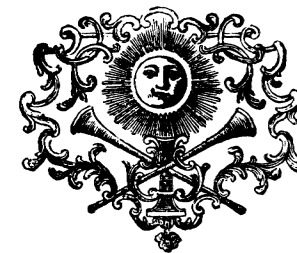


# THE FEDERALIST

a political review

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

Hamilton, The Federalist



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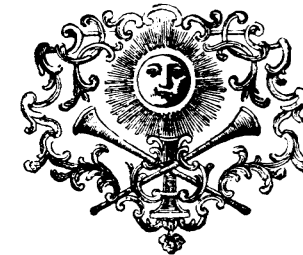
YEAR XLVI, 2004, NUMBER 3

# THE FEDERALIST

a political review

*Editor: Francesco Rossolillo*

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



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**Beyond the Secular State**

The long debate still running in France regarding the right of Muslim girls to wear the veil at school raises issues regarding the displaying of overt religious symbols in public places, that is, in those places (schools, hospitals, public offices, courts of law) in which men and women operate as citizens and, as such, interact with one another and with the representatives of the state. More generally, it raises issues regarding the adopting, in such places, of behaviours that underline and heighten differences based on religious identity. The debate raises the question of the secularity of the state, which is one of the great conquests of French civil culture. But careful contemplation of this question leads one beyond the religious aspects and reveals that the secularity of the state is only one aspect of a much broader problem.

It is true that the secularity of the state and its relations with religion is a problem that has already been raised in the past — and to an extent continues to be raised today — and one that must, for this reason, be examined as a priority. It goes without saying that what is being questioned is not the lawfulness of religious practices, as long as these practices remain outside politics and do not contradict the fundamental principles of the liberal-democratic system. Religion fulfils an irrepressible need in man, and only a totalitarian regime would seek to suffocate it.

\* \* \*

But established religions have often stepped outside their own sphere and invaded the ambit of politics. In the past they have been employed as instruments of power, and to an extent they still are used in this way. The use of religions in politics is rooted in the ambiguous and contradictory nature of the state. On the one hand, the state is the condition allowing civil coexistence and the affirmation of the values linked to civil coexistence, and as such it is the guardian of the legal system and the guarantor of social peace. On the other hand, however, it has historically

always been forced to coexist with other states and to reckon with profound social inequalities, which the course of history has attenuated, but never overcome. The state has thus always been forced to defend its internal civil coexistence against external enemies, through recourse to violence or the threat of violence and often requiring its subjects, or citizens, not only to lay down their lives, but also to accept injustices generated by this state of affairs. All this, combined with the still embryonic political awareness of the majority of mankind, has meant that, until now, the state has never been able (in the eyes of its subjects or citizens) to base its legitimacy solely on that allegiance that stems from the awareness that the state exists to guarantee civil coexistence and to promote the values on which civil coexistence is founded. The state has always needed a prop, outside politics, that draws on other allegiances and allows it to justify its own contradictions. For a long period in the history of mankind, this prop was religion. And religion still actively plays this role in the Muslim world, in Israel, and also, to a lesser degree, in many countries in which the majority of the population professes the Christian religion (one need only think of the pervasive references to God in American politics, of the widespread presence in many European countries of political parties with Christian roots, and of the role that religion still plays in the rituals of the great European monarchies).

It is only at the heart of Europe, through a gradual process, which began in France in 1500 and culminated in the French Revolution, that the state has managed to break free from religion. Thanks to the French Revolution and the birth of the concept of *citizenship*, a new sense of belonging emerged (even though it had been foreshadowed in the worlds of Ancient Greece and Rome), which the state managed to render superior to religious allegiances; and religion was duly assigned its rightful, non political role. This is how, with difficulty, the secular state came into existence and, being the explicit guarantee of mutual respect, of the equality of all in the eyes of the law, and of the acknowledgment of the value of social justice, managed to impose on its citizens, albeit with considerable limitations, a primary allegiance of a new and purely political character. And the peculiar characteristic of the secular state is that it relegates all other allegiances to the role of secondary allegiances, with which each individual can identify only in so far as they do not conflict with his or her citizenship.

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The emancipation, albeit incomplete, of the state from religion was

one of the great milestones of European political culture. But it is important to realise that neither the birth of the modern state nor the French Revolution were able to eliminate the factors that had, until then, rendered impossible the separation of the state from all non political sources of legitimisation. This explains why, following the partial emancipation of the state from religion, the role of religion was taken over by a new — largely artificial — allegiance to a perceived atavistic community held together by bonds of blood and by a shared culture that, having taken a thousand years to evolve, were supposed to confer a specific identity on its members. Religion was thus, in part, replaced by the *idea of nation*, whose role in history has been as ill-fated as it has been crucial. The idea of nation thus introduced a serious element of corruption into the concept of the secular state, which is reflected in the fact that, from the French Revolution onwards, the terms *citizenship* and *nationality* have, in common usage, been considered synonymous.

This is why we must look beyond the problem of the secularity of the state and extend our reflection to the more general problem of the emancipation of the state and politics not only from religion, but from all external sources of conditioning, of whatever kind, and thus to the problem of the complete freeing of the idea of citizenship (understood as an allegiance founded on purely political values) from all other kinds of allegiance.

\* \* \*

Moreover, it must be added that religion and, more generally, allegiances originally extraneous to politics, not only serve as instruments of power, but also — seemingly antithetically — contribute to the erosion of the state. This is particularly clear in the current phase of history in which, under the influence of globalisation and of the migratory phenomena that are accompanying it, the state is weakening and allowing the emergence of community allegiances that compete with citizenship and cause it to crumble, that undermine the value known as the equality of all in the eyes of the law, and that hinder political debate, confining the different sections of society to isolated ghettos that fail to communicate with one another, thereby interrupting the circle of consensus that links power and the citizens. It is a phenomenon that can be witnessed in Europe and in the United States, and it goes by the name of *multiculturalism*.

\* \* \*

It is important to understand that the existence, within the state, of

allegiances and other affiliations that, without having political origins, assume a high public profile and prevail over citizenship — i.e., over the sense of belonging founded solely on loyalty to the Constitution and on belief in the values that underpin coexistence within its framework — goes against the very nature of the state: in regimes that make use of them, such allegiances and affiliations pollute the essence of the state, and where they set themselves up in competition with the loyalties on which the community of citizens is founded, they undermine its solidity. The supremacy of citizenship over all other ties is thus an essential requisite of the state, understood in the purest sense of the word. This means, therefore, that a state whose autonomy is brought into question by the existence of other allegiances (which it uses as a source of its own legitimacy, or which enter into competition with citizenship) is an incomplete state. And this explains why secularity (signifying nothing more than a stage in the freeing of politics from all external ties) is so important in the French concept of statehood. This last remark has to be underpinned by a genuine understanding of the concepts of state and citizenship as perfect ideas and thus of the tendential nature of their affirmation. If it is indeed true that the profound essence of statehood is incompatible with the state's historical need to defend its internal civil coexistence against threats originating from other states, and its use of this need to excuse injustices, it follows that the state, again understood in the purest sense of the word, may fully be realised only following the overcoming both of the world's division into sovereign states and of the greatest inequalities between classes, social groups and nations. This means that the full realisation of the state and of citizenship can come about only within the framework of a world federal state that has shown itself to be capable of bringing social inequalities within limits compatible with a sense of common belonging. Clearly, this does not alter the fact that the progressive taking root of the idea of citizenship — even when this remains within its traditional limits — is an essential stimulus for progress towards the full realisation of statehood.

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It follows, from all that has been said above, that the autonomy of the state — and secularity as part of that autonomy — cannot be understood as a sort of passive neutrality, which limits itself to allowing, in the name of tolerance, the coexistence of communities whose collective behaviours are inspired by radically differing primary values. If this were the

meaning of autonomy of the state, all values, including those that form the basis of civil coexistence, would be the exclusive patrimony of non political communities (i.e., communities other than the community of citizens), and citizenship would be an empty expression of the idea of membership. In such a situation, the state would be nothing more than a sterile organ of mediation serving only to resolve, in the name of abstract impartiality, conflicts between values alien to it. But in reality, the very opposite is true. Civil coexistence is founded on the primary values of freedom, equality and social justice, and the state can overcome conflicts between society's different communities only insofar as it is the defender of values that the citizens recognise as superior to all other values.

It can be noted that this problem often arises when efforts are made to define the objective of founding a European federation. The European federation is correctly seen as something that transcends nations. But nations, and the nation-states that are their institutional expression, are often perceived as guardians and points of reference of the fundamental principles of coexistence — as the compendium of all the values that, through common languages, customs, traditions, and so on, give meaning to citizens' daily lives —, whereas the community that ought to be uniting the nations in a broader political and legal framework in fact serves only to ensure their continued coexistence within the framework of a single set of rules. Numerous debates on the existence or non existence of a European people have given rise to the idea that no institution that is able to achieve, in whatever form, the political union of Europe could also embody the values that lend humanity to social existence and enliven political debate. According to this view, the European institutions, whatever their nature, now or in the future, can never amount to anything other than a sort of cold suprastructure, a purely arbitrary power without connotations of worth, which would inspire no allegiance and have the purely technical function of resolving specific problems shared by the communities belonging to it. This line of reasoning leads one to the conclusion that the European federation is simply an impossible objective, or that the European federation is destined to remain a quasi-state: a state devoid of a people, of a soul, and thus of power.

But these arguments only obscure the real terms of the problem. In reality, there cannot be a state without a people, and neither can there be a people without a general sharing of the fundamental values of civil coexistence. It is true that there may never be a united Europe. But it is equally true that the nation-states have now ceased to serve as points of reference of those fundamental values. There can thus be no doubt that

failure to unite Europe will result in the European peoples' dissolving into anarchy, and losing their identity in the process. Europe can be united only through the birth of a European people and of the federal state that will be its expression. And the values on which it is founded will be reflected in its capacity to move towards a gathering of the consensus of the citizens not through recourse to extra-political sources of legitimisation, such as religion or the nation, but through the affirmation of a superior form of coexistence (albeit presenting the limitations already mentioned) that will be independent of all other allegiances.

This, in itself, may serve as a response to the widespread pressure to have Europe's Christian roots mentioned, as part of its very identity, in the introduction to the "Constitution". It is true that Christianity has played a crucial role in the formation of European civilisation and society, and that a broad version of Christianity — in the sense of a love of one's neighbour and openness to dialogue — is still important in private relations as an antidote to the spread of social Darwinism, the dehumanising of economic relations, and the gradual eroding of social solidarity. But it is also true that a united Europe will come into being as a flag bearer of broader horizons and the overcoming of cultural barriers. It is a fact, too, that the European model of state was born as something separate from religion and that it will take a European federation to carry it forward, emphasising, in full respect of its Constitution and laws, its secularity and the equality of its citizens, whatever their religious persuasion may be. Any document that sets out to define the identity of Europe must therefore bring out quite clearly the strictly secular nature of its political power as a necessary condition for the equality of its citizens.

\* \* \*

The autonomy of the state, of which secularity is just one aspect, thus represents an active stance whose job is to bring down the fences that divide society, thereby creating public spaces in which citizens might find common ground for discussion and together become accustomed to comparing views and offering mutual solidarity, instead of merely tolerating the differences that separate them. If this cannot be achieved, then all the state can do, in order to allow the continuing coexistence of incompatible ideas of civil coexistence, is to keep the communities adhering to these different ideas apart from one another. But this isolation, in addition to being a negation of pluralism (in that it juxtaposes

incompatible but internally highly homogeneous cultures), is also impracticable since the borders between communities inevitably remain porous and the attempts to isolate them only foster resentment and violence. This is why we must not be afraid to acknowledge that mere tolerance of religious and cultural differences, on the part of governing powers, leads only to a ghetto society and to the disintegration of the population, accompanied by inevitable outbursts of violence. Alarming manifestations of this trend have already been widely seen in the English-speaking world. In truth, the state, in the face of the reality of multiculturalism, should instead be allowing itself to be guided by the idea of one large community of communication in which all the citizens speak the same "language" — if not the same tongue —, all share the same loyalty to the Constitution and to the values it represents, and all feel part of a single people, united by ties much stronger than those that determine their membership of various communities of other kinds, and in which religious differences themselves are lost in the idea of a single, universal "religion of morality" that consigns to a secondary level all those dogmatic peculiarities and rituals of the traditional religions. The state, therefore, must not stop at tolerance, but actively pursue the ideal of *integration*.

A policy of integration involves, on the one hand, the prohibition of certain behaviours that violate the fundamental principles of civil coexistence (for example, polygamy, infibulation and other practices that offend human dignity) and, on the other, the management of public spaces (schools, hospitals, courts of law, public offices) where the equality of all citizens before the law is a principle rigorously upheld and where barriers between them are prohibited. This latter aspect implies faith in the fact that the mutual frequenting of such spaces will tend to cancel out all but secondary or individual differences (the first possibly different expressions of behaviours underpinned by the same values, or behaviours perceived as relative and not absolute, and the second more visible because they are not cancelled out by the artificial uniformity typical of the behaviour of members of a single community).

\* \* \*

Clearly, all this is not to deny the fact that pluralism is an important aspect of an open society. But pluralism must remain compatible with an unreserved sharing of the primary values that underpin peaceful coexistence within a state, and must form the basis not of head-on and

possibly violent clashes of opinions that are irreconcilable because they are divorced from the rule of reason, but of dialogue between different points of view, in which a common language is used to overcome differences, even if just to transfer them to a higher level. In the same way, acknowledgment of the need to overcome multiculturalism certainly does not legitimise a policy of oppression, or even suppression, of the minorities that do not share the primary values upheld by the majority. This would be a case of the disease being preferable to the cure. Instead, the problem is one of implementing a policy — a difficult policy and one that will often be required to adapt to individual situations — that discourages the formation of a ghetto society and advocates contact between, and the exchange of radically differing views on, the family and the state. And it must be implemented in pursuit of the objective of integration, but in the full awareness that integration must be achieved by degrees, so as to guard against outbursts of violence in social relations and to eliminate violence in relations between the governing power and the citizens. The fact remains that in relation to certain behaviours, the state will have to remain intransigent if it is not to undermine the very foundations of the consensus on which it is built. We refer to those behaviours that, jeopardising the equality of, and mutual respect among citizens, in particular in public spaces, constitute seedbeds of violence: behaviours that must certainly include the exhibition, in public places, of symbols of religious allegiance. These symbols, which emphasise those differences that unite the members of one community but exclude all other people, become, in reality, a source of provocation, and of potential unrest, which the state cannot allow.

\* \* \*

The European federation, providing its foundation is not prevented by the indifference, inertia and short-sightedness of Europe's current political leaders, will be a vital step on the road towards the realisation of the potentialities inherent in the idea of citizenship. Europe will be born, if it is born, as a country of many religions and of many tongues, a characteristic that will become increasingly marked as it expands. The likely entry, over the years, of Muslim countries such as Turkey and Bosnia, will be significant step forward in this process. Its creation, representing the negation of the nations as exclusive communities, will have enormous symbolic value. Its federal character and its progressive expansion will constitute an insurmountable barrier to the prevalence of

a single religion or a single culture. At the same time, the huge importance of its role in the world and its capacity to mobilise the consensus of its citizens will allow it to oppose effectively the disintegration of society that is produced by multiculturalism. It will mark an important stage in the process of the emancipation of mankind.

*The Federalist*

## Putin's Russia

LUISA TRUMELLINI

The perception of what is happening in these years in Russia under the Putin government is often confused. Indeed it is not easy to interpret the elements of the politics of this country, both due to the lack of transparency in political decision-making mechanisms and in power relations, and due to the difficulty of interpreting the nature of the power of the current President when evaluated on the basis of the parameters of European liberal-democracy. Newspapers generally oscillate between praise for the strong economic growth of the country and preoccupation for a political stabilisation that seems to be based more on the reinforcement of Putin's power than on the assertion of the rule of law. The most common attitude by European observers and politicians, as even the reactions to the tragic events of Beslan confirmed, remains that of a strong diffidence towards this country and its political leader who is continually reproved for his lack of respect for human rights and his poor inclination towards democracy; and the tendency is to avoid the problem of understanding what is really happening in Russia.

On closer inspection this is an attitude that reflects a mentality that is becoming increasingly widespread in our continent. As Kissinger wrote in an article also published on *La Stampa* last 4 July, in Europe, "in the absence of a European national interest yet to be defined, (the) non-state attitudes towards international relations are becoming very deeply rooted in European public opinion." In the other areas of the world the opposite happens: "(for) the United States... (and for) countries like Russia, China, Japan and India... geopolitics is not something to be detested, but the basis of their analyses and their external actions. The national interest is still a unifying idea. The balance of power still influences their calculations, especially in their mutual relations." The non-state attitude, on the other hand, prevents Europe from grasping the processes underway in international politics and from participating in the formation of a

multipolarism from which it is currently marginalised. Incapable of overcoming its own division and therefore of forming itself into a state among other states, Europe is compelled to lull itself into the illusion that the cornerstones of politics recalled by Kissinger — those that the rest of the world refers to — are no longer valid and it finds itself cultivating a falsely moralistic and distorted perception of both international relations and of the transformations underway in the other areas of the world. While the other countries proceed along their own path, changing and evolving, Europe is caught up in the attempt to preserve its subdivision into sovereign states that are by now obsolete and emptied of any of their essential prerogatives, studying ever more complex forms of co-operation, through, to quote Kissinger again, "absolutely esoteric... constitutional arrangements." In this way it hopes against hope that it can continue to count for something in the world thanks to its economic weight and it refuses to see both its own political weakness and its precariousness.

If on the other hand Europe were to really address the issue of having a true foreign policy, it should also address that of more carefully analysing what is happening in Russia, at least to understand whether the attempt to bring Russia back to being one of the protagonists of world politics has any hope of success, to consider whether Europe has an interest in this reinforcement and therefore to set up mutual relations on the basis of a conscious political project.

*Russia today.*

Any attempt to understand what is happening in Russia cannot ignore the distinctiveness of the history of this great country. Russia, compared to the rest of Europe, has always followed its own specific path in the construction of the state and in the pursuit of modernity. Independently of the perception that the country has had of itself over the last few centuries, a perception in which the "Occidentalists" and "Slavophile" currents coexisted more or less conflictually, is the fact that Russia underwent development over the centuries isolated from the European continent, without participating in its process of civilisation.<sup>1</sup> What we would like to highlight here, since we cannot enter into an analysis of the history of the country, is the particular backwardness of its society that, as opposed to what happened in Europe, was never able to develop and to give birth to a diverse civil society that could act as a flywheel for the modernisation of the country and as a political counterweight to the central power, so as to promote its transformation. Russia did not



experience either liberal revolution, or democratic revolution, and not even the gradual assertion of the rule of law that characterised Europe. Given its geographical and social peculiarities — a great isolated and sparsely populated space, with a difficult climate that allowed only a poor level of agriculture, and therefore a population composed only of the mass of peasants and the aristocracy, without the middle classes being able to develop — it was only able to survive and head towards modernity thanks to an autocratic system of government, based first of all on the unconditional power of the monarch, and subsequently on the head of state. In this way Russia was not only able to remain united over the centuries but also to ward off all the attacks that came from a Europe that was technologically and militarily much stronger and that since the modern age had succeeded in conquering, in various ways, the whole world — except for, precisely, Russia. The autocratic system in Russia allowed the country to maximise its chances of defence and provided the only impulse towards modernity that was compatible with such a backward society with no internal pressures driving it forward: indeed all the reforms made in Russia were made possible by the very nature of its political system, in which there was no possibility of organised conflict, and they were reforms that, given the features of the country, could never have succeeded with a more complex and therefore fragile system. And the great attempt at transformation into a modern state did not happen as in the rest of Europe thanks to the evolution of society, that gave the political power the impulse, the instruments and the models with which to create the legislative and power framework to sustain such an evolution, but was based exclusively on the initiative of the state itself. This continued to hold true even when the most revolutionary European ideas began to circulate around Russia and to gain consensus among the intellectual élites, after the nobility became a social class truly independent from the power of the Tsar and after a more robust layer of citizens began to form. In reality the spark, albeit present, was never enough to trigger off an autonomous process, and the very reforms of the end of the Nineteenth and the beginning of the Twentieth Century were produced by the autocratic system. The Communist regime inserted itself perfectly into this peculiarity of Russian history, showing once again Russia's ability to independently pursue a model of advanced development capable of supporting a long-term challenge with the West.

