grow because in the current situation, she is already forced to substitute herself (willingly or not) for a Europe which does not yet exist. This leads Germany to take on responsibilities that other member states, alone, are incapable of undertaking, so that she will become, as time progresses, the privileged partner of most Eastern countries. In place of a grand European 'Marshall Plan', which could reverse the tendency towards disintegration, there is the possibility that in the not-too-distant future a regional economic hegemony will be

created (to be followed by political hegemony), whose logic, as for all hegemonies, will be division rather than unity. Yet it should be made clear that the responsibility for such a development will not rest with Germany, but with its partners within the Community. The blame will not lie with the government that, facing the danger of anarchy, undertook the serious task of guaranteeing some form of order, albeit imperfect, in the region, while simultaneously declaring its willingness to surrender its sovereignty within a federal European framework. Fault will be found instead with the governments that did not want to abandon *their* sovereignty (although such sovereignty is by now merely illusory) and chose to block, or at least slow down, the process of European federal unification.

It would nevertheless be irresponsible to hide the fact that, if this scenario comes to pass, democracy itself will be under threat in Western European countries. The only force which prevents the expansion of the extreme right in these states is the hope for a European political union and for a new era of international co-operation which this would make possible (the extreme right can adapt to the circumstances which prevail, playing the cards of nationalism or regional separatism, without changing in the slightest its basic character). If such hopes are left unfulfilled, it is not possible to imagine who will be able to prevent the rise (already a matter of concern today) of figures like Le Pen and Bossi, or those who will take their place in the future.

\* \* \*

*Borders of the European Federation.* If the Community is to turn itself into a real federal union, it needs to face up to the issue of its eastern border, which the collapse of the Soviet Union has brought into question. The western Republics of the so-called CIS (Commonwealth of Independent States) look to the Community, and hope to apply for membership in the future. In a similar vein, there are those within the Community who entertain the idea of enlarging the Community to increasingly distant borders, even to the extent of admitting the Russian Federative Republic itself as a member state.

These dreams are as unrealistic as they are dangerous. In reality the process of federal unification has insurmountable geographical limitations. The Community represents the most advanced regional expression of a larger integration process that is currently taking place on a global scale. The political conclusion of this world-wide process, which will be realised after an unpredictable length of time, can only be the unification



of the entire planet. Nevertheless, it is clear that this will not be the result of extending a single federal core to the around 180 currently existing states, but of a pact between great continental federations. Without such intermediate structures, that guarantee of cohesion and element of responsibility, without which a stable and governable world federation cannot be reasonably imagined, will be lacking.

The geographical area of the ex-Soviet Union contains the necessary ingredients for creating one of these great continental poles. It would also possess a strong degree of economic unity and a particular identity, on account of its Euro-Asiatic position, hence enabling it to exercise a stabilising role in a part of the world that will be considerably removed from the influence of the European Union. As an alternative scenario, if a regional federal structure is not constructed, nationalism will remain the sole doctrine for legitimising power, hence provoking permanent tension between the Republics of the CIS, as indeed is already the case. The process which is presently underway throughout the region, in which the framework of the state is increasingly fragmenting, and civil society is disintegrating, will be accelerated. The integrity of the present Republics themselves will be endangered, beginning with the largest (the Russian Federation), in which Russian nationalism will conflict with nationalist sentiment in Tartarstan, Chechena-Ingushetia, Iakutia, and so on, and will encourage separatism among the sizeable Russian minorities which currently exist in other Republics, from the Baltic to Central Asia.

Furthermore, the Republics of Central Asia would be pushed into the orbit of countries like Turkey, Iran, and Pakistan, which would clearly not assist the creation of an unlikely Central Asian Community, but would rather serve to destabilise the situation further, as these three regional powers compete for the acquisition of hegemony in the region.

If Europe can federate itself, it will need to undertake vigorously the role that the present Community has shown itself to be incapable of fulfilling up to now — that of encouraging all favourable forces to develop Gorbachev's ideals and plans, and to draw the institutional implications therefrom, hence reviving the unity of the ex-Soviet Union on a genuinely federal basis. These forces are silent at present, but they do exist, and their claims are fully justified by the profound economic and social interdependence that still exists (and which will continue to do so for a long time to come) between the Republics of the so-called Commonwealth of Independent States. But in order to achieve this, the European Community must make it immediately clear that its frontier will never extend beyond the western border of the ex-Soviet Union; and thereby

stop encouraging (with promises which it will in any case not be able to fulfil) the fatal illusion which some of the new republics suffer from, namely that in the future they will be able, after a period of association, to become full members of the Community. In the same way the Community ought from now on to distribute aid on the basis of a single plan, organised in common with all the states in the region. Only in this way will it be possible for the Community not to give succour to the nationalism of the minor Republics (as it was guilty of doing with regard to Croatian and Slovenian nationalism), and to avoid facing up to Russia like an antagonist which aims to dismantle its power, rather than as a partner which wants to offer real co-operation for the construction together of a new, peaceful, and progressive European and world order, within the framework of a strengthened CSCE.

\* \* \*

*Conditions for admitting new states.* The enlargement of the Community to include the countries of Eastern Europe (as well as EFTA ones) is now both necessary and of immediate concern, if the aim is to give the peoples of that area a solid vision of future prosperity within the framework of unity, and not a prospect of disorder and ruin in disunity. Moreover, it is absolutely clear that the present decision-making structure, whose main characteristics are the requirement of unanimous decisions and the absence of real democratic government, would make a Community of twenty, or twenty-five, completely ungovernable. From this straightforward observation, two opposing conclusions are usually drawn. The first, put forward by the British government, insists on the priority of enlarging the Community, maintaining that this should precede institutional reform. The aim here is to dilute the Community into a vast free trade area, and hence dissolve it. The opposing point of view makes the reinforcement of the Community's institutions the main priority and would put off the issue of its enlargement until some future, unspecified, date. In reality, though, these two objectives are inseparable: enlargement is not a purely idealistic option, which can be postponed at will, but an immediate and rational necessity. Yet enlarging the Community without radical reform of its institutions would lead to its destruction. From all this there is only one possible conclusion: the urgent need, as has been previously highlighted, to transform the Community into a federal Union.

The prospect of enlarging the Community requires, in any event, a

rethink of the very structure of a European federation including up to twenty-five currently extant states, and stretching as far as the western borders of the ex-Soviet Union. There are in fact strong reasons to fear that without bold institutional innovations, a Europe of twenty or twenty-five will be difficult to govern even after the achievement of federal unity. It is of course possible to affirm that the United States is a federation made up of fifty states. But it needs to be remembered also that the United States, since it lacks intermediate institutions capable of effectively counterbalancing the power which is exercised at the federal level, has for a long time now taken on the appearance of a centralised state.

The important point, however, is that Europe will in any event be a different type of federation from the United States. It will unite peoples with greatly differing languages, customs and histories, each of which is firmly established within its own territory. The Community's expansion to include Central and Eastern Europe will bring in countries with economic problems and productive infrastructures that are destined to remain incompatible with the twelve's for a long time to come. As a result, the Community should be governed with procedures that are totally different, both from the current antidemocratic and ineffectual ones of the Community, and from those with which the United States is presently governed. In particular, its decision-making structures will have to be more decentralised and more consensual. These two requirements seem irreconcilable with a constitutional organisation based on a large number of territorially small, or very small, member states.

For decentralisation to work effectively, the size of the regional government levels needs to reflect the scale of the issues to be dealt with. If the levels are too small, all decisions relating to problems that concern issues on a wider scale will fall within the competence of federal bodies, which will tend as a result to centralise functions, and hence power. But centralisation (which in any event is the negation of federalism) would be substantially incompatible with a greatly fragmented economic and social landscape such as exists in Europe, and would thereby encourage tension and trends towards disintegration, even so as to endanger the continuity of the Union. In reality the independence of small countries within a large federal unit can only be guaranteed by their grouping together in intermediate-sized units which are strong enough to balance the power of the highest level effectively. On the other hand, for effective decision-making based on consensus, a limited number of agents is necessary. A myriad of quarrelsome localities, incapable of seeing the general interest, is not compatible with such procedures.

On the basis of these considerations, it is not possible today to propose precise institutional solutions. But it is reasonable to emphasise the need for the Community (when reflecting on its institutional make-up in view of its enlargement to include the countries of EFTA and Eastern Europe,) to pay close attention to the crucial requirement of making the formation of regional sub-federations a pre-condition for each new admission. Such regional sub-federations will become, in effect, member states of the Union, allowing its extension without prejudicing decentralisation and the capacity to take decisions. Having this requirement in view will quash any temptation to dangle the possibility of direct membership in front of the separatist Yugoslavian Republics.

It remains true that the present Community includes some small countries (Luxembourg, Ireland, Denmark) as member States, and since the current situation is now firmly established it does not seem realistic to ask these countries to enter into intermediate federal groupings (although a federal group made up of the Benelux countries, or Denmark, Sweden, Norway, and Finland would not be unthinkable, given the special ties that already exist between these groups of countries). But it is a different matter for the states which are aspiring to Community membership. Their admission will, in any event, have to be subjected to certain conditions. The creation of regional groupings should be one of these, and would seem all the more reasonable in as much as it would also serve the interests of candidate countries, by giving them contractual and decision-making power, rather than condemning them to a peripheral minority role, which would leave them the sole option of obstructing federal institutions in a bid to increase their political leverage. Moreover, Hungary, Poland and Czechoslovakia already realise this, and have begun to co-operate on a regional scale. In response to a specific request from the Community, this trend could evolve in the direction of a real federal agreement.

It is true that such a request may seem unlikely to gain acceptance in light of the complexity of the ethnic situation and the resulting delicacy of relations between the states of Central and Eastern Europe. But it is necessary to take into account that the enlargement of the Community will not be achieved by a straightforward and painless process. On the contrary, this is an issue which sets the Community a dramatically urgent and traumatic challenge which, if it is to be met, will require both strong political will and a considerable capacity for planning ahead. In light of this, Community institutions (with the Parliament in the vanguard) and the governments of the member states, should take steps to prepare

quickly and with determination, without allowing themselves the delusion that only the passage of time can resolve problems that, on the contrary, will only become more serious as the situation develops.

\* \* \*

In conclusion, it is worth pointing out that there has been no attempt in this editorial to predict the future, but only to point out the existence of problems and to set out general guidelines. Federalists are not observers, but active participants in the process. Their task is therefore not to try and work out which forces will gain the upper hand in the tumultuous events in Europe and the world in the final decade of the 20th century, in an effort to jump on the bandwagon. Rather it is to single out the great choices which history is currently placing before mankind, and Europeans in particular, and to *commit themselves to positions*, in an effort to make the arguments for unity win through over those for division, fully aware that the outcome of the conflict is by no means certain.

*The Federalist*

## The World Economy and International Economic Integration at the Beginning of the Nineties

FRANCO PRAUSSELLO

### *1. Introductory considerations.*

Innovation, the opening-up of markets, and international economic integration are linked by strong ties of interdependence and are mutually supportive. The collapse of the routine economy, and the appearance of Schumpeterian innovation, which continually provides new fuel for the process of development, are facilitated and stimulated by the presence of the international market, in which the economies of scale produced by investment in modern productive processes can be fully exploited, hence making development possible. Furthermore, the incentives and benefits of innovation are made more powerful in the presence of international economic integration, in that the number and the yield of innovations generated by an integrated world economy are proportionally greater than is the case for individual countries.<sup>1</sup>

For some time now, the context of technological change has not been provided by the national market and by its related processes, but by the world economic system as a whole, or rather by what it is convenient to call the world economy. In this context the domestic markets of individual countries continue to fulfil an important function for innovation, but they have lost the role as the basic driving force behind modern production processes, and these processes are now increasingly conceived of, and carried out, with reference to the world market.

It is within this broader framework, moreover, that both the processes of technological catch-up between innovating and follower countries, and the processes of the decentralisation of production among various groups of countries can be seen. Such developments are the rationale behind the technological changes that are affecting the apparatus of production and society, and feed the growth of modern economies.

The make-up of the world economy changes both with increased interdependence, and with the emergence of forms of integration, at global and regional levels, between countries.

This study aims to deal with the principal characteristics of the internationalisation of productive processes in the course of the last decade, with particular reference to the global context and the experience of integration within the EC and within Europe as a whole. The analysis covers on the one hand the characteristics of the world economy and the actions of its key players (countries and multinational corporations); and on the other, the prospects for integration in Europe in the run-up to 1993 and in the wake of the events of 1989 in Eastern Europe.

## *2. The process: the formation of the world economy and international economic integration.*

Throughout the 1980's the tendency of modern productive processes to extend beyond the framework of the national market was both reinforced and significantly advanced. By the end of the decade the underlying rationale encouraging the economies of individual countries to integrate organically into the system of world economy (a trend which in certain areas gave rise to more advanced forms of interdependence within the context of experiments in regional economic integration,) produced two results of great significance. First, the possibility that the economic and political unification of the European Community will be rapidly completed; second, the opening-up of Eastern European economies, and their integration within the context of European and world markets.

The main structural factor determining economic internationalisation is the evolution of modes of production, or rather in the fact that in modern scientific mode of production, the production processes tend to involve the entire world economy. Indeed, the world economy is now considered the most suitable framework within which to plan and carry out modern production, by decentralising parts of the production cycle, or even products, towards the periphery of the system, and exploiting the differentials in cost and sales opportunities between its constituent areas.<sup>2</sup> This powerful factor operates in a virtually cumulative manner, and enjoys a large degree of freedom with respect to the commercial policies of different countries. Its particular impact, however, turns out to be a function (among other things,) of the liberalisation of trade in products and in factors of production, between countries and areas.

This means that while economic interdependence between countries tends, broadly speaking, to increase as the new mode of production becomes diffuse and its global characteristics are intensified with respect to the world market, it is also possible to see that within the world economy there exist regional experiments in the integration of markets, which are based on the gradual elimination of trade obstacles and on the creation of a number of common policies in sectors of varying size.<sup>3</sup>

Hence the world economy, by developing in this way, presents new asymmetrical characteristics — over and above the traditional asymmetries that exist between central and peripheral, or semi-peripheral, countries. The situation has been highlighted in studies by Wallerstein and followers of his school,<sup>4</sup> who argue that as regards the areas involved in the process of integration, interdependence tends to be organised in relatively stable and effective forms, unlike the situation for global interdependence. The latter, in the absence of a world government of economy, is the object of partial forms of organisation that are based on the supremacy of the most advanced countries.

Following the decline in the strength of the US economy (as a result of European and Japanese poles emerging in the Western economy), the most advanced countries try to regulate global interdependence between countries to their advantage: policy co-ordination between the leading countries of the G7 area is the method used. Moreover, it is not impossible that sooner or later, once it has been accepted into multilateral economic world institutions, even the Russian Republic (heir to the Soviet Union,) will become part of this group, or of a similar body.

Against this background, in comparison to the preceding decade, the 1980's saw not only the confirmation of trends but also important changes regarding the main characteristics of the world economic system, as it continued to spread gradually to all countries and areas of the globe.

Despite the resumption of protectionism caused by the recessions of the mid- and late 1970's,<sup>5</sup> interdependence between countries increased in overall terms. Indeed, with the new cycle of international expansion which began in 1982 and was still continuing at the beginning of 1990, world trade started to develop once again at a sustained pace, on the basis of higher average rates than those of the preceding decade. Using, as a measure of interdependence, the connection between trade flows and domestically produced wealth, it can be observed that the relation between growth rates of imports and of world GDP rose in the two periods from 1.12 to 1.34, with an increase of about 20 per cent.<sup>6</sup>

At the same time, experiments in regional economic integration (which in the 1970's had marked time and even lost some ground, not least because of the negative impact of world recession,) gained fresh impetus and were re-launched, at least in the Western economy.<sup>7</sup> Apart from the twin aims of Community integration and increased economic co-operation between EC and EFTA countries (as a preliminary to those countries joining the Community<sup>8</sup>), there are several other examples which should be noted in this context. For example, the establishment of a free trade area between the United States and Canada (and in future Mexico), as well as the resumption or consolidation of many integration experiments that have been started in areas on the periphery of the world economy. Most notable among the latter category are the Andean Pact, experiments in the Caribbean, the Central American Common Market, and Africa, where after the re-launching of the initiatives of the Maghreb and the Economic Community of West African States, there exist growing demands within the Organisation for African Unity for setting up a continent-wide common market.<sup>9</sup>

Only the countries of Eastern Europe seemed to be unsuccessful in this field, a result of the unavoidable negative effect of the crisis in centrally planned systems on the functioning of the CMEA (the international organisation which governed the promotion of regional economic integration between most Eastern countries, under the leadership of the Soviet Union). On closer consideration, however, the collapse of the old model of centralised planning in Central and Eastern European countries will result in some form of integration with the countries of Western Europe, an evolution which will culminate in their joining the European Community, following a transition period of uncertain length. Yet all the above does not even consider the Chinese economy's gradual opening-up to trade, a trend which seems destined to become stronger, despite the interruption caused by the repression of domestic movements in favour of democracy.

The above-mentioned developments were, in their turn, the result of the effect that the globalisation of the mode of production has had on the production of goods and services, and on the circulation of financial capital within the framework of the system of world economy.

A distinctive characteristic, which has indeed become more accentuated in the last few years, concerns the diverse articulation and organisation of real and financial flows in the world system. Real flows, despite the decentralisation of production on a world scale, tend to remain tied to models where the regional component of production and trade remains

important. Financial flows, on the contrary, at least in the form of portfolio investments and speculative capital movements, have proved less tied to choices of a regional nature, and tend to be directed in a more homogeneous way towards world markets as a whole.

Hence, between 1974-80 and 1981-87, indices of commercial integration within the main world areas registered slight but significant increments: rising from 30 to 31 per cent for North America; from 62 to 64 per cent for Western Europe; and from 32 to 34 per cent for the Far East.<sup>10</sup> In the same period the current account deficit of the United States was covered by capital inflows from the rest of the world, or rather from other regional areas (notably Japan), whose banks had by then come to dominate the world financial market, with larger operations than their American counterparts.<sup>11</sup>

In addition, within the context of different types of flows, important innovations emerged compared to the previous decade. The product cycle continued to operate at a world level by means of the successive de-localisation of production, even to the extent of including a new circle of countries above and beyond the first NIC's (newly industrialising countries). However, on top of this trend was grafted a type of countercycle, more idiosyncratic than that of the 1970's. The exploitation of process and product innovations, and above all the pervasive use of microelectronics, allowed the countries of the centre to maintain or recover segments of production in sectors which were once considered globally mature.<sup>12</sup> This explains the existence of competitive advantages for countries that were technologically advanced in sectors such as special steels, textiles and clothing, furniture,<sup>13</sup> and the automobile industry. Nevertheless, these developments cannot be dogmatically interpreted as a general justification for maintaining obsolete specialisation.

Furthermore, in the face of the de-localisation processes, which affect relations between countries, at the microeconomic level there was often a tendency to dismantle the structures of vertical integration, and to decentralise activities with low added value, and functions not vital to the success of a company's strategies, outside the company itself.

As regards financial flows, decisive progress was made during the 1980's towards the globalisation of markets, or rather towards the elimination of obstacles to the free transfer of capital and to the computerised control of movements of savings at a world level.<sup>14</sup>

By the end of the decade the total world financial market, in action twenty-four hours a day, was still at an early stage,<sup>15</sup> but it had crossed the threshold to become an operating reality. Compared to the situation in the

1970's this represented a qualitative leap, one destined to have a decisive influence on the economic policies of countries both at the centre and on the periphery of the world economy. Since the opening-up and deregulation of financial markets (the London Stock Exchange's "big bang" was in 1986), capital transfer movements from one country to another have been larger than the real flows of goods and services: the Eurocurrency market alone increased by \$2,217 to \$4,073 billion (bn) between 1981 and 1986,<sup>16</sup> while at the end of 1989 the global value of international banking activity came to \$3,530 bn.<sup>17</sup>

Nevertheless, in contrast to gradual extension in the sphere of production, circulation of goods, and financial activities, the labour force remained divided in national markets. Only under more advanced forms of regional economic integration, such as in the European Community, is the free circulation of labour guaranteed at an international level. Within the context of the world economy, by contrast, the virtual unity of goods and capital markets has no counterpart as regards the labour market. Hence the existence of numerous obstacles to migration from peripheral to central countries.

### 3. *The agents of change: multinational companies and states.*

Within basic parameters, which are determined by the functioning of scientific mode of production, the evolution of the world economy is influenced by the behaviour and strategies of its key players: national states and multinational corporations.