With the collapse of the USSR and the Communist regime in 1991 a new phase opened up in Russia in which reference to the Russian tradition was temporarily lost, and the search for a new way to close the gap that

separates this country from more advanced ones began. But the level of development of Russian society remains that of a country which, as we said, experienced neither a liberal revolution, nor a democratic revolution, nor the formation of the rule of law, nor the birth of a rich and articulated civil society and a viable middle class. In Russia a true legal system only began to develop from 1864 and this explains both the weakness of this power of the state and the fact that the notion of civil rights is practically unknown. Democracy is largely seen as a fraud and surveys recently carried out reveal that only 22% of citizens approves of this form of government, while 53% is expressly opposed to it and 78% maintain that it is only a facade to mask the power of the rich and of the strongest clans. Likewise 53% of those interviewed believe that free elections are detrimental and only 15% view them positively. Called upon to choose between “freedom” and “order” 88% of those surveyed choose order, only 11% declare that they do not want to give up the freedom of speech, of the press or of movement in name of stability and as many as 29% instead believe they may as well give them up because they consider them worthless. Another survey confirms that 76% of Russians are favourable to restoring censorship of the mass media.<sup>2</sup>

Even private property, precisely because such a large part of the population practically possesses nothing, is considered to be at least a secondary right: only about a quarter of Russians, on the other hand, believes it to be an important right. And Russians mourn the Soviet Union (74%), believe their country should be a great power (78%) and do not feel European (only 12% do, against 56% who feel they are not).

In this light the approval of the citizens goes to anyone who is able to exercise a strong power, one could say a “reassuring” power, in terms of its authoritativeness and clout. Russians despise weakness (the reason why Gorbachev, despite the prestige he enjoyed abroad, saw his approval constantly falling at home because the erosion of power begun under him) and do not support those who advocate liberal-democratic political models (as shown by the very poor support for liberal political formations in Russia). It is inevitable, therefore, on the basis of social characteristics in Russia, that those who hold power in Russia on the one hand have a lot more of it compared to any other democratic leaders, and on the other that they thus enjoy a greater approval that is maintained as far as they are able to exercise this power with authority. In the case of Putin there is a further element: the chaos and disaster produced by the Yeltsin years have further increased public desire for stability and order, which was demanding a turn by the leadership, such as that which Putin seems to personify for

the time being.

*Russia after the collapse of the USSR.*

The disintegration of the Soviet Union at the beginning of the 1990s had cast Russia into a difficult transition phase that should have led it to embrace the Western model based on a democratic political system and a market economy. Yeltsin, with the strong backing of the West both politically and, above all, economically (what had been missing for Gorbachev), should have been the leader capable of undertaking this task. The years of Yeltsin's presidency on the other hand turned out to be disastrous for Russia that precipitated into deeper and deeper economic, political and social crisis. The data are well-known, and here one only has to recall a few significant elements: the economy collapsed in real terms by over 40%, the impoverishment of wide layers of the population led to a dramatic fall in life expectancy, the health of the nation underwent a huge decline with the return to out-and-out epidemics that had been conquered during the USSR era; and furthermore, just as another example, there broke out a flood of millions of emigrants, abandoned orphans and homeless people, coupled with a sharp decay in the education system.

All this happened in a situation of increasing anarchy and corruption that made it seem "normal" that a thin layer of oligarchs had been formed with full control of the government and that they used the State as private property, that corruption and violence were the only ways to accumulate wealth and that the vast majority of the population was condemned to survive in misery. And not only that: whilst the Russian state was being eroded at the centre, losing its ability to exercise even the most elementary functions of government, in the regions the governors by now carried on like little Tsars entirely indifferent to the instructions coming from the Kremlin or even in open conflict with it. The disintegration of Russia seemed to be a real possibility.

In Moscow the political situation was characterised by institutional chaos and therefore by paralysis. During the 1990s there was a continuous degeneration, to the point of having a powerless Parliament but one strongly hostile to the President, a fragmented and therefore weak party political system, in which political forces quickly joined up and then split off again, tied almost exclusively to the power interests of individuals or small groups, and to a juxtaposition of institutional figures that paralysed each other and led to chaos instead of governing the different sectors of policy of the country.

Not that the President lacked formal powers, quite the opposite. The constitutional reforms brought in by Yeltsin had made the President the lord and master of the country. But the problem was precisely the lack of any vision and plans by the President in office and his progressive weakening, also physical, that had put him in the hands of the "family" (the group of oligarchs that had increasingly acquired the power and the wealth and that were headed by Yeltsin's daughter) in the attempt to maintain power.

Russia thus found itself having to look for a new identity after the collapse of the USSR in the worst way. The old tensions between Occidentals and Slavophiles were rekindled, also because they had become an element of the internal struggle for power, given that Western assistance was perhaps the main source of Yeltsin's power and that he wanted to impose on the country the economic line of uncritical adaptation to the prescriptions of the IMF and the international institutions, to disastrous effects. The continual loss of the country's prestige even at the international level aggravated the population's spirits and they increasingly demanded a government that was capable of restoring order and stability.

Putin was thus able to make use of this widespread state of mind in the country and to build on it the enormous approval that he almost immediately began to enjoy. His ascent to power, in a situation in which succession from Yeltsin was in the hands of the latter and of the "family", fearful of anyone who seemed too strong and thus able to truly manage power independently, shows his ability; his subsequent behaviour as President testifies to his independence and above all to his will to pick Russia up again and gradually restore her to the rank of global power. Chosen by Yeltsin and by his entourage precisely for his modest profile, his apparent weakness and for his loyalty demonstrated — a feature that seemed to be a decisive trait of his personality<sup>3</sup> — Putin on the other hand knew how to skilfully remove this group from power without causing tensions in the country, showing his pragmatism in keeping with him the least compromised and more expert elements of the administrative machine,<sup>4</sup> so as to not to create dramatic gaps in continuity in the functioning of the apparatus.

He managed to consolidate his power in a way that has few precedents in Russian history over the past century (because of the solidity of the approval he enjoys, which exceeds 70%, and the lack of direct opponents many observers are felt compelled to compare him to Stalin) and he uses it in the difficult attempt to carry Russia towards a new renaissance. Previous tensions over the destiny of Russia, that tore the country apart

under Yeltsin, now seem to have come together and been reabsorbed in Putin's project. It is a project of a Russia that needs to overcome the economic and technological gap with the West in order to be able to play a role on the world stage, that therefore needs to integrate into the world market and have cooperative relations with the most developed countries, but that at the same time needs to maintain its autonomy both in the choice of internal affairs and in the field of foreign policy, where it must try to use its assets as a large country tremendously rich in energy resources that looks out onto both Asia and Europe.

*The slow reconstruction of the Russian state.*

To try to accomplish this plan Putin pursued since the beginning, and still continues to pursue, three fundamental objectives: the consolidation of the state and of the power of central government, the economic reforms needed to support the development of Russia, and a new foreign policy.

The problem of the consolidation of the state and therefore of the reorganisation of the power of the governors was perhaps the first priority for the new President. A few days after having taken office he promulgated the first decree that established the creation of seven federal regions (*okrugi*) in which the 89 territories of the Russian Federation were grouped, headed by representatives of the President (five out of seven were men from the Russian power apparatus — the so-called *siloviki* — and they were very close to Putin). The purpose was obviously to be able to control at least partly the activity of the regional leaders. Soon after this first decree there followed three new laws delivered by Putin to the Duma for approval and aimed at weakening the role of the governors (the obligation to respect the laws of the Russian Federation was being established, during this process) and of the Upper House, the Council of the Federation, that was thus reduced in practice to an advisory body.<sup>5</sup> In order to try and contain corruption at the local level, the 2001 budget (approved by the Duma in October 2000) went for a radical redistribution of the resources of the country of which 60% would go to the centre and only 40% to the regions, with the justification that funds destined for some of the regional authorities (health, education, social security) would be more efficiently managed by central government.

This, however, was only the beginning of Putin's war against the local potentates (to whom Yeltsin had essentially given *carte blanche* in exchange for support to his presidency) and the attempt to defeat them was not always successful. Where it could the Kremlin replaced the local

bosses (all utterly corrupt characters in the best of cases and generally even heading the criminal trafficking that was rife in the region) with trusted men. But the coercive force of the central power (assisted by a loyal judiciary) was not sufficient in all the regions in removing the leaders that created most problems. Sometimes the power of the clans they represented was stronger and prevented their removal. There were cases in which the Kremlin chose the path of compromise, leaving the governors in place but obtaining in exchange the respect of the laws of the Federation and a certain loyalty towards the President. Others in which the attempt to remove the leader succeeded but not that of replacing him with someone trustworthy, and in which therefore electoral victory went to the demoted governor's trusted man, thus perpetuating the existing power relations.

The situation therefore remains complex, as is inevitable in a socially backward country like Russia, but the essential thing is that it seems there has been an inversion of the previous trend, on the basis of which Russia seemed to have begun to break up, and a net reaffirmation of the central power and of the unity of the state.

With this perspective we can also look at the problem of Chechnya. This region, in the chaos that had followed the break-up of the Soviet Union, had rapidly transformed itself into a sort of black hole, a no man's land crossed by criminals and infested with smugglers. Therefore, beyond both Yeltsin's option of war and his subsequent management of the problem, a management that was produced and precipitated more out of short-sighted calculations of power than out of a conscious strategy, there remains nevertheless the fact that Chechnya was — and still is — a cancer that risks spreading to the whole Caucasus region and that jeopardises the security and integrity of the whole of Russia. The danger arising from this unresolved conflict is enormous, and Putin, who has inherited it, is right to define it a challenge to the very future of the country; in highlighting the link with international terrorism he not only wants to warn the West of the inauspicious implications that not solving the issue is destined to have on the entire region and on the strengthening of Islamic terrorism, but he also wants to find the solidarity of the international community that seems totally incapable of grasping the seriousness of the problem.

There are not many alternatives with which to try and resolve the conflict. The suggestion of granting independence to Chechnya, as had been done in 1996 with the results that are there for all to see, seems to be absolutely unproposable, and Western persistence in support of this

solution is quite astonishing: even after the Beslan massacre, whose impact is comparable to that of 11 September in America, the condemnation of the acts of terror has often been accompanied by equally hard critiques of the Russian President and invitations to “hold talks” with those who are demanding their “freedom”. Putin did well to answer that the Russians never dared to ask the Americans to hold talks with Bin Laden and to give them what he wanted, after the attacks on the Twin Towers and the Pentagon. In the name of a mistaken principle of peoples’ self-determination, on the other hand, commentators continue to call for independence for this land that should be left free — even if perhaps those who support this claim do not want to face it — to be the theatre of conflict between political-criminal bands and the seed bed for the worst trafficking and the bloodiest feuds. It seems to be a given that behind these voices, American ones mainly, accompanied by those of the countries of Eastern Europe, still strongly anti-Russian, and by those of a large part of the intelligentsia of Western Europe, who in this case has embraced a cause which it is in absolutely no position to appraise the real significance of (and among these exponents we can also find representatives of the EU institutions), is the idea that Western interests would be better served if Russia disintegrated.

It seems more difficult to demonstrate that there are also such active interventions in the Caucasus region, but the fact remains that the isolation in which Russia is compelled to act on this front certainly does not help it.

On the other hand this is a vital problem for the country. Chechnya is an abyss that soaks up enormous resources, both in financial and human terms, without as yet achieving any positive result. Putin’s strategy of setting the region off towards normalisation with its own Constitution, a certain degree of autonomy, an agreement on a significant percentage of oil revenues and the support of an autochthonous leadership that provides such guarantees, seems to be shipwrecked between violence and attacks. Violence and attacks which also extend to the neighbouring regions: Ingushetia, Kabardino-Balskarskaya, Daghestan, in which local ethnic tensions are mixed with the problem of Chechnyan refugees and the extension of the network of trafficking and corruption. For the whole of Russian society the black hole of the atrocities that take place in the region is an extremely serious problem: not only the victims in the battles, but the brutality of both the army (who largely escapes the control of political power) and its enemies scars consciences and exports, in a situation that is already so fragile, a way of operating that contaminates the rest of the

country.

Once again the most serious problem seems to be that of the weakness of state power and the resulting anarchy, of which the civilian population is the powerless victim: many are the voices raised to accuse the military leaders of the region of having an interest in perpetuating the conflict (the behaviour of the army often cannot be distinguished from that of the bands of local gangsters) and, on the other hand, the predominance of the clans and their criminal interests leads to the failure of every alternative strategy to war. In this vicious circle the only possibility seems to be the attempt to strengthen the control of the central power over the whole region. Corruption, as shown dramatically in Ossetia during the Beslan attack, is widespread at every level of local life, from the institutions, to the police, to the secret services themselves. And the central power, in order to try and root it out, can do no more than try and take control of the situation.

The measures adopted by Putin with the support of the Duma (in which — it is well to remember it — thanks to the fact that the President has a large majority, a motion was rejected that demanded the restoration of the death penalty) immediately after the attacks in Beslan, seek to intervene on this very point: taking away from the popular vote the election of the governors of 89 federal territories, that are to be designated by the central power and confirmed by the regional parliaments (and, at the same time, with the abolition of the majority quota in the Duma election), an attempt is made to take an instrument of control away from the local clans and to restore the possibility of intervention by the state government over the territory to enforce the respect of its laws and to restore order. These reforms (that in the words of the motion approved by the Duma aim towards “the consolidation of all civil institutions and of all power structures”) accompany antiterrorist measures that, from the point of view “of the reinforcement of the security of citizens and of national security,” help to establish greater control over the circulation of people throughout the national territory, over the entry of foreigners into the country, over financial transfers and over the work of the media.

This new wave of legislative measures has provoked a chorus of worried and indignant reactions throughout the West: even the US Administration, usually prudent in such cases, warned Russia about the risk of an undemocratic regression. There it is a lot of hypocrisy in this attitude, when Russian citizens are the first to demand a strong intervention by the state to try and resolve the problem of security and stability and when the alternative to the strengthening of central power is a descent into

the chaos and anarchy that Russian society would pay dearly for. After 11 September, the USA, a model of democracy throughout the world, reacted with measures that violate fundamental principles of democratic cohabitation, from the *Patriot Act*, to Guantanamo, to Abu Grahb. And this in a country in which democratic consciousness is so strong as to allow a strong internal opposition to these attitudes even in such a dramatic moment. It will be difficult for Russia, that has never known democracy and that has few isolated dissenting voices within it, to confront this situation without in turn committing injustices and without the reinforcement of central power being accompanied by restrictions on individual freedom. But the point of view with which to appraise what is happening in that country cannot be its formal rate of democracy, as was done in the Yeltsin days; the perspective should be that of building a solid state whose point of reference is the aim of establishing truly democratic institutions and one that can evolve so as to spur its citizens to demand a real democracy and the conditions with which to achieve it.

*The cutting back of the power of the oligarchs.*

The other problem that Putin has had to confront in the consolidation of state power has been the reduction of the power of the oligarchs, which went hand in hand with the attempt to reform the party system in order to take the control of the Duma.

The war on the groups that, with the support of Yeltsin, had taken over the country's resources and were setting its policy (also controlling the main media, which they owned) also started a few months after Putin's appointment to the presidency, in the summer of 2000. There were not many observers who would put money on the President's ability to avoid becoming another hostage of the power groups. Instead he managed to impose on many of them the respect of the laws in force and their exit from the political stage. The instruments used were both the fact of having simply shown that the climate had changed and that there was no longer the will to further support their manoeuvres, and of having pursued those who refused to adapt to the new rules by legal means. In particular, a series of investigations led to the two most powerful of them, Vladimir Gusinsky and Boris Berezovsky, being deprived of most of their assets (including the television networks) and forced into exile.

The methods used by Putin in this case provoked the indignation of the majority of the press and Western observers, both due to the exploitative way in which the judiciary was used, and due to the attitude towards the

media. But the situation in Russia is not easily comparable to that of a consolidated democracy. Above all one should remember that in this case the two networks involved simply passed from one monopoly to the other: now they are, for better or for worse, in the hands of the state, while before they were in private hands that were using them to their own ends. And if it is true that Putin has often silenced the media it is also true that they were almost never free voices, but rather those of the representatives of specific interests who were trying to oppose the policy of the government in order to maintain their acquired privileges. In a country with such a poorly developed political system and in which 76% of citizens are in favour of media control the problem one should ask is whether truly free and objective mass media can exist.

The battle currently underway against Mikhail Khodorkovsky, the tycoon at the head of the oil giant Yukos, is the continuation of the first part of the war against the oligarchs. In 2000 Khodorkovsky had accepted the new rules and brought the management of his company back into line with the laws in force. But when in 2003 the Kremlin proposed an increase in taxes and a tightening of the legislation to prevent a very high percentage of the profits of the large companies from escaping the tax authorities, Khodorkovsky brought into play his enormous power in order to try to stop the reforms, to the point that a reaction became inevitable.<sup>6</sup> Once again the unscrupulous methods used and the uncertain fate of Yukos put the West into a state of alarm. But once again one should remember that what is underway in Russia is a difficult battle whose objective is the attempt to defeat the powers that are able to condition the public life of the country on the basis of the interests of a small minority, and it is a battle that can be fought using the instruments and the resources that the country possesses and that unfortunately are not those of a rich and articulated civil society, of a consolidated rule of law and of a solid democracy.

Putin acts in accordance with the traditional Russian line, in which a central power firmly imposes the passage to modernisation on the rest of the country — a tendency that, furthermore, is generally common to all middle-income countries.<sup>7</sup> The end does not seem to be the search for personal power, as outside commentators sometimes seem to think, but rather the introduction of reforms into the country as shown by the more or less successful attempts underway in the field of law, of the administration, of the army, of the welfare state, of health and education.<sup>8</sup> The difference with respect to the past is that Putin must also show that he has the approval of the citizens and not only the support (or the control)

of the apparatus — which in any case remains essential. For now this happens, not so much we can say, due to the pressure exercised on the media or due to a lack of opposition, but rather due to the fact that he has fulfilled the profound needs of the citizens and has achieved enormous success in the past four years.

There remains, obviously, the problem of whether a system so strongly centred on the power (and ability) of an individual and on such a leadership-centred structure really can promote, as it proclaims, the birth of that open and modern society that is indispensable to make Russia into a state capable of sustaining the challenges of post-industrial development. Or if instead this system is destined to perpetuate a backwardness that will block the potential of the country. In reality this is the challenge currently facing the emerging powers in the world (from China to India), hung between the attempt to promote strong economic and social development and the need to not endanger the survival of the state giving free reign to the forces of disintegration that are present everywhere.<sup>9</sup>

In this light even the issue of the Russian party system and the role of the power men (the *siloviki*) in the apparatus becomes more comprehensible.

The latest elections of the Duma saw the triumph of the President's party, United Russia, which in practice holds a majority, also counting on two further allies, the two nationalist parties who support the Kremlin, the Liberal-Democrats and the Fatherland-All Russia (OVR) group. The liberals of the Union of Right Forces (SPS) and of Yabloko have disappeared, not having been able to go beyond the minimum threshold of 5%, and the Communists are the only party left in opposition, and even their support is falling.

These results have roused many criticisms and a lot of preoccupation amongst Western observers, who have denounced the progressive emptying out of Russian democracy. In reality, from the democratic point of view, one cannot say that the situation was better in previous years. In the Russian presidential regime, established in 1993, the Duma neither expresses nor controls the executive, which is in the hands of the President (formally and effectively). The Lower Chamber has therefore had since the beginning only a power of veto. It is true that during the years of Yeltsin's presidency a hostile majority acted so as to try and paralyse the actions of the Kremlin; but, apart from the continuous attempts at sabotage, the political forces in Parliament were never able to express any real alternative. Indeed, at that time the situation was further

worsened by the fact that the party system was enormously fragmented (more than 180 political forces had been formed, many of which were so insignificantly small as to only increase the confusion).

The situation had begun to change with the December 1999 elections, those that preceded the election of Putin to the presidency. On that occasion Yeltsin's entourage, particularly Berezovsky, had managed to create the "pro-Kremlin" Unity party that Putin had supported only later, also declaring his support however to the recently formed liberal group, the SPS, that brought together almost all the representatives of the liberal line, apart from Yavlinsky's Yabloko. At the elections the Unity formation, that had risen from nothing in the space of a few months, had got 23% and the SPS 9%, thus constituting Putin's base in the Duma. Another two formations were then added to these two forces, plus there was the "critical" support of Yabloko himself. The Communists had suffered a sharp decline (from 157 seats to 85) and the other major opposition party (Luzhkov and Primakov's OVR) had soon begun to draw near to the Kremlin, far enough so that at the beginning of 2001 it had fused with the Unity group to give birth to Putin's new party, United Russia. During Putin's first mandate the Duma was thus already thoroughly "tamed", so much so that it never created problems for the President and, rather, it sometimes became a convenient instrument for him.<sup>10</sup> And the whole thing had not been so much the fruit of a targeted operation by Putin as an implication of the end of Yeltsin era.

As regards the law on parties, that Putin wanted to introduce, it sets out that in order for a political force to be recognised by the central electoral Commission it should have at least 10,000 members and have sections of at least 100 members in a minimum of 45 republics; registration and the relevant controls must be renewed every two years. In this way the 188 existing parties became about twenty. This was effectively a rationalisation, to facilitate better operation in the system.

In this framework, the temporary disappearance of the liberal parties from the Duma and the triumph of Putin are not so much a part of a precise plan as a quite inescapable logic in a system in which citizens believe authoritative power to be a priority. The liberals, who have not been a problem for the Kremlin over these years, but who instead as we shall see hold the key places in economic policy, more than being just the victims of power games have in reality paid for both the support received from Khodorkovsky in the last elections, and for their own inability to broaden their own base of support, something they have neglected in order to address only a narrow elite layer of the country.

Even the problem of the *siloviki* — the men of the Russian power structure, often linked to the security services, who hold many of the key places in the administration and politics of the country — is very likely to be less serious than it seems. First of all Putin's *entourage* is composed of three groups, all of whom carry considerable weight in the management of the country (and who are at the same time all equally subordinate to the President): that of the Yeltsinites who, despite having changed "boss" in any case represent an element of continuity in the administration; that of the liberal technocrats, many of whom come from the Saint Petersburg period (like German Gref and Alexei Kudrin) but which also includes the liberals who had supported Yeltsin in the first phase (like Chubais, Gaidar, Nemtsov); and finally that of the *siloviki* itself, most of whom are friends again from the Saint Petersburg period or former KGB colleagues (like Sergei Ivanov, currently Minister of Defence, or Nikolai Patrushev, head of the FSB). If the latter have effectively grown vertiginously from the period of the USSR (under Gorbachev they made up 5% of the Politburo, while today they represent almost three quarters of the leadership of the country) it is also true that the trend actually started with Yeltsin<sup>11</sup> and is due above all to the fact that they are more competent, more disciplined and more reliable than the other bureaucrats. Once again, therefore, the deficiency of a system that offers few figures who are prepared for the management of the affairs of the state has led to a recourse to the group that is essentially the most prepared, all the more so to the extent to which the central power was intended to be strengthened and a class of loyal public officials to be created (and one capable of exercising a function of control over the power groups and the local and regional administrators).

It is necessary furthermore to add that the influence that they are able to exercise is in effect very much reduced by the fact that they are not a cohesive group with common interests (and therefore they do not become a lobby group that can hijack power), but on the other hand it is true that they actively contribute to supporting the power in office. They are therefore part of an effort towards the consolidation of state power with all the limitations of a system that is still backward.

#### *Russia's economic recovery.*

Putin's other big priority is the sector of the economy. As we have already said, Putin is aware of the fact that the power of a country today depends largely on economic development and on the growth of GDP,

and that this result can only be pursued by integrating into the world market, and he also knows that Russia has still got a very long way to go along this road.

It is true that, after having hit the bottom with the crisis of 1998, the Russian economy since 2000 has recorded extremely positive results: the growth of GDP has been constant and sustained (on average, in the last five years, above 6-6.5%), fixed investments have grown (over 12% in 2003), there is a gradual increase in productivity and there was a return of foreign investment (even if still insufficient); government finances are under control and foreign currency reserves, in April 2004, amounted to 79 billion dollars. Russia no longer asks for loans from the international institutions and, indeed, has begun to repay its debts; in the international community it no longer presents itself as a country needy of outside support and dependent on others, but as an equal partner that pursues its own national interests and tries to create opportunities for its own business interests. All this is also reflected on the living conditions of the population: for example, the number of poor has been reduced by a third since 2000 and for the first time in 2003 there was a slowing down in the natural rate of decline of the population (that in the 1990s was about 900,000 people a year); the state by now regularly pays salaries and pensions and there are the first signs of the birth of a limited middle class, relatively well-off, that has not been formed only through illegal means or corruption.

But these positive results cannot allow us to forget the weakness and the contradictions that still put the Russian economic system at risk: above all the excessive dependence on oil and the energy sector, but also the difficulty of allowing the birth of small and medium enterprises, difficulties that are largely due also, even if not exclusively, to the lack of infrastructure and the weight of a bureaucratic state apparatus that continues to be inefficient and corrupt particularly at the lower levels.

The greatest contribution made by the Putin government to promote the positive economic trend of these last few years has been, on the one hand, to give the country greater stability and order, creating a situation that would allow the government to collect taxes, at least partially, and to use funds with which to govern, thus bringing a little confidence back to society and encouraging it to try to build its own future. On the other hand it has done so by imprinting a clear political direction on the government of the country, choosing without ambiguity the line of integration into the world market whilst subordinating it to the achievement of internal social stability and therefore preserving a decisive role for the state. Whilst at

the time of Yeltsin the uncritical acceptance of the prescriptions of the international institutions in exchange for the supply of loans did not translate into a consistent political line (and what is more it blended with revivals of Soviet-style statism, perhaps because of the compromises needed to have the budget or a law approved by a hostile and Communist-majority Duma or because of the pressure of some power group), with Putin the liberals hold all the key places in the economy and at the same time the government steers their choices seeking an independent way between statist planning and neo-liberalist reformism.

Putin has therefore given a role in the governance of the economy both to the liberals from the beginning of the Yeltsin period (from Chubais to Gaidar, to Nemtsov, to Illarionov himself who is his advisor for the economy and who was a Yeltsinite), and to his trusted men, again individuals of a liberal stamp, put in key places (like Alexei Kudrin, the Minister of Finance, or German Gref, the Minister for Trade and Economic Development). There have been cases in which this has meant, for the government, taking control again of the centres of power that had been consolidated outside of the institutions like private strongholds: this was the case, for example, of the Central Bank, for which, already in 2000, a presidential decree had established the end of its autonomy and its subordination to the central government, putting an end to the excessive power of Victor Gerashchenko (whose policies were turned against the integration of the country into the international market). In the spring of 2002 the latter had then been replaced by Sergei Ignatiev, a liberal loyal to Putin and close to Gaidar. Even in Gazprom, the State business that has a monopoly on natural gas, in April 2001, Putin had to replace the very powerful Rem Vyakhirev, at the head of the business since 1992, with a trusted man, Alexei Miller, a Saint Petersburg liberal: the control of Gazprom was and still is an indispensable cornerstone for the governance of the Russian economy, bearing in mind its enormous resources (one only needs to consider that natural gas is Russia's primary source of exports — almost 30% of the total — and that Gazprom is the major contributor to the state coffers).

The presence of trusted men with proven abilities in key places of the economy is indispensable for Putin, who has ultimate responsibility for political decisions but who does not have specific skills in the economic sector and must therefore rely on the information and the indications of the people in charge of the different sectors. Clearly his poor direct knowledge of the matter sometimes makes it more difficult for him to intervene promptly in this sector in which it is easier for the mechanism

of government founded on the ultimate authority of the President to slow down or to get stuck. Fortunately, the firm majority that Putin has in the Duma allows him, without much trouble, to have both budgets and bills of law for the modernisation of the system passed, laws that have always had even the approval of the liberal political forces (as regards the reforms see note 8).

But the action taken forward by Putin at the central government level clashes, as we have already said, with the backwardness of Russian society (one only needs to consider the facts relating to Small and Medium Enterprises: in Europe these make up about 70% of GDP whilst in Russia they just about reach 12%) and with the inefficiency and corruption of the bureaucratic-administrative apparatus, which is both a cause and an effect of this. Added to the still insufficient inclination by the vast majority of citizens to take on the risks of private enterprise are both the lack of adequate incentives provided by local and regional powers (who use the budget surpluses not for create infrastructure and stimulate private initiative but to halt the problem of unemployment by subsidising state employment) and the bureaucratic difficulties and the snare of corruption and abuse of power into which anyone attempting this endeavour is destined to fall. Here the first obstacle is actually the licence needed to set up a private business. Despite the reforms demanded by Putin to try to simplify the procedures for requesting the licenses and to reduce the number of obligatory inspections (in order to try to stop the phenomenon of corruption at the lower levels of the administration), things improved very little: after an initial boost the reforms ran aground because they are not applied (also due to the lack of information by citizens) and the blackmailing of small entrepreneurs has been left practically unchanged. Indeed, if over these years the practice of *krysha*, that is to say the obligation for people who have their own business to obtain “protection” from the local gangs has decreased, the practice of public officials demanding bribes has on the other hand increased. The same legislation that regulates private property is full of gaps and the relevant bureaucratic practice is poor; thus, among the corruption of public officials and that of judges (all prepared to find in favour of the highest bidder, according to the opinion of many), among the dishonesty of lawyers, the possibility of intimidating with impunity and the inefficiency of offices appointed for the protection of public order, embezzlement is a rule. Even cases of companies already set up, being taken over by “business men” who have capital available and who want to acquire new companies with methods that use both the exploitation of



the deficiencies of the system (for example in the registration of deeds, etc.) and gangster-style intimidation are frequent.<sup>12</sup>

Absolutely the most serious problem for the Russian economy remains however that of the imbalances created by an economy based mainly on energy resources. On the one hand the oil and gas guarantee enormous income for the state and over these years they have allowed the deficit to be balanced out and the country's accounts to be put in order (these two resources represent 55% of income linked to exports, 20% of the total economy and 40% of tax income); Russia is the second largest oil exporter in the world after Saudi Arabia and 33% of the world's gas resources are buried there, and in future these sectors are set to become even more important. Nevertheless the distortions that the pre-eminence of the energy sector makes on the economic and social system are enormous, as can be seen in all the petro-states (the oil rich states characterised by weak institutions, an inefficient public sector and an enormous concentration of power and wealth).<sup>13</sup> Only a very solid democracy and a very efficient public sector can guarantee an oil rich state not to have to suffer these imbalances: this explains why the United States and Norway did not end up like Nigeria and Venezuela.

Russia finds itself mid-way: the political struggle to release state power from the influence of the energy industry tycoons is still on (both in the oil sector, in which the industry is almost all private and in which the state does not have a special interest in privatising as much as being able to exploit its resources to benefit the country — as in the case of the arm wrestle with Yukos; and in the gas sector, in which the industry is instead state owned but nevertheless easily tends towards becoming a power independent of government and to strongly influence politics: this is the reason behind the necessity to entrust their management to managers loyal to the government, as we have already mentioned for Gazprom) and the efficiency of the public sector still remains all to be created. In these conditions Russia suffers from the classic diseases of this type of economy: the sector creates few jobs (only about 2 million workers out of 67 million in the labour force of the country are employed in this sector, i.e. less than 3%), requires and stimulates few investments, necessarily causes a strong concentration that, besides being able to cause the political damage already mentioned, is guaranteed to penalise small and medium enterprises and to contribute to preserving an easily corruptible local and regional administration. Furthermore, maintaining the country's exports high tends to increase the value of the rouble, which can damage the other export-dependent sectors which are less competitive at the

international level (such as agriculture, manufacturing industry, tourism). The very dependence of the majority of the state's income from this sector is a strong factor of risk, both because it ties tax income up far too much with a factor that depends largely on an uncontrollable international market (one only needs to consider the effects that a drastic reduction in oil prices would have), and because it makes the state too dependent on a very limited tax base.

These therefore are the enormous economic challenges that face someone who wants to lead Russia into becoming a modern country with a solid market economy. It is difficult to say whether Putin will achieve this or whether the country will remain embroiled in its own contradictions. Surely the West, and Europe in particular — but we shall come back to this — would have every interest in supporting this process in order to avoid finding itself with a country of this size overcome by instability (when instead it could become a pole of responsibility in the global equilibrium).

#### *Russian foreign policy.*

1. The field of foreign policy is the one in which Putin works with the greatest level of independence from his colleagues and in which his personal vision is most obvious. For many observers it is the sector in which Russian policy has changed most profoundly in these last four years. With Yeltsin the institutional chaos and the lack of a plan often created a superimposition of contradictory policies: the President tended to make the privileged axis with the United States the central point of his foreign policy, except for subsequently reacting in a disjointed manner before American choices that were particularly offensive to Russia (as happened during the expansion of NATO or in the Kosovo war); at the same time the other institutional bodies delegated to the management of the foreign policy of the country followed different lines, like Primakov for example, who, in his capacity as Foreign Affairs Minister, was working towards creating a network of particularly privileged relations with Asia, on the basis of a multipolar vision. Even in relations with the former States of the USSR Yeltsin's policies lacked coherence: the normal tendency was to ignore them, and not to try and maintain relations so as to guarantee constant Russian hegemony in the region; again until he tried to intervene in the conflicts that were shaking these countries and to assert Russian pre-eminence in the region when Western interferences created excessive discontent in the political milieus of the country.

Under Putin's presidency, on the other hand, the management of foreign policy was solidly brought back into the hands of the Head of State, who wanted to pursue a line that gave Russia greater weight internationally. In a world dominated by the United States, in which Russia has to suffer for its economic and social fragility, the only possibility of giving an international role to his country has been to try on the one hand to build closer ties with Europe, to continue to deepen those with Asia and to strengthen again relations with the countries of the CIS; and on the other to use all the opportunities offered by international events and to react to the negative situations trying to limit damage and take defeats without emphasising them with overambitious and useless attitudes.

2. Relations with the European Union are regulated through the Partnership and Co-operation Agreement (PCA), already entered into force in 1997, that, as an institutional framework, provides for two summits a year, a Co-operation Committee and, since 2003, also a Permanent Partnership Council, of a more political nature.<sup>14</sup> Since the beginning the purpose of the agreement was to favour trade and economic co-operation on the basis of the most favoured nation clause (MFN) and to create a framework for scientific and technological co-operation (energy, environment, transport, etc.) and in the justice and internal affairs sector, for the prevention of illegal activities, drug trafficking, money-laundering and organised crime (a sector particularly dear to Russia and that has been strengthened by an ad hoc protocol in June 2000). In this framework the EU must undertake to provide technical assistance to promote Russia's transition to a market economy and to strengthen democracy and the rule of law. In May 2003, on the occasion of the Saint Petersburg summit, it was decided to strengthen mutual collaboration in order to create in the long term four common areas: an economic space, a space for freedom, security and justice, a space for co-operation in external security and a space for research and education, that includes cultural aspects.<sup>15</sup>

Trade relations between Russia and the EU are very strong (even before the entry of the ten new countries into the Union 48% of Russian trade was with the EU) and justify the privileged relationship that Russia seeks to establish with Europe, also considering the geographical contiguity of the two areas. It is obvious however in Putin's strategy that this attempt to strengthen relations with Europe not only has economic but political ends at the same time: the axis with France and Germany during the American war in Iraq, the exquisitely political signing of the Kyoto

protocol, and many other minor signals show how Russia's attention towards the EU is also an attempt to compensate for American unipolarism as well as being instrumental to the integration into the wider world market. It is no coincidence that it was Europe that first acknowledged Russia's status as a market economy (in May 2002), which meant greater new opportunities for Russia's foreign trade, thus opening up the way to the same decision by the USA. In the last PCA summit in Brussels Russia negotiated a preparatory agreement with the EU for future entry into the WTO, an agreement that concerns the engagements that Russia will have to respect in the goods and services sector (upon successful entry) and numerous issues particularly linked to the energy sector. Russia, that has requested entry into the WTO since 1993, is carrying out similar negotiations with all the other members of the Organisation, but it is significant that it has reached the first agreement precisely with the EU, that apart from anything else is its main trade partner. Since entry into the WTO is an essential goal for Russia, made difficult at the same time by the need to set conditions that do not weaken the fragile economic and social fabric of the country, the result reached with the EU represents an enormous political success.

But alongside these results that were painstakingly reached there are difficulties with the Union, both due to the bureaucratic slowness of Brussels (that always treats relations with other countries from the point of view of its muddled decision-making and legislative system), and due to the Europeans' moralistic and not very political attitude towards human rights issues, the respect of the rule of law and towards Chechnya — an attitude that continues to appear to Russia to be an incomprehensible as well as hypocritical interference in its internal affairs —, and due to the political untrustworthiness of Europe, that when it comes to the crunch always shows how it is not an autonomous interlocutor on the issues of international politics because it is too dependent on the United States. So, despite the relations established and the fact that in theory there is more convergence of interests with the EU, Russia often manages to establish a political partnership more easily with the USA, precisely due to their more realistic and concrete attitude.