The former try to stimulate and control growth (subordinating its results to collective preferences), which in the event means they mainly favour increasing the bargaining power of national policy institutions in comparison to other international bodies. Multinational corporations, for their part, represent the rationality of scientific mode of production applied to modern productive processes. They have recently given rise to the global company, which operates a strategy, based on the entire world system, that takes into account the behaviour of other companies and countries using analytical schemes which apply the theory of games to the study of oligopolistic situations.<sup>18</sup>

In the transition from the 1970's to the 1980's (at least in the Western area of the world economic system), states to a greater or lesser extent gave up the ambition of globally directing the process of growth towards socially-determined objectives, and abandoned the establishment of planner-directed public activity. On the contrary, the neo-liberal wave

which spread through the system, following the experiments of Thatcherism in Great Britain and the Reagan administration in the United States, set out to dismantle government intervention, the effectiveness of which the new classical macroeconomics (the most sophisticated version of *laissez-faire* economic theory,) went so far as to call into question. Later on, after the mid-1980's, even Eastern European countries tried to overcome the deficiencies of centralised planning by re-launching reforms and trying to make room for the market economy.

However, not even the most rigorous neo-liberal governments neglected the possibilities that public industries and initiatives provided for the purposes of strengthening the national production system. Particularly in relation to third countries, national policy-makers took care to guarantee themselves advantageous positions within the context of increased international competition, which was one of the by-products of increased interdependence at a global level.

This serves to explain the extension of neo-mercantilist policies in the course of the 1980's, and the proliferation in this period of non-tariff obstacles to trade (particularly in the form of anti-dumping measures,) in the wake of the protectionist strains caused by the recessions of the preceding decade. But it also explains why most countries involved in the process of increasing interdependence at a world level, and in experiments in regional economic integration, changed their attitude to policy co-ordination and the enactment of common policies at an international level.

During the 1970's many countries had tried to oppose the growth of interdependence, winning varying degrees of autonomy by means of beggar-my-neighbour policies (the achievement of high levels of industrial activity at the expense of commercial partners) or by policies of isolation from the rest of the world. Although flexible exchange rates did not allow national economies to isolate themselves completely from external shocks,<sup>19</sup> the adoption of this exchange rate system from 1973 onwards can be interpreted as an attempt to maintain a certain degree of monetary independence in an increasingly interdependent world.<sup>20</sup>

In the 1980's, by contrast, faced with the risk of instability due to the existence of diverging policies, the objective of autonomy was pursued by means of co-ordination or the launching of common policies. Having realised that the power to achieve economic policy objectives through unilateral action was in irreversible decline, countries set out to regain a satisfactory level of control over the principal economic variables by co-ordinating action or by sharing intervention instruments. Note that this

was true as much for minor countries as for the dominant countries of the various sub-systems which make up the world economy: the former were concerned with overcoming an almost total absence of autonomy; the latter with reinforcing an inadequate capacity for intervention by voluntary co-operation with other countries.<sup>21</sup>

On a more general level, it is worth noting that, apart from limited exceptions, co-operation is a superior solution to non-cooperation (where economic policies are decided autonomously at the level of individual countries), in that in the latter case the improvement of conditions for one country implies, at the least, worse conditions for another.<sup>22</sup>

As examples of the growth in co-operation in the course of the decade, one might mention the G7's activity regarding the co-ordination of monetary and economic policies, in a broad sense, by the largest industrial powers of the West; as well as the strengthening and re-launching of the European Community as regards the common economic policies carried out on the territory of the twelve member countries.

The freedom of action of a country's economic policy is a function not only of interdependent relations with other countries, but also of the bargaining power and strategies of the multinationals. Often, in fact, the actions of multinational corporations reduce the effectiveness, or increase the cost, of national economic policy intervention.

Attempts to limit the activity of multinational corporations have taken two complementary forms: the introduction of constraints at a national level, particularly with the identification of sectors which to varying degrees are closed to this type of company (closed sectors); and the approval of international codes of conduct to which the activities of global companies have to conform. However, both types of measure have produced few results, leading the authorities of host-countries to adopt a more flexible approach with regard to the way multinationals operate.<sup>23</sup>

In fact, the last few years have seen governments' attitude to direct investments by global companies change in two ways. First, in the sense that even countries which were once hostile to direct investment and imposed onerous conditions, now solicit it, particularly with a view to the effect on the host economy in terms of increased employment, as well as the faster transfer of innovations. Second, in the sense that subsequent to direct investment, the regulations imposed on multinational corporations' activities proved to be less exacting than those which had characterised the previous decade. It can be said that in this respect, while the 1970's still saw many host-country governments maintain a cautious and critical attitude towards direct investment, in the 1980's foreign inflows

of capital were highly prized, particularly for the extra employment and increased technological standards of local producers that they engendered. At the same time, the general image of the multinational corporation was positive.

It is not clear whether this new situation corresponded to a new stage in which the influence of multinational capital on the host-country was increased to the extent that the latter became heavily or fully subject to the strategies of multinational corporations; or whether it simply reflected a new awareness on the part of policy-makers in the host-countries of the crucial advantages offered by the presence of direct investments. What is clear, however, is the fact that policies aimed at controlling multinationals, even where they were still pursued, continued to show little effect.

This serves to confirm the difficulties that beset host-countries which tried to resist the strategies of multinational corporations, and direct internal growth towards objectives determined autonomously at a national level. Factors operating against the successful achievement of autonomous aims on the part of individual countries were, in fact, not only increased interdependence between countries, but also the activities of global companies that were decided and carried out with reference to global conditions, well beyond the scale of the traditional nation-state.

In this way, a new area has been opened up to experiments in increasingly advanced international economic integration, which could even lead to forms of world government of the economy. In this framework, integration once again represents the instrument by which policy-makers can recover some of their lost sovereignty: not necessarily in conflict with multinational's strategies, but certainly independent of any conditions they might choose to set.

In general then (even ignoring questions linked to the expansion of multinational capital), where there exists no government of world economy (or co-ordination, which is a second best), increased interdependence between countries risks giving rise to unstable and not self-regulating structures. As an example, the synchronisation of national economic cycles often reduces the possibility of using foreign markets to compensate for drops in domestic demand during recessions, while the opening-up of financial markets facilitates, and perhaps even amplifies (compared to the previous situation,) the transmission of external shocks, as was the case for the Wall Street crash of October 1987.

However, if the need for joint regulation of the world economic system is becoming more acute, government responses remain clearly inadequate. In the absence of intervention co-ordinated at a global level,

for example in the context of joint action by the institutions of a strengthened United Nations, the forms of policy co-ordination established so far either fail to go beyond the regional level, or imply serious limits when they have global ambitions. The co-ordinated management of interdependence in the framework of the G7, seen from this angle, excludes the majority of the world's people from participating in common decisions, while at the same time making them pay for all the deficiencies caused by the lack of unified instruments for formulating and carrying out policy at a global level.

In contrast, the strategy of multinationals reveals a homogeneity that is based on the evolution of the world economic framework. Apart from differences dictated by certain national or regional peculiarities, the multinationals' response to basic shocks, such as medium term changes affecting the entire world economy, can be seen to be converging. Thus, even during the 1980's, variations both in the flow of direct investments and in the implementation of company policies proceeded in ways that were common to all multinational corporations.

As regards the former point, it should be stressed that the 1980's saw the consolidation of trends which had already become evident during the previous decade, although with a number of new elements regarding quantitative aspects. In gross terms, it remained the case that the bulk of direct investments (both inward and outward) continued to affect the OECD area, and that within the categories of developed and developing countries, the relative weight of the leading countries, or groups of countries, changed. Simultaneously, the expansion of multinational corporations into developing countries was confirmed, notably in the newly industrialising economies (NIE's) of Hong Kong, Taiwan, South Korea, and Singapore, as well as Brazil and Mexico,<sup>24</sup> which had many multinationals of its own by this time.

Hence, between the beginning of the 1970's and the period 1980-84, the share of direct investments originating from industrialised countries was slightly reduced from 99.8 to 97.3 per cent, while the developing countries' share rose from 0.2 to 2.7 per cent.<sup>25</sup> Within OECD countries, where the triad of the US, Europe and Japan provided more than 80 per cent of total flows, there was a dramatic change in the size of US investments, which fell from 45 per cent in the early 1970's to 18 per cent in the period 1985-89.

The gap created by the US was mainly filled by Great Britain and Japan, whose respective shares rose from 17 to 20, and 6 to 19 per cent, while France doubled its share from 4 to 8 per cent and Germany's

investments stagnated at around 8 per cent of the OECD total.<sup>26</sup> As regards inflows of direct investment, until the mid-1980's, OECD and developing country shares remained stable at around 77-78 and 22-23 per cent respectively. In the second half of the decade, investments became concentrated in industrialised market economies, and the share of under-developed countries dropped to 18 per cent, with the added caveat that for direct financial inflows into the Third World, three-quarters were concentrated in ten countries: five in Asia (China, Hong Kong, Malaysia, Singapore and Thailand); four in Latin America (Argentina, Colombia, Brazil and Mexico); and one in Africa (Egypt).<sup>27</sup> Among developed countries, the United States' share was doubled (from 24 to 48 per cent between the periods 1970-79 and 1985-89), while the share of the four major Western European countries dropped from 40 to 26 per cent. Among developing countries, Latin America's share showed a similar drop, while that of the Asiatic countries increased.<sup>28</sup>

The main new element in this context, during the 1980's, was undoubtedly the emergence of the US as a net importer of capital, absorbing direct investments from the rest of the world, notably from Europe and Japan.<sup>29</sup>

In relations between Europe and the US, acquisitions by European multinationals came to dominate; the ratio for direct investment flows across the Atlantic in the period 1984-1989 was two to one.<sup>30</sup>

However, the creation of the internal market in 1993, and moves towards Economic and Monetary Union, should be considered as being bound to accelerate the resumption of US and Japanese direct investment in the EC; indeed this trend has already begun.<sup>31</sup>

There are further elements which need to be emphasised: in brief, the increasingly multinational expansion of industrial companies, as well as the large increase in the amount of foreign trade carried on by multinational corporations.

Despite the fall in direct investments in the early 1980's as a result of recession,<sup>32</sup> the proportion of overseas production to total production for leading industrial conglomerates (their degree of multinationalisation), grew by several percent in the course of the decade.<sup>33</sup> Furthermore, the increase in direct investments was at a higher rate than trade growth. Between 1983 and 1989 global direct investment increased by about 30 per cent p.a., three times faster than trade between countries.<sup>34</sup>

Moreover, towards the mid-1980's more than 90 per cent of international trade was carried on by the largest 800 global conglomerates; and in intra-firm trade these industrial groups accounted for over a third of



goods exchanged globally.<sup>35</sup>

It is well-known that companies decide to make direct investments for one or more of the following reasons: a) to obtain a secure supply of raw materials; b) to overcome obstacles created by protectionist measures, by setting up production units in the export market; c) to increase the scale of production, so as to reduce costs; d) to use multinational expansion as a means of maintaining intangible advantages (managerial or technological). The strategies that correspond to the four above-outlined objectives are concerned with: a) supply; b) the market; c) rationalisation; and d) technological and financial policy.<sup>36</sup>

Whereas during the recessions of the 1970's and early 1980's, a market strategy was very successful in fulfilling these objectives (since it enabled companies to deal with the protectionism produced by economic difficulties),<sup>37</sup> it seems that from the mid-1980's onwards technological and financial strategies were increasingly adopted, even if strategies that aimed at market penetration retained considerable importance. These trends translate into a greater number of forms of internationalisation that do not involve the direct control of associated companies, or that are based on co-operation agreements with external partners, or even on non-equity forms that involve no venture capital at all.

This characteristic was already apparent in the 1970's; other trends visible during that decade were: the increased importance of direct investments in service industries; a reduction in the creation of new production capacity in favour of the acquisition of already-existing production units; and a shift from commercial production facilities that served local markets, to more complex structures that were directed at regional or global markets.<sup>38</sup>

#### *4. The framework: the asymmetries of the world economic system.*

The world economic system, as previously mentioned, is not internally homogeneous, but reveals a whole array of asymmetries and hierarchical relationships among its constituent countries, and groups of countries. Furthermore, as has been demonstrated, the world market can also be considered asymmetrical in terms of resources traded, given the lack of unrestricted labour transfers at an international level, due to the barriers that face workers who want to migrate towards the markets of industrialised countries.

In general terms, the asymmetries most worthy of consideration are the vast discrepancies that exist between the contribution of different

regional groupings to increases in output and world trade. The major change during the 1980's in this respect was the shift of the world economy's centre from the Atlantic region to the Pacific area. Since 1983, the amount of trade in manufactured goods between Japan and South-East Asia on the one hand, and within the Americas on the other, has been greater than that between the two sides of the Atlantic.<sup>39</sup>

Two main factors contributed to this change. First, the rise of Japan as a global economic power, and the dynamism of the newly industrialising countries (NIC's or NIE's) located in the area under direct Japanese influence. Second, the relative decline in the United States' share of output and world exports, coupled with the fact that EC participation in international trade essentially stagnated.

Some argue, however, that the importance of the Pacific area will recede in future, mainly because there are many obstacles that hinder the maintenance of growth levels similar to those of the last twenty years.<sup>40</sup> Furthermore, expansion associated with Eastern Europe's entry into the world market, combined with the completion of the Single Market and EMU, could shift the world economy's centre of gravity back towards Europe, simultaneous with an extended European Union (including the countries of Eastern Europe) gaining leadership of the world economy.

As regards the traditional dichotomy between centre and periphery, the 1980's saw the gap between advanced and underdeveloped countries in the world economy widen. Only the developing economies of East Asia showed satisfactory economic results; sub-Saharan Africa and Latin America, on the other hand, saw their per capita income fall by 2.5 and 0.6 per cent p.a. respectively, between 1980 and 1988.<sup>41</sup> Taken as a whole, the difference in average per capita incomes between developed and developing countries, increased from \$5,450 in 1975, to \$13,860 in 1987.<sup>42</sup>

One of the main causes why the Third World fell even farther behind is the debt crisis, in which developing countries have been trapped since the early 1980's.

The excessive amounts of finance transferred by banks to developing countries during the 1970's has proved, since the beginning of the following decade, to be a formidable obstacle to their growth. Among the direct causes of the debt crisis are increased interest rates, as a result of the restrictive monetary stance adopted by the US in 1979, and a fall in debtor country exports in the wake of the recession which hit industrialised countries at about that time. Real interest rates on the loans of non-oil-producing debtor countries reached almost 20 per cent, while the

terms of trade for the 15 most indebted countries decreased in 1981 and 1982, by 3 and 4 per cent respectively.<sup>43</sup> In structural terms, however, when debtor countries began to repay their loans, a possible worsening of their terms of trade had to be taken into account (in line with the theory of transfers,) because of the pressure on world prices caused by the sale of produce in an effort to make debt repayments.<sup>44</sup>

The crisis manifested itself when Mexico stopped servicing its debt in 1982, which elicited much intervention on the part of creditor countries and multilateral credit institutions (such as the IMF and World Bank), in an effort to prevent the collapse of the international financial system.

For many countries, the difficulties of servicing the debt were due not so much to illiquidity, as to actual insolvency, since often interest rates on the debt exceeded domestic product growth rates; and exportable resources did not seem sufficient to repay loans without the danger of forcing domestic consumption below subsistence levels. Despite this, the policy of creditors (both banks and countries) continued, for a long time, to aim at full loan recovery. Hence there followed, in succession: drastic deflation of debtor economies; an initial, fruitless attempt to promote new financing in order to stimulate growth again in debtor countries (the Baker Plan); debt reduction by means of bilateral conversion operations; and finally the launch of the Brady Plan to reduce, within a multilateral framework, the debts of countries most at risk, beginning with Mexico.<sup>45</sup>

By the end of the decade the crisis was far from resolved. The collapse of the international financial system had been avoided, but despite this not all dangers had been overcome. The Third World still had debt of about \$1.3 bn, with a loan service that amounted to 20 per cent of the value of their exports (40 per cent for the most severely indebted countries).

The effects of the debt crisis proved onerous, both in terms of reducing living conditions (often subjecting people to disease and malnutrition), and in terms of slowing down the process of industrialisation<sup>46</sup> and reducing growth rates. This was due to a sharp reduction in imports and net resource transfers, which, by this period, operated in favour of creditor countries from Third World countries (\$169 bn in total, from 1984 to 1989).<sup>47</sup>

Taken as a whole, the 1980's were a lost decade for Third World development, while for sub-Saharan Africa there were two decades lost.

However, the newly industrialising countries of the Asian region were an exception to the usual fate of the Third World: in contrast, they brought about a new development pole in the world economy.

South Korea, Hong Kong, Singapore and Taiwan joined the ranks of

newly industrialising countries in the 1970's, and continued to grow at a more than impressive rate, lifting the expansion rate for the whole of the Asiatic region (7.1 per cent in the period 1980-88, or more than double Third World growth rates as a whole during the same period).<sup>48</sup> The performance of these countries was often measured by double digit increases in annual product (an average of between 7 and 9 per cent during 1980-1988), as a result of an aggressive commercial policy aimed at world markets. Their success illustrates the advantages of an export-led development model which adopts realistic exchange rate policies, and uses well-timed structural adjustment policies to cope with external shocks.<sup>49</sup>

This also explains the limited impact that the debt crisis had on them. Only South Korea had contracted substantial debts, and these have been partly repaid.<sup>50</sup>

The industrialisation of these countries was based on the logic of decentralised production, which was inspired by the search for cheap labour.<sup>51</sup> The 1980's saw a second wave of production transfers to Thailand, Malaysia, the Philippines and Indonesia, countries which enjoyed comparative advantages in highly labour-intensive sectors involving medium to low technologies. A third wave can be envisaged for the future, which might reach as far as China. In the meantime, trade within the Asian area was augmented by the increased return flow to Japan of goods produced in the Asiatic NIC's by Japanese multinationals; it was from Japan that some production had originally been decentralised.<sup>52</sup>

As regards industrialised countries, the 1980's saw the crisis of central planning in the countries of the East, and the reinforcement of multipolarism in the Western economy. The various reform projects launched in countries with centrally-planned economies did not succeed in making their economic management more efficient. Moreover, they were overtaken by the launch of *perestroika*, which had much more ambitious objectives, namely the undermining of the very foundations of public ownership of the means of production.

Among Western countries, in contrast, the tendency to base reciprocal relations on an oligopolistic basis continued to increase.<sup>53</sup> When the hegemonistic stage of the international economic system ended in the early 1970's, with the collapse of the Bretton Woods system, the European Community and Japan took their place alongside the United States as new poles of the Western economy.

In the following decade, the economic importance of the United

States continued to abate, to the advantage of Japan in particular, while Europe marked time, awaiting fresh impetus (that the planned completion of the Single Market may provide).<sup>54</sup> Between 1978 and 1986, the United States' share of world exports decreased from 11 to 10 per cent (in 1973 it was 16 per cent), while Japan's world export share rose from 7 to 10 per cent, and the EC's share remained around 37 per cent.<sup>55</sup> Moreover, between 1965 and 1987, the US share of Western product declined from 40 to 30 per cent, compared with an increase from 5 to 16 per cent for Japan, and 6.6 to 7.4 per cent for Federal Germany.<sup>56</sup> At the same time, the GDP of the EC (of the Twelve), plus the five German *Länder* once in the GDR, rose to over \$6 bn by the end of 1990, overtaking the amount of wealth produced by the United States (\$5.3 bn), and leaving Japan (\$2.9 bn) a good way behind.<sup>57</sup>

Compared to the previous period, in which it had exported capital to other countries, the US position was clearly weakened by its becoming a net importer of capital and repeatedly running a deficit on the current account. As a result, the US accumulated so much foreign debt as to make it the world's most indebted country, with over \$360 bn of debt by the end of 1990.<sup>58</sup> Moreover, in international finance and for many high-technology products, the leadership of the United States was replaced by that of Japan.

Within the context of the multipolar system, the oligopolistic countries were subject to the conflicting aims of pursuing their own ends (often by means of mercantilist policies), and of submitting to common rules in order to manage the world economy in a co-ordinated manner and thereby gain the public benefit of an "international economic system" (a system of economic relations between countries that is endowed with the necessary stability).

The absence of hegemony, and the difficulty of operating for a system with an oligopolistic structure, explain both the recurrence of trade tensions between the three poles, and attempts at policy co-ordination within the G7.

With regard to the former trend, it is sufficient to recall the wrangles between the US and the EC over trade policies involving agriculture, and iron and steel products, as well as the pressure exerted on Japan by Europe and the United States in order to further open up Japan's domestic market. As for policy co-ordination, the specific object of their combined efforts was to maintain a stable foreign exchange market in the face of the erratic behaviour of the dollar's exchange rate; the dollar remained the principal currency of the international economic system. The co-ordination of

monetary and exchange policies culminated in the Plaza agreements of 1985, and the Louvre agreements of 1987. However, as has been previously mentioned, there became established within the G7 a tendency not simply to take decisions dealing with relations between industrialised countries, but also ones that related to the behaviour of these countries as a single group with regard to the rest of the world.