This inability by the European Union to create a strong political relationship with Russia is due once again to its division and to the fact that it is an intergovernmental institution that cannot have a true foreign policy and an incisive strategy in this area. It is of one of the many missed opportunities for Europe that, despite acknowledging that it has a vital interest in the development of a democratic and stable Russia (as recited

by the EU Common Strategy on Russia, quoted in note 14), also because of the dependence of our continent on Russian energy sources, nevertheless does not manage to work towards it. Russia is therefore effectively left to its own devices in the pursuit of a difficult political stability, in an international framework dominated by a single hegemonic power.

3. Relations with Asia, and with China in particular, had been the greatest foreign policy success of the Yeltsin era. Primakov, the Foreign Affairs Minister at the time, as we have said, was the person responsible for this: for him drawing closer to China was an indispensable step to try and foster a multipolar equilibrium that would counterbalance American hegemony in the world, and to this end he had also tried to strengthen relations with Japan and with the whole of the Asia-Pacific area. Putin's policy fitted well into this slot, and further deepened Russian involvement in regional organisations such as ASEAN, the ASEAN Regional Forum (ARF), and the Shanghai Co-operation Organisation (SCO), enhanced trade relations with China (with which it signed a Friendship and Co-operation Treaty in 2001) and with India, particularly in arms sales and nuclear co-operation, and resumed relations with North Korea. Compared to Primakov's "multipolar" vision, the Putin doctrine seems aimed, more than at trying to counterbalance American power, to strengthen *tout-court* the Russian position, above all stabilising relations with its neighbours (China in particular, that shares thousands of kilometres of frontier land that on the Russian side are increasingly less inhabited), trying to grasp the economic opportunities offered by a region undergoing great expansion and putting Russia forward as a mediator between the West (the United States) and a few particularly problematic countries (like North Korea). All this was taken forward, obviously, whilst paying special attention to the evolution of the different regional powers, especially China, that have an increasingly greater role in the global equilibrium.

This perspective of a reinforcement of the country must also consider relations with the former-members of the Soviet Union. The politics conducted by Yeltsin in this area had been particularly ineffective: the creation of the Community of Independent States (CIS) and the union with Byelorussia were more nominal than real agreements. In fact, the divergence of interests between Russia and the other former USSR countries in the field of security tended to become progressively wider, while from the economic point of view the relations had very much weakened (75-80% of total Russian trade in 1990 was with CIS countries, in 1995 this percentage had come down to 20%). There was absolutely no strategy that aimed at reasserting Russian influence on the area: Yeltsin

seemed to only notice the problem when NATO organised joint exercises with some countries such as Georgia, Ukraine, Azerbaijan or Uzbekistan, or when the United States tried to get in on the exploitation of the Caspian Sea oil fields or in the gas pipeline building projects. Even military interventions in the areas most at risk were always done in an arbitrary fashion, without following a precise line, and tended to be counter-productive. In this climate the tendency of the different states of the CIS (favoured by American policies) was to try and create a network of international relations that excluded Russia.

Putin's policy on the other hand was very active in reasserting Russian influence on the region, also through meetings and frequent visits and the sending of advisors in support of Moscow's most loyal government men; the Russian military bases, still present in almost all the countries (the only exception being Turkmenistan and Uzbekistan), were used as levers to try to counteract the American tendency to establish their own military presence in the area, even if on the occasion of the war in Afghanistan Putin had to make the best of the situation and accept that the USA would use the military airports and bases in Kyrgyzstan, Tajikistan and Uzbekistan, permanently basing their own contingents there.<sup>16</sup> From an economic point of view Russia stipulated a preliminary agreement to create a single economic area in the CIS, aimed at strengthening mutual relations between the member countries to a great extent; the UES (the Russian state electricity company) bought electricity companies in Georgia and Armenia, and Gazprom has branches in a lot of CIS countries. Finally, the extremely strong dependence of these states on the Russian energy sources is a very effective weapon in the hands of the Kremlin, which uncoincidentally supplied Georgia and Ukraine practically on credit in exchange for "greater attention" by these countries to Russian interests in the field of foreign and security policy.

Chubais defined the policy that Russia needs to carry forward in this area with the formula of the construction of a "liberal empire", which means the extension of its influence at the economic level. And it is effectively what Putin is trying to do, but with the clear awareness that this plan cannot be separated from the recovery of a certain degree of political control. The prospect for a reunification of the area is undoubtedly not the order of the day, but the problem for Moscow is that of avoiding the geographic isolation of the country and to enlarge its sphere of influence. In this light the prospect of an enlargement of the European Union to the former Soviet countries such as Ukraine, Moldavia or Byelorussia should be evaluated by Europeans with greater attention and caution and not

simply pursued on the wave of a drive that, although the European institutions and many member states are unaware of it, derives from an American project and is hence supported by Great Britain. Europe should at least reflect again on the idea of giving itself an institutional structure composed of many circles corresponding to different levels of integration before proceeding blindly towards the inclusion of all neighbouring countries, which apart from anything else simply causes it to be diluted into a free trade area. And it should bring about within itself a federal political unit capable of drawing up the medium-long term vision of European interests, in which the relationship with Russia and the evolution of this country that Europe has an interest in supporting should be central.

4. Relations with the United States in these years of Putin's presidency in Russia and of Bush in the USA have been much less close than those of the Yeltsin-Clinton period. In the 1990s America concentrated much of its attention on Moscow, fostering great hopes on its political evolution and intervening seriously in the management of its economy through the international financial institutions, even if it was still conditioned by the climate and the relations of the cold war years and therefore continued to simultaneously pursue policies that weakened Russia (for example the expansion of NATO), on the basis of the idea that for the United States the disintegration of the Russian Federation would have been an advantage in any case. Russia for its part, was not only deeply caught up in its chaotic transition phase, but also clung to the idea that it was a great power and that it had to establish an equal partnership with the USA. Inevitably relations between the two countries, since the second half of the 1990s, had cooled and these are conditions that Putin on the one hand and Bush on the other inherited.

The break with the past, for Putin, as we have said, was to become aware of the real power relations between the two states and on this basis to initiate a policy that tried to give an adequate international role back to Russia, through economic revival and the development of the country and abandoning both overambition and servilities. For the American administration, the change was undoubtedly smaller, but decisive on one point: the Bush administration stopped subordinating the relations between the two countries to the evolution of Russia's domestic policy, limiting itself to becoming aware of the existing power, and continuing to pursue its interests in the manner believed to be most effective. A harder attitude therefore, but less intrusive and more based on *Realpolitik*.

Initially, with the start of the Bush presidency, the United States had clearly demonstrated their scant interest in Russia, by now considered to

be no longer a threat for the USA, and had started to review their plans for assistance and their policies towards it. For Moscow the hardest blow had been America's decision to unilaterally withdraw from the ABM Treaty, a decision linked to the desire to start the national missile defence project (NMD) and seen by the Russians as a step towards dismantling the basis of Russia's global role, that had always counted on its own nuclear arsenal against the United States. Putin, despite the extremely strong negative reaction by the political class, the military hierarchs and even public opinion in Russia, had had to accept the decision, against which he was powerless, trying to minimise the problem and choosing nonetheless to have a constructive role with the USA in the different international arenas. The objective, also in this case, as with all the other areas of the international framework already examined, was to demonstrate that Russia was a reliable and autonomous interlocutor, that knew how to assess its weight in the international equilibrium and that pursued its political and economic interests without the need for outside help.

11 September gave Putin the chance to insert himself more strongly in the stakes of world politics. His clear and timely support to America and to the international coalition for the war on terror (once again decided by winning over the fierce resistance of the military apparatus) allowed Russia to acquire a crucial international status, and the contribution made in terms of secret service collaboration and support for NATO brought the country much closer to the United States. The climate of greater collaboration promoted the American decision to maintain Clinton's co-operation and assistance programs that at first Bush had seemed to want to terminate. Furthermore, even if this did not avoid, as we said, the disappointment of the suspension of the ABM Treaty, at least it led to the signing of the "Moscow Treaty", aimed at dismantling part of the strategic nuclear arsenals, that, despite all its limitations — especially from the Russian point of view — granted Moscow at least one "positive" result in the sphere of nuclear conflict with the USA and gave a little breathing space to Putin, who had been under attack for his politics that were believed to be too pro-American.

The points of friction between the two countries however are always plentiful. NATO continues to be a thorn in the side of Russia that, despite the birth of the Russia-NATO Council — an essentially symbolic structure — finds itself having to live with this military alliance that was born to be against the Soviet Union, now stretched to the very boundaries of its direct sphere of influence, with a strong anti-Russian spirit still running through them today, especially for the new members, and strictly

controlled by the Americans. In trade terms there have been strong tensions (such as the steel war started by the Americans breaking the agreements on tariffs and the Russians retaliating) and the resistance by America to Russia's requests for entry into the WTO has been a brake on the plans to consolidate the Russian economy (even when it came to the recognition of its status as a market economy country the USA waited for the European Union to be the first to sanction this recognition, and only deciding in 2003 to do so itself). Finally the disagreements over the war in Iraq emphasised once again the inevitable divergence of interest between the two States and confirmed, if there was still any need to do so, the asymmetry of the power relations: Russia could not stop the United States, despite the attempt to create an axis with France and Germany, and the reality of American predominance internationally was confirmed once again.

5. In this unipolar world scenario relations with the hegemonic power are difficult by definition and for Russia treading the complex path towards the assertion of a market economy and a rule of law is undoubtedly more difficult than it would be in a framework of multipolar power, necessarily more flexible. In the present situation the Americans have no interest in supporting Russia any more than necessary, when they are not indeed working towards its weakening; and, with on the one hand, the poor level of support received, and on the other, the rigidity of the international relations into which it must try and insert itself makes Moscow's task more uncertain.

The European countries should have an objective interest in the consolidation of a stable and responsible Russia, but, as we have already said, their division prevents them from formulating an autonomous European viewpoint globally and makes any incisive strategy capable of identifying and developing common interests impossible. What the Union is currently doing amongst a thousand hesitations is only a tiny fraction of what it could, not only in economic but also and especially in political terms. And in general it is clear that a European Federation would by definition mean the start of a multipolar phase in international relations that would create a much more favourable framework for the development of the other regions of the world.

On account of the current scenario an evaluation of the possibility of Putin's plan succeeding remains very difficult. The country has great resources, not only in material terms, but also in human and moral terms. And at the same time the task before it is enormous and its contradictions are extremely profound. The challenge is on and, in the interests of the

Russian people and the world, we can only hope that it can be won.

## NOTES

<sup>1</sup> See the recent essay by Marshall T. Poe, *The Russian Moment in World History*, Princeton, Princeton University Press, 2003.

<sup>2</sup> See Richard Pipes, "Flight from Freedom", in *Foreign Affairs*, May-June 2004.

<sup>3</sup> When Anatoly Sobchak, the former mayor of Saint Petersburg of whom Putin had been the deputy, was accused of abuse of power and of corruption Putin, then head of the FSB (the *Federal Security Service* that had replaced the KGB) covered up his escape to Paris. And in the same capacity Putin, in the spring of 1999, at a time when almost everyone had turned their back on Yeltsin who seemed by now to vacillate, defended him against the Attorney General Yuri Skuratov who was making investigations on the Kremlin and framing him with evidence that turned out to be partly made up. This information, and many of those that follow in this note, are taken from the book by Lilia Shevtsova, *Putin's Russia*, Washington D.C., Carnegie Endowment for International Peace, 2003.

<sup>4</sup> For example the Head of the President's Administration (the so-called presidential *apparatus*) is still Alexander Voloshin, who was one of the members of the Yeltsin "family", and both Sergei Yastrzhembsky and Sergei Prikhodko, both men of the previous President (Yastrzhembsky, in particular, was in turn a member of the closest entourage) remained in important places in the *apparatus*. Their power is clearly more limited, their level of autonomy much lower and above all, since they have to act in a context in which the levers of power are by now firmly in the hands of Putin, their behaviour has adapted to the new regime. Nevertheless Putin has preferred to leave them in office precisely in order to be able to use their institutional memory and their experience in the administrative field.

<sup>5</sup> The first law gave the President the right to demand that the governors obey the laws of the Russian Federation and to punish them in the case of violation suspending them from office and replacing them with temporary leaders. The second gave the same powers to the governors with respect to the local leaders and the third provided new criteria for the formation of the Council of the Federation. These new criteria included the fact that the governors and the local chiefs could no longer be part of the Upper House — that from now on would be formed by the regional representatives put forward by their respective authorities — and could no longer enjoy immunity for criminal and administrative offences.

<sup>6</sup> See "Taming the Robber Barons", in *The Economist*, 22-28 May 2004.

<sup>7</sup> See Andrei Shleifer and Daniel Treisman, "A Normal Country", in *Foreign Affairs*, March-April 2004. The thesis of the two authors is that all the facts of Russia's political, economic and social life are absolutely in line with those of any middle-income country. On the basis of this point of view they believe both the estimates of the relative impoverishment of Russia during the 1990s, and those of corruption and maladministration at the time of Yeltsin (including the negative role of the oligarchs) to be excessive. They do not even agree with the preoccupations about Putin's authoritarianism, the situation of the media, the politicisation of the judiciary or the weakness of Russian democracy. In their opinion these are only situations common to all countries with Russia's degree of economic development and the relevant articulation of society, even if they do not deny that this does not provide

any guarantee as to the future evolution of the country.

Although much of the data and evaluations that the two authors provide are convincing (even if perhaps there is an underestimation of the role played by the political leadership in the fall and subsequent rise of the Russian economy), it nevertheless seems difficult to deny that Russia, with its past as superpower, perceives itself differently from any other middle-income country (which includes just about everything, from Brazil and Mexico to Croatia, Poland or the Philippines) and that therefore it is guided by a project that aims above all to reconquer its status as a great country in the world. And in this light it has a specific political tradition that sustains and directs it.

<sup>8</sup> In reality reforms in these sectors are still very behind. Already in the spring of 2001 Putin had put forward for the approval of the Duma a set of laws that provided for the reform of the legal system (introducing fundamental legal concepts into the criminal code of the country for the first time, such as the right to *habeas corpus*, trial by jury, and other guarantees to increase the protection of the rights of defendants, increasing among other things, the role of the Courts with respect to that of the public prosecutor), the reform of the land code (the private ownership of land was introduced for the first time since the Bolshevik revolution), of pensions, the insertion of changes into legislation on tax and the regulation of the business sector (to decrease the number of licenses needed to start a business and therefore to try to boost the growth of small and medium enterprises) and a new labour code, and had begun a profound reform of the army (that needed both a restructuring of the command system, that had completely broken during the Yeltsin era, and a certain professionalisation, that would make it more streamlined and more efficient, eliminating the excess weight it had inherited from the cold war). The following year there was a second wave of reforms, aimed above all at liberalising the economy, that touched areas such as banking (with the objective of rationalising the sector, in which at least a thousand banks were so small that they could not carry out any significant functions, while a few banks, which needed to be better regulated, carried out all the financial activities) and the regulation of the natural energy monopolies. The third, actually still under preparation, should be directed towards the social infrastructures (construction, health, education), the way in which they are managed and a study into the reform of the administration, that should be streamlined, made more efficient, better controlled and better paid to prevent it from continuing to be a centre of corruption and therefore an enormous brake on the development of the country; the latter is a real emergency, and is perhaps the sector on which the success of all the other reforms depends. We must add that the positive conditions of state finances should guarantee the necessary resources to implement the decisions and a first net cut in taxes to try and favour the growth of small and medium enterprises should be a boost to society. Until now however, as regards the first two sets of reforms, they have turned out to be difficult to apply, especially because of the inertia of Russian society and the backwardness and untrustworthiness of the bureaucratic apparatus. The journey in all these sectors has therefore only just begun and the chances of success are not completely secure.

<sup>9</sup> The preoccupation for the dependency of the state apparatus on only one individual is expressed by all the observers. Even those who, like Bobo Lo (Bobo Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy*, London, The Institute of International Affairs, 2003), hold an extremely positive judgment on Putin's ability and tend to play down the evaluation of the Russian system being leadership-centred, cannot fail to highlight this point. Bobo Lo believes that an analogy that allows one to better understand the workings of the command and control line in Russia is that of the structure of a terrorist organisation in which the leader exercises a strategic control and coordination function for the various cells (in this case the institutional players) who carry out the tasks assigned to them by the leader without any intermediaries. It is Putin who holds the line of all the activities of the

different institutions, substantially without intermediate figures acting as transmission belts. He therefore counts on the abilities of the heads of the different sectors (this is why he tried to put not only trusted people but also those with the requisite skills in the key places), but his is the task of both providing the guidelines and directing the choices and of coordinating the entire apparatus. It is a task that requires great ability and enormous reserves of energy and that sometimes stops working precisely because of the difficulty for only one man to control the whole system. Furthermore the apparatus itself needs to be managed and often Putin is hampered by the need to maintain the balance between the different components of his entourage (the struggles between the liberal wing of the Saint Petersburg group and the "party" of the *siloviki*, or the tensions with the Yeltsinites often force him to spend time and energy on this front too). All this increases the doubt over the future of the Russian system, especially its chance of obtaining capable leaders and of evolving towards a more efficient structure and one that is less tied to the qualities of an individual political leader.

<sup>10</sup> The current definition of the present role of the Duma is that of "loyal opposition" to the service of the President (see Bobo Lo, *op. cit.*, pp. 40 and subs.). Frequent are the cases where the Duma (through its more authoritative representatives) expresses the more uncomfortable positions in its relations with the international institutions or with the other countries allowing Putin to get out of personally having to make the most controversial arguments or show his role as "mediator" to the outside world compared to the "more radical" tendencies present in the country.

<sup>11</sup> See the tables shown by *The Economist*, 22-28 May 2004, in "Power to the Power People".

<sup>12</sup> See "Watch Your Back", in *The Economist*, 22-28 May 2004.

<sup>13</sup> See Moisés Naim, "Russia's Oil Future", in *Foreign Policy*, January-February 2004.

<sup>14</sup> The strategy of the Union towards Russia is set in the "EU Common Strategy on Russia" passed by the Council in June 1999, the first in the series of Strategies introduced by the Amsterdam Treaty in response to the recognition of the fact that greater coherence was needed between the policies of the Union and the member states towards their most important partners. The Union believes it has a clear strategic objective of "a stable, open and pluralistic democracy in Russia, governed by the rule of law and underpinning a prosperous market economy benefiting alike all the people of Russia and of the European Union; and in maintaining European stability, promoting global security and responding to the common challenges of the continent through intensified co-operation with Russia."

<sup>15</sup> The agreement for the creation of these four spaces should have been signed during the summit set for 11 November 2004, which at the last moment was postponed to a date to be settled because of the difficulties that arose during the negotiations, especially in the field of human and civil rights. Many states in the Union in fact would like them to be inserted as binding engagements together with the agreements on the other common spaces whilst Russia would rather they be dealt under separate negotiations.

<sup>16</sup> The American presence in central Asia was accepted by Putin against the opinion of his advisors and of the high military commands. For Putin it was a choice forced upon him from the time he had decided to use the climate created after the attacks of 11 September to insert Russia fully into the gameplay of the "western" alliance, seeking a role with the United States as ally-interlocutor. A refusal would most likely have been destined to fail, since the three countries in question were favourable to it, and it would only have compromised the overall strategy.