##### *5. Change in Europe: the completion of European integration and the crisis of centralised planning in Eastern European countries.*

The 1980's marked the re-launching of European integration, and yet also the collapse of the Communist regimes in the minor countries of Eastern Europe, as well as the start of structural reform in the Soviet Union. The two series of events are interdependent in more ways than one: since they are both expressions of the fundamental trend governing the globalisation of production processes; and because Community integration, and difficulties in Eastern Europe, have affected each other in the past, and are destined to do so in the future as regards the evolution of the two parts of Europe. At the beginning of the 1990's, the crucial issue in this context is whether the Community has the capacity to support and facilitate the opening-up and democratisation of ex-Communist Europe, without losing its momentum towards unity. On the contrary, there exists the possibility that the extension of the Community's sphere of action to include Eastern European countries, as well as, and in particular, German unification, will end up blocking the EC's evolution towards federal institutions, such that the attempt to crown the long process of integration (begun after the Second World War,) with economic, monetary and political union, will be doomed to failure.

After the long intermediate period that was marked by setbacks throughout the 1970's and early 1980's,<sup>59</sup> economic integration in the EC started up again, as a result of both political and economic factors. Among the latter, worthy of mention are the reaction to Europe's decline in the global competition with the United States and Japan for the conquest of world leadership in high-technology sectors, and the continuing convergence of the Community's economies due to the effect of the EMS. Particularly from 1983 onwards, in the wake of France and Italy's agreement to bring their monetary policies gradually into line with the greater rigour of the Bundesbank, exchange rate fluctuation and differentials between the inflation rates of countries belonging to the European exchange rate agreements were reduced. Between 1980 and 1988, for

example, the differential between price changes in Italy and Germany was reduced from 15 to about 4 percent.<sup>60</sup> During the same period, output growth rates tended to converge, although average economic growth for countries belonging to the EMS proved to be less than for other Western countries, leaving open the question of the possible deflationary effect of Community exchange rate agreements.<sup>61</sup>

The convergence of EC member country performances, as regards price movements and changes in real output, thus created the conditions for launching a programme to complete the Single Market, an enterprise which would have made little sense if member country economies were diverging.

The political factors underpinning the re-launching of this Community project can be encapsulated in the election by direct suffrage of the European Parliament, and by the latter's action (based on strength derived from its newly-gained democratic legitimacy,) to increase its powers and reform the Community's decision-making mechanisms. In 1984, at the end of its first legislature, the elected Parliament presented a proposal for European Union (the Spinelli Plan), which involved comprehensive democratic innovations with regard to the functioning of the Community.

Member state governments did not accept the changes in the Treaty requested by the European Parliament (although some of them did in fact give their agreement). They were nevertheless forced to respond in some way to the proposal of European Union, and this they did by approving the Single Act in 1986. As well as introducing some minor innovations, including those in regional and environmental policy, the Single Act added to the EC Treaty the aim of creating the Single Market by 1992.<sup>62</sup>

The Commission's White Paper on the completion of the Single Market lists the 280 or so directives that are needed to eliminate the remaining obstacles to the free transfer of produce, and production factors, within the Community market. They deal with: physical barriers (internal border controls on goods and people); fiscal barriers (different rates of VAT and domestic excise duty); and technical barriers (differing national technical regulations - often a Trojan Horse for non-tariff forms of protectionism).<sup>63</sup>

The Cecchini Report evaluates the overall benefits of eliminating such obstacles as equal to 250 bn Ecus, and an increase of between 2 and 5 million jobs. Moreover, this does not assess the dynamic advantages of the Single Market (increased output, associated with greater investment due to the opening-up of markets; nor the degree of reorganisation which

the most protected sections of the European economy will undergo).<sup>64</sup>

An in-depth study of the effects of full market integration reveals two crucial elements for the success of the initiative. First, the Single Market must engender not only efficiency, by reducing costs and prices, but also stability throughout the European economy, as well as equity (preventing the benefits of integration from being enjoyed only by certain countries, or social groups). Second, the need for member countries' economic policies to be restricted in favour of Community institutions, given that it is impossible for there to exist simultaneously, the free exchange of produce and production factors, exchange rates stability, and full policy autonomy for each individual member country.<sup>65</sup>

An awareness of the first element's importance led to an increase (insufficient, but significant none the less,) in the resources distributed by the EC's structural funds, which aim at smoothing out the possible negative effects of the Single Market, in the context of increased differences between the central and peripheral areas of the Community.

In turn, the need for economic policy integration, aside from market integration, resulted in the re-proposition of the projects of Economic and Monetary Union, which had not come to fruition in the 1970's. The Delors Report, which set out a stage-by-stage approach to the single currency and economic union, was approved by member countries, despite the opposition of Great Britain,<sup>66</sup> and on 1st July 1990, the first stage of the transition to the Union came into force (accompanied by the full liberalisation of capital movements within the Community, and between the Community and the rest of the world).

At the same time, an intergovernmental conference was set for the end of 1990, in order to discuss Treaty changes with a view to completing Economic and Monetary Union. It was subsequently decided to hold an intergovernmental conference on Political Union as well, given that the completion of Economic and Monetary Union makes dramatically clear the need for a European government with limited, but real, powers.

In this way, the foundations were laid for the approval of the Maastricht Treaty, in which the Twelve were to commit themselves to establish a European currency by 1999 at the latest, and to start joint initiatives in the fields of foreign policy, security and defence.

By the end of the decade, and on the eve of the enactment of the Delors Plan, progress towards the Single Market was on balance positive, even though the Community programme had suffered some setbacks over the elimination of border controls, and the harmonisation of indirect taxation. Above all, the goal of completing the Single Market was seen to be

achievable - it served as a reference point for companies, who began to take it into consideration when planning investments, and medium and long term business strategies.<sup>67</sup>

While the Community was preparing its re-launch and enacting the first stages towards completely open markets and the goal of the European Union, Eastern European countries were suffering a number of problems, and were unable to fulfil the objectives set by their national plans or by the joint programmes of the CMEA.

Because of a series of adverse circumstances, both external and internal, several countries were obliged to restrict internal absorption heavily, to the extent that growth in Eastern European countries during this period fell to its lowest levels since the Second World War, while income per capita remained static at levels reached at the end of the 1970's. Concurrent with these trends, even ambitious plans to re-launch socialist economic integration within the CMEA (with a programme of scientific and technological development in the mid-1980's,) seemed to have little hope of success. This can be explained, above all, because of difficulties in co-ordinating the national five-year plans, and reconciling a system based on central planning with decentralised decision-making processes at the level of individual companies.<sup>68</sup>

With reference to the Soviet Union in particular, the first half of the 1980's saw a sharp decline in product growth rate, which according to authoritative sources reached zero in 1985,<sup>69</sup> and subsequently rose to an average of 2.9 per cent in the period 1980-1989. At the beginning of the 1990's, the difficulties of changing to a market economy were translated into an absolute reduction in real terms of wealth produced, and South American-style inflation rates.<sup>70</sup>

Gorbachev launched *perestroika* in the spring of 1985, and in the wake of this initiative, reform movements (which during the 1970's and early 1980's had for the most part languished) gained new strength in many countries of the area.<sup>71</sup>

To these developments were added the events of 1989: notably the fall of Communist regimes in the minor countries of Eastern Europe; the gradual change to a multi-party system in the Soviet Union; and the growing possibility of a rapid *Wiedervereinigung* between the two German states.

The prospects regarding economic development for Eastern European countries at the beginning of the 1990's were fairly clearly outlined. In structural terms, there existed a trend to replace the old mechanisms of centralised planning with the automatic functioning of a market econ-

omy, the latter to be corrected (to an extent that is difficult to define *ex ante*) by state intervention, in a similar way to today's mixed economies in the West.

The objective of changing to a market economy is evident, in any case, even in the countries of the defunct Soviet Union, where a programme of transition towards this type of economic system seems bound to succeed (despite thousands of difficulties), particularly in the wake of the failed coup of August 1991.<sup>72</sup> Moreover, it is worth noting that on an external level, these countries (following the disintegration of the Soviet Union, the dissolution of the CMEA, and the collapse of trading links that depended on the latter,) showed their intention of participating actively in the management of the world economy, primarily by joining the multilateral institutions that regulate its development, such as the IMF, the World Bank and GATT.

In the medium term, there is a danger that problems (inherent in every transition,) will multiply; while uncertainties over the way to implement a market economy, and the results of such a transition, have given rise to disorganisation and growing shortages.

Moreover, on a general political level, the efforts made to create common institutions for the countries belonging to the Commonwealth of Independent States have a high risk of failure; this is also the case for Eastern European countries as they grapple with inter-ethnic tensions of various kinds, unless the disintegrative forces of local nationalisms are curbed with authentically federal institutions. Following Yanaev's failed *coup d'état* in August 1991, the secession of the Baltic countries and the dissolution of the USSR marked an important stage in a process whose outcome could prove profoundly destabilising, even to the extent of resulting in armed conflicts which might involve atomic weapons, and endanger world peace.

From this point of view, as regards the reorganisation of the general structure of Central and Eastern Europe, and their constituent countries, there exists a choice between fragmentation on the one hand (through the explosion of nationalisms, or even tribalisms), and the birth of federal-type structures on the other. Hence, European Community interests lie primarily in preventing the disappearance of all forms of joint state organisation between the Republics of the old Soviet Union, and in supporting their democratisation and transition to a market economy, while refusing to assist in any way the nationalistic policies of countries in the area. It should clearly be pointed out that this is also the case for the minor countries of Eastern Europe, in particular Yugoslavia, whose unity

on a democratic foundation should have been required by Europe, as indeed EC Foreign Ministers tried, at least initially, to emphasise.

In light of this situation, the Community is faced with new opportunities, and also new risks. On a political level, the Community's priority is to increase its influence in these countries, and consolidate their fragile democracies, completing, at the same time, the democratisation of Community institutions as a preparation for a wave of expansion to the East, which will increase the EC's responsibilities and its international weight.

From an economic point of view, the opening-up of markets to the East may provide the driving force for a period of sustained growth for EC economies, which are probably best-equipped to provide the industrial plant and technological know-how that are needed in order to modernise those countries.<sup>73</sup> From this point of view, the financing made available to Eastern Europe by the European Bank for Reconstruction and Development (EBRD) constitutes an investment, which should bear fruit within a reasonable period of time. Yet it is clear that such financing is dramatically insufficient in the face of the vast amount of reorganisation which needs to be done to the industrial infrastructure of these countries. An immense effort is therefore necessary, similar to the United States' Marshall Plan for Europe after the Second World War. Meanwhile, as an initial step, the transition to a market economy, and the opening-up to international trade, could be eased by establishing a regional payment agreement, similar to the European Union of Payments of the 1950's which was tied to the Ecu.<sup>74</sup> On the other hand, a collapse of Eastern European economies would be extremely costly for the Community, not least in the form of massive numbers of immigrants, whose absorption would test to the full the resistance of the economic and political structures of European society. It should be pointed out that such costs could possibly exceed the \$300 bn (in 1991 prices) which crossed the Atlantic in the form of the Marshall Plan after the Second World War.<sup>75</sup>

Among the immediate risks is the possibility that the crisis which began with the fall of the old regimes may have ruinous effects on democracy, stability and even peace, in the region, with an obvious negative impact at an economic level, as well. Other effects which should be taken into account, are the high costs connected with German unification: in terms both of the higher interest rates required to counteract the inflationary potential of the subsidies needed to sustain the economies of the new eastern *Länder*,<sup>76</sup> and in terms of a possible weakening of the German mark's pivotal role in the EMS, for some time to come at least

(although in the long run the mark is bound to be strengthened by the eastward expansion of the unified Germany's sphere of influence, and especially its currency's influence).<sup>77</sup>

At a later stage, there exists the risk that by joining the Community, Eastern European countries may slow down the momentum towards the Community's complete integration, and make operating the EC more complex. Nor should we ignore the danger that if the Community enters a stalemate situation, then the difficulties of German unification may persuade German politicians not to pursue the objective of European integration. The latter scenario is a real possibility, even if it may occur only much later on, at the end of the present political cycle which is continuing to involve German leaders in the struggle for European democracy, but only if (as may unfortunately happen,) the present window of opportunity, which currently allows us to hope for the early completion of European integration, is not exploited. However, the prospect of the new German state's foreign policy taking a nationalistic turn can be made more remote, by giving the Community solid federal institutions to which the unified Germany's future may be anchored in perpetuity.

As for difficulties connected to relations with Eastern European countries, it should be noted that the Community welcomed the entry of the area corresponding to the ex-German Democratic Republic. Indeed, under the protocol appended to the Treaty of Rome concerning the free circulation within the Common Market of goods involved in inter-German trade, the GDR had represented a sort of silent partner from the very beginning. For the majority of Eastern European countries, however, the attitude of the Commission and member governments remains cautious, given that according to official declarations the deepening of integration continues to have precedence over the broadening of the Community.

With regard to this question as a whole, European governments and political movements have presented proposals which share two main characteristics: the need to strengthen Community integration; and the usefulness of providing for a series of organisations with overlapping, but concentric, circles to oversee co-operation between the Community and the rest of the world. However, opinions differ as to how these objectives should be carried out.

First, there is a vital conflict between those who maintain that greater integration can be achieved by simply extending intergovernmental co-operation, and those who strive for a constitutional option which would

imbue the Community framework with democratic legitimacy (above all, by attributing full legislative powers to the Strasbourg Parliament). Taking into consideration only the policies of member governments, the principal members of the first group are Mitterrand's France and Great Britain, while the countries most committed to the constitutional solution are Kohl's Germany and Italy. Second, much uncertainty exists as to the role of external countries. At first, it seemed a political consensus was forming with regard to the existence of a second circle, made up of candidate countries associated to the Community, but not yet ready for membership. Countries which wanted to remain on the system's margins would have to form part of a third circle, co-operating with the countries in the two inner circles by means of an organisational framework similar to that suggested by Gorbachev when he spoke of the "European Common Home." Proposals of this type were supported by President Mitterrand, who argued that the Community, and its associate countries in Central and Eastern Europe, should form a European confederation; and by Duverger,<sup>78</sup> who considered that the broadest circle could include all the member countries of the Council of Europe. For his part, Jacques Delors, the President of the Commission, seemed inclined to include the EFTA countries in the second circle (in the context of the "European economic space"), with associate countries from Eastern Europe in the third circle, and to keep non-associate countries completely outside.<sup>79</sup> However, it became apparent that such proposals were entirely inadequate as, in the course of the first few months of 1991, the economic and political difficulties that beset the new democratic regimes of Eastern Europe spurred the countries of Central Europe to repeatedly ask the Community for membership within a reasonable period of time. Hence the political defeat and rejection, by the countries involved, of the concept of Confederation that had been favoured by Mitterrand in the Prague conference of June 1991, and been openly presented as an alternative to full membership. However, one element of the French President's plan did seem to win a consensus: the delineation of the broadest circle of pan-European co-operation as being within the context of the CSCE.<sup>80</sup>

Faced with this situation, and considering the risks of a likely deterioration of economic, social and political conditions in the region's countries — and in some cases the dangers of *coups d'état*, and inter-ethnic and even inter-state wars — the EC cannot afford to hesitate. The Community has a decisive instrument at its disposal with which to consolidate the democratisation of Central and Eastern Europe, its transition to a market economy, and its opening-up to international trade:

the immediate start of EC membership negotiations, with the *caveat* that their economies can adjust to Community rules within the course of appropriate transitional periods, which will be arranged with regard to the initial condition of the candidate country's economy.<sup>81</sup> For the Republics born out of the disintegration of the Soviet Union, which presumably will not apply to join the EC in the near future, an instrument of association could be used, with a statute *sui generis*. Without solutions of these kinds, economic transition can hardly be expected to take place in a short space of time, since there would be no guarantee for new investments, and old production forms would stagnate, as is demonstrated by the example of agricultural exports from the East, which the Community is still discriminating against.<sup>82</sup>

When the Western European countries that have already applied to join the Community, or which are about to apply (Austria, Turkey, Cyprus, Malta, Sweden, Norway, Finland, and probably also Switzerland), are also taken into consideration, it becomes clear that an expansion of such vast dimensions cannot occur without fundamental reforms to the Community's structure: that will allow it to operate without any individual member country being able to exercise a veto. From this point of view, the Maastricht Treaty reforms are inadequate, since they keep decision-making powers in the hands of the member governments, and do not bestow any real legislative competence on the European Parliament. The liberation of Eastern Europe has confronted the Community with a basic choice: to leave the countries of Eastern Europe to collapse into chaos and become ungovernable; or to transform itself into a federation.

## 6. Concluding remarks.

In describing the framework of technological change in modern economies, I have highlighted the crucial role played by the evolution of the mode of production, by increased interdependence between countries, and by the creation of the world economic system as a result of the scientific and technological revolution, which for a long time now has had an enormous impact on our societies, and on the industrial infrastructure on whose development they are founded. In various experiments in international economic integration it has been possible to identify both the effect of growth of interdependence and attempts to regain a certain amount of autonomy and control over economic processes (which individual countries are unable to achieve alone), by enacting common policies and setting up joint bodies. Moreover, economic integration



between countries at a regional level can be observed not solely in Europe, but also in many other areas of the world. Meanwhile, on a global level, there exists a need for forms of partial government of world economy: attempts at policy co-ordination by the G7 represent a response to this requirement.

In this framework (in which some of the structural factors determining it emerge), the experiment of European integration appears destined to reach its most advanced outcome, precisely because the forces underlying the process seem unlikely to be removed.

With regard to this context, the immediate external forces which influence the completion of the Community's integration serve to reinforce the basic trends, both by making a positive contribution to them, and, on the whole, by also acting in opposition to potential obstacles. Hence, the increase in membership applications from countries of the two Europes helps to overcome the institutional deficiencies of the Community, while the distrust, and even hostility, aroused in the United States by the prospect of integration being completed, could be easily overcome (if Community countries only had the will to do so,) by demonstrating real determination to make progress towards political unity.<sup>83</sup> German unification, more than any other element, could have caused serious problems for the goal of transforming the Community into a Federal European state. Instead, it has encouraged a broad group of forces to display a new willingness to speed up the process of integration, and extend it to the political sphere. Most prominent among these forces are certain Community governments, President Delors, a large majority of German politicians (led by Chancellor Kohl), as well as the European Parliament, which has again taken the line of seeking greater powers, following the signing of the Maastricht Treaty.

In conclusion, events in Eastern Europe and particularly the reunification of Germany, have not put at risk the commitments that had already been undertaken by the Community with regard to the completion of the Single Market, and the launch of the final stages of EMU. Indeed, events in Eastern Europe have had the reverse effect: bringing about initially an acceleration of the European integration process, and extending the relevance of that process to aspects of the political unification of member countries, as well as increasing the possibility of reaching the ultimate goal: European Federation.

## NOTES

<sup>1</sup> Broadly speaking, this is true for countries with similar levels of development. G. Grossman and E. Helpman ("Product Development and International Trade," in *Journal of Political Economy*, no.6, 1989) show that trade between countries which enjoy different levels of technological progress will produce shifts between the industrial sector and research and development, which may increase or reduce world growth. See also P. Krugman, *Rethinking International Trade*, Cambridge, Mass., The MIT Press, 1990; L. A. Rivera-Batiz and P. M. Romer, "Economic Integration and Endogenous Growth," in *The Quarterly Journal of Economics*, May 1991.

<sup>2</sup> On the scientific mode of production and the formation of the world market see G. Montani (*L'economia post-industriale e il mercato mondiale*, Turin, Giappichelli, 1989, particularly Part I). Some elements of the globalising of the economy are described thus in a recent attempt to define its characteristics: "the totality of processes which allow production, distribution and consumption of goods and services starting from structures of valorisation of tangible and intangible factors of production organised on a worldwide basis ..., for worldwide markets regulated by world rules and standards ..., by organisations created and operating on a worldwide basis, with an organisational culture that is deliberately open to a world context and obedient to a world strategy" (R. Petrella, "La mondialisation de la technologie et de l'économie," in *Futuribles*, September 1989). This quotation demonstrates the truth of G. De Bernis' observation ("Economie mondiale," in *Recherches Internationales*, aut. inv. 1988) about the imprecision of the concept of the world economy adopted by many authors. As a definition we prefer that of I. Wallerstein (*The Capitalist World Economy*, Cambridge, CUP, 1979) who claims that the world economy can be based on its systemic characteristics as well as on the strategies and fields of action of its operators: multinational or global companies, and states or economic policy bodies. See also F. Praussello and M. Marengo, *Interdipendenza, integrazione, conflitto nell'economia mondo*, Genoa, ECIG, 1991 and F. Praussello, *Le interdipendenze economiche fra il Nord e il Sud del mondo*, Genoa, ECIG, 1986.