## Notes

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### THE WAR ON TERROR AND THE FUTURE OF THE UNITED STATES

Immediately after the attack of 11 September 2001 the Congress and the Senate of the United States granted President Bush extraordinary powers to lead the War on Terror, with the approval of the Patriot Act<sup>1</sup>. Three years since its introduction, the Patriot Act has shown itself to be inadequate both for definitively removing the danger of new terrorist attacks against America, and for restoring within American society a climate of trust in the institutions and in the possibility of winning the War on Terror. The continuous negative news from the Iraq, the limitation of some individual liberties and the infringement on the privacy of American citizens by federal bodies in the name of national security have fostered doubts about the opportuneness and effectiveness of the measures adopted.<sup>2</sup> Furthermore the subsequent suspension of the right to *habeas corpus*<sup>3</sup> for hundreds of prisoners captured during the war and detained for years without trial in American prisons and military bases, has provoked such indignation in American public opinion, as to persuade the Supreme Court to criticize the operations of the government through two sentences which ordered the Executive to respect the right to *habeas corpus* of the detainees Yaser Esam Hamdi and Shafiq Rasul, and to formally notify all those detained of the accusation of having been declared *enemy combatants*.<sup>4</sup> The Bush Administration responded to the sentences by extraditing Hamdi and Rasul without trial, as per the indications of the Supreme Court, activating special military commissions to clarify the position of the other detainees still in prison. Taking a lead from these sentences, other legal actions and protests have developed in different member states of the Federation.<sup>5</sup> But the situation of emergency, as President Bush and his Administration continue to repeat, is not over and therefore, precisely as a result of the American constitutional provisions, the fundamental freedoms of American citizens continue to be in danger of suspension.<sup>6</sup> The uncertainty of the situation also emerges from the

sentences of the Supreme Court Judges in the Hamdi and Rasul cases, and here we would like to propose an interpretation that considers three aspects: a) the historical aspect, to highlight that these sentences, as with all those that preceded them, cannot be separated from the historical moment in which they were passed; b) the technical-practical aspect, to underline the will of the judges to pass sentence on the substance and not simply on the form of the cases that were presented to them; c) the political aspect, to place these sentences in the context of the balances of power that are forming within the American system of federal government.

A) On various occasions the sentences of the Supreme Court have marked and signalled crucial turning points for the United States, sometimes anticipating, sometimes guiding or simply registering the changes underway in American society. The regulation of the relations between the federal power and the power of the Member states, the attempts to limit the growth of federal powers in economics and trade primarily but also in the field of foreign policy management, and the extension of civil rights to all citizens independently of their race and origin are a few examples of the issues that the Supreme Court has had to tackle from the founding of the United States to the present day. On each of these issues its sentences have been definitive judgments and out-and-out orders (It is no accident that “*It is so ordered*” is the phrase used at the bottom of their resolutions), to which both ordinary citizens and institutions have had to adhere and refer. Precisely for the fact that the voice of the Supreme Court is still obeyed and respected, it is worth taking into consideration its judgments regarding the War on Terror and the considerable powers of the President of the USA, facts that concern two issues of great current interest not only in the United States, but also in the rest of the world. In particular we refer to the judgments expressed by the Court during the examination of two appeals amongst many, that we have already mentioned above, lodged by the prisoners Hamdi and Rasul against the government of the United States for the violation of their constitutional right to *habeas corpus*. When examining these cases the Court reflected on the very nature of the emergency of the War on Terror and on the sovereignty exercised by the USA outside its frontiers. The awareness of America’s role as a world power, as testified by the judges in some parts of the sentences, has increased the significance and the value of the sentences, which ruled in favour of the complainants and against the government, but within the limits that we shall discuss below. This was a historical moment that was also well described, and cited, by

the passage in *The Federalist* in which Hamilton warned against the dangers facing a State when it is subjected to external pressures. “Safety from external danger,” wrote Hamilton, “is the most powerful director of national conduct. Even the ardent love of liberty will, after a time, give way to its dictates. The violent destruction of life and property incident to war; the continual effort and alarm attendant on a state of continual danger, will compel nations the most attached to liberty, to resort for repose and security to institutions which have a tendency to destroy their civil and political rights. To be more safe, they, at length, become willing to run the risk of being less free.”<sup>7</sup> In their judgments the Court Judges were well aware that this is the dilemma facing the USA today.

B) Let us examine in more detail however exactly what the Court Judges said and what the immediate results of their judgments were.

*The case of Hamdi against the Secretary of Defense of the United States.*<sup>8</sup> The Saudi-American citizen Yaser Esam Hamdi had been made a prisoner in Afghanistan by the American army in 2001. Classified as an *enemy combatant* and taken first to the base at Guantanamo and then — his dual citizenship having been ascertained — transferred to a prison in the USA, Hamdi was detained *incommunicado*, that is to say held without being able to communicate with anyone and without a trial, until the day of his expulsion to Saudi Arabia in October 2004 following the sentence of the Court. This sentence established that the executive cannot prevent an individual, and especially an American citizen, from pleading innocent before a United States court, by invoking an indefinite emergency situation. To the defenders at the Pentagon who had objected that the War on Terror, “given its unconventional nature, ... is unlikely to end with a formal cease-fire agreement,” the Court dryly answered “an emergency power of necessity must at least be limited by the emergency.” If, the Court objected, “the Government does not consider this unconventional war won for two generations, and if it maintains during that time that Hamdi might, if released, rejoin forces fighting against the United States, then the position it has taken throughout the litigation of this case suggests that Hamdi’s detention could last for the rest of his life.” So the Court denied the Administration the power to suspend the right to *habeas corpus* and established that Hamdi “unquestionably has the right to access to counsel in connection with the proceedings on remand.”

The Court however did not limit itself to denying the Administration the power to suspend the right to *habeas corpus* for American citizens detained on American soil: they also denied it to non-American citizens

detained by US military forces abroad. This is the point of the second important sentence examined below.

*The case of Rasul vs. The President of the United States.*<sup>9</sup> In adjudicating the case of the British citizen Shafiq Rasul, also classified as an *enemy combatant*, detained *incommunicado* in Guantanamo, first of all the Court had to establish how the jurisdiction of the USA should be interpreted and to what extent it was valid outside national boundaries: the legal power of a state only extends to where the dominion of the state ends, replied the Court. Here the Court made an analysis of the international status of the American base at Guantanamo, where hundreds of prisoners from the War on Terror are still being detained, a base, according to the USA government, formally under Cuban sovereignty and therefore outside of the jurisdiction of US federal tribunals.<sup>10</sup> The historical precedent to which the Court made significant reference in formulating the sentence was the British colonial period and the protection of the right to *habeas corpus* for prisoners detained outside the United Kingdom, in as much as the Court was interested in investigating not the formal notion of territorial sovereignty, but the effective one. “The question now before us,” read the grounds for the Court’s sentence, “is whether the habeas statute confers a right to judicial review of the legality of Executive detention of aliens in a territory over which the United States exercises plenary and exclusive jurisdiction, but not ‘ultimate sovereignty’.”<sup>11</sup> On the very basis of the analysis of the type of power exercised by the British Crown in the overseas territories under its control at that time, the Court concluded that the sovereignty of the USA also covers the base at Guantanamo. In the British colonies and protectorates, observes the Court, “there was ‘no doubt’ as to the court’s power to issue writs of *habeas corpus* if the territory was ‘under the subjection of the Crown’.” Likewise, “the [US] federal courts have jurisdiction to determine the legality of the Executive’s potentially indefinite detention [in Guantanamo] of individuals who claim to be wholly innocent of wrongdoing.” In the case in question the Court therefore has the authority granted to it by the Constitution to “reverse the judgment of the Court of Appeals and remand for the District Court to consider in the first instance the merits of petitioners’ claims.” The practical effect of this sentence has been the extradition of Rasul to Great Britain.

C) How much effect will these judgments have on the evolution of power relations within the USA and on the exercise of presidential powers in foreign policy? To answer this question we need to look at the



past, remembering a symbolic sentence of the Supreme Court from over a century ago. This sentence also took the lead from a case claiming the right to *habeas corpus*. In those years, also as a consequence of the power vacuum created by the weakness of some European ex-colonial powers (primarily Spain), the United States had begun to expand their influence in the Atlantic (the occupation of Cuba) and in the Pacific (the occupation of the Philippines) and the role of the President of the United States started to undergo profound transformations. The *stewardship theory* on the role of the President embodied these transformations referring explicitly to the sentence of the Supreme Court of 1890, the *Neagle* case,<sup>12</sup> with which the judges had established that by now the powers of the Executive should be “enforcing the rights, duties, and obligations growing out of the Constitution itself, our international relations, and all the protection implied by the nature of government under the Constitution.” To measure the importance that these issues played in American society at that time we only need to observe that, still only a few years prior to the *Neagle* case, the young lawyer and future President of the United States, Woodrow Wilson, had proposed to set up a parliamentary government closer to the English model, abandoning the presidential form of government — ineffective and no longer relevant to the times, according to Wilson.<sup>13</sup> Subsequently, over the course of the First World War, President Wilson himself had to make some decisions, concerning the control of the economy and the freedoms of Americans with the creation of the War Industries Commission presided over by Baruch, which no predecessor ever had made.

The fact is that every time the United States has found itself in situations of war or mere threat of war (starting from the near war against revolutionary France a few years after the ratification of the Constitution, and ending with the Cold War years with the USSR), laws and measures have been approved that strictly limit freedoms and individual rights: the *Alien and Sedition Acts* deliberated by Washington and Hamilton in 1798, scarcely used and immediately repealed in 1800 under the Jefferson presidency, are only the distant predecessors of the provisions introduced on subsequent occasions.<sup>14</sup>

The more the USA have inserted themselves into global balances of power, the less able they have been to avoid the iron laws that regulate relations between States: the *raison d'Etat* and the supremacy of foreign policy over internal policy.<sup>15</sup> The Patriot Act and the power exercised by President Bush are also to be found in this logic. But they are not the simple rehashing of similar provisions and past policies, with different

procedures and on a different scale. It is in fact the very sentences of the Supreme Court that clarify that the War on Terror only appears to be a war. In fact it is a timeless and placeless emergency that can prelude conventional wars, or prepare for them<sup>16</sup> and that, for this very reason, it risks indefinitely increasing the risks of an abuse of power by the Executive.

The fact that for the time being the American government has obeyed the dictates of the sentences does not mean that the future of federalism and democracy in the USA is sheltered from every danger. In fact we need to understand the point to which the action of the Court will be sufficient, on its own: 1) to give lasting guarantees on the safeguarding of civil rights in a situation that in any case remains one of emergency for national security and 2) to contain any further expansion of the influence of presidential powers in the federal system.

As regards the first point, the reasoning of the sentences for Hamdi and Rasul by the judges testify to their concern to protect, alongside the rights of the imprisoned citizens to appeal to the judicial system to declare their innocence, the power of the President to act in case of war.<sup>17</sup> In the Hamdi case, for example, the Judge Sandra O'Connor expressed herself thus: “[Hamdi] unquestionably has the right to access to counsel in connection with any further proceedings,” and as with the other prisoners, prior to the start of legal proceedings, he should be notified by a “neutral decision maker” if and because the government considers him to be an *enemy combatant*. But these “neutral decision makers” are, according to the same Judge O'Connor, nothing other than “appropriately authorized and properly constituted” military commissions and not normal civil or military tribunals. This clearly reverses the burden of proof, putting defendants in a situation of inferiority.<sup>18</sup> In fact, if the government decides — as in effect it did decide for the prisoners of war in Afghanistan — not to reveal, for security reasons, the details and the circumstances in which the *enemy combatants* were captured, it would be up to the latter to prove that they had nothing to do with terrorism and to produce adequate testimonies in their favour (but what realistic chance do they have if in the meantime they have been transferred thousands of miles away from the place where the events occurred?) and not up to the government to prove their actual guilt. This is a procedure that can be debated on the basis of the Sixth Amendment of the American Constitution, whereas it is specified that every defendant must have the right “to be confronted with the witnesses against him and to have compulsory process for obtaining witnesses in his favor.” It is therefore true that the government has had to

obey the Court by extraditing the prisoners that were party to an action, but it is granted discretionary power to capture the prisoners in the various theatres in which military operations are carried out and to classify them as *enemy combatants*.<sup>19</sup> This attitude by the Court leads us directly to a few considerations on the second aspect of the problem, the form that American executive power is taking.

If it is true, as the facts seem to confirm, that the convolutedness of the American federal system during the last century occurred following the increasing involvement of the USA in international policy, we can absolutely exclude that the action of the Court could, by itself, have a miraculous effect upon the effective rebalancing of powers inside the USA. Since the end of the Second World War the United States have passed from a forty year Cold War — in some cases even physically fought (in Korea and Vietnam) — with the USSR, to the First Gulf War on the eve of the collapse of the USSR and to the interventions in the former Yugoslavia and in Somalia after 1991, to subsequently arrive to the war in Afghanistan, and to the Second Gulf War and the war on Iraq. One cannot be surprised therefore that such an almost permanent state of emergency has reflected on American institutions. In particular, one of its results has been a significant increase in the power of the President of the United States to the detriment of those of the Congress and the Supreme Court itself.<sup>20</sup> This was an imbalance that Arthur Schlesinger did not hesitate to define *Imperial*.<sup>21</sup> Unfortunately Schlesinger's formula, useful for highlighting the drift in the American power system, fosters some illusions when it suggests the possibility of inverting this tendency in the short-term through the only inherently self-corrective force against error in the American system: according to Schlesinger this self-correction could actually take a lead from the recognition of American defeat in Iraq. This train of thought however tends to overestimate the importance of internal dynamics with respect to the logic of international relations as highlighted by Hamilton. We only need to remind ourselves of the difference between the role that American Presidents have had before and after the Second World War. As Schlesinger openly admits, the Presidents Washington, Lincoln, Wilson and Roosevelt, to name but a few among the more relevant figures in American history, have often *usurped* power when managing foreign policy, forcing certain decisions by Congress, guiding public opinion through the use of information accessible only to them, limiting some freedoms etc. But these Presidents have always *had to return* the power usurped during the state of emergency to their rightful owners, to the American people. They have thus acted with respect to the

Roosevelt doctrine according to which “when the war is won, the powers under which [the Presidents] act automatically revert to the people — to whom they belong.” Therefore, since the end of the Second World War this vicious circle has been interrupted and the power has never been entirely returned to the people, since, as Schlesinger again explains, “the assertion of inherent powers... creates precedents for the future.”<sup>22</sup> In this way the Second World War represented a watershed for the abilities and the possibilities of the American federal system to monitor and limit presidential powers: it was the *inherent powers* accepted and shared by the majority of the American people, and legitimised by its institutions to tackle an emergency that had become the norm, that transformed the Presidents into *Imperial Presidents*. At this point the controlling action of the Court on the legality of the actions of the Executive remains as necessary and important as ever, if for no other reason but to encourage and cultivate the survival, at least in part of American society, of those moral energies that refuse to accept the continuous erosion of values on which the federal State and the State of law in North America are founded. But it cannot be sufficient to dismantle the imperial logic that has seized the American system.

If this logic is above all a reflection of the degree of the present imbalance of power in the world, and not so much of the thoughtless exercise of power of any one American President, we need, as Europeans, to be aware of the serious responsibilities that our countries now hold for having contributed to throwing the world into chaos with two world wars, and for not being capable of contributing to installing a more balanced and secure multipolar order today. Only in such a context could even the United States, finally more secure and less involved at the international level, reorganise their institutions. That such a consciousness fails so badly to emerge, starting from the countries that gave life to the European integration process, and to demonstrate that it can be the next act of will in the creation of a European pole is truly scandalous<sup>23</sup>.

Franco Spoltore

## NOTES

<sup>1</sup> Patriot is an acronym of *Provide Appropriate Tools Required to Intercept and Obstruct Terrorism*. The Patriot Act was approved by Congress and the Senate immediately

after the attack of 11 September 2001.

<sup>2</sup> By way of example we can mention the action taken by the American Civil Liberties Union against the “unchecked power” exercised by the FBI when collecting information on private citizens and monitoring, for example, the *Amazon* and *eBay* files of Internet users. In effect the Patriot Act only extends the powers of investigation of the FBI that, since at least the mid eighties, have been granted to the federal authority for pursuing suspected terrorists and spies. In 1993 Congress had further broadened these powers, allowing the FBI to secretly acquire information even on individuals only suspected of having been in contact with spies and terrorists.

<sup>3</sup> The right to *habeas corpus*, namely the right of every individual not to be unjustly imprisoned, originates from the English revolution of the Seventeenth Century, when the power to suspend laws, or the execution of laws, by the King’s authority, or by his emissaries, without the approval of the Parliament, was challenged. This right, introduced by the British Parliament with the *Habeas Corpus Act* and sanctioned with the *Bill of Rights*, was subsequently introduced into the Constitution of the United States through the Fourth and Sixth Amendments.

<sup>4</sup> The classification by the American government of the prisoners of the war on terror as *enemy combatants* has been a sleight of hand by the American government to take away for years the powers of the courts to actually conduct the trials of the hundreds of prisoners detained in Guantanamo. After the sentence of the Supreme Court, according to the article “After Terror, a Secret Rewriting of Military Law” in the *New York Times* of 24 October 2004, the Pentagon simply tried to dispose of the majority of these people and, for a more limited number of them, to start long processes to formalise the counts of indictment.

<sup>5</sup> Four States and over three hundred towns and counties have until now approved resolutions and presented petitions against the Patriot Act. Recently the Court of Appeals for the Eleventh Circuit has declared the control measures for participants in protest demonstrations against the government unlawful. “We cannot simply suspend or restrict civil liberties until the War on Terror is over, because the War on Terror is unlikely ever to be truly over,” wrote Judge Gerald Tjoflat in his sentence, stating that “Sept. 11, 2001, already a day of immeasurable tragedy, cannot be the day liberty perished in this country.” See article “Screening of Protesters Unconstitutional, Court Rules” in *The Washington Post*, 17 October 2004.

<sup>6</sup> Since they were well aware of the risks and tensions that a state incurs when it falls prey to internal dangers and external threats and on the basis of their recent experiences of the War of Independence and of the rebellions that had exploded in various states the founding fathers had specified in the Constitution that “the right to *habeas corpus* shall not be suspended unless required for public safety, in case of rebellion or invasion” (Art. I Sect. 9).

<sup>7</sup> A. Hamilton, J. Madison, J. Jay, *The Federalist* n. 8, cited in the grounds for of the sentence *Hamdi et Al. V. Rumsfeld, Secretary of Defense*.

<sup>8</sup> See the sentence of the Supreme Court of the United States, *Hamdi et Al. V. Rumsfeld, Secretary of Defense*, passed on 28 June 2004. Another sentence, in the Padilla case, concerned a detained American citizen, who had converted to Islam. But in this resolution the Court claimed they could not pass sentence on the right to *habeas corpus* as they claimed that Padilla had appealed against the wrong body. Even if this sentence has raised various criticisms amongst those who maintain that the Supreme Court had, with its decision, granted too wide a margin of discretion to the government in transferring the prisoners of war to the judicial districts that were most favourable to the government’s point of view; it shall not be covered in this essay, as it does not add any particular clarifications to the issues. For further information see the sentence of the Supreme Court of the United States,

*Rumsfeld Secretary of State v. Padilla*, Decided June 28, 2004.