<sup>3</sup> As in R. Cooper, "Economic Interdependence and Co-ordination of Economic Policies" (in R. Jones and P. Kenen, *Handbook of International Economics*, Amsterdam, North Holland, 1985). By *economic interdependence* we mean the degree of reciprocal influence at the margin of one economy on the other, with the caveat that dependence is to be understood as vulnerability in the sense used by R. Keohane and J. Nye (*Power and Interdependence: World Politics in Transition*, Boston, Little Brown, 1977); in other words, as all the costs connected with any drop in those economic transactions between countries which constitute interdependence itself. *Integration* of markets, on the other hand, implies the formation of transnational markets, where product prices (and also the price of factors if economic integration is complete) are brought to the same level. In any case it seems to us that even the least advanced forms of integration require the existence of common policies, at least as regards the organisation of the market and the free circulation of products.

<sup>4</sup> On the general model of the world economy see I. Wallerstein, *op. cit.* Recent applications of the world system analysis, in which the lack of homogeneity in the world economic system is underlined, can be found in A. MacEwan and W. K. Tabb (eds.), *Instability and Change in the World Economy*, New York, Monthly Rev. Press, 1989, as well as in S. Amin, G. Arrighi, A. Gunder Frank and I. Wallerstein, *Le grand tumulte? Les mouvements sociaux dans l'économie-monde*, Paris, La Découverte, 1991.

<sup>5</sup> According to data from the World Bank for 1981 to 1986, the proportion of industrialised countries' imports that were subject to non-tariff protection rose from 13 to



16 per cent of total imports. However, manufactured goods, against which the majority of discriminatory measures are concentrated, have been showing an annual increase of 5.3 per cent in world exports since 1973, in contrast to a 3.5 per cent increase in production (M. Wolf, "The Challenge to Liberalism Grows," in *The First 100 Years, The Financial Times*, 15 February 1988).

<sup>6</sup> The statistics refer to the periods 1965-80 and 1980-87 respectively (A. Maddison, *L'économie mondiale au 20e siècle*, Paris, OCDE, 1989). Between the decade 1971-80 and the period 1981-88, the relevant ratios for the measures in volume of the changes in world trade and production rose from 1.46 to 1.50, an increase of almost 3 per cent. In the last few years, however, this ratio has tended to be higher than 2:1, with foreign trade developing at about twice the rate of world output (IMF, *Annual Report*, Washington D.C., 1989). Although the ratios for flows of foreign trade and domestic product are not homogeneous, they are currently used to measure the degree of interdependence between countries. See J. Dunning, "The Organisation of International Economic Interdependence: an Historical Excursion," in J. Dunning and M. Usui (eds.), *Structural Change, Economic Interdependence and World Development*, London, MacMillan Press, 1987.

<sup>7</sup> On the experiments of integration in Latin America and Africa respectively, see G. Rosenthal, "Some Lessons of Economic Integration in Latin America: the Case of Central America," in J. Dunning and M. Usui (eds.), *Structural Change, Economic Development and World Development*, cit. and V. Diejomaoh, "The Economic Integration Process in Africa," in J. Dunning and M. Usui, *Structural Change*, cit. See also R. Tamames, *Estructura economica internacional*, Madrid, Alianza Universidad, 1990.

<sup>8</sup> The constitution of the European economic space between these two groups of countries can in fact be interpreted as a kind of transitory stage, in anticipation of the EFTA countries joining the EC. On the basis of the agreements decided in October 1991, these countries will adjust their own legislation to the directives of the single market, and will participate in financing Community regional policy, by January 1993. See P. Lemaître, "La CEE et l'AELE vont mettre en place un espace économique commun," in *Le Monde*, 23 October 1991.

<sup>9</sup> Algeria, Morocco, Tunisia, Libya and Mauritania expressed their wish to relaunch regional integration in the Treaty of 27 February 1989, which defined both the objectives and stages of economic integration of the member countries, as well as the institutions of the Union of the Arab Maghreb (UMA) (S. Bessis, *L'union du Maghreb arabe, une nouvelle donne. L'Etat du monde 1989-90*, Paris, La Découverte, 1989). As regards Latin America, among the most significant examples of the resumption of the regional integration process should be cited the objective of setting up, by 1995, a single market between the countries of the Andean Pact (Bolivia, Colombia, Ecuador, Peru and Venezuela), as well as the Plan of Immediate Action, approved in 1988 by the countries of the Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) which aims at a new stage of liberalisation in reciprocal trade (R. Tamames, *Estructura economica internacional*, cit.). Following the end of the 1980's, moreover, Caricom, the Economic Community of the Caribbean (which groups together 13 countries including Jamaica and Trinidad and Tobago), undertook to create a single market by 1994 (C. James, "Changing World Gives Caricom Goal New Urgency," in *The Financial Times*, 9 July 1991); while Argentina, Brazil, Paraguay and Uruguay set themselves a similar goal for 1995 in the context of Mercosur, the common market of the southern tip of South America (E. Balis, "How Important is Trade within Regions of the World," in *The Financial Times*, 22 July 1991). It should be added that at present a group of three (comprising Colombia, Mexico and Venezuela) also operates in the region, and that bilateral liberalisations of trade are envisaged between Venezuela and Chile, and Chile and

Mexico (D. Fraser, "Mexico and Chile to Sign Free Trade Agreement Next Month," in *The Financial Times*, 2 August 1991). The countries of ASEAN (Brunei, Indonesia, Malaysia, The Philippines, Singapore and Thailand) have also abandoned the exclusively military nature of their grouping and are now aiming to create a free trade area by the end of the decade (L. Siong Hoon, "Asean Turns to Region's Trade," in *The Financial Times*, 31 July 1991).

<sup>10</sup> These figures are calculated as a proportion of intra-area imports and exports compared to the world total. For other statistics concerning the concentration of commercial flows around the principal poles of the world economy, see M. Beaud, *La triade Etats Unis-Japon-RFA au coeur de l'économie mondiale. L'Etat du monde 1989-90*, Paris, La Découverte, 1989 and R. Tamames, *Estructura economica internacional*, cit.

<sup>11</sup> See M. Melvin, *International Money and Finance*, II ed., New York, Harper & Row, 1989.

<sup>12</sup> See F. Praussello, *Le interdipendenze economiche fra il Nord e il Sud del mondo*, op. cit.

<sup>13</sup> See F. Onida, "Sintesi della ricerca," in AA.VV. *Strategie multinazionali*, Milan, Ed. del Sole 24 Ore, 1987.

<sup>14</sup> See A. Hamilton, *The Financial Revolution, the Big Bang Worldwide*, London, Penguin Books, 1986.

<sup>15</sup> See J. Bush, "US Gear up to Meet the Challenge of Globalization," in *The Financial Times*, 20 December 1989.

<sup>16</sup> See M. Melvin, *International Money and Finance*, op. cit.

<sup>17</sup> See BIS, *60th Annual Report*, Basle, 1990. Simultaneously, between 1981 and 1988 the loans agreed on international capital markets doubled in terms of current dollars, rising from \$200.6 to \$370.5 bn (Nations Unies, *Etude sur l'économie mondiale 1989*, New York, 1989). In relative terms, the relationship between loans granted on the international markets and worldwide imports increased from 6 per cent in 1980 to 19 per cent in 1986 (L. Dini, *La rivoluzione nei mercati finanziari*, Documenti della Banca d'Italia, No. 231, 1988).

<sup>18</sup> See J. Friedman, *Oligopoly and the Theory of Games*, Amsterdam, North Holland, 1977.

<sup>19</sup> See P. Bryant, *Money and Monetary Policy in Interdependent Nations*, Washington, The Brookings Institution, 1980.

<sup>20</sup> See R. Cooper, *Economic Policy in an Interdependent World*, Cambridge, The MIT Press, 1986.

<sup>21</sup> In this way, for example, Germany, which fulfils a debatable leadership role within the EMS in that it is in a position to offer the public benefit of "monetary stability" to the other member countries (P. C. Padoan, "Sistema monetario europeo e politiche nazionali," in P. C. Padoan (ed.), *Politiche monetarie e politiche di bilancio nella Comunità europea*, Bologna, Il Mulino, 1988), will see its intervention capability increase as a result of the constitution of European monetary union — if, as emerges from the Maastricht Treaty, this is initiated along the lines indicated by the *Bundesbank* and reflected in the Delors Plan (Committee for the Study of Economic and Monetary Union, *Report on Economic and Monetary Union in the European Community*, Bruxelles, 1989).

<sup>22</sup> In a technical sense the non-cooperative solution is not "Pareto-ottima" (K. Hamada, *The Political Economy of International Monetary Interdependence*, Cambridge, The MIT Press, 1985).

<sup>23</sup> See A. Safarian, "Introductory Comments and Summary Report on Part III," in J. Dunning and M. Usui (eds.), *Structural Change, Economic Interdependence and World Development*, op. cit.

<sup>24</sup> See S. Lall, *The New Multinationals. The Spread of Third World Enterprises*, Chichester, Wiley, 1984.

<sup>25</sup> See F. Onida, *Sintesi della ricerca*, op. cit.

<sup>26</sup> See Banca d'Italia, *Relazione del Governatore*, Rome, 1991.

<sup>27</sup> See United Nations Centre on Transnational Corporations, *The Triad in Foreign Direct Investment*, New York, 1991.

<sup>28</sup> See Banca d'Italia, *Relazione del Governatore*, op. cit. 1991; F. Onida, "Patterns of International Specialisation and Technological Competitiveness in Italian Manufacturing Industry," in F. Onida and G. Viesti (eds.), *The Italian Multinationals*, London, Croom Helm, 1988.

<sup>29</sup> See OCDE, *L'investissement direct international et le nouvel environnement économique*, Paris, 1989.

<sup>30</sup> See Cominotti and Mariotti (eds.), *Italia multinazionale 1990*, CNEL, Milan, Franco Angeli, 1990.

<sup>31</sup> Japan has followed a particularly dynamic policy as regards moving into Europe, creating bridge-heads in an effort to gain substantial sales quotas within the Community's domestic market. In general, (supported by a strong expansion of direct investments which showed a sixfold increase in the course of the 1980's), Japanese multinationals aim to create independent regional networks within the EC and the United States, as well as in Asia, operating preferably in the electronics and automobile sectors (United Nations Centre on Transnational Corporations, *The Triad in Foreign Direct Investment*, op. cit.).

<sup>32</sup> It must, however, be emphasised that during the recessions, direct investments still showed greater dynamism than internal investments (OCDE, *L'ajustement structurel et les entreprises multinationales*, Paris, 1985).

<sup>33</sup> See R. Schieppati, "I diversi modelli-paese di multinazionalizzazione," in AA.VV. *Strategie multinazionali*, op. cit.

<sup>34</sup> See United Nations Centre on Transnational Corporations, *The Triad in Foreign Direct Investment*, op. cit.; D. A. Julius, *Global Companies and Public Policy: the Growing Challenge of Foreign Direct Investments*, London, Royal Inst. of International Affairs, Pinter Publisher, 1990.

<sup>35</sup> See J. Dunning and R. Pearce, *The World's Largest Industrial Enterprises*, II ed., Farnborough, Gower, 1985.

<sup>36</sup> See C. A. Michalet, *Les multinationales face à la crise*, Paris, PUF, 1985.

<sup>37</sup> See C. A. Michalet, *ibid.*

<sup>38</sup> See OCDE, *L'ajustement structurel et les entreprises multinationales*, op. cit.

<sup>39</sup> See F. Onida, *Sintesi della ricerca*, op. cit.

<sup>40</sup> See A. Tasgian, "Strategia di sviluppo e prospettive di crescita dei PVS dell'Asia orientale e sud-orientale," in F. Volpi (ed.), *Debito estero e sviluppo del terzo mondo*, Milan, Angeli, 1989.

<sup>41</sup> See World Bank, *World Development Report 1989*, New York, Oxford University Press, 1989.

<sup>42</sup> See World Bank, *World Development Report 1988*, New York, Oxford University Press, 1988.

<sup>43</sup> See A. Tasgian, "Il finanziamento estero dello sviluppo del Terzo mondo: recente evoluzione e prospettive," in *Economia internazionale*, nos. 3-4, 1988; M. Marengo, "Determinanti e responsabilità nella crisi debitoria del Terzo mondo," in F. Praussello and M. Marengo (eds.), *La Comunità europea di fronte alla crisi debitoria del Terzo mondo*, Genoa, Ist. Studi Economici Università di Genova, 1990.

<sup>44</sup> See F. Praussello, "L'inadempimento nel quadro degli approcci alternativi ai modelli di debito estero dei paesi in via di sviluppo," in F. Praussello and M. Marengo

(eds.), *La Comunità europea di fronte alla crisi debitoria del Terzo mondo*, op. cit.

<sup>45</sup> See M. Marengo, *Determinanti e responsabilità nella crisi debitoria del Terzo mondo*, op. cit.

<sup>46</sup> See E. Dieter and D. O'Connor, *Technologie et compétition mondiale*, Paris, OCDE, 1989.

<sup>47</sup> See Banque Mondiale, *Rapport annuel 1990*, Washington, 1990.

<sup>48</sup> See F. Vergara, *Tableau de bord de l'économie mondiale. L'Etat du Monde, 1989-90*, Paris, La Découverte, 1989.

<sup>49</sup> See A. Tasgian, *Strategia di sviluppo e prospettive di crescita dei PVS dell'Asia orientale e sud-orientale*, op. cit.

<sup>50</sup> See NU, *Etude sur l'économie mondiale 1989*, op. cit.

<sup>51</sup> See E. Dieter and D. O'Connor, *Technologie et compétition mondiale*, op. cit.

<sup>52</sup> See A. Tasgian, *Strategia di sviluppo e prospettive di crescita dei PVS dell'Asia orientale e sud-orientale*, op. cit.

<sup>53</sup> See P. Guerrieri and P. C. Padoan, "L'economia politica internazionale dall'egemonia all'oligopolio," in P. Guerrieri and P. C. Padoan (eds.), *Un gioco senza regole: l'economia internazionale alla ricerca di un nuovo assetto*, Milan, Franco Angeli, 1984.

<sup>54</sup> See M. Beaud, *La triade Etats-Unis-Japon-RFA au coeur de l'économie mondiale*, op. cit.

<sup>55</sup> These statistics, from Eurostat (*EC Basic Statistics*, 25th ed., Luxembourg) do not however take account of export flows activated in the host-countries of multinational corporations. For the United States it is calculated that industrial production carried out abroad by American multinationals amounts to one fifth of their production on US territory (M. Beaud, *La triade*, op. cit.).

<sup>56</sup> See World Bank, *World Development Report 1989*, op. cit. The quotas are calculated with reference to world GDP, and do not take into account the domestic product of countries that are not members of the World Bank: Albania, Angola, Bulgaria, Cuba, Czechoslovakia, the ex-GDR, Mongolia, Namibia and the ex-USSR.

<sup>57</sup> See Ph. Lemaitre, "Les Etats-Unis contre les Douze," in *Le Monde*, 9 July 1991. As a whole, the reduction in differentials between the main poles of the western economy can be explained by the greater dynamism with which Europe and Japan took advantage of the main factors behind the long term dynamics of economies after the Second World War: the process of technological catch-up, and the adoption of free-trade policies, which improved the allocation of resources. Hence, in the golden age of world growth between 1950 and 1973, Western Europe and Japan showed major productivity improvements, while the United States stagnated. During this period, for example, GDP per working hour increased by an annual average of 5.3 per cent in Japan, France, Germany, the Netherlands and Great Britain, compared to 1.6 per cent growth in the period 1870-1950. In contrast, the United States' 2.5 per cent increase in labour productivity in the years 1950-1973 hardly differed at all from the gains obtained in the period 1913-1950. See A. Britton, *Economic Growth in the Market Economies 1950-2000*, Discussion Papers Vol. 1, no. 1, New York, United Nations Economic Commission for Europe, 1992.

<sup>58</sup> This is the calculation, based on market values, which has been recently introduced by the United States Department of Trade. If the formerly-used criterion (based on historic values) is applied, foreign debt amounted to \$664 bn at the end of 1989 (M. Prowse, "American Net Debt to Rest of World Increases," in *The Financial Times*, 3 July 1991).

<sup>59</sup> After the stage which eliminated tariffs that impeded the free circulation of products, and the creation of the agricultural union, the attempt to create economic and monetary union between EC countries in the course of the 1970's ended in failure — among other things because of the proliferation of external shocks (F. Praussello, *Le vicende monetarie*

*internazionali (1944-1977)*, Florence, Guaraldi, 1977).

<sup>60</sup> See Banca d'Italia, *Relazione del Governatore*, Rome, 1989.

<sup>61</sup> See P. C. Padoan, *Sistema monetario europeo e politiche nazionali*, *op. cit.*

<sup>62</sup> See F. Praussello, "Il programma di completamento del mercato interno" in ILRES, *Liguria: economia e società di fronte al 1992*, OSE 1989, Genoa, Marietti, 1990.

<sup>63</sup> See EC Commission, *Completing the Internal Market: White Paper from the Commission to the European Council*, Com. (85) 310 def. 1985.

<sup>64</sup> The objective of 5 million new jobs could be reached if active employment policies were adopted, since policy makers would enjoy greater room for manoeuvre, thanks to the reduction of inflationary tensions due to the elimination of trade barriers. See P. Cecchini, *The European Challenge*, London, Wildwood House, 1988.

<sup>65</sup> See T. Padoa-Schioppa, *Efficienza, stabilità, equità*, Bologna, Il Mulino, 1987.

<sup>66</sup> See Committee for the Study of Economic and Monetary Union, *Report on Economic and Monetary Union in the European Community*, *op. cit.*

<sup>67</sup> Reports by the Commission on progress made towards the objective of "1992", published in March and October 1990, confirm that European companies plan new investments, mergers and joint ventures in the wake of the full opening-up of markets (L. Kellaway, "EC Company-Reaction to 1992 Encouraging," in *The Financial Times*, 15 March 1990; EC Commission, *The Single European Act: Count-down to 31 December 1992*, European File no. 13/90, October, Luxembourg, 1990).

<sup>68</sup> See NU, *Etude sur l'économie mondiale 1989*, *op. cit.*

<sup>69</sup> See A. Aganbegyan, *The Challenge: Economics of Perestroika*, London, Hutchinson, 1988.

<sup>70</sup> See S. Brittan, "Gorbachev's Place: at Arm's Length," in *The Financial Times*, 18 July 1991. The economic situation of the Republics which belonged to the Soviet Union was bound to deteriorate dramatically after the collapse of the USSR, with resultant sharp falls in income and industrial production. At the end of 1991, national income and industrial production fell by 15 and 12 per cent respectively compared to 1990 levels, which were already somewhat depressed. As for inflation, for the whole of 1991 it came to 700 per cent. See *Know How Rus'*, January 1992.

<sup>71</sup> See L. Szamuely, "Economic Reforms in the European Member Countries of the CMEA," in L. Marcolungo, M. Pugno and F. Targetti (eds.), *L'economia mondiale in trasformazione*, Milan, Franco Angeli, 1988. On the difficulties of transition to a market economy in the former Soviet Union see also A. Aslund, *Gorbachev's Struggle for Economic Reform*, Ithaca N.Y., Cornell University Press, 1989; L. Grigorev and O. Korciagina, "Evolution of the Crisis and Progress of the Reform in the USSR," in *Most*, no. 1, 1991.

<sup>72</sup> The economic reform introduced in the Russian Republic at the beginning of January 1992, with the drastic liberalisation of prices for most products, underwent major changes from the very next month. See J. Lloyd, "Russia Retreats from Economic Reform Plans," in *The Financial Times*, 4 February 1992.

<sup>73</sup> See J. Pinder, *The European Community and Eastern Europe*, London, Pinter, 1991.

<sup>74</sup> See M. Aglietta and Ch. de Boissieu, "Une ancre monétaire pour l'Est," in *Le Monde*, 14 May 1991.

<sup>75</sup> The calculation in 1991 dollars of the total resources mobilised in the Marshall Plan is contained in *The European*, "Gorbachev Must Get the Support he Needs," 14-16 June 1991.

<sup>76</sup> See R. Lawrence and W. McKibbin, "Counting the Cost of German Unification," in *The Financial Times*, 15 March 1990.

<sup>77</sup> After the reorganisation of trade caused by the collapse of the centralised planning

system, and by pan-German unification, it is expected that the countries of Eastern Europe will absorb around 15 per cent of exports from the new German state, compared with 13 per cent for the FRG and 60 per cent for the GDR before the fall of the Eastern regimes. See P. Artus and Ch. de Boissieu, "La mue du mark," in *Le Monde*, 20 March 1990; and B. Thanner, "Welche Rolle spielt das vereinte Deutschland in der Weltwirtschaft," in P. Eisenmann & G. Hirscher (eds.), *Die deutsche Identität und Europa*, Munich, V. Hase & Koehler Verlag, 1991.

<sup>78</sup> See M. Duverger, *Le lièvre libéral et la tortue européenne*, Paris, Albin Michel, 1990.

<sup>79</sup> See K. Woolfson & L. Walker, "New Bloc Reopens Old Routes of Empire," in *The European*, 26-28 July 1991.

<sup>80</sup> In connection with the French position, Lesourne also points out the contradiction between the necessity of a deepening of the Community and Mitterrand's opposition to increased powers for the European Parliament. See J. Lesourne, "Quelles institutions pour l'après-communisme?," in *Le Monde*, 10 July 1991.

<sup>81</sup> After the Soviet conservatives' failed coup in August 1991, the idea of the Eastern European countries becoming politically affiliated to the Community sooner rather than later, was once more taken up — this time by even the most serious European newspapers. See E. Mortimer, "Time to Open the Club of the West," in *The Financial Times*, 21 August 1991.

<sup>82</sup> See S. Sideri, *Effetti dell'apertura dell'Europa orientale e della crisi del Golfo sulle relazioni Nord-Sud*, Relazione al Convegno "Le relazioni commerciali e finanziarie Nord-Sud all'inizio degli anni '90," Università di Pavia, 17 June 1991.

<sup>83</sup> See P. Lemaitre, "Les Etats-Unis contre les Douze," *op. cit.*

## Europe and the New World Economic Order

DARIO VELO

### *Possible scenarios.*

The fall of the Berlin Wall has made the end of the world order established at Yalta clear to everyone. The politico-economic order which emerged after the Second World War had already begun a serious decline in 1968, as a result of the success of the European Common Market; the inconvertibility of the dollar, the energy crisis and serious difficulties over the GATT were the most important crises which accompanied this process of disintegration.

At the beginning of the 1990's the world is at a turning point. The collapse of the old international order means that a new, more evolutionary order has to be constructed. The alternative would be to fall back into nationalism, anarchy, economic crisis and increasingly dramatic conflicts.

There are two alternative scenarios within an evolutionary perspective. On the one hand, the collapse of bipolarism opens up the possibility of moving towards closer integration on a world level. On the other hand, it is possible to move towards a new multipolar order based on co-operation between regulated areas, each area being partly closed to international competition, hence postponing till a later stage the construction of a single world market.

In order to understand which direction is the more realistic for the world today, and to evaluate the opportunities and risks implied by the two alternatives, there are certain considerations which may be taken as initial points of reference to assist our analysis.

### *The GATT crisis.*

The economic order which emerged from the Second World War was based on two principal agreements: the Bretton Woods system and

GATT. The former guaranteed the convertibility of currencies, thanks to the role of the dollar as the principal currency of reserve and payment, while the latter allowed international trade to develop gradually and progressively, by limiting the various types of protectionist measures in force. Both agreements were imposed by the United States, which took on the task of governing the world economy through a long developmental cycle.

The United States emerged from the Second World War as a single economic pole: its supremacy remained unquestioned for twenty years, until the success of European integration, the beginning of the great Japanese boom, and the appearance of an increasing number of rapidly developing Third World countries on the world scene, combined to begin to change the balance of the world distribution of wealth.

In 1945 the United States represented 75 per cent of world GDP: its share dropped to 50 per cent in the 1960's; at present it is around 23 per cent. This simple fact reveals the diminution of the real basis for United States' leadership.

In August 1971, the declaration of the inconvertibility of the dollar sanctioned the end of the Bretton Woods system, which was only able to survive in a unipolar world economic system. The outcome was a decade of crisis, until Europe and Japan began to take on their due responsibilities in the monetary field.

Today we face the necessity of reestablishing GATT, in order to defend the very same objectives for which it was established. GATT must be reestablished not because it has failed, but because it has been successful. Success, like failure, demands institutional change: such change is more difficult in the case of success than in that of failure, in that the need for change is less obvious. Yet the urgency of reform is in reality no less.

In the unipolar world the United States had three fundamental functions at the world level: promoter of development, absorption market and governor of the world economy.

The U.S. promoted world development thanks to its capacity to produce a surplus in the balance of trade, and to simultaneously finance world development. In other words, it offered the international economy the goods and services which were necessary for the modernization of economies, and at the same time offered the financial means to buy these goods and services; in this way they supported development and integration at a world level. The greatest example of this capacity was the Marshall Plan.

The United States continued to exert this influence long after eco-

nomic supremacy was diminished. In effect, the central role of the dollar allowed the United States to become increasingly indebted, thus obliging richer countries to support America's role as a promoter of development, a role which none of these countries could fulfil on their own.

These conditions have been reduced today. The United States has acquired a permanent trade deficit; furthermore, it represents at present by far the most indebted country, with a net international debt which exceeds \$800,000 million. The richest country in the world thus syphons off goods, services and financial resources from the rest of the world; in these conditions it is unthinkable that it could fulfil its function as a promoter of development. The chief objective of the United States today is simply that of restoring the balance of its own deficit in relation to the rest of the world.

The second function fulfilled by the United States was that of an absorption market for developing countries. Such a role is usually undervalued, but in reality has strategic importance.

The U.S. promoted international development, absorbed the exports of countries which were beneficiaries of the original boost, thus further sustaining development, and in this way freed exportable resources to support the modernization of the world economy; and so on, in a virtuous circle of cumulative development.

In the postwar period all countries with a market economy have registered positive development, and for many of them this development has been very great. If a country wants to develop, it has to have a market where it can sell its produce and manufactures. The United States traditionally represented that market. That was true for Europe, in the period immediately after the war; then for Japan, in the 1960's and 70's; then for Korea, Singapore, Hong Kong and Taiwan in the 1980's; and today for the developing countries of the Third World. 63 per cent of all products manufactured in all Third World countries are currently exported to the United States; Europe absorbs only 21 per cent, although the European GDP is by now greater than that of the United States.

This function, traditionally fulfilled by the U.S., is about to go into crisis. It is becoming increasingly difficult to keep the American market open, since the U.S. system carries progressively less weight in the world economy, and shows a growing deterioration in its foreign accounts.

The third function fulfilled by the United States was that of guaranteeing the management of the world economy. This function actually includes the two functions mentioned above, for which it constitutes the framework. The leading role played by the United States in the postwar

period allowed the birth of a world economy which could not have come about without some form of government. The fundamental reason for the great Depression of the 1930's was that Great Britain gave up directing the world economy, in a situation in which the United States was not yet ready to take on this task. The current failure of the Uruguay Round is a worrying symptom of an international situation which seems increasingly similar to that of the 1930's. The GATT crisis is the product of that structural, and increasingly serious, breakdown in the United States' capacity to govern the international economy.

In the past, GATT negotiations were concluded successfully, because the United States always supported them with concessions greater (on average) than those offered by the other countries; furthermore the U.S. was able to impose on GATT's more developed partners a discipline in keeping with its leading role. The Uruguay Round signals a turning-point, in that for the first time the United States came asking for help, rather than offering it; moreover it emerged clearly how difficult it was for the U.S. to influence the behaviour of its more developed allies. The rest of the world as a whole was not able to compensate for the diminution of the United States' traditional leading role; and no individual country, including Japan and the EEC, is presently able to take on the role formerly assumed by the United States.

The situation is aggravated by the fact that GATT, in order to strengthen itself, now requires to exercise greater control over the world economy than in the past, when free-trade measures were essentially adequate. The Uruguay Round began to negotiate agricultural problems and the liberalization of services, both of which are highly regulated and protected sectors. Similar conclusions may be drawn from the necessity of opening GATT to the ex-communist countries, for which a simple free-trade approach is not adequate.

Thus there is a growing demand for government on a world level, while at the same time there is an increasingly serious breakdown in the leadership capacity of the country which provided it in the past. Thus the need for a new international order is of the greatest urgency.

#### *The development of Europe.*

In the 1970's, Europe was hindered by its own division from supporting the United States in assuming the equal share of world level responsibilities which were its due. In the 1980's, the progressive realization of the pre-federal European Union allowed Europe to play a stabilizing role,

but not yet an innovative role.

The overcoming of the division of Europe, with the prospect of Monetary Union and European Union, offers the EEC the possibility of becoming a driving force in modifying the international economic order.

The reconversion of the economies of the East requires massive investment, which only the EEC is able to offer; in this way the possibility exists of a long cycle of development based on the complementary relationship between Eastern and Western Europe.

This prospect is, in reality, only valid in the long term; it will take at least a decade to reconstruct the very basis of the economy, which has been devastated in the countries of the East by the tragic experience of national communism. The same is true for the amount of time necessary to stabilize the systems of the East, and for reassuring western investors about the risks of possible new crises.

In the short term however there may be strong economic expansion in the EEC, which could blend into the medium and long term prospects offered by the integration of the East European economies.

In the 1980's, the pre-federal European Union did not in fact lead to greater development (which was potentially attainable) because the economy was squeezed by the shortage of labour. This was particularly true for Germany. In the 1980's West Germany deliberately pursued the policy of a restricted growth rate, slowing down the development of the entire continent, so as to avoid the necessity of massive immigration. With a negative demographic factor, the German labour force shrank during the 1980's; sustained economic growth would inevitably have meant the immigration of millions of workers from developing countries. German reunification has reversed that situation. Today Germany no longer faces a shortage of local workers, but rather the necessity of providing work for eight to ten million unemployed or pseudo-employed people, which need to be brought to productivity levels and hence income levels approaching those of the western regions. Already Germany is destined soon to act as a driving force in European economic development, guiding all European countries in the same direction. This scenario is all the more likely to take place, because some European countries suffer from the problem of unemployment and yet have not been able to embark on expansionist policies because of the constraint of European economic and monetary discipline.

In the 1990's, Germany will presumably adopt a policy similar to that applied in the United States by the Reagan administration in the 1980s, and based on a mixture of fiscal incentives and restrictive monetary

policy, to guarantee growth without inflation. This policy is coherent with the objective of the European Monetary Union; it will make Germany a net importing country and the epicentre of European development. The growing role which Europe will play on the world level as principal financial centre (once it has attained monetary unity) will make it even easier to pursue these objectives. In structural terms Europe will attract capital from all over the world, and acquire a growing capacity to recycle it in the form of productive long term investments.

#### *Europe and the new world economic order.*

In the context that is emerging today, Europe has both the possibility and the responsibility to sustain growth in a new world economic order. As outlined above in an evolutionary view and not taking into consideration protectionist regressions, there are two fundamental alternative scenarios.

The first alternative is that of moving towards the construction of a single world market. To this end, Europe should promote a new Bretton Woods conference and a renegotiation of GATT. The problem is the creation of new supranational institutions capable of governing economic problems in an increasingly unitary and democratic way. This could lead to a European initiative for the strengthening of the UN through democratization and the extension of its competences and powers.

Faced with this possibility, the problem to be clarified is whether Europe — or any other state — currently has the authority to support initiatives of this importance; alternatively we have to ask ourselves whether the convergence among the principal countries of the world is already so deep as to constitute a power base for the strengthening of the process of unification at the world level.

A second alternative is the construction of a new multipolar international economic order, based on co-operation between regulated areas which would be partly closed to international competition. To this end, Europe would have to take on specific responsibilities with respect to its closest neighbours, integrating them more and more into its own economy, and keeping itself open to international co-operation.

Any consideration of these two alternative scenarios should include an assessment of the forces which favour one or the other, initially in the old continent, since it can be used to guide the development of international relations.

There are certain considerations which make it reasonable to predict that Europe will tend towards the second scenario, thus contributing decisively to guiding the other principal economic areas at world level in the same direction.

First, there are considerations of a historical nature. Europe is in the process of unification, and therefore needs to create closer links between the countries of the Community. Any rapid evolution towards the globalization of the world economy would have a disintegrative impact on the Community, or at least an influence unfavourable to unification. *Raison d'Etat* will spur the Community to take action to strengthen itself, and the same is true for countries which have an interest in strengthening the Community. To be more specific, it is foreseeable that Great Britain will support the choice of economic globalization at world level, while the six founder-members of the Community will support a multipolar cooperative world order.

The United States itself, once it had begun its federal union, was initially compelled to opt for protectionism, and not only for economic motives. The US War of Secession has its roots here.

This does not mean that Europe will follow a protectionist policy. One need simply ask whether European unification will make it more likely that the Community emerges as a regulated area which is not entirely open to the world market.

Secondly, there are considerations connected to the EEC's opening up to the countries of Eastern Europe. It is realistic to foresee that the Community will welcome as associate members Poland, Czechoslovakia and Hungary; the number of regions can be increased further.

The association of these countries has the greatest importance not only from a political and economic point of view, but also from the point of view of European security, in that their association would be intended to add to the stability of international and interregional relations and to the reduction of the destabilizing impact of micro-nationalisms.

It is reasonable therefore that the Community should accept the membership of these countries, even if there are doubts as to the lawfulness of this on the basis of GATT regulations. The latter are more likely to be modified than are the aims and intentions of the Community. It has not escaped general notice that developments in the Community show a powerful tendency towards the creation of a regulated area, one which would be partly closed to the world market. If the aim is for these countries to be able to export within the EEC, it will be necessary, at least for a long transitional period, to block exports (for example) from the

South-East Asian countries. It is realistic to anticipate that Taiwan will remain more competitive than Poland for a long time.

Thirdly, there is the problem of emigration. If Europe wants to avoid being invaded by poverty-stricken millions, it will have to support the development of neighbouring countries, primarily those of Eastern Europe and North Africa. The concession of privileges to these countries will inflict damage on the countries of South America and Asia, which will inevitably be discriminated against. Europe will however be unable to discriminating against the countries of the Third World in favour of its own neighbours. The recent tragic events involving the Albanian refugees in Italy have demonstrated how the establishment of privileged relations with these areas is inevitable and beyond any moral judgement.

The extension of these special relations to neighbouring countries, in an increasingly co-ordinated fashion, will make Europe a more and more regulated area. Nor is it thinkable for Europe to extend such special relations indiscriminately to all Third World countries; and it is hard to imagine that Europe will succeed in ensuring that corresponding measures be adopted in the short term by all industrialized areas of the world that can constitute possible outlets for migratory flows.

Fourthly, there is the agricultural problem. To liberalize agriculture raises the issue of the loss of an exceedingly high number of jobs in Europe and the lost value of enormous areas of agricultural land which would have to be abandoned. This is true even if the problems relating to the balance of payments, which could be more easily managed, are not taken into consideration.

Finally and fundamentally, there is the social problem. Europe will want to defend the rights its workers have acquired and will be opposed to any reduction in their salaries. This implies a partial closure to international trade, particularly with respect to Third World countries.

The experience of the United States provides significant insight in this context: when European firms came up against their Japanese competitors in the US market, where neither of the two contenders could take advantage of factors connected to market control, the European enterprises were the losers. This indicates that there is a discrepancy on the level of economic systems, rather than at the level of individual companies.

The United States Labor Department provides statistics on bands of workers, in particular identifying the group of "non-supervisory workers." These are less qualified workers, who do not exercise any commanding role in the production process; they represent about two-thirds

of the United States workforce. From 1973-1990 the U.S. economy grew in real terms by 30 per cent; in the same period the real wages of these workers fell by 12 per cent. This phenomenon is explained by the fact that these workers found themselves exposed to competition with Third World workers to a greater extent than any other American economic group. In the United States there is a social system capable of absorbing tensions of this nature; it is legitimate to doubt that the European social system is prepared to expose its own workers to wages competition from the Third World.

These last considerations reveal a very broad band of agreement which supports the reinforcement of Europe as a regulated area that is not totally exposed to the forces of international competition.

*A gradual transition to the world market.*

These considerations, however approximative they may be, support the prediction that Europe will start to take on the aspect of a regulated area, favouring the birth of a new, multipolar, international economic order which is based on co-operation between areas that are partly closed to competition.

This process can be conceived of as the construction by stages of a real integrated world economy.

Prudence could be used as an argument in favour of this choice: for fear that a strategy of globalization implemented immediately would be too ambitious, for wherever it failed, it would inevitably encourage dangerous protectionist reversals.

The creation of regulated areas can, on the other hand, take on the value of an evolutionary strategy, which is capable of preparing the conditions for subsequent progress towards the single world market.

The significance and impact of such regulated areas will depend, obviously, on the precise characteristics which they have. The European case is emblematic in this sense. The realization of Monetary Union and European Union can underpin the birth of a regulated European area which will be more open to international co-operation than the Community is today. Co-operation between regulated areas itself poses institutional problems of the greatest importance: how democratically these are solved will depend on how democratic the institutional solutions adopted at the level of the individual regulated area are. This point has the greatest importance in that the institutional solution given to the co-operation between areas is capable of directly influencing subsequent develop-

ments towards the single world market.

Europe has indicated to the world, with its own community decisions, the way to overcome a history of division. With the fruition of the institutional choices of Monetary Union and European Union, Europe will be able to give the world a model of international democracy that is valid for other areas and for the world as a whole. This is the long term process which will, on occasion, have to be supported by precise choices that exert an evolutionary influence on the forces in the field.



## Notes

### REALISM, OPPORTUNISM AND INNOVATIVE THINKING

The person who chooses not to be a passive spectator but to have an active role in the historical, political, and social events he or she witnesses (in other words, the person who has chosen to be politically active in order to affirm certain values) generally assumes two attitudes. The first is the typical position of the historian (as defined by Carr), who chooses and converts into historical facts the many events which he observes, interprets them and, on the basis of generalizations, provides guidelines for action. In doing all this (as Carr, once again, says about the historian) he is neither the humble slave nor the tyrannic master of the facts: rather, there is a relationship of mutual exchange between him and the facts. The two functions which are active within this attitude, therefore, are judgement and prediction, where prediction does not relate to specific events but to general processes and is indeed based on generalizations.

The second attitude, which distinguishes the politically active person from the historian, is linked to the fact that the former does not want merely to seek knowledge and find indications for action, but intends to act, and thus affect reality, and accordingly performs a third function on this reality: he attempts to contribute to changes which are based on his value choices and can be achieved only through his will and action. In other words, he has expectations, and he can have them because he does not restrict himself to considering only events which have already occurred and whose potential has already become apparent, but instead extends his field of view to events which are still in progress and are open to various solutions—events which are consequently subject to interpretation, but are all the more “waiting” for a development which depends on the unfolding actions of certain protagonists.

This does not mean that one should renounce the category of the historical process, which through the criteria of historical materialism and *raison d'Etat*, allows us to perceive, in historical evolution, the

elements which condition the choices of states and individuals. But historical process indicates history's direction of progress, along which there may appear chances which are lost, as well as reversals of trends, or obstacles whose overcoming depends essentially on a person's will and on the forcefulness with which that will is able to express itself. Basically, the historical process is one of the elements which prepares historical occasions, but it requires those political actions, based on reason and morality, which are the only ones that allow history to advance.

\* \* \*

In the fast-paced and turbulent times in which we live, events are chasing one another convulsively: those who feel their interests to be threatened are becoming stronger; the specters of a past which was thought to be dead and buried (nationalism) oppose the need to build the future on new foundations (solidarity and unity among peoples); great changes and tragic choices are at stake, as it is increasingly difficult to interpret, predict and act. The extreme acceleration of events creates the feeling that their course is driven by an overwhelming logic of its own and that there is little room left for those who would like to have an active role. The risk in this situation, in other words, is a feeling of paralysis regarding judgement and action, the abandonment of rationality and consistency for fear of being overtaken or contradicted by reality.

This fear is certainly not groundless. For example, the federalists' stands regarding the problem of German reunification or the acknowledgment of the independence of the Baltic states (which also appeared in this publication) were aimed in a direction which differed from, or was opposite to, what actually happened. But what conclusions should we draw from this? Should we opt for silence, caution and compromise? The answer to these questions is important, since it is indeed in times which are both tragic and creative that, through the ability to express clear and consistent judgements, a revolutionary force can play an indispensable role: the role of unambiguously indicating the path to be followed.

The period in which we are living is indeed both tragic and creative, since on the one hand it may be possible to take a step forward towards the goal for which the federalists strive (universal peace) by creating the European Federation, and on the other hand there is the risk that an almost fifty-year-old struggle might be thwarted for a long time to come, if the principle of nationalistic fragmentation prevails over the principle of

union between peoples.

Therefore, the attempt to clarify which criteria should guide a revolutionary vanguard in the interpretation and assessment of events in their early stages is not merely a methodological need but a requirement which puts at stake that vanguard's history, its role and its identity.