<sup>9</sup> See the sentence of the Supreme Court of the United States, *Rasul et al. V. Bush, President of the United States*, Decided June 28, 2004. It is worth quoting the dissenting minority opinion, but one which is signed by the Chief Justice as well as by the judges Scalia and Thomas that deals with the problem, not a negligible one, of considering the impact of this sentence on all the cases that could be submitted to the Court from anywhere in the world where American soldiers are present or operate. Extending the right to *habeas corpus* to all individuals, the Court would in fact operate as a substitute for an international Court under American sovereignty: “The Court today holds that the habeas statute extends to aliens detained by the United States military overseas, outside the sovereign borders of the United States and beyond the territorial jurisdictions of all its courts. This is not only a novel holding; it contradicts a half-century-old precedent on which the military undoubtedly relied, *Johnson v. Eisentrager*, (1950)... This is an irresponsible overturning of settled law in a matter of extreme importance to our forces currently in the field. I would leave it to Congress to change, and dissent from the Court’s unprecedented holding.”

<sup>10</sup> In the case *Ex parte Quirin* (1942), and *In re Yamashita* (1946), the Supreme Court recognized the power of the Federal Courts to review the application of the right to *habeas corpus* for enemy detainees, even foreigners, held in the USA or its island possessions. But in the case of the detention of German prisoners of war (*Eisentrager* (1950)), the Court had established that “aliens detained outside the sovereign territory of the United States [may not] invok[e] a petition for a writ of *habeas corpus*.” And it is on this sentence that the executive had based the defence of their operations with American prisoners of war detained abroad.

<sup>11</sup> The Supreme Court quotes the judgment passed by Lord Mansfield as far back as 1759. In other sentences the Court had underlined how the validity of the right to *habeas corpus* depended “not on formal notions of territorial sovereignty, but rather on the practical question of “the exact extent and nature of the jurisdiction or dominion exercised in fact by the Crown.” *Ex parte Mwenya*, [1960].

<sup>12</sup> From the name of the federal official detained by the state of California in violation of *habeas corpus*. See Fareed Zakaria, *From Wealth to Power, The Unusual Origins of America’s World Role*, Princeton, Princeton University Press, 1998, p. 137.

<sup>13</sup> “Congress is fast becoming the governing body of the nation, and yet the only power which it possesses in perfection is the power which is but a part of government, the power of legislation,” Woodrow Wilson, *Congressional Government* [1885].

<sup>14</sup> On the fact that in situations of emergency the Courts have a propensity to accept the point of view of the government, see the opinion expressed just a year before the attack on the Twin Towers by the Chief Justice William H. Rehnquist. In war “laws speak with muted voice” Rehnquist had observed, and “[it] is all too easy to slide from a case of genuine military necessity...to one where the threat is not critical and the power [sought to be exercised is] either dubious or nonexistent,” and therefore it was “both desirable and likely that more careful attention will be paid by the courts to the... government’s claims of necessity as a basis for curtailing civil liberty.” Chief Justice William H. Rehnquist, *Remarks at the 100th Anniversary Celebration of the Norfolk and Portsmouth Bar Association*, May 3, 2000 (transcription available at [www.supremecourtus.gov/publicinfo/speeches/sp\\_05-03-00.html](http://www.supremecourtus.gov/publicinfo/speeches/sp_05-03-00.html)).

<sup>15</sup> On the degeneration of power in the state due to the influence of international balances of power, see Gerhard Ritter, *Die Dämonie der Macht, München (The fiendish face of power)*, R. Oldenburg, 1948.

<sup>16</sup> “The model of war is not fully appropriate... We enter a state of conventional war on a date, like December 8, 1941, and we leave it on another date, like August 14, 1945. We

fight conventional wars against nations that have boundaries, and leaders with whom we can negotiate truces and surrenders, not against loose organizations whose hierarchies are secret and indistinct and whose officers and soldiers do not wear uniforms. We can conquer Kabul and Baghdad, but there is no place called Terror where the terrorists live,” Ronald Dworkin, “Terror and the Attack on Civil Liberties”, in *The New York Review of Books*, November 6, 2003. Furthermore it is now impossible for America, as for any other state, to close itself off in splendid isolation. As Michael Ignatieff observed “It has taken three years, but the 9/11 commission and the Supreme Court hearings on enemy combatants have given us our first serious public discussion about how to balance civil liberties and national security in a war on terror. Even so, we have not begun to ask the really hard questions. The hardest one is: could we actually lose the war on terror? Consider the consequences of a second major attack on the mainland United States... After such an attack, a pall of mourning, melancholy, anger and fear would hang over our public life for a generation. An attack of this sort is already in the realm of possibility,” *New York Times Magazine*, 2 May 2004. To confirm Ignatieff’s preoccupations, the report prearranged by a bipartisan commission made up of politicians, academics and various Centers of Study brought together by the *Center for Global Development*, has classified at least sixty countries worldwide in which the weakness of state institutions makes the birth of similar hotbeds of tension and threat to American security possible and likely. See *On the Brink: Weak States and US National Security*, Center for Global Development, May 2004.

<sup>17</sup> See Ronald Dworkin, “What the Court Really Said”, in *The New York Review of Books*, August 12, 2004.

<sup>18</sup> *Ibidem*.

<sup>19</sup> *Ibidem*. If the prisoners taken during the war on terror were classified as prisoners of war, they would undergo a different legal treatment and would have more possibilities of appealing to the Supreme Court. In the case of the prisoner Salim Ahmed Hamdan, suspected of having been one of Osama bin Laden’s chauffeurs, the Washington District Court challenged the legitimacy of the discretionary powers of the government when classifying the prisoners, but the government appealed against this sentence and the dispute, at the time of writing this note, has still not been resolved.

<sup>20</sup> On the ambiguities of the exercise of law in America during the war on terror, see the article in the *New York Times* already cited in note 4).

<sup>21</sup> Arthur M. Schlesinger, *War and the American Presidency*, Norton, 2004, annotated by James Chace, “Empire, Anyone?”, in *The New York Review of Books*, October 7, 2004.

<sup>22</sup> *Ibidem*.

<sup>23</sup> The awareness of this state of affairs, which can partly be found for example in some comments by Chinese observers, is hard to translate into consistent analyses and concrete actions in Europe. See the article by Wang Jisi, director of the Institute of American Studies at the Chinese Academy of Social Sciences as well as the director of the Institute of International Strategic Studies at the central school of the Chinese Communist Party, “Le duel Bush-Kerry vu de Pékin” (the Bush-Kerry duel seen from Peking), in *Le Monde*, 4 October 2004, in which Jisi affirms: “The absence of significant differences in the foreign policy programs of the Democrats and the Republicans does not allow us to foresee important readjustments in the behavior of America at the international level for the years to come. *What some consider to be a disturbing orientation — indeed a dangerous one — of American foreign policy is deeply rooted in the structural imbalances inside the United States and in the entire world* (italics are mine).” On the European continent, only in France is a debate worthy of this name developing on these issues. As Pierre Lellouche, deputy UMP, noted “Many Europeans do not understand this American neo-nationalism, simply because nationalism and power ambition have essentially disappeared from Europe during

the long process of the construction of Europe. Thus, we choose other perspectives: sometimes oil imperialism, or even the religious zeal of the Christian fundamentalists, or even “neo-conservative” ideology, or a mixture of the three. ...If Europe votes 80% in favour of Kerry, it does not consider that American foreign policy will remain nationalist and will hardly change — except maybe in style,” Pierre Lellouche, “Une Amérique nationaliste”, in *Le Figaro*, 9 October 2004. How European could contribute to neutralising American nationalism, Lellouche does not say. A reply deserves to be quoted from the ranks of the French socialist alliance since it is representative of the dominant but defeatist thought of the political classes and of national public opinion in Europe. Michel Rocard, in an internet chat room publicized by *Le Monde* on 12 October, to the question “How do you see Europe in fifty years’ time?”, replied: “As a development of what it is today, that is to say not an area where one makes foreign policy, but a space governed by law which will have developed the best legal defence block for human rights in the world, and a model of economic organization based on free enterprise, the market and competition, but which is out of bounds to monopolies and preserves an important level of public services and social protection. Europe will be a model of social organization that will be the envy of the whole world and for which there will be no reason to limit it to its current geographical borders.”

## Discussions

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### UNITED NATIONS OR DANGEROUS ILLUSION?

In the face of the crisis of the international system and the confused management of that system, and above all in the face of terrorism and the consequences of terrorism, the debate over the role of the United Nations has once more come to the fore, prompting me to make several observations.

1. First of all, I am, unfortunately, afraid to say that not only do I belong to the ranks of the UN-sceptics, but indeed that I must be counted among the worst and most radical of their number.

Here, I will not go into the various considerations that can be advanced regarding the costs of this organisation with its opulent and elephantine bureaucracy — directly and indirectly, the United Nations apparently has almost a hundred thousand employees and collaborators —, regarding its corruption, the missions it has failed in or not even attempted, and so on. Neither will I discuss its, in some cases even useful, autonomous collateral organisations (FAO, Unicef, Unesco, Gatt), agencies and various dependencies, or, for example, the various questions (currently under debate) relating to its statute. With regard to this last topic, I will merely go so far as to point out that, irrespective of any reform that might be planned or realised, if no change is introduced that modifies, at root level, the powers of and the regulations concerning the five permanent members of the Security Council, and their right of veto within it, then as far as the crucial question is concerned (i.e., that of a form of world government able to prevent the fiercest conflicts between states and to safeguard basic human rights), we are destined never get off the starting blocks.

Not even the — moreover, highly unlikely — proposals officially formulated by the European Parliament on January 29th, 2004: a) a permanent seat for the European Union on the Security Council, to replace those of France and Great Britain, b) the possibility of exercising the right of veto only jointly (by at least two members of the Council), in certain situations; or the one advanced by Helmut Kohl (that the French

right of veto should *in primis* be put at the disposal of the European Union, the latter being allowed a brief interval of time in which to agree on the matter in question) appear to go far enough.

And this is without considering the pertinent, almost irrefutable remarks of Michael Glennon (*Aspenia*, n. 25): “There is no need for reform of the Council. The United Nations member states are the ones that should be making real efforts to reform; reforms generated by the United Nations, even innovative ones, will probably not be particularly effective, for the very simple reason that the UN’s capacity to influence does not extend as far as the essential causes that underlie the crisis of the current rules. For example, altering the composition of the Security Council would not have any impact on these underlying causes — on the contrary, it could accentuate the differences in influence between the various countries, thereby provoking even deeper paralysis and encouraging the United States, in controversial situations, even more frequently to find ways of circumventing the Security Council.”

The same thing is, in short, more or less what can be said, and indeed is being said by the most astute scholars and politicians in relation to the pseudoconstitutional treaty of the European Union, now in its ratification stage: no constitution, no system of rules, has any meaning at all without a power that guarantees the principles it declares and supports its application.

But, in my humble opinion, there is more: I say this venturing to respond also to those who seem happy to accept the United Nations as a forum for the building of consensus among the states: because not only has the United Nations already shown that it is able (in the best of hypotheses and even then almost always only apparently) to contribute very little to the primary, priority, and only truly worthwhile objective (mentioned earlier) of world government; but also because I perceive very clearly the danger that this organisation, its real potential viewed distortedly, is, and has never shown itself to be anything other than, a factor of evasion and procrastination which, with regard to the much-needed, nearly always urgent, efforts to solve the issues and crises on the table, and the gravest threats facing our world, now a global village, is wholly negative. It seems that nothing has been learned from the experience of the old League of Nations (which the United States, refusing to sign the treaties that marked the end of the First World War, did not join), in spite of that institution having, I feel, a statute (Covenant) undoubtedly less pretentious and imbalanced than the one produced by the San Francisco Conference in June 1945. In this regard, I will remark

only that the very existence of this illusory international organisation, the League of Nations, can indeed be considered one of the important factors that, a few months after Stresa (April 1935) and just over a year after the attempted Nazi putsch in Austria, drove Great Britain to orient its foreign policy in a completely different, unrealistic and disastrous direction, a move that led to the break-up of the Great Britain-France-Italy "alliance" and, following Germany's by then no longer opposable re-occupation of the Rhineland (March 1936), Italy's definitive fall into the arms of National Socialist Germany, and all the consequences that ensued from that.

It goes without saying that none of this is intended to, nor indeed could in any way be taken to lessen the absolute condemnation of the fascist policy conducted, in Africa and in Europe, in those years.

2. What, then, is the alternative — the only clear one for those seriously wishing to find the answer to the void and chaos on the edge of which the world seems dangerously to be teetering and into which it seems determined to plunge?

Knowing what it is, what it can count for, we can by all means allow — if I might dare to express myself in these terms — the UN to struggle on as best it can and as far as it might usefully be allowed to. After all, any suggestion, or even hope, that this organisation might be dissolved — of the kind voiced in relation to the League of Nations in 1946 — seems, at the present time, absurd. The future, which is already within our grasp, lies in the institutionally consecrated agreement — whatever name this may be given, and whatever use or destiny may be contemplated for the existing international agreements (the UN, NATO — the latter incapable even of sanctioning the rapid deployment of a few helicopters in Afghanistan, as even the UN recommended —, the European Union, etc.) — among the democratic states of the Western world, preferably including Russia, which should — this is the crucial point — be open to the broadest possible collaboration with the so-called moderate, or, more correctly, "reasonable" Islamic world.

At the centre of this agreement, there could not fail to be, first among equals, the United States of America: it too, in this way, rendered more aware of its burden of responsibility and its crucial role, but also of its limits.

I refer, doubtless with presumptuous prematurity, given the effective scope for the realisation of such a solution, to an institutionally (almost "federalistically") consecrated agreement, not only bearing in mind

Hamilton ("To look for a continuation of harmony between a number of independent unconnected sovereignties... would be to disregard the uniform course of human events, and to set at defiance the accumulated experience of ages"), but also reflecting, with bitterness, on the meanness, still in relation to the end in question, of that much lauded intergovernmental organisation that goes by the name of European Union, which, despite the times in which we live, has proved incapable of conceiving and arriving at the realisation, among its members, of a common intelligence service — and this is without even touching on other, even more serious considerations.

3. Supposing, for a moment, that this does indeed represent the distant end of the — not only idealistic — road to be followed, I feel that it is necessary to focus our attention on two points, whose dramatic nature cannot easily be denied.

The first point concerns the complex situation and explosive cocktail — in the historical period we are living through — that has been created as a result, on the one hand of the existence in the world of numerous resurgences of irrational national-religious fundamentalism (where, in truth, national feeling and religious faith matter only as potential instruments serving a thirst for power), and on the other of the availability — now a problem that cannot easily be tackled at the level of the states or of other deep-rooted and highly structured illegal organisations — of weapons of mass destruction (and naturally I refer not only to nuclear weapons). One's thoughts need not turn immediately only to Iran, but also, for example, and as reported in the international press, to all those states that feel that they are under threat from other states, adjoining or otherwise; in addition to Israel, it is possible, at present, to cite South Korea among these; and, who knows, in the future, maybe also Japan, Taiwan, and others.

Can there really be anyone who seriously believes — obviously I do not refer to any of the states just mentioned — that people and leaders thirsty for power, capable of taking hostage and killing whole classes of schoolchildren, and in possession of such weapons are not capable of using them? Hence, today, in the wake of the Beslan massacre, there has arisen, urgent and pressing, the added need at least to consider — as America's former justice minister John Ashcroft has explicitly said — ways (what ways?) of preventing, given the era of terrorism in which we live, all analogous, not impossible, and possibly even darker threats. This also explains, while not justifying entirely, Putin's declared intention to

seek out and strike, anywhere in the world, men, bases and structures identifiable as such.

Where then, in these conditions, is the sense in continuing to waste time — let this be said with all due respect for the opinions of others — tinkering around with the United Nations, with the question of UN reform, and with other issues of similar import?

The second point is this: even the brief reflections set forth thus far run the risk of amounting to nothing more, or nothing other, than a sort of journalistic or academic explanation that serves only to conceal the real underlying problem. Because the matter in hand (without doubt one of life or death) is deeply rooted in, and has its premises in, a historical and cultural situation that extends far beyond immediate and superficial political analysis: it lies, in my view, in the crisis of identity and of certainties that currently afflicts our Western world, and according to Spengler, has most visibly afflicted it since the start of the 20th century, as indeed it has, albeit in different ways and on different terms, the Islamic world.

In both settings, highly dangerous enemies are at work from within. In the case of continental Europe these, I feel, are: Europe's traditional factiousness, in other words its futile and querulous nationalisms; the dogmatic and ambiguous protest-style pacifist movement; and anti-American fixations. In short, a predominant accumulation of emotive and empty irrationality that spawns confused and provocative assertions on the obvious need for tolerance, on the conditions for the use of force, on multicultural and/or inter-religious dialogue — but without ever specifying the common point of reference or decisive criteria of purpose or truth, etc., on whose basis they are made. In this regard, Claudio Magris wrote as follows (*Corriere della Sera*, 5.9.2004): "It is futile to waste time asking oneself — taking into consideration both the positive and the negative: Alhambra, Shari'a, Avicenna and infibulation — whether Islam is a superior or an inferior civilisation. What really counts, in every situation, and in relation to concrete questions, is understanding the difference between civilisation and its violation. There can be no doubt that Islamic fundamentalism today, whatever the reasons for its rise, allows serious and sometimes very serious offences against the fundamental rights of the person, offences that ought to prompt greater protests on the part of the West's freedom movements; indeed, we have not seen many marches against the lapidations of adulterers and decapitations of homosexuals that take place in Muslim countries."

But can it be enough to understand, in every situation, what civilisation

is (and what civilisation does Claudio Magris wish to refer to, how many does he imagine there might exist, and are they all to be considered more or less on the same level?)? An indirect response to Magris had, in the same newspaper, already to an extent been provided by Magdi Allam: "What is lacking is a project for the peaceful coexistence of the West and Islam. And such a project can only be developed on the basis of clear and indisputable parameters, milestones of the shared civilisation of mankind: affirmation of the sacredness of life as an absolute and universal value, according to which there can be no such thing as good and bad terrorism, licit and illicit victims; respect for the fundamental rights of the person; basic democracy guaranteed by the peaceful alternation of power."

But can even these clear, wholly acceptable considerations be enough to allow the crisis-ridden Western world (but this also goes for all people) to regain its belief in the values of which it is the bearer, to recover its lost soul, and to begin at least to perceive the outline of the pressing task that faces it? Pressing because, as Elie Wiesel remarked (*Corriere della Sera*, 11.9.2004): "Tomorrow international terrorism could resort to the ultimate violence — that is, to chemical or biological attack. Tomorrow would probably be too late." Where is our belief in the values of which we are (of which we should still be) the bearers? It is certainly not here that this crucial question, at once simple and complex, can be broached.

But some hint is, perhaps, possible, given that it seems to me difficult to mistake the basic message of which the Western world, from America's Pacific shores stretching eastwards as far as the Ural Mountains, is still, in spite of everything, the least hesitant bearer. Its tormented history and its equally troubled cultural evolution (from the Classical Age, to the Renaissance through to the Age of Enlightenment, and beyond, in spite of instances of severe betrayal of the values of these eras) confirm this: it is the message of liberating reason — a single reason, equal for all — that is, the acknowledgment of the absolute supremacy of reason over any presumed source or form of knowledge, should such sources or forms indeed exist.

It is, thus, the message that places at the top of the scale of values, and among the conditions for coexistence, protection of freedom and respect for the individual conscience and for its illimitable struggle against the demands, ideals and practices of all types of community and/or collective organisation (religious, ethnic-nationalist, ideological-political, etc.).

Guido Bersellini

## Thirty Years Ago

### Harmonization of Budgetary Policies in a Monetary Union A Critical Analysis of the Werner Report\*

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1. In the ambit of the process of economic integration of the European Community's nine member states, the most ambitious objective, decided by the Conference of Heads of State and Government in The Hague on 1-2 December 1969 and reiterated at the Paris summit of 19-20 October 1972, was completion of economic and monetary union by 31 December 1980.

Prompted by the difficulties that quickly became apparent following the introduction of the European Monetary System (or "monetary snake"), the political and academic communities analyzed the problems that must be tackled in pursuit of the objective of completely fixed exchange rates between the different European currencies. But there are other aspects of economic and monetary union that, in our view, are worth considering in greater depth.

In particular, we feel that it is extremely important to analyze, in this framework, the effects that can derive from the harmonization of budgetary policies contemplated by the Werner Report, especially in relation to the possibility of pursuing not only balance of payments equilibrium, but also the internal objectives of stability and growth. We maintain, indeed, that it is very difficult to proceed with the building of economic and monetary union if, at the same time, the states are not guaranteed the possibility, through employment of the usual fiscal or monetary instruments, of

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achieving fundamental economic policy objectives.

In truth, such harmonization of budgetary policies deprives the member states of an instrument of control over the economic system, without at the same time making provision for the creation of similar instruments at supranational level. And this is, in our view, the fundamental flaw that undermines, at root level, the harmonization approach characteristic of the stage-by-stage establishment — expressed in the Werner Plan — of economic and monetary union.

2. In this paper, having analyzed the conditions that guarantee maintenance of the balance of payments equilibrium within an integrated economic system that has absolutely fixed exchange rates (par. 4-10), it will be revealed that these conditions, if realized, severely limit the effectiveness of independent monetary and fiscal policies at national level (par. 12-13).

These limitations are exacerbated considerably by the planned harmonization of budgetary policies, which impedes the effective use of fiscal policy for the achievement of other internal objectives (stability, growth, regional equilibrium) (par. 14-17).

The conclusions (par. 18-19) highlight the inadequacy of the Werner Plan's harmonization approach, and the need — if one wants to render the pursuit of the objectives of stability and growth compatible with the maintenance of balance of payments equilibrium and, thus, with fixed exchange rates —, when imposing the necessary limitations at national level, also to transfer to a supranational authority effective powers of decision in the sector of fiscal (and monetary) policy.

3. As regards the objective of fixed exchange rates,<sup>1</sup> two opposing methods<sup>2</sup> have, of course, long been advanced: the method of the monetarists and the method of the economists. The fundamental elements of the first are: preliminary consultation of the central banks; reciprocal short-term aid and medium-term and long-term loans for countries with balance of payments difficulties; and the issuing of central banks with common directives on the creation of the monetary base, on credit policy and on interest rates. "Obviously, all this implies that monetary policy will play a fundamental role as an instrument of the stabilization policy and that the stabilization policy will be employed intensively to create the domestic conditions (in salaries and demand) most conducive to the objective of irrevocable currency parities."<sup>3</sup> In less neutral terms, it implies that, in order to make it possible to guarantee fixed exchange



rates, the objective of growth will be sacrificed for that of the balance of payments equilibrium. But this point will be discussed in more depth later on.

According to the economic policy method, monetary unification must be based, instead, on close harmonization of taxation; on the monitoring and sanctioning, at Community level, of the fundamental lines of national budgetary policies, particularly in relation to the determination of the size of public deficits (or surpluses) and decisions as to how these should be financed (or utilized), the structuring of the stabilization policy, through monetary and/or fiscal policy instruments and decisions on investments, be they public or supported through fiscal incentives by the public sector; and finally, in the last stage, on the growing importance of revenue and expenditure established autonomously at Community level.

The Werner Plan is, in a sense, a combination of these two approaches. It indeed affirms that "the development of monetary unification must be based on sufficient progress in the field of convergence and then in that of the unification of economic policies. Parallel to the limitation of the autonomy of the member states in the matter of economic policy it will be necessary to develop corresponding powers at the Community level."<sup>4</sup> In the final stage of the process, it indeed makes provision for the setting up of a centre of decision-making on economic policy and of a Community system of central banks, in other words for the transfer to supranational level of powers currently held by the national governments.

This final stage should be reached at the end of a gradual process; indeed, the Werner Report "in no way wishes to suggest that economic and monetary union are realizable without transition. The union must, on the contrary, be developed progressively by the prolongation of the measures already taken for the reinforcement of the coordination of economic policies and monetary cooperation."<sup>5</sup>

In the analysis that follows, we will seek to highlight, above all, the contradictions that are destined to emerge in the course of this intermediate stage, in an effort to identify the analytical tools that might help us to explain the current difficulties of the process of monetary integration and, in particular, to establish whether the choice of a stage-by-stage approach in the economic and monetary field, in the absence of a parallel evolution in the political sphere, does not in fact constitute an insurmountable obstacle to the achievement of the very objectives the Werner Report sets out to pursue.

4. The first problem we wish to consider in our analysis concerns the

possibility of guaranteeing balance of payments equilibrium among the member states of the monetary union.<sup>6</sup> This is a problem that, unless an effective solution is found, could plunge the whole process into crisis — a fact confirmed by the dramatic difficulties that, from the outset, have dogged the "monetary snake" policy.

In a monetary union, "only the global balance of payments of the Community vis-à-vis the outside world is of any importance. Equilibrium within the Community would be realized at this stage in the same way as within a nation's frontiers, thanks to the mobility of factors of production and financial transfers by the public and private sectors."<sup>7</sup>

It is worth analyzing the theoretical implications of this proposition, in order to be able to evaluate not only the objectives, also institutional, that must be pursued in order to allow, in the final stage, efficient functioning of the monetary union, but also in order to have at our disposal the analytical tools needed to understand the difficulties and tensions that may emerge in the period of transition leading up to its creation.

5. A simple, but indicative, statement of fact may provide the starting point for an analysis of this problem, and it is this: balance of payments difficulties arise between different countries, but not between regions that belong to the same political community. The points generally made when seeking to explain the difference between adjustment mechanisms at regional and at international level are linked to three facts: "1) the fact of a common or unified currency in use within a country, whereas different currencies are used by different countries; 2) the fact of a homogeneous economic policy (monetary, fiscal, trade and migration policies) governing the regions within a nation, while at the same time different nations pursue independent and divergent policies; and 3) the explanation of the classical economists, the fact that factors of production move freely within a country, but are relatively immobile as between countries. It will be shown that the most important determinant in the maintenance of regional balance-of-payments equilibria in this country [the United States of America], has been the mobility of productive factors, and especially that of capital."<sup>8</sup>

It is thus worth taking this analysis of the mechanisms of adjustment at regional level as a starting point for our assessment of their effectiveness and workability within the framework of the economic and monetary union that, with characteristics defined in the Werner Report, should emerge in Europe, and thus to highlight their limitations and the scope for

overcoming these limitations.

6. Let us suppose that within the framework of a political community divided into different regions there emerges an import-export imbalance, and thus a deficit in one of the community's regions in relation to the others.

One of the first mechanisms that comes into play is financial, and it has the effect not of immediately restoring balance of trade equilibrium, but of generating a flow of transfers of funds and securities that, by creating a surplus in the balance of capital movements, offsets the current deficit.<sup>9</sup> The region with the deficit, in order to pay for its surplus of imports over exports, must in fact relinquish part of its financial assets, previously accumulated, to the rest of the community, which has recorded a balance of trade surplus. In balance of payments speak, one might say that the regional deficit in the balance of current transactions is "financed" through capital imports and/or selling of foreign currencies, whereas the surplus in the other regions is compensated by a capital outflow and/or a purchase of foreign currencies. It is likely that this adjustment can be made without resulting in major variations in the quantity of money and thus through movements of other financial assets, given that the desired quantity of liquid funds depends more on income flow than on financial asset stocks, and this flow — initially at least — is not markedly altered.

The rapid and efficient working of this system of compensatory financial flows nevertheless requires that certain conditions be fulfilled. First of all, the country needs to have at its disposal a relatively high stock of financial assets. Second, it has to be possible to transfer a sufficiently large share of these assets out of the region that has the deficit, which in turn presupposes the existence of an interregionally organized and integrated financial market. Finally, portfolio structure choices have to be such that the residents in the rest of the community will be willing to purchase the very financial assets that the financial operators of the region with the deficit wish to sell. Indeed, if this is the case, the transfer of securities does not trigger major price variations.

7. In a subsequent stage, the long-term adjustment process presumably involves changes in economic magnitudes that influence the balance of trade. First of all, regions with deficits will become poorer and this negative effect on wealth, influencing propensity to spending, will lead to shrinking imports. But this process is markedly accelerated when the conditions cited above are not fulfilled, or, in situations in which the

financial markets are not completely integrated — situations in which financial assets are not perfectly transferable and portfolio structure choices are influenced by the country of origin of the various assets (in short, savers prefer national securities). In such situations, regional operators, in order to finance the balance of payments deficit, have to sell to the rest of the community securities that cannot easily be transferred at their pre-existing value. As a result, the prices of financial assets vary, falling in regions recording a deficit (where there is excessive negative demand) and increasing in the rest of the community, where the balance of payments surplus has generated extra demand. At the same time, if the transfer of liquid assets is used to help finance the deficit, the liquidity of the regional banking system is reduced as the banks, seeing their reserves reduced, are prompted to sell part of their non-cash (and, in this case, not perfectly transferable) assets, thereby generating similar effects on the prices of securities.

In short, the prices of non transferable securities fall in the region recording the deficit (and increase in the rest of the community), until a point is reached at which their purchase becomes economically advantageous for operators in countries recording surpluses — i.e., they become transferable — and their sale inopportune for operators in regions with a deficit.

Changes in the value of securities speed up the balance of trade adjustment process, as capital losses induce operators in the country with the deficit to downsize their spending plans (and vice versa in the country recording a surplus). It is necessary to add that changes in the value of securities also reduce income, production and employment levels, because they are associated with rises in interest rates and restrictions on credit, and have repercussions on investments, on the building and housing industry, and on the hire purchase of consumer goods. Meanwhile the opposite effects manifest themselves in the rest of the community. This process, through its effects on imports,<sup>10</sup> favours the restoration of an equilibrium in the balance of trade. Clearly, the extent of these income movements depends on the changes in the value of securities: it will be more marked in the presence of greater distortions and imperfections of the financial market. Similarly, the greater the share of non transferable securities (as a proportion of total financial assets), the less flexibility there will be for the replacement of transferable with non transferable assets.

8. In a regional system, with a centralized fiscal power, there exists

another powerful factor of adjustment.<sup>11</sup> "A region that forms part of a political community, with a common scale of public services and a common basis of taxation, automatically gets 'aid' whenever its trading relations with the rest of the country deteriorate. There is an important built-in fiscal stabilizer which arrests the operation of the export-multiplier: since taxes paid to the Central Government vary *with* the level of local incomes and expenditure, whilst public expenditures do not (indeed they may vary in an offsetting direction through public works, unemployment benefits, etc.), any deterioration in the export-import balance tends to be retarded (and ultimately arrested) by the change in the region's fiscal balance — in the relation *between* what it contributes to the central Exchequer and what it receives from it (...). This seems to me to be the main reason why there appears to be no counterpart to the 'balance-of-payments problem' on the regional level."<sup>12</sup>

Indeed, if in the region recording a deficit, there is a reduction in production activity in the course of the adjustment process, then there will automatically be a reduction in the tax revenue received by the central government. The opposite pattern occurs in the region recording a surplus. On the other hand, the portion of expenditure (for example, on social security) destined for the country with a deficit in the balance of payments increases. This is a mechanism which does not require specific political decisions and which, like the so-called automatic stabilizers, tends to reduce the income effects provoked by the processes described above, but at the same time produces equilibrium-restoring effects on the balance of payments.<sup>13</sup> The payment of taxes can, indeed, be likened to imports, whereas the social expenditure, from a regional point of view, corresponds to exports. Obviously, this adjustment mechanism can, through the use of fiscal policy instruments, be slowed down or speeded up on the basis of discretionary decisions of the political power.

9. A final factor helping, at regional level, to reduce the balance of payments problem is that of the mobility of factors of production and the integration of their markets. Movements of labour within the territory tend, within an economically unified area, to bring about greater wage uniformity; concerted action on the part of the unions, which is a necessary result of integration of the labour market, tends to have the same effect. The mobility of capital and of entrepreneurial capacity can lead to increased productivity in economically weaker areas; in the same way, sales techniques and processes of technological innovation can spread more rapidly (because of a demonstration effect) in the less

dynamic geographical areas. In this way, some of the causes of balance of payments disequilibria are attenuated.<sup>14</sup>

It must, however, also be noted that even in an integrated market, the mobility of factors of production is not perfect and, above all, that there can occur movements of factors of production that even have the effect of destabilizing the balance of payments<sup>15</sup>; in particular, movements of capital and entrepreneurial capacity away from areas in decline to richer, more developed areas. It is clearly the job of economic policy, employing the instruments at its disposal (investments in infrastructures or direct investments in production, tax and credit breaks, etc.), to stimulate greater mobility of these factors of production and to channel them in the desired direction.

10. Having summarized, extremely briefly, the mechanisms of automatic adjustment that operate at regional level, it is worth highlighting that the re-establishment of the conditions associated with maintenance of the interregional balance of payments equilibrium is considerably accelerated by economic policy measures decided by the central government. As regard the United States' experience, for example, Hartland<sup>16</sup> emphasizes the compensatory role played by transfers of federal funds to the regions recording a deficit, through the Federal Reserve System. This observation is based on the negative correlation (empirically detected through an analysis of the period 1919-1939) between Treasury transfers (net flows of public capital) and transit clearings (net flows of private capital) between the Federal Reserve Districts.<sup>17</sup>

The central government can, in any case, stimulate these compensatory movements of public funds through discretionary monetary or fiscal policy decisions. In particular, a stabilization policy, conducted at national level, can set itself the objective of guaranteeing the income and employment levels of each region. In this case, in the regions that have to sustain a balance of payments deficit, the increase in demand from the public sector halts the process of adjustment, which had been started by the reduction of imports caused by the drop in regional income. The stabilization policy thus precludes balance of trade re-adjustment through the income effect, but restores balance of payments equilibrium through the flow of public funds and thus the positive variation of capital movements.<sup>18</sup>

11. Our analysis, so far, has allowed us to highlight the conditions that

guarantee the maintenance of the balance of payments equilibrium within an economically integrated regional system that has absolutely fixed exchange rates. It has emerged that the efficient working of balance of payments adjustment mechanisms depends: 1) on complete integration of the financial and monetary markets; 2) on the existence of automatic stabilizers deriving from the operation of a centralized fiscal system; 3) on the mobility of factors of production; and 4) on the existence of flows of public funds, which compensate for the movements of private funds, in the framework of a centralized monetary policy.

It thus seems possible to conclude that, in the final stage of economic and monetary union, providing we see the creation of an economic policy decision-making centre and of a Community system of central banks, both of which must be equipped with adequate powers, that these conditions may be fulfilled and the problem of the balance of payments equilibrium within the Community may be overcome, just as it normally is within any regional system.

But this, in reality, is not a conclusion, only a more analytical framing of the point from which we started out, i.e., that balance of payments problems do not exist within regional systems. What we need to establish, on this basis, is what problems will emerge in the intermediate period, in order to be able to evaluate whether the proposals contained in the Werner Plan are adequate, or whether, on the contrary, they threaten to make pursuit of the final objective impossible. In other words, we need to ask ourselves whether, in the intermediate period, characterized, institutionally, by the total absence of any power of intervention at supranational level, it is possible to pursue simultaneously not only the objective of balance of payments equilibrium, but also internal objectives of growth and stability. If, indeed, it is not — and the recent withdrawal of the British and Italian currencies from the monetary “snake” seems to confirm this — the growth of resistance to the maintenance of irrevocable currency parities will become unstoppable, and the whole process of moving towards monetary union will be jeopardized.

12. We saw earlier the importance of the role played, with respect to the mechanism of adjustment, by the degree of integration of the interregional financial market. We must now consider the effects that derive from this, compared with the conducting of an independent monetary policy at regional level.

In reality, the effectiveness of the monetary policy is lost if a sufficiently broad quota of financial assets are perfectly transferable and,

thus, securities prices in the different regions are homogeneous.<sup>19</sup> In this situation, an expansionary policy that aims, by increasing securities prices and reducing interest rates, to stimulate the formation of capital and spending on consumer goods will result only in an outflow of capital and the importation of foreign securities. Let us take, as an example, an open market policy. The purchase of securities by the monetary authority does not modify prices or interest rates. Indeed, securities purchased on the market or from banks are immediately replaced by securities purchased abroad, whose price is, temporarily, lower, and the liquidity introduced into the system is transferred abroad to fund the purchase of financial assets. In the same way, a restrictive monetary policy, which hinges on interest rate increases and credit restrictions, provokes exportation of securities and importation of capital, which restores the liquidity removed from the system.

In short, monetary policy conducted at regional level, in the event of perfect integration of the capitals market, can generate balance of payments deficits or surpluses, but has no effect on employment and income levels.<sup>20</sup>

13. In a perfectly integrated economy, the limits imposed on fiscal policy conducted at regional level are different, but still considerable.<sup>21</sup> The effectiveness of these limits is in fact conditioned by how “exposed” the system is vis-à-vis the other countries. In particular, in an area that is part of a regional system, marginal propensity to import, like average propensity, is likely to be higher and this will reduce the internal effects of an anti-cyclical or pro-development fiscal policy. Thus, the effects of an increase in public expenditure tend to be felt not only internally, but also — to a greater extent when the marginal propensity to import is greater (and the open market multiplier smaller) — in the community’s other regions; this means, moreover, that every region feels, to a greater extent, the effects (deflationist or inflationist) of the fiscal policy conducted in the rest of the community. From the balance of payments point of view, on the other hand, the effectiveness of the fiscal policy is strengthened, given that a small reduction in expenditure brings about a marked reduction in imports. It can thus be affirmed that the cost of an anti-cyclical or pro-development policy is higher, first of all because, with the same increase in national income, a more marked change in demand through public expenditure or tax cuts is necessary; and second because the negative effect on the balance of payments is greater.

The effectiveness, at regional level, of fiscal policy is further reduced

by the loss of autonomy in the sphere of taxation caused by the mobility of factors of production at community level. In truth, the importance of this factor must not be exaggerated, since choices regarding the location of capital, labour, and entrepreneurial capacity are obviously influenced by other, non fiscal, factors, and can present differences even within the confines of an economically unified area. Thus, for example, a higher level of taxation of companies might be offset by greater availability of public services or a better structured labour market, and so on. The fact nevertheless remains that autonomy in the conducting of fiscal policy is limited by the increased mobility not only of products, but also of factors of production.