\* \* \*

In general, three attitudes may be considered with regard to events in their early stages. The first one may be defined as *opportunistic* and consists of not assuming any stance or of assuming cautious wait-and-see attitudes in order to avoid being contradicted by subsequent events. Clearly, in some instances it is useful to wait for certain ongoing processes to evolve in order to give an evaluation which is sounder because it is better-informed. But those who adopt this opportunistic attitude know *a priori* that they will judge the outcome of the events positively, since their basic choice is to accept reality, not to change it.

The second attitude is the so-called *realistic* or pragmatic one. It is peculiar to power-managers, who as such must be very cautious not to arrive late for their appointment with the winners in order to avoid losing influence and prestige and, as a result, power. The attitude of the U.S. Administration regarding developments in the ex-Soviet Union after the August coup is a clear example: the unconditional support for Gorbachev and his policy (of maintaining the union between the Republics) became progressively less unconditional until an overture to Yeltsin was made and breakup, i.e. the creation of new sovereign states, was accepted *de facto*.

Another clear example is the position of European governments regarding the fragmentation process in Yugoslavia. Although they are, on the one hand, slaves of the concept of the self-determination of nations (which they have stated several times and which they do not wish to deny) on the other hand the so-called realism of those governments which support a certain type of evolution in progress just because it is in progress, and because a certain solution seems to be gaining the upper hand, is certainly playing an important role. This kind of attitude is entirely exploitative, as is perfectly evident if one considers the contradiction which affects the European states: on the one hand they are relinquishing (with some trouble) ever larger portions of their sovereignty in order to proceed towards union; and on the other, they are supporting the birth of new sovereignties which produce fragmentation.

The difference between the opportunistic and realistic attitudes consists of the fact that the latter is self-aware and is the outcome of a choice based on the game rules of those who seek consensus for the sake of their power struggle; while the former is less evident, since it is often cloaked in realism but actually merely conceals the fear that events might take a course which has been previously criticized and opposed. Such fear can only be ascribed to matters of "public image" rather than to issues of consistency and credibility.

Neither self-aware, nor opportunistic, realism are acceptable for a revolutionary Movement. This does not mean that a purely "idealistic" attitude should be chosen, regardless of reality; if one wants to affect reality, than reality must obviously be taken into account. But realism must first be applied to action and strategic choices, because neglect of reality is equivalent to falling into the trap of fanciful speculation, and secondly it must relate not to positions which appear to be "winning," but to those that have already won. In fact, if a certain situation is still "open" and unfolding, the attitude that is adopted in relation to it is not irrelevant to the final outcome.

Thus, the difference between those who seek to manage a given reality and acquire power for this purpose, and those who seek to change the world, that is to say to permanently introduce new values, consists in the ability to assume the third attitude: the *revolutionary* one. This attitude requires evaluating events in terms of their convergence or divergence with respect to the values that one wishes to assert.

In view of the events occurring in Eastern Europe and in the ex-Soviet Union, the federalist revolutionary vanguard cannot limit itself to taking note of them, but must condemn choices which lead to fragmentation based on nationalistic claims, and support choices which will lead towards Union on a federal basis. And if fragmentation wins, the federalist vanguard must contribute to rebuilding what has been destroyed, fully aware that, since it has not come to terms with reality, its identity will remain intact and will remain the reference point for all those who will want to take further steps towards union and solidarity between all men and women.

Nicoletta Mosconi

## THE WORLD COMMUNITY AFTER THE COLLAPSE OF THE SOVIET UNION

1. Two opposite tendencies are simultaneously appearing in the sphere of international relations: the action of unifying forces exists alongside movements towards the disintegration of links between countries and communities.

The events of recent months have shown the strengthening of international organizations, both international ones such as the United Nations and certain regional ones (in the Atlantic and European area, not only the EEC but also NATO and the CSCE). On the other hand, the most recent events testify to the acceleration of the breakup of certain political blocs in ex-Communist Eastern Europe.

Signs of unity come from a variety of sources. From the UN building, where the role of the general secretary has begun to acquire importance — certainly more than in the past — due to his initiatives to resolve tension between nations. From Washington, where a large number of countries within a framework of multilateral initiatives have undertaken to aid the economy of Russia and the other ex-Soviet republics. From Brussels, where NATO has acquired a new instrument, the Co-operation Council, which is open to the old enemies of Central and Eastern Europe. From Prague, where the member states of the CSCE have established the important principle of “unanimity less one” as a decision making rule. This has taken the first step towards overcoming the “right of non-interference” and limiting the “right of veto” of CSCE members. And finally from Maastricht, where the European Community has undertaken decisive progress towards political unity, with the double decision of creating a single currency and a common policy on foreign affairs.

However it is the other side of the coin that startling events are highlighting. The Soviet Union has ceased to exist as a legal international entity and in its place, behind the facade of a Commonwealth, which up until now has been devoid of a similar legal identity, new sovereign states have appeared. The other East European federation, Yugoslavia, has not survived the most recent events. There has been the institutional crisis between the republics, the secession of the Croats and the Slovenes, the civil war between Belgrade and the secessionist republics, and the proclamation of independence by Bosnia-Herzegovina and Macedonia. Even the unity of Czechoslovakia, the third Eastern European federation,

is in the balance. Relations between Prague and Bratislava have been marked by a high level of institutional conflict, even if they have not yet come to separation, and may not do so ever in the future.

We should ask ourselves whether these events — seemingly manifestations of opposite political tendencies — do not in fact have certain common roots, which once identified could allow a more comprehensive and coherent interpretation of what is taking place in the world today.

2. The simultaneous confirmation of both integration and disintegration as basic tendencies in world affairs, points to the beginning of a new, more complex phase of world history. It could be argued that these new events mark the true beginning of a supra-national period of history. Until the present time, the need for a world government came from doubts or dangers that remained to a greater or lesser extent distant. However this need has now received decisive confirmation from historical events. The fall of the Soviet Union and the end of polarized world affairs has given rise to the definitive beginning of a new era in which all problems are global, but in which we lack the tools to resolve them. The nucleus of “world government” represented by the joint management by the Americans and Soviets of problems and crises (attempted by Gorbachev with Reagan and then Bush) has fallen apart. The struggle to strengthen the UN has become extremely relevant. On its success hangs the fate of events for the next few years, of the advance of civilization or the break-up of humanity.

With the end of the polarized world, the control of world events is only possible through a decisive reinforcement of the power of world supra-national organizations, and in particular the United Nations. The risks that can ensue from the death of the USSR are at least as great as the possible advantages that can be gained from the decline of communism as a totalitarian power system, and the ending of the international class struggle as the foreign policy of the Communist states. In the following months we may witness the phenomenon of nuclear proliferation, and the exportation of highly dangerous arms and military technology to irresponsible regimes. We may see local wars and other signs of instability both in Europe and in Asia. The news is already full of these events. The breakup of the Soviet Union and the fall of communism have, without doubt, also added to the North-South conflict. Nobody however is in a position to say whether Socialist governments in the Third World will be replaced by pluralistic democracy, as is the hope, or whether they will give rise to political systems of a different type, characterized by strong

ethnic and religious intolerance and aggressiveness. If the problem of the world's economic imbalances should break out into violent demands, we could have a world civil war on our hands.

3. What caused the breakup of the USSR and what has overturned the geography of Eastern Europe? Moreover we should ask ourselves why the new generation of pro-democracy Eastern European politicians and intellectuals has not taken to heart the economic concepts that are now generally current in the West? (That is, that the increase or at the very least the maintenance of the size of geographic groupings is a pre-condition for economic growth.) Why, on the other hand, in the ex-Soviet Union and the entire Socialist bloc, have political forces and schools of thought arisen which hold that the improvement of the economy is linked to the break up of previously unified areas?

The answer is only partly linked to concepts of the contrast between international communism, and democratic nationalism, of the nineteenth century variety. In reality something more complex has happened. To understand what, we should compare the experience of Western European reconstruction during the fifties with the events of recent months.

In the first postwar decade, the national states of Western Europe, devastated by war, had to begin mutual integration in order to start economic reconstruction. The choice of integration was also due to economic restrictions, since the national states of Europe did not have direct access to the world market. For example let us think of a small European country such as Belgium or Holland; at that time, without the nearby markets of France or Germany, they would not have had a future. Their companies could not have been managed easily, either their financing, or the distribution of their products to the distant American markets, not to mention Japan, the "Asian tigers" or other world markets which are now emerging. The same restriction was true even for the larger European states such as France, Germany and Italy, and, as history has shown, this was the case even for Great Britain which had the Commonwealth to trade with. In the forties and fifties a real world market was lacking. International economies were not as integrated as they are today. Only those countries which associated with their neighbours, thereby creating an "internal market" on a continental scale, could assure themselves of a prosperous future.

To the eyes of Eastern Europeans who dreamed of leaving the Socialist system, the world showed contained features in the late eighties which had varying aspects.

The process of deregulation, launched by Mrs Thatcher and President Reagan, opened the financial and trade markets to the companies of the whole world. Even today these two personalities have their most faithful admirers in the East. The establishment of a common European market has simply confirmed the creation of a world market. Indeed during the eighties an integrated world capital market was created which among other things allowed the United States to finance its internal growth from abroad. The US in its turn was transformed into an important part of the "domestic market" of Japan and industrialized Asia, which allowed these countries to reach very high levels of growth.

What is indeed notable is the change in attitude of the great majority of countries with respect to the globalization of the economy. Once treated with disdain, multinational companies are nowadays courted by countries as a source of direct investment and, consequently, as an element of progress. The great international economic areas contend for international capital by offering benefits and fiscal exemptions. The integrated financial markets of America, Europe and Asia offered large companies the financial means to provide services to their world clientele, even in economic areas which were far from the original areas of expansion.

It was no longer the size of internal economic areas, but rather the access of single economies to the world market that defined the level of economic well-being in the eighties. Some of the most severe cases of economic crisis seen during this decade are exemplary: Mexico, Brazil, Argentina, Nigeria and the Soviet Union itself. All of these countries were large and had great resources but can be considered as having been closed economies. Their huge territories however did not help them from their slide towards economic decadence. On the other hand it was the small industrial economies, which were forced to open up and carve out niches in the world market, that offered the only examples of an exit from underdevelopment: Taiwan, Singapore, Hong Kong, South Korea, and Chile.

4. At the end of the eighties the world market had become the decisive factor in economic development. It had also sent the great closed continental economies into crisis.

The economists and politicians who were more receptive to the new world situation certainly watched this development with great interest. The dream of Poles, Czechoslovaks, Hungarians, citizens of the Baltic nations, Slovenes and Bulgarians, as well as of Russians who had rejected

Communist economics, was to combine the two phenomena which they had witnessed in the eighties. That is, the return of Latin America to democracy — just as essential to the East for the creation of a market economy — and the growth of the “Asian tigers,” small flexible economies which had already established themselves solidly as trading partners with Japan, America and Europe.

It was therefore no coincidence that as soon as Gorbachev had offered the chance to reject socialism, an immediate opening up to the world market was chosen (directly and without the mediation of regional associations). After years of inadequate technology and declining industrial plant, the East threw itself into the deep end of the world market, in a desperate search for technology and investment. The anxiety to make up for lost time has forced these countries to make a tremendous effort. In a short period of time, prices have been floated to nearly world levels. International commerce, once concentrated in the CMEA area, has been redirected towards the Western countries, with great sacrifices as a result. Some countries have taken the quickest route to complete convertibility of their currencies, i.e. without relying on a payments Union. Joint-ventures and foreign investment have been greeted with great enthusiasm. Many nations have become members of international financial organizations, in particular the International Monetary Fund and the World Bank. The East has chosen the most direct and painful path in order to enter immediately into the world market. It has turned its back on less difficult ways for both ideological reasons and considerations of objective need. The lost ground was far greater than that of the Western countries after the Second World War. Furthermore it should be noted that their principal economic partner and competitor, East Germany, is being integrated into the West at a great pace, thus forcing the other nearby countries to proceed with equal rapidity.

The process of integration into the world market had to be completed as soon as possible in order to reduce the most difficult part of transition to a minimum, and to offer international investors favourable conditions for industrial establishments and collaboration. Therefore another element was needed: a clean break with the past, involving an economic, political and if necessary territorial departure from all the old systems of control that might slow down the passage from economic isolation to integration with the world economy. For some of the more westernised republics (e.g. the Baltic states and Northern Yugoslavia), this meant secession. For others, however, it meant a struggle to leave CMEA and the Warsaw Pact. Therefore, the beginning of the integration of East

Germany, Poland, Czechoslovakia, Hungary, the Baltic states and Northern Yugoslavia into the world market during the 90's meant the breakup of CMEA, the Soviet Union and Yugoslavia.

5. A year after the first signs of the choice of radical reform in the East, three new elements have made the situation even more complex.

The first was that the strategy of an immediate and direct entry into the world economy was embraced by the new political protagonists. The most important of these was Russia. The most convinced and coherent was Bulgaria. After much hesitation and in dire economic straits, they were followed by Rumania and Albania. Recent events in Russia (e.g. the liberalizing of prices at the beginning of 1992), have also forced the Ukraine and other ex-Soviet republics to do the same, so starting the process of opening up to the world market. It is extremely noteworthy that it is post-Gorbachev Russia itself that wants to be free of the weakest republics, which would slow her entry into the world market. In fact, Moscow no longer wants to retain links with Central Asia and with the trans-Caucasian regions. Bearing this in mind we can see why Russia originally wanted a confederate agreement only with Belorussia and the Ukraine, why she wants to join NATO in the medium term, and why she wants to disengage militarily from the Armenian areas claimed by the Azers. It was only the refusal of the Ukraine to participate in any form of complex association with Russia that obliged Russia to put off its final break with Central Asia and the trans-Caucasian regions.

The second element above all involves, but not exclusively, the countries which have common borders with member states of the European Community. Here the desire to become part of the EEC has become strong. On the 3rd October 1990, the workhorse of the old CMEA, East Germany, in effect became part of the European Community. In November 1991, Czechoslovakia, Poland and Hungary signed special association agreements with the EEC. The desire to tighten links with Brussels has also arisen in the Baltic states, Slovenia, Croatia, Bulgaria, Rumania and even in some of the ex-Soviet republics.

The third element has been the final disintegration of the old forms of co-operation. CMEA, the Warsaw Pact, the Soviet Union and Yugoslavia have all disappeared.

6. Therefore we can see that the strategy of immediate entry into the world market was undertaken with great single-mindedness. However certain risk factors that could lead these states into a blind alley emerge

(that is, into isolation and economic under-development).

The world market is not yet organized on a rational, ordered, basis. It still needs the legal guarantees, firm procedural regulations, and institutional checks which work within markets which have already been established. For example, the European Common Market allows companies to invest and establish relationships and alliances with a degree of security. An example of lack of controls is the current conflict between the EEC and its two major partners on the world scene, the United States and Japan. This is based on two fundamental questions: free trade and interest rates. There is the risk that unresolved problems between the giants of the world market will be off-loaded onto the weakest links in the chain, i.e. the new arrivals. The danger that the industrialized West will use protectionism to harm the newly democratic countries of Central and Eastern Europe in important sectors such as agriculture is particularly worrying. The entry of the Ukraine into the world market in this sector, for example, will upset the present balance.

The world market is not yet capable of mobilizing sufficient resources for the development of all the economic areas that need capital. The developing world is not the only competitor of Eastern Europe. Eastern Europe also has to contend with such industrialized states as the USA, a united Germany, and indeed Italy itself, all of which have their own enormous internal financial imbalances. The scarcity of capital is becoming one of the most important features of international economics. The willingness of Western business to make direct investments should not be overrated. While Europe has begun to act, Japan and America have shown a great deal of caution regarding buy-outs and joint-ventures.

Despite romantic and sentimental attitudes which often dominate public opinion, a lot of companies, and as many governments, do not consider that the economic and political disintegration of the East, which was actively desired by those who wanted direct contact with the world market, is a contribution to growth and stability at all. Conflict and disorder, which are occurring at regular intervals, the confusion of roles, and the conflict between legal systems are features of this process. All of which, by adding to the risk, have encouraged the sense of disorientation and even fear which investors have felt and which have subsequently kept investments away.

There is therefore the risk that the countries of Central and Eastern Europe will have to face the problems of transition to a market economy alone. They will not be able to benefit from the indispensable help of international capital, while the old channels of trade relations inherited

from CMEA are now obsolete. An unhappy outcome could paralyse for years to come the whole of the Eastern bloc, with the exception of the old DDR, Czechoslovakia, Poland and Hungary. These four countries in fact do not enjoy privileged access to the world market. But, on the other hand, they can count on integration into the EEC, particularly thanks to the public and private efforts of German financial investors, who have a geopolitical vested interest in stabilizing the eastern frontiers of their country.

Because of these conditions, the probability that the economic situation will fall into a spin increases. These countries have made the best and boldest choice in order to liberalize their economies. Despite this, Western capital is not forthcoming, East European businesses are not receiving Western orders and the whole economic crisis deepens, assuming an increasingly worrying aspect.

At the root of the decision to create immediate contact with the world market was the possibly naïve over-estimation of the West's capacity to help that was made by the new pro-democracy politicians. The West's propaganda had perhaps led them astray. It is enough to think of the bewilderment of the secessionist Republics of the Soviet Union and Yugoslavia when faced with the reticence and lack of support of the West (a fact that continued until their secession was complete, and hence could no longer be ignored). Their leaders thought that the West, especially America, had the will and the means both to intervene militarily to defend their territory and to invest in their reconstruction. Unfortunately, a totally naïve conception of the capacity of the West to react had prevailed over a realistic assessment of how the world market works.

7. The integration of these new economies into the world market is an important objective. As such it should be pursued by the world community, and particularly by the West and the European Community (which is preparing to become a union). Here we can pose the not very simple question of what exactly the world community can do in a world which is no longer bipolar.

The first priority is to distinguish short, medium and long term objectives. Paradoxically, it is easier to say what should be done in the long term with regard to the problems associated with the fall of the Soviet Union. It is relatively simple to lay down the guide-lines which at the beginning of the next century would allow us to resolve once and for all the instability of these recent months.

Taking these problems as a whole, Europe's resources are not suffi-

cient to stabilize the old Eastern bloc in the long term, let alone the even more troubled developing countries. Therefore this objective needs to be supported by all the countries in the world which produce resources. To this end the UN needs to increase its powers, and the means to manage economic issues need to be created. Safeguards also need to be created in the world market, by imposing international rules on investment and the functioning of the free market. Stable exchange rates should be created as well as a new stable monetary system. The resources of a wide range of countries should be gathered together to finance investment aimed at key sectors, such as energy and the environment. The strengthening of the UN would, furthermore, avoid the spreading of war, instability, and general disorder in the post-Communist and developing world.

In the middle term, that is this decade, the European Community must consider all the Central and Eastern European countries from the point of view of their progressive integration, first by making agreements of *special association* which should be followed by *adhesion* agreements. Assistance should also be provided, not only to Russia, but to all the other ex-Soviet Republics, using the Community tool of *commercial association*.

It would be completely unsatisfactory if the Community decided only to help the more advanced Central and Eastern European countries, and ignored the poorer areas, especially the Balkans. The recent Serbo-Croat war shows that peace throughout Europe may depend on the future of this region. In our interdependent world Europeans cannot apply the reasoning "*hic sunt leones*," especially with reference to areas which are so close.

It would furthermore be dangerous to reduce the ex-USSR to an exclusively European country. Russia is an inextricable mix of Asia and Europe: it cannot be abandoned by Europe, nor must it abandon Asia. For this reason we should not accept the concept of a Europe "from the Atlantic to the Urals." Rather we should look towards the formation of a great common Eurasian market, a "Greater Europe" which binds consciences and creates solidarity from the Atlantic to the Pacific.

In the short-term, i.e. from the mid nineties onwards, the world community will have to be flexible and imaginative. All the old and new political groupings, such as the International Monetary Fund, the World Bank, the BERD, the CSCE, the Council of Europe, and the NATO council of co-operation will have to take part in international and regional institutions. Each of these institutions will have to offer a permanent political forum. The interaction between differing points of view will be

continuous and intense, and will have to be based on mutual trust. Communication between national capitals will have to increase and become more continuous.

For its part, the European Community will have to enlarge its borders to include Czechoslovakia, Poland and Hungary within the next few months. It must also initiate special association agreements with those countries that satisfy the indispensable political prerequisites. The Community will furthermore have to face problems regarding its own resources and its right to apply direct taxation. Without adequate financial backing the EEC will only be able to express good intentions. This is a problem which must not be underestimated. The reinforcing of the Community's institutions and its transformation into a Union — even tighter than the one envisaged at Maastricht — are indispensable if Europe is to fulfil its role in the world.