14. On the basis of the above analysis it can thus be affirmed, as a first conclusion, that the conditions guaranteeing the automatic working of balance of payments adjustment mechanisms also limit, considerably, the effectiveness of an independent monetary and fiscal policy geared to promote stability and growth of national income.

But, in fact, the problem is more serious. In relation to fiscal policy in particular, the Werner Plan has set as an objective the progressive harmonization of budgetary choices, remarking that "for influencing the general development of the economy budget policy assumes great importance. The Community budget will undoubtedly be more important at the beginning of the final stage than it is today, but its economic significance will still be weak compared with that of the national budgets, the harmonized management of which will be an essential feature of cohesion within the union. The margins within which the main budget aggregates must be held both for the annual budget and the multi-year projections will be decided at the Community level, taking account of the economic situation and the particular structural features of each country. A fundamental element will be the determination of variations in the volume of budgets, the size of the balance and the methods of financing deficits or utilizing any surpluses." "According to the economic situation in each country quantitative guidelines will be given on the principal elements of the public budgets, notably on global receipts and expenditure, the distribution of the latter between investment and consumption, and the direction and amount of the balance."<sup>22</sup>

It is necessary to highlight, from the point of view of the Community's member states, the repercussions of this close coordination of budgetary policy, which, as we have seen, affects not only quantitative aspects, but also the internal articulation of the budget structure.

The objective in mind, let us recall, is that of shaping a business cycle that is compatible with the establishment of irrevocable parities between the different currencies, or put another way, that allows maintenance of a balance of payments equilibrium. In the absence of an effective decision-making power, and thus of instruments of autonomous intervention at Community level, the coordination of the national budgetary policies runs the risk of showing a strong deflationist bias.<sup>23</sup>

Indeed, the main obstacle to stability in the realization of economic and monetary union is the possible presence of inflationist trends in one (or more) of the member countries, and, more generally, of a different evolution of the general level of prices in the various countries — a situation liable to give rise to persistent disequilibria in the balances of payments within the Community.

The simplest solution to this problem might seem to be that of maintaining a state of suboptimal exploitation of production capacity by cutting demand and, above all (in order to prevent inflationary developments on the costs side), by preventing wage level increases from exceeding increases in productivity, in accordance with the classic (but contested) income policy rule. Clearly, in this case, the cost that must be borne in order to achieve the objective of balance of payments equilibrium is excessively high (in terms of the sacrificing of other objectives), and furthermore this course of action is, to a large extent, contradictory.

Through flexible application of fiscal policy it is indeed possible to render variations in monetary wages — even though, in the short term, these may exceed variations in productivity — compatible with the predetermined values of the price level variable, without having to sustain, within the system, a high level of unemployment.<sup>24</sup> But the rigid budgetary policy coordination procedures exclude this flexible application of the fiscal policy tool, and as a result generate the need to curb wage increases. What it imposes, albeit in a different form, is the "golden rule": either monetary wages increase in parallel with the growth of productivity (that is, inflationist risks are eliminated through the reduction of demand), or, in the final instance, through an increase in the level of unemployment and, thus, a curtailing in real terms of total wages.

This choice is, to a large extent, contradictory, given that the level of demand depends on investments and "if a high rate of investments can, with regularity, be maintained, this makes it easier, in any period, to solve economic policy problems (...), since it increases the compatibility between the various objectives. It has now been demonstrated that a high

rate of investments is a necessary condition for a high rate of growth of productivity. From this it follows that the extent of the increase in productivity in each period will correspond to the increase in wages compatible with a given price stability objective, to the increase in exportation, and thus to the increase in imports compatible with the objective set for the balance of payments equilibrium."<sup>25</sup>

15. The harmonization of budgetary policies is thus less efficient than a solution that, in the framework of complete integration of the different markets (products, factors of production, monetary and financial), attributes effective powers of intervention to an independent centre of economic policy making at Community level. In this situation, as we saw earlier, the automatic balance of payments adjustment mechanisms work efficiently and, characterized by perfect monetary and financial market integration and independence of fiscal and monetary policy at European level, in the long term favour equilibrium without causing large fluctuations in income, and thus unemployment levels.

On the other hand, the existence of an integrated market of factors of production (of which liberalization of labour mobility is only a necessary condition) tends to bring about a levelling of wage increases, in part due to concerted action on the part of the unions. This does not exclude the possibility of cost-push inflation due to the existence of different rates of productivity in different regions and/or manufacturing sectors. But in this case a flexible fiscal policy can intervene effectively both, in the short term, through differentiated modifications of the parameters that influence the cost of labour per unit of product, and, from a broader perspective, through the sustaining of demand as a means of stimulating investments and thus increasing productivity, and finally by favouring processes of re-allocation of production activity, directly through public investments or indirectly through a policy of incentives (or disincentives).<sup>26</sup>

Should the situation of inflation be related to an excess of demand, and due, in particular, to differentiated evolution at territorial level of supply and demand that thus brings about the generation of disequilibria in the balance of payments, the state can intervene effectively either through increased spending or taxation.

16. An autonomous fiscal power at Community level may also serve as an instrument for ensuring that cumulative processes of development and underdevelopment in the European area are avoided.

The Werner Plan repeatedly focuses on the need for regional policies,

drawing attention to the fact that "the realization of global economic equilibrium may be dangerously threatened by structural differences. Cooperation between the partners in the Community in the matter of structural and *regional policies* will help to surmount these difficulties, just as it will make it possible to eliminate the distortions of competition. The solution of the big problems in this field will be facilitated by financial compensatory measures."<sup>27</sup>

It thus highlights the need, in order to avoid territorial disequilibria, to direct capital flows in such a way as to compensate for the dynamics generated by the automatic play of market forces. But, in reality, the logic of the common market has so far had the opposite effect, and the considerable capital draining effected by American enterprises through the parallel Eurodollar market assumes emblematic significance. In any case, even in the framework of the envisaged economic and monetary union, the solution to regional disequilibria cannot be sought through simple coordination of budgetary policies. To remain within a national framework of reference, the problem of southern Italy continues to be, in the absence of common management of economic policy, a purely Italian rather than a European problem; and whereas we fail to see "financial compensatory measures" on the part of the richer in favour of the poorer areas, what we in fact see — this phenomenon is abetted by an anarchic liberalization of the movements of factors of production — is an increase in Italian capital exports, as well as (and this is an inevitable result of the serious economic backwardness of many Italian regions) an exacerbation of the social problem of emigration.

17. A brief consideration may be advanced at this point with regard to the problem of the reforms in Italy. It is clear that the distortions in the process of growth that have emerged in the past can be corrected only by concentrating utilization of resources in the social sphere; and this means, with a view to creating a modern community, using a considerable share of the public budget to make up for the deficit in essential services. But this increased use of resources for social purposes can generate inflationist phenomena; consequently, the need to respect the limits imposed by the balance of payments makes it possible to justify the decision not to sustain the cost of the reforms.

Although this line of reasoning is clearly too schematic, it nevertheless seems to underpin many affirmations advanced in connection with recent controversy over national budget deficit limits. In any case, in a framework of coordination of budgetary policies, the size of the balance and

decisions regarding expenditure would be taken at Community level on the basis of the objective of fixed exchange rates. We thus seem to be confronted with something of a dilemma: either a squeezing of the national budget prevents increased expenditure in the social sphere (a politically unacceptable solution), or the rate of absorption of resources by the state in Italy exceeds the budget growth rate in the Community's other countries and threatens to throw the fixed parity rate into crisis. In reality, the problem of the public services deficit in Italy has to be resolved through the provision of adequate financial means to cope with any balance of payments difficulties that may arise as a result of the considerable planned increase in public expenditure. And this financial support on the part of the Community can be justified, and thus upheld politically, within the framework of those structural interventions designed to improve the distribution of resources and services at territorial level.

18. At this point we can draw some conclusions from our analysis. We have seen that the efficient working of automatic balance of payment adjustment mechanisms depends on the existence of a perfectly integrated financial market and a centralized decision-making power in the fiscal and monetary sector. The Werner Plan envisages that these conditions will not be fulfilled during the transition stage and that harmonization of fiscal and monetary policies is all that will be needed; in accordance with this, the establishment of an economic policy-making centre and a community system of central banks is postponed to the final stage.

From a theoretical point of view, this approach is contradictory, and recent experience seems to support this affirmation. Indeed, even though the financial market is already partially integrated at European level, the monetary policy is seeing its effectiveness (with regard to the stability and growth objectives) declining at national level. And similarly the cost of an anti-cyclical and pro-development fiscal policy becomes increasingly burdensome in an economic system that has reached a high level of exposure vis-à-vis the Community's other countries; in addition, having set out on the road towards the harmonization of taxation structures and budgetary policies, the state sees its freedom of choice in the matter of taxation increasingly restricted.

It is thus necessary to find a solution that makes it possible to deal with the problems relating to the balance of payments equilibrium without jeopardizing the objectives of stability and growth. "Balance of payments disequilibria occur within single countries in the same way as they do within the Community. In the former, there exist monetary as well as

fiscal mechanisms that make it possible to spread the rebalancing process over a longer period of time. The almost total absence of such mechanisms in intercommunity relations leads to a concentration of the process of adjustment into a shorter space of time, and renders it more acute — so acute that it demands major sacrifices in terms of the importance attached to the different economic policy objectives. If, at the present time, bringing down inflation seems to be the priority objective, the monetary union cannot hinge on a mechanism that tends to put growth and full employment at the bottom of its scale of priorities, in other words, that reverses the choices accepted by most of the peoples and governments of this post-war period."<sup>28</sup>

19. To guarantee fixed exchange rates, without sacrificing the other economic policy objectives, it is necessary, from the outset, to transfer certain competences to supranational level, through the creation (currently under discussion in the ambit of the EEC) of a European reserve fund and a European regional development fund. This would facilitate not only the process of adjustment of the balance of payments, but also through financial flows towards the economically weakest regions, the achievement of real objectives. However, this solution is still not enough. "The necessary condition for currency unification to be workable is that the participating countries give up their sovereign authority to conduct an independent monetary and fiscal policies directed at internal price and employment goals. Such policies would have to be conducted by a centralized monetary and fiscal authority charged with responsibility for internal stability for the group of countries as a whole."<sup>29</sup> The building of monetary union thus presupposes the founding of a European government with limited, but real powers, which is responsible for the pursuit of the economic policy objectives that cannot be effectively pursued at national level. Realization of this solution is difficult due to the states' reluctance to relinquish certain typical attributes of sovereignty. But it is crucial to appreciate that the price to be paid for refusing to follow this road will probably be paralysis of the process of monetary unification.

## NOTES

<sup>1</sup> "A monetary union implies inside its boundaries the total and irreversible convertibility

of currencies, the elimination of margins of fluctuation in exchange rates, the irrevocable fixing of parity rates and the complete liberation of movements of capital. It may be accompanied by the maintenance of national monetary symbols or the establishment of a sole Community currency. From the technical point of view the choice between these two solutions may seem immaterial, but considerations of a psychological and political nature militate in favour of the adoption of a sole currency which would confirm the irreversibility of the venture." See EEC, *Report to the Council and the Commission on the Realization by Stages of Economic and Monetary Union in the Community* ("Werner Report"), *Supplement to Bulletin 11 – 1970 of the European Communities*, p. 10.

<sup>2</sup> On this point see, for example: R. Ossola, "In attesa di un'organizzazione politica dell'Europa", in R. Triffin, R. Ossola, M. Albertini, *Verso una moneta europea*, Bologna, Il Mulino, 1971, pp. 32-33.

<sup>3</sup> See F. Forte, "Verso una moneta europea?", in *L'Europa*, 1970, n. 24-25, p. 90.

<sup>4</sup> See *Werner Report*, *cit.*, p. 14.

<sup>5</sup> See *Werner Report*, *cit.*, p. 14.

<sup>6</sup> The analysis that follows of the balance of payments adjustment mechanisms is taken from par.s 2-7, written exclusively by the author, of the paper by E. Gerelli, A. Majocchi, entitled "Politica fiscale e meccanismi di aggiustamento della bilancia dei pagamenti", in Società per lo studio dei problemi fiscali, *Il Piano Werner e l'armonizzazione fiscale nella CEE*, Padua, Cedam, 1971.

<sup>7</sup> See *Werner Report*, *cit.*, p. 10.

<sup>8</sup> See P.C. Hartland, "Interregional Payments Compared with International Payments", in *Quarterly Journal of Economics*, August 1949, p. 393. On the strategic role of the interregional mobility of capital in the readjustment mechanism, see: T. Scitovsky, *Money and the Balance of Payments*, Chicago, Rand McNally, 1969, pp. 87 onwards.; Id., "The Theory of Balance of Payments Adjustment", in *Journal of Political Economy*, August 1967, pp. 523-530; Id., "The Theory of the Balance of Payments and the Problem of a Common European Currency", in *Kyklos*, 1957, pp. 18-38 (reprinted, with a few changes, in *Economic Theory and Western European Integration*, London, Unwin, 1962, part II); J.C. Ingram, "State and Regional Payments Mechanisms", in *Quarterly Journal of Economics*, November 1959, pp. 619-632; M. von Neumann Whitman, *International and Interregional Payments Adjustment: A Synthetic View*, Princeton Studies in International Finance, n. 19, Princeton, February 1967; J.C. Ingram, *The Case for European Monetary Integration*, Princeton Studies in International Finance, n. 98, Princeton, April 1973.

<sup>9</sup> It is known that the distinction between capital movements and reserve movements is purely formal. As regards the question under consideration here, however, the point that it is worth highlighting, leaving aside albeit important (to other ends) questions of definitions, concerns the effects brought about by the operation of the abovementioned financial mechanism. On the concepts of the balance of payments surplus and deficit, and on the distinction between autonomous and compensatory capital movements, see, for example: F. Machlup, "Three Concepts of the Balance of Payments and the So-called Dollar Shortage", in *Economic Journal*, March 1950, pp. 46 onwards; F. Masera, *Commercio estero e bilancia dei pagamenti*, Rome, 1966, pp. 22 onwards.

<sup>10</sup> The final effects on the balance of payments clearly depend on the value of the "open market multiplier with repercussions." On this point see also: G. Gandolfo, *Aggiustamento della bilancia dei pagamenti ed equilibrio macroeconomico. Un'analisi teorica*, Milan, Angeli, 1970, part I, chap. III.

<sup>11</sup> See, on this point: A. Lamfalussy, "Le système des taux de change et l'avenir de la CEE", in *Revue d'économie politique*, July-August 1970, p. 656; T. Scitovsky, *Money and the Balance of Payments*, *cit.*, pp. 97-98.

<sup>12</sup> See N. Kaldor, "The Case for Regional Policies", in *Scottish Journal of Political Economy*, November 1970, p. 345.

<sup>13</sup> See P.B. Kenen, "The Theory of Optimum Currency Areas: An Eclectic View", in R.A. Mundell, A.K. Swoboda, *Monetary Problems of the International Economy*, Chicago, Univ. of Chicago Press, 1969, p. 47.

<sup>14</sup> See N. Kaldor, "The Case for Regional Policies", *cit.*, p. 345.

<sup>15</sup> "In the short run the net balance of payments effects of labour movements can go in either direction, but it appears that generally the movement of labour from areas of payments deficit to those of payments surplus will tend to aid the adjustment process." See T.D. Willett, E. Tower, "Currency Areas and Exchange-Rate Flexibility", in *Weltwirtschaftliches Archiv*, 1970, 105/1, p. 53. Also: T. Scitovsky, *Economic Theory and Western European Integration*, *cit.*, p. 85.

<sup>16</sup> See P.C. Hartland, "Interregional Payments Compared with International Payments", *cit.*

<sup>17</sup> On the quantitative importance of the automatic stabilization mechanisms, see also: J.C. Ingram, *Regional Payments Mechanisms: The Case of Puerto Rico*, Chapel Hill, Univ. of North Carolina Press, 1962, pp. 21-22; M. von Neumann Whitman, *International and Interregional Payments Adjustment*, *cit.*, pp. 22-23.

<sup>18</sup> Scitovsky demonstrates that the total of public funds transferred at regional level is greater than the failed shrinkage of imports due to the stabilization policy. Indeed, if the so called stability condition occurs that is normally assumed in the analysis of income effects on the balance of payments, i.e.  $m+s < 1$  (where  $m$  and  $s$  are the marginal propensity to import and to domestic spending, respectively), then

$$\Delta M = \frac{m}{1-s} \Delta G < \Delta G,$$

i.e. the imports provoked by the increase in public spending at a regional level ( $\Delta M$ ) are inferior to the amount of spending itself ( $\Delta G$ ). See T. Scitovsky, *Economic Theory and Western European Integration*, *cit.*, p. 93.

<sup>19</sup> See T. Scitovsky, *Money and the Balance of Payments*, *cit.*, p. 120.

<sup>20</sup> See, regarding this conclusion: R.A. Mundell, "Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates", in *Canadian Journal of Economics and Political Science*, November 1963, pp. 475-485 (reprinted as chap. 18 in R.A. Mundell, *International Economics*, New York, MacMillan, 1968); R.I. McKinnon, W.E. Oates, *The Implications of International Economic Integration for Monetary, Fiscal and Exchange-Rate Policy*, Princeton Studies in International Finance, n. 16, Princeton, Princeton Univ. Press, January 1966, p. 5.

<sup>21</sup> See G.K. Shaw, "European Economic Integration and Stabilization Policy", in C.S. Shoup (editor), *Fiscal Harmonization in Common Markets*, New York, Columbia Univ. Press, 1967, vol. II, chap. II.

<sup>22</sup> See *Werner Report*, *cit.*, pp. 10-11 and 19.

<sup>23</sup> This limit is implicit in the confederal constitution of the Community, and has already been verified in the past. See, for example, the behaviour of the Brussels Commission, in relation to the recession of the Italian economy in the period 1963-65. On this point, see: F. Forte, *La congiuntura in Italia. 1961-1965*, Turin, Einaudi, 1966, pp. 255 onwards.

<sup>24</sup> On this point, see: L. Izzo, A. Pedone, L. Spaventa, F. Volpi, *Il controllo dell'economia nel breve periodo*, Milan, Angeli, 1970, p. 33.

<sup>25</sup> See *Ibidem*, p. 36.

<sup>26</sup> On the scope for using fiscal policy in the event of cost inflation, see: F. Romani, "Tipi di inflazione e politica fiscale", in *Moneta e Credito*, 1965, pp. 229-251.



<sup>27</sup> See *Werner Report*, *cit.*, p. 11.

<sup>28</sup> See G. Carli, "Crisi monetaria internazionale e politica di ripresa economica", in *Bancaria*, 1973, p. 546.

<sup>29</sup> See W.L. Smith, "Are There Enough Policy Tools?", in *American Economic Review Papers and Proceedings*, May 1965, p. 217. For a similar conclusion, see: T. Scitovsky, *Economic Theory and Western European Integration*, *cit.* p. 98. Both these authors highlight the political difficulty of achieving this objective. On these aspects of the problem of economic and monetary union, see: M. Albertini, "Aspetti politici dell'unificazione monetaria", in various authors, *Verso una moneta europea*, *cit.*, pp. 57-64.

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