8. In this essay I have tried to show that the disintegration phenomena of countries has become more acute because it was incubated for a number of years. This is due to the need — felt by all the countries which have rejected the Socialist system — to open up economic systems and to enter the world market. This need must be viewed positively and encouraged. However it should not be confused with those tendencies which destroy solidarity between different peoples.

It is Europe's duty to ask the states and peoples of Central Europe to follow the road which leads to integration with more determination. The fall of the Communist regime in Moscow and the choice of pluralistic democracy, free markets and free world trade by many countries has changed world aims. The option of "every country for itself" no longer seems justified and is objectively incompatible with the desire to become part of the world economy.

The ruling elites of some countries are trying to make a change. Poland, Czechoslovakia and Hungary, which were the first to introduce economic reforms, have signed agreements to move progressively towards free trade and to co-operate between themselves at periodic consultations with other governments. It is only natural that these three countries, like others that will sign special association agreements with the EEC and which want to enter the EEC itself, should recognize the common interests that tie them together. This is also the case for negotiations with the European Commission. A "Council of Association" could be created, establishing a basis for political and economic co-ordination between countries, like themselves, that will have to face the

grave problems involved in joining the EEC.

Not all the countries in Eastern Europe will enter the European Community. This, However, does not mean that they do not have interests, both economic and defensive, that will lead them towards some type of integration. Many new republics that are now arising from the ruins of the ex-USSR and Yugoslavia, together with many that were once satellites of the USSR, will still have to learn to recognize their mutual interdependence. This interdependence had previously found expression in certain ways, even before the Soviets expanded their influence over Europe and Asia.

The necessity for dialogue between peoples that were once united and which are currently divided, is based on the very same conditions of objective interdependence, and common problems which will probably re-emerge in the future. However, these conditions will prevail only if Western economies and international institutions provide incentives for unification. Initially, it will probably be necessary to think of a system which involves preferential intervention for those countries capable of drafting co-ordinated plans for reconstruction. The use of sanctions cannot be excluded in the case of those states which, in such delicate areas as nuclear, chemical or biological weapons proliferation, threaten world security by violating international agreements.

It is not easy to predict whether the political and commercial links which have dissolved over recent months will be rebuilt with the same criteria as in the past.

However, it is also rather unlikely that countries will continue for years on end to reject any form of stable co-operation and other more structured forms of integration. There is no doubt that the very same peoples that have followed the path towards world integration and regional disintegration will also have to decide what these new forms of pluralistic and democratic co-operation, based on a free market, will be. It is also clear that Western Europeans have a duty to send a clear message: that the indispensable condition for full entry into the world economy by Eastern European countries is their movement towards integration.

*Francesco Mazzaferro*

## Thirty Years Ago

### A DRAFT MANIFESTO FOR EUROPEAN FEDERALISM\*

#### *Introduction.*

Federalism as a cultural and political experience seems to have little importance, remaining substantially marginal to contemporary life. The field is held by the old political ideologies: liberalism, democracy, socialism and communism. However, the course of history has now reached the stage of the social unification of the human race, which cannot be interpreted and dominated by the old ideologies, that, as a result, have gone into total crisis. Federalism is precisely that new instrument of thought and action which increasingly coincides with the historical process, thus permitting it to be understood and controlled.

In fact, from a political point of view, federalism, in other words the federal state, represents the last great discovery of forms of democratic government. Direct democracy was the democratic government of people within the boundaries of a city, and did not create any division of powers to guarantee freedom. Representative democracy was the government of people belonging to a nation, and achieved a formal division between legislature, executive and judiciary. The federal system corre-

---

\* This document was written by Mario Albertini as a contribution to the debate (begun at the supranational MFE Congress, held at Lyons in February 1962) on the nature of the organization, the struggle of the Movement and instruments of action. The *Draft Manifesto* was proposed as an alternative to the *Draft Charter*, which was inspired by the thinking of Alexandre Marc and drawn up by the "Charter Commission." The *Draft Manifesto* constituted the theoretical and practical basis for the life of the MFE for many years afterwards and, despite changes in perspective, analysis and action resulting from historico-political developments, it remains today, in many aspects, a valid instrument for reflecting on the identity and role of the federalist avant-garde.



sponds to an even greater widening of the scope of democratic government: it is the government of people belonging to a supranational area, and is able to encompass the whole world. It achieves substantial division of powers, dividing sovereignty between the federal government and the governments of member-states. More than anyone else, Alexander Hamilton, one of the founders of the American federation, understood and clearly illustrated the meaning of the new form of government.

But federal democracy cannot function stably unless it extends to the whole world, since its substantial division of powers and democratic structure tend inevitably to collapse under the impact of international violence. The federal democracy which has established itself in more limited areas than that of the world, can only survive precariously in those countries that can be considered political islands. These countries are minimally exposed to changes in the world balance of power, and therefore do not need to maintain a permanent military and diplomatic commitment and abide by the rules of power politics in the international arena. But when the world balance of power begins to assert itself on these countries, their condition as "political islands" disappears: they have to take on all the military, diplomatic, economic and other commitments in the international field that their power implies. This weakens and tends increasingly to destroy their fragile structure of federal democracy. This has been, and is, the fate of the United States of America. The powerful tendency towards unification of the human race, which characterizes the phase of history we are living through today, increasingly nullifies all those empty spaces which in the past allowed the existence of "political islands." The conditions which permitted federal democracy at less than a world level are disappearing. The full and definitive achievement of federal democracy, therefore, now means the elimination of war from the world by the establishment of a World federation.

It is for this reason that federalism now coincides with the course of history, with its powerful impulse towards world unification. Or rather, it seems to coincide with an extraordinary moment in the evolution of mankind: the passage from prehistory to history, in other words the abatement of the last major obstacle to the full expression of all mankind's innate capacities. As Kant indicated, the human condition comprises the potential capacity for autonomy of thought and will; but it is only potential, until man succeeds in removing the obstacles which impede its full realization. Having won control, as far as possible, of natural calamities, and having overcome, or being about to overcome, the plague of poverty, man is now faced with the final obstacle which impedes the full

expression of the human condition and which perpetuates man's violence against man: war.

Federalism overcomes the cause of war: the division of the world into sovereign states. With the World federation, that final stronghold of violence between men, war, will be eliminated: international anarchy will be replaced by the rule of law between states. The World federation will, as Kant taught us, open up a world in which man can consider other men as ends in themselves and in which he can fully and autonomously develop all the capacities that are within him. The World federation will open the history of the human race.

*1. The course of history, spurred by the evolution in relations of production, has unified the peoples of the more advanced countries by breaking down class barriers, and is about to break down the barriers between countries and to unify the human race.*

The immense and progressive revolution in the methods, and hence the relations of production, founded on science and modern technology, has had an enormous effect on the history of Europe and the entire human race. The transformation of the organization of production from that of craftsmen, using rudimentary means and limited to the highly restricted market of a local economy, into the industrial model, using increasingly powerful and sophisticated instruments and open to ever more distant markets (from region, to nation, to continent, to the whole world), has imposed a gradual revolution on human relations.

The evolution in relations of production has brought into contact and integrated individuals who, in the previous organization of production, lived at great distances from each other, and without contact among each other. The interdependence of human actions is growing to an extent never before seen in the history of the human race.

In the first phase of this historical course there was a great growth *in depth* of the interdependence of human actions in the economic, social, political, cultural, and other fields. This growth in the depth of interdependence increasingly united people belonging to the same country, tending to eliminate the divisions and conflicts of class. This was the epoch in which the great European ideologies were born, which allowed people to come to terms with the new reality they were experiencing, and which reflected the profound changes in society. The values of freedom and justice came into the collective consciousness with a greater power than ever before. Liberalism and *laissez-faire* marked the liberation of the

new social dynamism of the bourgeois class, created by the revolution in the organization of production, which had broken the bonds and fetters of the old oligarchic and fossilized society of the *ancien régime*. Democracy showed the need to overturn the old principle of legitimacy based on divine right: to establish the political participation of all those people who were gradually being made aware of their active involvement in the productive life of the country by the new relations of production. Socialism marked the economic and social advance of the new proletarian class which had emerged from the new economic organization.

The framework of the state, inherited from the past, was developing its bureaucratic apparatus: as it did so, it gradually achieved the political integration of all the human and material forces which had already been socially unified by the relations of production. People represented this political unity as the "nation," an extended family linked by blood, race, by *je ne sais quoi*: an ideology which allowed all economic, social, military, cultural, scholastic and other activities to be psychologically linked to power.

To the increase in national integration, however, there was a corresponding international disintegration. State political power was forced, by the international balance of power, to appropriate, in the interests of strength, all the great new human and material energies (take for example compulsory conscription) which had emerged within countries on the social wave of interdependence. In this way state power swept away the spontaneous regional nationalities and the pre-existing spontaneous European supranationality, and presented itself, in relation to other states, as more powerful and more aggressive than before. Not only, then, did the old logic of the European system of states continue, as always in a delicate balance between equilibrium and hegemony, and periodically shaken by war, but that logic became much more violent precisely because of the enormous empowerment of the states because of the national principle.

Before long the second stage in the course of contemporary history was reached, which we are currently living to the full. In it can be seen the growth *in extension* of the interdependence of human actions in the economic, social, political, cultural, and other fields. This growth in extension of interdependence is bringing people of different countries, and all the people of the world, ever closer together, and tending to eliminate divisions and wars between nations. Just as the first stage had unified people in the more advanced countries within the area of the nation-state, so the second stage of this historical process is now advancing towards the unification of the human race. The various civilizations and

continents are coming closer and closer together, and have already reached a degree of interdependence which was previously unimaginable. This kind of interdependence is constantly increasing, constituting a powerful force for social unification. The Third World, the world of underdeveloped and ex-colonial countries, today faces the first stage of social development, that of the elimination of divisions and conflict between classes, but it faces it at the very moment when the more advanced countries are experiencing supranational social unification. Indeed, it can be said that the ex-colonial countries are now beginning the first stage of development precisely because of the expansive power of the society of more developed countries. And moreover, it is on the interdependence in extension of human actions, which is to say on the help of those who live in the more developed parts of the world, that the ex-colonial peoples' hopes of speedy and organic development are largely based. The course of history is vigorously pushing mankind, in its various degrees of development, towards unity.

*2. The political division of peoples into nations, inherited from the past, finds its last stronghold in the continental power of the US and the USSR, which, facing each other all over the world, seek to keep the planet divided into two opposing camps in order to maintain their supreme power, and to put a brake on the process whereby political structures adjust to the social unification of the human race.*

The evolution of the material relations of production, by socially integrating people across ever larger areas and increasing the material instruments at people's disposal, put ever greater strength into the hands of the nation-states, and thus made the European political equilibrium, based on the division of Europe into nations, increasingly dynamic. When economic and social evolution reached the dimensions of the nation-states and was already beginning to go beyond them, the strength of these states became enormous: their centralization and authoritarianism then had to be maximized in order to control the new dynamism that was awakened and to stop economic and social forces escaping from their territory. This was the tragic moment of Nazism and Fascism on the one hand, and of international anarchy on the other. The nation-states were at the apex of their centralizing drive, and the tensions and conflicts of power were governed by the most complete international anarchy. The result was the latest and most violent attempt to dominate the European continent, that of Hitler.

But the terrible world conflict which followed from this, at the same time brought to a close the age-old history of the European political system and of the predominance of Europe in the world. The evolution of economic and social forces had by then gone beyond the dimensions of the European countries and extended until it reached continental dimensions. The end of the Second World War made this clear, showing the nations of Europe weak and prostrate, and the world at the mercy of the two continental superpowers, the US and the USSR. It was the end of the European political equilibrium, and the beginning of a world political order.

In the postwar period, economic, technological and social forces really were transmitted across national barriers in Europe. The economic reconstruction and expansion of the countries of Western Europe, and above all of the Six, took place at a supranational level. The contradiction between economic and social forces, and the national political structures which still divided Europe, thus became very acute. The same contradiction was visible, on the other hand, only in embryonic form, and thus to a much more limited extent, for political bodies of continental dimensions. A political structure of continental dimensions allows for the most sophisticated forms of contemporary mass production, the most advanced use (if not to the extent of full capacity) of automation and nuclear energy. In other words, a political structure of such dimensions succeeds in controlling, within broad limits, the economic and social energies which are so vigorously spurred, by the course of history, towards supranational interdependence. This explains both the weakness of European countries, and the strength of the United States and the Soviet Union. And it is for this reason that the US and the USSR are successful in forming the pillars of the world balance of power.

But this bipolar world balance, while on the one hand indirectly signalling history's tendency towards the social unification of mankind, on the other hand opposes and slows down this tendency, by fossilizing the political structures into which people are organized. The US and the USSR confront each other all over the world in an extremely rigid bipartite equilibrium. Every social, political or military development which takes place in any part of the world, always means, to a greater or lesser extent, the advance of one of the two superpowers and the withdrawal of the other. Each superpower, therefore, must assemble all the human and material resources at its disposal, all the potential to influence it possesses in the world, in order to prevent the other from dangerously shifting the balance of power. In this way, although the

superpowers are becoming less and less successful in adequately holding the whole of their world front line, they are nevertheless trying to divide the world into two camps and to regiment and marshal all the material and intellectual energies of the world into two blocs, while restricting and denying the need for unity in the false solution of the UN. The unification of the world is therefore conceived of as the victory of one of the two blocs over the other. The ideological reflection of this bipolar equilibrium manifests itself in the contrast between communism and democracy. These ideologies correspond to the two different methods used to accomplish the first stage of the interdependence of human action in depth, but have now been overtaken by the insistence of the monumental developments which are carrying society towards the unification of mankind. More than anything else, the contrast between communism and democracy now has the ideological function of masking, following the old principles of the previous phase of history, the division of mankind between the two supreme powers of the US and the USSR. And it is precisely these two supreme powers, with their conservative impulse towards maintaining the *status quo* and with their umbrella of power, which enable national structures to survive. This is the case even where, as in Europe, such structures have already been overtaken by supranational economic and social forces, and hence enormously weakened. Thus the bilateral world balance of power between the US and the USSR, by maintaining the division of the Earth into nations, puts a brake on the process whereby political structures adjust to the social unification of the human race.

*3. Thus liberalism, democracy, socialism and communism are degenerating because they are not able to overcome the contradiction, by now absolute in the more advanced countries, between justice and freedom, on the one hand, and the division of humanity into nations, which is the foundation of war, on the other. In contrast, federalism, which is the means to establish peace in the world, gives people the capacity to interpret and dominate the course of history and to maintain justice and freedom through peace.*

The nation-state, by suffocating the primary political communities within the nation, has violently opposed and contradicted the values of justice and peace in contemporary European history. These characteristics had emerged forcefully by the first stage in the evolution of the material relations of production, when there existed a tendency towards

the elimination of class conflict. The traditional European ideologies, intent on changing the internal social and political state structure, did not realistically face up to the problem of achieving peace. Liberals and democrats, socialists and communists, had all believed that the problem of war would automatically be resolved by the changes they proposed in internal state structures. This enabled them to dedicate themselves to such changes, but meant that they did not realize how they themselves, prey to nationalistic ideology, were serving to exacerbate the tension of the international situation. For the sake of strength, the nation-state appropriated to itself all the energies awakened by economic and social evolution; it had to become ever more centralized, thus damaging, weakening, or even breaking down, the fragile social and political institutions necessary for the achievement of justice and freedom. The people of Continental Europe have already experienced the tragic contradiction between justice and freedom on the one hand, and the continued existence of war on the other.

Now that the evolution of material relations of production has reached continental proportions and is already pushing towards the social unification of the human race, the contradiction between the values of justice and freedom, and political division, is being reproduced throughout the entire world. Political division, based on the bipolar balance of power, is pushing both governments and people (especially those of the two superpowers which support the greatest weight of the world balance of power) towards nationalism. The contradiction is by now absolute: justice and freedom cannot be achieved completely in only one part of the world. The establishment of world peace is a fundamental prerequisite for their realization. Justice and freedom concern all men and women and not simply Americans, Russians or Europeans. Faced with this huge new problem, the old European ideologies have no answer. Just as they had ended up serving the nation-state in Europe, and becoming increasingly degenerate in the process, such that they often had to contradict the very values of which they are the standard-bearers, so today they serve the bipolar political division of the world by covering it with an ideological veil.

These ideologies are now so completely degenerate as to be reduced to hiding the absurd principle that holds that Americans, Russians (and tomorrow the Europeans) are to be conceived of as so fundamentally different (by race, descent, or whatever else) from each other as for it to be conceivable that they can justly be brought to destroy each other.

This is no different from the servile way in which these same traditional ideologies were manipulated in Europe to hide the absurd

principle that regarded the French, the Germans, the English and the Italians as being fundamentally different from each other, and on the basis of which Europeans destroyed each other. All the alternatives that were offered in the past by the old ideologies are nowadays being replaced by the choice between the division of humanity into nations, and federalism. Federalism has, in fact, within itself the ideologically and functional characteristics that will enable it to be the new means for understanding the process of history which we are living through and for guiding people towards the political unification of the human race. On the one hand, in the federalist tradition (and above all in Kant), there is the clear consciousness, which has become reality in this day and age, that people cannot achieve their full human condition of freedom and self-determination until the rule of war is eliminated from the world by the political unification of humanity. On the other hand (and it was above all Hamilton who taught us this), the federalist tradition also contains the discovery of the correct technique for setting up a supranational government by establishing peace in the world order; the method of government, in other words, which is fit to give a political framework to the social unification of the human race. Federalism, with its ultimate objective of creating World federation, is therefore both the conceptual framework through which people can consciously appreciate the historical process they are experiencing, and the institutional instrument through which they can dominate it. By choosing federalism the people (abandoning the false trails of the old ideologies which are failing to uphold the very values they stood for) will guarantee freedom and justice by founding them on the solid base of the World federation.

*4. In Western Europe the phenomenon of social unification beyond state barriers is building up an immense supranational force against the national powers and the dominant power of America. With the foundation of the European federation, this force will be able to sweep away the bilateral world balance of power and, for the first time in history, overcome the nations within its own area, at the same time as unleashing materially and ideologically the force of federalism throughout the whole world.*

In which part of the world are federalism and the course of history about to meet? Not in the US, nor in the USSR, since they are tied to nationalism by their pride that is derived from their superpower status; nor in the Third World, which is now creating and consolidating nation-

states; but in Europe, and particularly in Western Europe, where social development has taken on a supranational character in contradiction to the national political establishment. Since the end of the Second World War, Germany, France and Italy no longer represent centres where fundamental decisions are taken in international politics, nor the context in which the independence and security of Germans, French and Italians are defended. It has become unthinkable for French policy to run counter to German policy and vice versa, or for Italy to play France off against Germany. It is America which guarantees the defence of Western Europe. And in the European countries, power, which still serves to maintain internal order, but not to defend the country and maintain its independence, is becoming detached from the control of citizens and the situation is tending towards authoritarianism. The weakening of internal consensus and the end of international influence are causing the *eclipse of national sovereignty*.

Yet Europe is becoming rich. It had become poor compared to the United States when the struggle between countries, and the control of the economy for the purposes of military strength, had restricted production in national markets. But after the war the convergence of countries under American protection determined a *de facto European unity*, which manifested itself institutionally only through confederal superstructures (the so-called Communities) because, since the nation-states had held on to absolute sovereignty, power and the struggle for power remained at the national level. The current extent of unity has however provided a sufficient political base for the liberalization of exchanges, which also gives Europe (within the limits of this liberalization) a market of considerable sizeable dimensions. Within this market the economy is developing rapidly, attributing a supranational character to many aspects of social, economic, scientific and technical life. And these aspects are being consolidated without difficulty because they have a solid foundation in the ancient and *spontaneous European supranationality* of religion, culture, science and law, which was swept aside but not destroyed during the last hundred years of nationalism.

This unity is very advanced. Having begun in the most industrial sectors, it has now affected the most backward and protected sector, that of agriculture, which raises issues of control and not simply free trade measures. It is becoming habitual in the fields of science and technology, and in advertising and consumer attitudes. It is revealed in trade unions, which feel the need for unity at a European level, even though without a state framework they are unable to achieve more than the most moderate

and precarious form of it. As a whole it has reinforced European society to such an extent as to change economic relations radically, and to change, at least partially, the balance of power between America and Europe, giving rudimentary substance to the idea of recuperating on a European scale the independence that was lost by the nation-states. In short, it has given rise to a strong *diffused Europeanism*.

At the level of political cadres, the situation of power in Europe and of actual European unity have generated *organized Europeanism* (Federalist movements and movements for European unity), and *organizable Europeanism*. The former is constituted, at least partly, of those people who have decided to concern themselves not with changing their own national government, but with the struggle for a European federation. The latter is constituted of those who wish to broaden the sphere of freedom and justice in national societies, but are unable to do so because the levers of change are European, not national. If they do not surrender to opportunism, and remain faithful to their values instead, these people can only hope to find a political outlet in federalism.

Taken as a whole, these attitudes constitute an immense potential force, which is partially expressed on the economic plane (where the Europe of the Common Market has acquired worldwide influence), but completely frustrated on the political plane (since Europe has remained impotent in comparison to Russia and America in international politics because of the lack of a European government). This supranational force exerts pressure against the power of the nation-states and against American supremacy, which in turn combine to impede the evolution of the supranational force, which can only become stable with the foundation of the European federation.

If this force could express itself through a federal European government, it would be sufficient to ensure that Europe constituted a third effective centre in the world balance of power. The world would no longer be an arena where two colossi, America and Russia, challenge each other in a power struggle, the present consequences of which are to make every point in the world an element of Russian or American security, to raise military cost in all countries, and to embitter all international relations. A third centre, sweeping aside the bilateral balance of power, would bring about a universal reduction in tension and military costs, and would reverse the course of world politics, by consolidating the universal aspiration for detente and for an end to the arms race. In particular, democratic unification with Eastern Europeans would be possible in a federated Europe, which was no longer divided in two by America and

Russia, and which was capable of its own defence. In the international balance of power, socio-political factors would become more important, to the advantage of politicians that favour civil progress throughout the world, while militaristic and nationalistic elements would lose importance. Even the policy of the strongest states, America, Europe, and Russia, by being obliged to concentrate more on socio-economic issues, rather than on military ones, would end up having a fundamentally beneficial influence on Latin America, Africa and the Orient, pushing the new single-party democracies towards greater democratization, and communist experiments towards non-Stalinist forms. In short, the world's progress towards the completion of the nationalist, democratic and socialist phase of history would be greatly speeded up, thereby creating the conditions for World federation.

However, the European supranational social force would not express itself only through government. Within Europe the impulse towards the centralization of federal power that is produced by foreign policy would, for a long time, be balanced by the centrifugal force of national traditions. This federal tension, and the culture which would be released by the superseding of nationalities (without their extinction), would give rise to globalist attitudes, which could be opposed to the government and its European limitations, and united with the similar attitudes which would emerge throughout the world. At this point the final phase of the federalist struggle would begin, the struggle for the world federal government.

*5. The national governments of Western Europe are obliged to co-operate on a European level for the sake of holding on to power. By falsely presenting this collaboration as the construction of Europe, they put a bridle on the supranational social force, keeping it divided, impotent and lacking in consciousness.*

Like any social force, the European supranational force — diffused Europeanism — cannot achieve its objective without autonomous political guidance, in other words without its own political avant-garde. As this avant-garde has not yet fully developed because of the division of organized Europeanism, diffused Europeanism is still completely under the control of national governments, in other words of those political forces which control and limit it. And under this control it remains divided, because national forces can only organize the population except separately, country by country; moreover it is impotent, because national forces cannot go beyond confederal objectives, hence leaving power and

the struggle for power at the national level; finally, it lacks consciousness, because national forces form their power within countries and can only modify, but not supplant the national level, and hence impose a division of the world as a world of nations.

This does not depend simply on the people's will, but on the structure of the political struggle. Normal political changes, whether to the advantage of workers, the entrepreneurial class, or various spiritual interests, are exclusively national, even if their stimulus is supranational or international, because the established framework within which it is possible to function, and the established power which can be won or influenced, are national. For this reason, typical political intervention, and the ordinary political process as a whole, only generate national responses, and contribute to the maintenance of power within the national context, to the maintenance of the nation-state. This general political stance is represented almost unanimously in the ruling class and in the political class, which both see national government as depending on them, and everything else as depending on others. After all, positions of influence or power are national. To maintain them, or at least not to put them at risk, it is necessary to maintain the national context, to impose the national culture, to continue to make people think that while every political standpoint can be discussed and altered (liberal, democratic, socialist, and even communist or fascist), there can be absolutely no questioning whether it is a good idea to remain politically and juridically German, French or Italian.

The fact that fundamental problems should alter the framework is not enough to change the functioning of the national political system. The governments of Europe, no longer able to defend themselves unaided, are collaborating in the fields of defence and foreign policy by means of *ad hoc* international organisms, such as NATO and the WEU. These governments moreover, since they are no longer able to maintain economic relations within their own borders, have abandoned traditional protectionist policy and created *ad hoc* bodies for international collaboration at various levels, from the International Monetary Fund to the more circumscribed ECSC, EURATOM and the EEC. In this way they effectively satisfy the need for European unity, as far as such unity is compatible with simple collaboration between countries and with the maintenance of political division. But this is not enough to give an effective solution to supranational problems, nor to keep the consent of the people. For this reason governments try to deceive the people, to make them believe that they are building Europe, that they are actively

concerned with European unity, and that they are doing everything possible for its advancement. To this end they falsely present collaboration between countries as the process of the construction of real political unity, and the achievements of the national policy of European collaboration as evidence of progress in this construction, so as to appear to be realizing unification.

But there is no doubt that after all these years there has been no progress in the political field. The conflict between political parties, the parties themselves, and political power are as national as they have always been. Social unification is very far advanced, as we have seen, and is continually progressing. But the structure of political conflict has remained the same as before, without any change towards a more European dimension. There is no direct political struggle, no direct citizens' intervention, no popular vote for the power to govern the European Coal and Steel Community, EURATOM or the Common Market. The man in the street, on whom political power normally depends, does not even know what these bodies are. And it could not be any different, since while he can vote for a national party and change the national government, he cannot vote for a European party, nor change a European government to the slightest extent. He cannot do anything to advance the political unity of Europe. It follows from this that he cannot become aware of the strength that he would gain by uniting with other Europeans.

Naturally the national policy of European co-operation cannot last for ever, for it is being constantly eroded, both from without and from within: from without by diffused Europeanism, which in the absence of a federal European government cannot achieve stability, and therefore cannot support national political forces. From within the erosion is occurring at the very foundations of the national forces, and its most visible manifestation is the increasing gulf between grassroots and leadership. The policy of co-operation between the national forces in Europe cannot in fact achieve democratic objectives, either in international, or social, policy, because such policies are directly controlled only by the national governments, which cannot serve as instruments to these ends, while national collaboration cannot govern Europe, which would in fact be the means to achieve them. This shows that the control of national governments over diffused Europeanism can be challenged and overcome.

*6. Only a federalist avant-garde, with a policy of permanent opposition to states as exclusive communities, will be able to unify the supranational*

*social force by freeing it from the Europeanism of national governments, to make it powerful and aware of its potential, and to lead it to the position of strength from whence it will be able to build the European federation.*

National forces and parties have the effect of politically dividing diffused Europeanism, keeping it blind and powerless. It must be strengthened, unified and made aware of its objective and of how that objective is to be reached. How can this be done?

In continental Europe, the political process fetters every time problems of a European dimension arise, problems which national governments cannot solve or can only resolve inadequately. In these circumstances, if the cause of the inadequate or missing solution is held to be national, and a national alternative is proposed, not only is the cause of the problem not eliminated, but the political attitudes of Europeans are divided, separating them with country set against another. In contrast, political attitudes will be unified if the European dimension of the problems is recognized, the supranational factors are identified, and the alternative is arrived at not within the framework of one's own government, but in the European Constituent Assembly. In this case, a single point of view, a single position (European opposition to national governments) and a single strategic objective (the European Constituent Assembly) are valid for the whole of Europe. Thus it is possible to get rid of the objectives and national positions which divide Europeans into warring camps. This way also strengthens the European position by bringing it into contact with the reality of politics, and by giving it the real prospect of being able to correct political action.

The difference between the former and the latter attitude is practical as well as theoretical. The former attitude deforms historical reality in a national direction, because it is restricted by a practical fact: the decision to act within the national sphere, the desire to maintain links with the national ruling class, an alliance with a certain national political force. On the other hand the latter attitude, which coincides with historical reality, can only be adopted if there exists the determination to put oneself resolutely outside the national context, to act independently of national forces and against the national power: in short, if one chooses, in the political struggle, a position of opposition to the community, if one is fully disposed to go not only against the government, not only against the regime, but also against the state as an exclusive community. There is no other way to build a united political front on a supranational level.

Thus the greatest possible number of activists must arrive at this



position, so that by launching the right European message from many cities on every available occasion, they can challenge false national and confederal solutions every time that national political forces try to impose such solutions on public opinion within the field of diffused Europeanism. Initially, this policy can be undertaken only by those who have decided to occupy themselves exclusively with the European problem, i.e. only in the sphere of organized Europeanism. In fact, this policy has surfaced, however imperfectly, in the MFE. However, this is a policy which is bound to expand. It is the only one that can (albeit gradually) thrust organized Europeanism into the struggle while keeping it united, the only one therefore that can begin to give strength to its political stance, and that can allow it to exercise increasing influence on organizable Europeanism, on people who want to eliminate the evils of national society but have not yet realized that this can only be done at the European level (which basically relates to people who feel personally affected by the contradiction between values and reality). In substance it is the policy which can unify organized and organizable Europeanism, and which can bring all authentically progressive energies to the political platform of opposition to the community and the demand for constituent power for the European Federal people.

This policy would cause a true supranational political movement to come about. Through exercising an influence on the diffused Europeanism of public opinion, it would acquire its own weight in the political balance of power, and introduce the European component which is missing from the current political situation. The gap between the increasingly supranational character of society, and the national policies of governments and the national ruling class, is destined to increase. The supranational movement could therefore easily shift many energies from the national camps to the European camp, drawing them away from the historically false alternatives which are formed within the state between right and left, liberalism and socialism, fascism and communism. At a certain stage in the development of the supranational force, a balance of power would be formed between its federalist influence and the confederal influence of the national governments. The "federator" would finally be face to face with nationalism in its ultimate expression: the confederalism of national governments and parties.

At this point, the first sizeable European difficulty to arise in an important nation-state, France or Germany for example, would give rise to a decisive crisis. It is clear that the Federation cannot be made without taking power away from the nation-states, in other words without a power

struggle. In such an event, the supranational movement, by transferring energies from the national, to the European field, would easily be able to bring the historic crisis facing the nation-states and their power onto European terrain. This would be the last in a long series of crises for national political democracy, which can be exploited, in the absence of a European alternative, only by authoritarian forces (in the final analysis only by fascism or communism). When the crisis breaks, the national democratic forces will lose their control of power, and thus also any influence over diffused Europeanism. Diffused Europeanism, that is the majority of the population, should finally be detached completely from its national guides, and entirely open to the supranational movement, which will be able to give it a consciousness and unity through the slogans "European federal power," and "Constituent Assembly." It is beyond doubt that this position would gather many more people than authoritarian positions, fascist or communist. At this point it cannot be said with certainty whether the Constituent Assembly, which will rebuild the power that has been lost to the nation-states, will be legal, i.e. convoked by the national parliaments themselves, or revolutionary. That will depend on the seriousness of the power struggle and on the capacity or incapacity of national forces to maintain control of the army and the police, using the cover of the European Constituent Assembly.

*7. The organization of this struggle for a future power in a hereto unestablished framework, that of Europe, requires a supranational movement and supranational action which involves all interests and supranational sentiments in the construction and reinforcement of Europe's political framework, in order to prevent sheer inertia from restricting Europeans within the orbit of the national powers and to make national powers converge on European terrain.*

Let us consider the possible forms of organization for the policy of opposition to the community and the demand for recognition of the constituent power of the European people. The forces of organized Europeanism and organizable Europeanism must be progressively enlisted without ever reaching a stabilisation point: this means forming a Movement, not a party. Such energies must be unified on the supranational level: this means making a supranational Movement which can never participate in national elections, since otherwise it risks being split up into national rumps. Where necessary, indeed, it must sabotage national elections. Contact must be established at more than a superficial



level between the action of activists and the ideas and attitudes of the population: this means making the local sections into centres for arousing public opinion and centres of a new political culture. The Movement must be given the capacity to gather the whole population at the crucial moment: this means building a visible European entity to negotiate with the national governments, one which is capable of standing firm at critical moments. The life of the sections and of the European centre must be assured without having to rely on any form of national power: this means that the European centre and the day-to-day activity of the sections must be self-financing. And finally there must be an incentive that effectively channels the energies of organized, organizable and diffused Europeanism into these instruments of action.

In the present state of affairs the incentives to act politically (from subscribing ideologically to a political force to outright activism) are exclusively national. Only in the national field can political results be obtained. In national politics, interests and achievements, propaganda and action, coincide. Changing citizens' opinions is all that is required to change the number of votes for each party and hence the national balance of power and the behaviour of the government. The context in which the parties operate (the nation-state) automatically makes the simplest form of propaganda for a political idea coincide with the action needed to give it power. But the political struggle for federalism and Europe is taking place in a hitherto unestablished framework, in a sphere where a balance of power does not yet exist: in other words, the means do not yet exist for translating an increase among supporters of the European cause into an increase in the power to promote it. As a result activists make sacrifices in vain, and propaganda addresses a void, which is dissociated from real political action, from the achievement of political results. This situation can only be overcome through *ad hoc* action, which highlights the European people and their constituent power, and brings the European political context to life as a psychological reality in the minds of those people who, in whatever ways, participate in this action.

Naturally this comprehensive action must not exclude any other federalist actions, but on the contrary should utilize them all, in their necessary diversity, so as to adapt to the reality of Europe. In the present situation the various federalist initiatives count for little because they remain ends in themselves. They would, on the other hand, reinforce each other if it were possible to link them together, and to make each one a contributory factor to strengthen the European sphere of political struggle and the visibility of the federator. To obtain this goal, comprehensive

action must have the following characteristics: a) it must be carried out by Europeans themselves, guided by federalists; b) it must suggest to the people of Europe that the popular struggle for Europe has started and is gaining momentum; c) it must progress without halts or interruptions in space and time, in such a way as to make the strengthening of the framework, and of the power to make Europe, depend on Europeans themselves and on all people of good will prepared to join the federalist ranks. Commitment and results, propaganda and action, and in the final analysis work and increased strength, must be made to coincide. Only in this way can the available forces be progressively channeled into the supranational Movement, that is to say the energies of organized, organizable and diffused Europeanism.

The most basic form of comprehensive action is the Voluntary Census of the European Federal People. Its means are: a) subscribing to the European federation by signing a form, the forms being counted until a majority is reached, at least in the Europe of the Six founding members, and payment of a fee by subscribers in order to finance the campaign; b) those involved in the census must take a political stand on the initiative of the federalists, on official campaign forms, on every occasion in which the nation-states demonstrate their inability to resolve political problems of European dimensions.

Regarding the launch and effectiveness of this campaign, one must bear in mind that the MFE (even only a part of it) is strong enough to obtain about a million signatures in a year, and thus to overcome this period of inertia. On the basis of this number of signatures, the following forecast becomes legitimate. In every corner of Europe people are talking about Europe because of the very force of events. In the places where the campaign is carried out, every person who speaks about Europe will also speak of campaign (What is this Voluntary Census of the European People? Does it serve any useful purpose?). Such people would speak of the campaign's goal — a majority in favour of the federation — as of an undertaking whose success depends on each individual. The campaign would always be slightly more advanced in people's minds than in actual achievement: the difference would consist of the fact that those who are aware of it can push it forward by joining it themselves, or by encouraging their acquaintances to join it, and so on. In this way the campaign would recruit all European good will and bring about, (through the presence of federalists in all cities and their integration with the population) real centres for arousing public opinion and for political culture.

At a certain stage in its development, comprehensive action, while

continuing in its basic form to extend the supranational Movement everywhere, will enable us to relaunch the European People's Congress and to give it an exclusively federalist representation. By stimulating existing groups to act and by creating new groups, comprehensive action will give us the possibility to hold elections for the EPC within a reasonably short time in about a hundred cities and on the same day. In these elections we will focus on the problem of the political union of Europe, thus exploiting a situation in which the citizens feel the need for European unification, but the national governments are unable to provide it. On achieving this, we will certainly bring about a great movement of opinion, a real European power. And on that day, the struggle will finally begin for real between those who want Europe and those who do not, which will be highlighted by the critical choice between a Constituent Assembly and maintaining the absolute sovereignty of the nation-states: there will be no more comfortable subterfuges which currently enable people to support the cause of Europe in words alone.

*Mario Albertini*

## ABOUT THE AUTHORS

**MARIO ALBERTINI**, President of the Movimento Federalista Europeo, Honorary President of the European Union of Federalists, Professor in Philosophy of Politics, University of Pavia.

**FRANCESCO MAZZAFERRO**, Member of the Central Committee of the Movimento Federalista Europeo.

**NICOLETTA MOSCONI**, Movimento Federalista Europeo, Pavia.

**FRANCO PRAUSSELLO**, Member of the National Executive of the Movimento Federalista Europeo, Professor in International Economics, University of Genoa.

**DARIO VELO**, Co-ordinator of the Economic Commission of the Movimento Federalista Europeo, Professor in Economics, University of Pavia.

Some articles from recent numbers:

1988

#### Editorials

The Problem of Security in the Nuclear Age.  
Traditional Détente and Innovative Détente.

#### Essays

Alfonso Jozzo, Ecu and Rouble: Towards a New International Monetary Order.  
Guido Montani, The Bolshevik Revolution and Federalism.

#### Notes

Proposal for a European Ecological Movement.  
Protection and Validation of Environmental Resources.  
Bolshevism, Nazism and the Crisis in the Nation State.

#### Problems of Peace

Peace and Defence of the Environment.

#### Federalist Action

A Joint WAWF-UEF Appeal to Gorbachev and Reagan.

#### Federalism in the History of Thought

Giuseppe Antonio Borgese.  
Ludwig Dehio.  
Jean Monnet.

1989

#### Editorials

The Meaning of the European Referendum in Italy.  
Perestroika and Communism.

Europe and the World after 1989.

#### Essays

Francesco Rossolillo, Federalism and the Great Ideologies.  
Gerhard Eickorn, German Reunification and European Unity. Twelve Theses.  
John Pinder, Federalism in Britain and Italy. Radicals and English Liberal Tradition.  
Guido Montani, Robert Triffin and the Economic Problem of the 20th Century.

#### Notes

Third World Debt and a Renewal of the World's Economic and Political Order.  
Political Aspects of the Ecological Emergency.

#### Interventions

Dmitry Smyslov, The Rouble, the Transferable Rouble, the Ecu and the International Monetary System.

#### Thirty Years Ago

Technical Analysis of the Struggle for Europe.

#### Federalism in the History of Thought

Giovanni Agnelli - Attilio Cabiati.  
John Robert Seeley.

1990

#### Editorials

The Revival of Nationalism.  
Europe and the Gulf Crisis.

#### Essays

John Pinder, The Federal Idea and the British Liberal Tradition.  
Guido Montani, European Currency, Reform of the Welfare State and Economic Democracy.

## Notes

Reflections on the European Common Home.

Can Federalism Be a Model for Africa?

Towards a Supranational Government of the Ecological Emergency.

The Principle of Self-Determination.

## Thirty Years Ago

The Nation, Ideological Fetish of Our Time.

## Federalism in the History of Thought

Bertrand Russel.

Lewis Mumford.

1991

## Editorials

A Just War?

Federalism and Self-determination.

The European Summit at Maastricht.

## Essays

Lucio Levi, Considerations on the European Community and the New World Order.

Jean-Francis Billon, The World Federalist Movements from 1945 to 1954 and European Integration.

Francesco Rossolillo, Europe: a World Power or a Model for the World?

Sergio Pistone, Europe and the Policy of World Unification.

## Notes

Europe and the United States: Lessons of the Gulf.

The Centralisation of the European Community.

## Federalist Action

History Will not Wait for Europe.

## Thirty Years Ago

Four Commonplaces and a Conclusion on the European Summit.

## Federalism in the History of Thought

Kenneth C. Wheare.

Edward H. Carr.

T



Dear Sir,

*The Federalist*  
has been published  
theoretical and  
and philosophy

The revised  
structure by

We suggest  
issue with a  
means of the

**The Federalist**  
**EDIF**  
**Via Porta Pertusi 6**  
**I-27100 Pavia (Italy)**

---

Direttore responsabile: Mario Albertini - Editrice EDIF - Autorizzazione  
Tribunale di Pavia n. 265 del 13-12-1981 - Tipografia Pi-Me, Pavia - Spedizione  
in abbonamento postale - Gruppo IV (70%).

---

SUBSCRIPTION

*The Federalist* is  
LUCIANO BOI  
language editing  
Europe 30 ECU  
A three-year subscription  
respectively) is  
Eurocheque direct

YEAR XXXIV, 1992, NUMBER 1